



WEEKLY OUTLOOK



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CRP CRITICAL FEED USE INITIATIVE – IMPLICATIONS FOR FEED GRAIN DEMAND

Beginning on June 2, 2008, Conservation Reserve Program (CRP) participants with certain established vegetative cover may request a voluntary modification to contracts to utilize certain land, or lease the privilege to others, for critical feed use including haying or grazing (A fact sheet outlining the program is at USDA's Farm Service Agency web site).

The critical feed use initiative is designed to augment the livestock feed supply during a period of high prices for field crops. There are a number of conditions for qualification for the program. Some of these include: only CRP acreage that is fully established and devoted to designated practices qualify; no more than 50 percent of the eligible CRP acreage may be used for haying; grazing is allowed at 75 percent of Natural Resources Conservation Service (NRCS) recommended stocking rate; the critical feed use is only available in 2008 for the period after the primary nesting season ends through November 10, 2008. The ending date of the primary nesting season varies by state and ranges from July 1 in the southwest to September 15 in North Carolina (A map identifying these ending dates by state is at the Farm Service Agency web site). Participants must obtain a modified conservation plan for haying and grazing management. There will be no reduction in the rental rate paid for contracts in this program, but owners will be required to pay a fee of \$75 for modification of CRP contracts.

The immediate question raised by grain market participants is How much will this additional forage production substitute for grain feeding in the last half of the 2008 calendar year? There is no obvious answer to that question, but it can be approached in at least two ways. One way is to try to estimate the level of participation in the program, the amount of forage produced by the program, and the nutrient content of that forage. Under the assumption that all of the additional forage production is fed as replacement for grain, a calculation of the amount of grain displaced can be made.

Not all CRP acres are eligible for the program. Ineligible acreage includes wetlands, buffers, filter strips, useful life easements, and land within 120 feet of a stream or other permanent water body. The USDA's news release describing the program indicates that more than 24 million acres of CRP land are eligible and that the program will make available "up to" 18 million tons of forage. Under the assumption that the forage will have, at best, 50 percent of the nutrient

value of grain, feeding of an additional 18 million tons of forage could replace nine million tons, or about 320 million bushels, of grain. This calculation assumes that forage produced under this program is a net addition to feeding and does not simply replace forage from other sources.

A second approach to estimating the impact of the program on potential feed grain consumption is to evaluate the capacity to feed additional forage. Presumably, the additional forage could replace grain consumption by beef cattle, dairy cattle, horses, and sheep. Most seem to believe that the quality of CRP forage is such that the primary use would be for beef cows, replacement heifers, and perhaps backgrounding of fed cattle. The USDA's Economic Research Service (ERS) estimates the number of grain consuming animal units by species for each feed grain marketing year. For the period September 2008 through August 2009, the ERS projects a total of 93.5 million grain consuming animal units, of which 3.78 million (4 percent) will be cattle other than cattle on feed or dairy cattle, about the same percentage as in the previous marketing year.

The ERS estimates that about 6.6 million bushels of grain will be fed in the September 2007 through August 2008 marketing year and projects that 5.73 million bushels will be fed in the September 2008 through August 2009 marketing year. If additional forage production replaced all of the grain fed to these "other cattle" for an entire year (four percent of all grain fed), the displacement would equal about 250 million bushels. If the grain fed to these cattle was replaced for six months rather than a year, which still may be too generous of an assumption, the displacement would be about 125 million bushels. The replacement would occur mostly in the last quarter of the 2007-08 feed grain marketing year and the first quarter of the 2008-09 marketing year. If evenly divided between the two years, the displacement would represent about one percent of the total feed grain consumption in each year. The secondary impacts of the program are expected to be minimal. The program announcement is too late for most producers to alter cropping patterns and the one year nature of the program provides little incentive to expand the beef cow herd.

Clues about the potential impact of the CRP critical feed initiative on feed grain consumption will come from the number of acres enrolled. The USDA's September 2008 and December 2008 *Grain Stocks* reports will provide an opportunity to uncover the impact in the calculation of quarterly domestic grain disappearance. Our guess is that the impact will be small enough that it will be difficult to detect, lost in the noise of the annual variation of quarterly feed grain consumption. If so, this program has little implications for grain prices.

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