

Industrial Livestock at the Taxpayer Trough:

How Large Hog and Dairy Operations are Subsidized by the Environmental Quality Incentives Program

A report to the Campaign for Family Farms and the Environment
by Elanor Starmer, MS, MALD
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Author and Acknowledgements

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The Campaign for Family Farms and the Environment (CFFE) is a multi-state coalition with a 13-year track record of organizing citizens for environmental/economic justice and against agribusiness corporations that use intimidation and the power of their capital to control communities and government.

Member groups of CFFE include:

Iowa Citizens for Community Improvement (CCI) – CCI was formed in 1975 and has been organizing on factory farm and livestock concentration issues since 1995.
2001 Forest Ave., Des Moines, IA 50311
515-282-0484, www.iowacci.org

Land Stewardship Project (LSP) – LSP was founded in 1982 and works to build a more sustainable food and agriculture system in Minnesota.
821 E. 35th St., Suite 200, Minneapolis, MN 55407
612-722-6377, www.landstewardshipproject.org

Missouri Rural Crisis Center (MRCC) – MRCC was established in 1986 and has organized communities around factory hog farm issues since 1989.
1108 Rangeline St., Columbia, MO 65202
573-449-1336, www.inmotionmagazine.com/rural.html

Executive Summary

Background: The Transformation of EQIP

The Environmental Quality Incentives Program (EQIP) was approved by Congress in 1996 with the backing of many family farm and conservation-focused organizations. Designed to provide cost-share and incentive payments to agricultural producers to address resource concerns on their farms, it has been used over the years by thousands of farmers nationwide to make environmental improvements that benefit the land and their communities.

The 2002 Farm Bill opened up EQIP for use by industrial livestock operations, which house thousands of animals and generate massive quantities of manure. They often lack sufficient farmland on which to apply animal waste or make irresponsible management decisions in applying it, generating air or water pollution; the burden of addressing the pollution often falls on public services or community members living near the operations. When Congress made EQIP funds available to these operations in 2002, stakeholders worried that it would further subsidize an environmentally destructive method of production and that the share of funding available for the program's original targets – small and mid-sized operations – would be diminished.

The 2002 Farm Bill also severely restricted public access to information about the size of EQIP contracts and the practices that they fund. Moreover, the administrator of the program, USDA's Natural Resources Conservation Service, lacks the funding and mandate to track EQIP payments by the size of livestock operation receiving them. As a result, even though animal waste is now a priority issue for the program, there is no way for the public or policymakers to know how industrial operations are using the funds or to assess whether EQIP is subsidizing their expansion.

National Findings

This report uses the limited data that is publicly available to investigate the use of EQIP by industrial hog and dairy operations nationally and in the states of Minnesota, Iowa, and Missouri. It finds that nationwide, these operations receive far more than their fair share of EQIP funding. Although industrial hog operations comprise only 10.7% of all hog operations nationally, they receive an estimated 37% of all EQIP contracts to the hog sector. In contrast, mid-sized hog farms represent roughly 15% of all operations but receive only 5.4% of EQIP hog contracts.

Similarly, the report finds that industrial dairies make up only 3.9% of all dairy operations nationally, yet they receive an estimated 54% of all EQIP dairy contracts. Meanwhile, mid-sized dairies, which account for 13% of all dairies nationally, receive only 7% of EQIP dairy contracts.

This report estimates that between 2003 and 2007, roughly 1,000 industrial hog and dairy operations have captured at least \$35 million per year in funding through the EQIP program.

State Findings

Minnesota, Iowa and Missouri have been on the front lines of industrial livestock expansion in recent years. Since 1996, the number of industrial hog operations has increased by 122% in Minnesota, 140% in Missouri, and 155% in Iowa. The growth of industrial dairies has been even more rapid, where numbers increased over the same period by 300% in Iowa and 900% in Minnesota. Missouri, which had no industrial dairies in 2001, had ten by 2007.

This report finds that in all three states, industrial livestock operations are major beneficiaries of the EQIP program. Highly-polluting operations are generally prioritized for funding; waste-related practices receive a greater share of payments than any other practice; and state ranking criteria prioritize waste-related proposals above proposals for longer-term conservation practices such as grazing management, habitat protection, conservation crop rotation, or pest management. In all three states, EQIP contracts are available to operations that plan on expanding significantly, despite broad agreement in the scientific and environmental communities that enlarging already massive operations is environmentally destructive.

Where information on specific contracts to industrial operations is available, it is troubling. In Becker County, MN, one producer received \$285,500 through EQIP in 2003 to build a manure lagoon that was nearly 1 million cubic feet in size. In 2007, the average waste storage EQIP contract in Plymouth County, Iowa — one of the top hog-producing counties in the nation — was worth \$89,174, more than twice the national average. And in Missouri, NRCS has approved a total of nearly \$5 million in funding since 2003 for manure transfer payments—federal funding to move manure off the farm because the operations produce too much to apply to cropland.

Conclusion

While EQIP continues to be used by many livestock and crop producers to carry out environmentally beneficial practices, a disproportionate share of funds now flows to highly polluting livestock operations. This is a fundamental flaw in the policy and may jeopardize the goals and long-term effectiveness of the program. Moreover, the program suffers from a lack of oversight and insufficient record keeping. As a result, it lacks public accountability.

Recommendations

To promote transparency and ensure that EQIP supports long-term environmental stewardship:

- **EQIP should be structured to deliver the maximum amount of environmental performance for the least amount of taxpayer money.** NRCS should return to prioritizing contracts based on cost-efficiency, not on the level of pollution generated by the operation.
- **The amount of funding available to an individual operator should be capped at \$150,000 per operation.**
- **EQIP should not subsidize the construction or expansion of industrial livestock operations.** USDA and Congress should prohibit EQIP funding for waste facilities on all new and expanding industrial livestock operations.
- **Taxpayers and policymakers deserve to know how EQIP funds are being used.** Legislators should strike existing language prohibiting USDA from releasing detailed information on the use and amount of conservation program contracts.
- **Congress should appropriate money to NRCS and instruct the agency to track EQIP funding to livestock operations by size category and amount of manure generated by the operation.**

Introduction

The Environmental Quality Incentives Program (EQIP) was approved by Congress in 1996 with the backing of many family farm and conservation-focused organizations. Designed to provide cost-share and incentive payments to agricultural producers to address resource concerns on their farms, it has been used over the years by thousands of farmers nationwide to make environmental improvements that benefit the land and their communities.

While good work continues to take place under EQIP, changes made in the 2002 Farm Bill have broadened its scope and opened up the program to use by industrial livestock operations¹ — those that house hundreds or thousands of animals in confinement buildings and generally do not produce their own feed. Many of these operations are run by growers working under contract—and shouldering risk—for large meat companies. The manure produced on them is often so great in volume that it must be stored in lagoons that can span several acres, or must be shipped to other areas.

Industrial livestock operations have been widely criticized in environmental, public health, and toxics literature for their negative impacts on natural resources and human health. Impacts include the contamination of water and soil with nutrients, bacteria, heavy metals and antibiotics from manure; the release of toxic gases and particulate matter air pollution from barns and manure lagoons; and flies and overwhelming odor. The cost of addressing these problems falls largely on public services, funded by taxpayers, and on community members living near the operations. Congress' decision in 2002 to allow these operations to receive EQIP funds for waste management was strongly contested by many in the sustainable agriculture and conservation communities, who saw it as an additional subsidy to an environmentally-destructive model of livestock production.

It is a model that has become increasingly common in recent years; the majority of U.S. meat and dairy is now produced on industrial operations (USDA/NASS 2008). Some analysts argue that this method of production is more efficient, its growth a consequence of natural market forces. But others contend that local, state and federal policies have helped these operations expand through direct or indirect subsidization—policies that defray some of their costs of production and/or shift the responsibility for cleaning up their pollution to external parties, such as taxpayer-funded public services.

This report examines the EQIP program, which is administered by the USDA's Natural Resources Conservation Service (NRCS), as one direct federal subsidy to industrial livestock operations. The available evidence suggests that EQIP now channels millions of taxpayer dollars each year to some of the most polluting industrial livestock operations. But privacy provisions in

¹ Throughout this report, the term “industrial livestock operations” will be used to describe large concentrated animal feeding operations. Because the focus of this report is the hog and dairy sectors, we will use the term to refer to hog operations of over 2,000 head and dairies of over 500 head. Elsewhere, these types of operations are sometimes referred to as factory farms or CAFOs. Under the Clean Water Act, CAFOs are defined as operations that do not sustain their own crops or other animal feed and that house more than 1,000 animal units—equivalent to roughly 700 dairy cows or 2,500 hogs (40 CFR 122.23 (b)(1)). Because USDA does not use a CAFO designation and does not provide data broken out by animal units, we have elected not to use the term CAFO in this report but instead to discuss this model of production more generally as industrial livestock production.

the Farm Bill and insufficient record-keeping by USDA have kept taxpayers from knowing exactly how much funding CAFOs receive—or what those funds are used for. As a consequence, it is nearly impossible to evaluate the program’s effectiveness or its impact on the structure of the livestock sector.

As difficult as the information is to access, data collected for this report suggest that industrial livestock operations have been massively subsidized by EQIP, receiving far more than their fair share of payments. This report examines EQIP funding nationally and in the states of Minnesota, Missouri and Iowa. It shows that highly-polluting industrial operations are major beneficiaries of a program originally intended to support and recognize small- and mid-sized producers for their environmental stewardship. A more complete analysis is badly needed, but will only be possible when NRCS is given the mandate and funding to collect, analyze and publicize information about the use of EQIP funds by industrial livestock operations.

Background: The Evolution of the EQIP Program

Funding and scope expand

When it was first passed, EQIP was designed to provide cost-share or incentive payments to farm operators for conservation practices such as pest, nutrient and grazing management. The application review process placed an emphasis on cost-effective practices and prioritized the choice of lowest-cost options. Along these lines, there were some important restrictions built into the program: The funds were not allowed to be used to construct storage facilities for animal waste on industrial operations, and payments were capped at the fairly low level of \$10,000 per year, or \$50,000 over five years. Funding for the program totaled \$1.3 billion between 1996 and 2002 (O'Brien 2003; Hoefner 2007).

Then suddenly, things changed. In the 2002 Farm Bill, EQIP funding jumped to \$6.1 billion over the next six years. The total cap on individual payments was raised nine-fold, to \$450,000 over six years, and the annual cap was eliminated. Congress shifted the program’s emphasis squarely to livestock operations, requiring that at least 60% of EQIP funds be used for livestock-related practices. The bill also eliminated the restriction on funding to industrial livestock operations, allowing them to receive cost-share payments to construct manure storage facilities (O'Brien 2003; GAO 2006; Hoefner 2007), and allowed new or expanding operations to receive payments. While states continue to set their own priorities for the EQIP program, this change in the law has dramatically affected eligibility and the allocation of funding.

Priorities shift away from cost-effectiveness

The 2002 Farm Bill also included new language prohibiting NRCS from taking the cost of the contract into consideration when evaluating EQIP applications (O'Brien 2003). In other words, lowest-cost options could no longer be prioritized for funding. Family farm organizations argued that this shift would bias the program against the most cost-effective applications, instead giving preference to operations with the most significant environmental problems (Hoefner 2007; Soil and Water Conservation Society and Environmental Defense 2007). In practice, as we will see below, these concerns appear to be justified.

The 2008 Farm Bill made few changes to the EQIP program, but it did lower the total cap on individual payments from \$450,000 to \$300,000 over six years. But if the USDA determines projects are of “special environmental significance,” the lower cap can be waived. Additional changes may be made during the rulemaking process, which had not been completed as of this writing.

EQIP and Freedom of Information

The 2002 Farm Bill had an additional impact on EQIP. In a separate section of the bill titled “Privacy of personal information relating to natural resources conservation programs,”² Congress prohibited USDA from releasing certain information about the contracts that producers receive through programs like EQIP, even if a Freedom of Information Act (FOIA) request is filed. Legal analysts believe that this clause technically allows the USDA to release information about individual payment amounts and the identity of payment recipients (O'Brien 2003), but that it makes specific information about the contract—what the money is actually being used for—confidential.

In practice, even identity and payment information has been kept from the public. Multiple FOIA requests yielded no information about individual EQIP contracts (Hayes and Warthesen 2008). In conversations with NRCS staff, we were told that they could not share data on specific EQIP contracts, even if some of the identifying information was held back, because of privacy concerns (Cornelius 2008; Johnson 2008).

But even if the payment amounts and recipient identities could be accessed, there would be no way to match this information to the practices that the funding supports due to the restriction in the law. As a result, it is impossible for organizations, taxpayers and policymakers to evaluate whether program funds are being used effectively – or know whether or not the program benefits industrial operations disproportionately. This restriction is unique among taxpayer-funded farm programs. Information on individual commodity payments can be accessed through the FOIA process, for example.

This lack of transparency is exacerbated by the fact that NRCS neither condenses nor analyzes data that would allow it to evaluate the impact of EQIP on industrial operations and provide the public with information on how these operations use EQIP funds. Although livestock waste issues are now a major stated priority for the program (USDA/NRCS 2004), NRCS staff report that they do not track the size of the operations receiving funding, nor the volume of waste present on the operations. This information is apparently collected in both the Comprehensive Nutrient Management Plans (CNMPs) that livestock operations must complete during the EQIP application process and again in applications for EQIP funding under the nutrient management practice code, but according to NRCS staff, it is neither compiled in a central database nor analyzed (Brzostek 2008; Cornelius 2008; Johnson 2008). As a result, it cannot be accessed by the public, nor can NRCS internally assess how effectively different sizes of operation use EQIP funds to meet the goals of the program.

² 5USC3844 (b)(1).

The most detailed information that NRCS offers the public on EQIP funding to livestock operations is a table, released annually, that breaks payments into three categories: Cost-share payments to “confined” livestock operations (defined as operations where the animal’s primary source of feed is not pasture/grazing), cost-share payments to “unconfined” operations (where the animal is pasture-based), and an “indistinguishable” or “other” category, which applies to practices that could be implemented on either type of operation (Brzostek 2008). The choice of these categories for public presentation is odd; they are not used anywhere else by the agency, which generally tracks livestock by the number of animals in the operation. It is also not particularly useful, since many small- and mid-sized operations feed their animals grain for at least some of the year. Many of these operations would be included in the “confined” category under the agency’s definition.

Available Data

We do know that the program has moved sharply in the direction of funding cost-shares for expensive engineered structures, including anaerobic manure digesters and lined manure lagoons. In an analysis of 2005 EQIP program data, the Soil and Water Conservation Society and Environmental Defense found that 82% of EQIP funds went to cost-shares, while only 18% were used for incentive payments to support practices such as pest, grazing, nutrient and water management. Of all of the cost-share payments, animal waste storage facilities took the largest single bite out of program funds (Soil and Water Conservation Society and Environmental Defense 2007).

Still, this analysis does not give us a complete picture of how industrial operations use the EQIP program; smaller operations also use EQIP funding for waste management.

Thankfully, the USDA’s Agricultural Resource Management Survey (ARMS) for hog and dairy operations, conducted once every five years, does collect data that can be analyzed to estimate the number of EQIP contracts received by operations of various sizes (USDA/NASS 2004; USDA/NASS 2005; Key 2008; MacDonald 2008; McBride 2008).³ The survey does not collect information on the amount of funding in each contract, so it is not possible to evaluate whether or not industrial operations receive larger contracts on average than smaller operations (Key 2008). But this limited information can give us a sense of how the EQIP program has been used by the hog and dairy sectors since the passage of the 2002 Farm Bill.

Analysis: Who Benefits from EQIP Funding?

Industrial Livestock Operations: Far more than their fair share

While insufficient, ARMS data can give us a general sense of how EQIP contracts are distributed among livestock operations of different sizes. Hog producers were last surveyed in 2004 and

³ It should be noted that the ARMS data presented here are population estimates: Not the share of sample observations that receive EQIP funding, but the estimated share of *all* dairy or hog operations that do. Each observation has a sampling weight, which differs across farms, since larger farms and farms in some states are more likely to be sampled. The use of sampling weights allows USDA’s Economic Research Service to make statements about the dairy or hog sectors generally, even though not all producers are surveyed for ARMS (MacDonald 2008). Thus, this report is confident in its use of ARMS data to discuss national EQIP funding trends.

dairy producers in 2005. Both of these questionnaires asked producers if they received EQIP contracts. The questionnaires also documented the size of the operation. As a result, USDA data analysts can report the share of hog and dairy operations in each size category that received EQIP funding in 2004 and 2005. And as the tables below illustrate, nationwide, a greater share of industrial operations received EQIP funding than did smaller operations.

Table 1: Share of Hog Operations Receiving EQIP Funding, By Size	
Size of Hog Operation	% receiving EQIP funding
Small	--
Medium	0.8%
Large	3.7%
Industrial	3.8%

Source: Hog ARMS 2004. Size categories are as follows: Small, 100-499 head; medium, 499-999 head; large, 1000-1999 head; industrial, 2000+ head. The ARMS data breaks the industrial category into two sub-categories, 2000-4999 head and 5000+ head, which have been combined here. ERS analysis of ARMS data finds that 4.2% of 2000-4999 head operations and 2.6% of 5000+ head operations received EQIP funding.

Table 2: Share of Dairy Operations Receiving EQIP Funding, By Size	
Size of Dairy	% receiving EQIP funding
Small	1.0%
Medium	1.0%
Large	6.7%
Industrial	24.3%

Source: Dairy ARMS 2005. Size categories are as follows: Small, 50-99 head; medium, 100-199 head; large, 200-499 head; industrial, 500+ head. The ARMS data breaks the industrial category into two sub-categories, 500-999 head and 1000+, which have been combined here. ERS analysis of ARMS data finds that 17.6% of 500-999 head operations and 32.4% of 1000+ head operation received EQIP funding.

Knowing the share of operations in each size category that receive contracts, we can easily estimate the actual number of industrial operations that received EQIP funding. In 2005, the year the dairy ARMS was conducted, there were 3,073 industrial dairies in the United States—less than 4% of all dairies nationally. The year of the hog ARMS, there were close to 7,500 industrial hog operations in the United States, 10.7% of all hog operations.

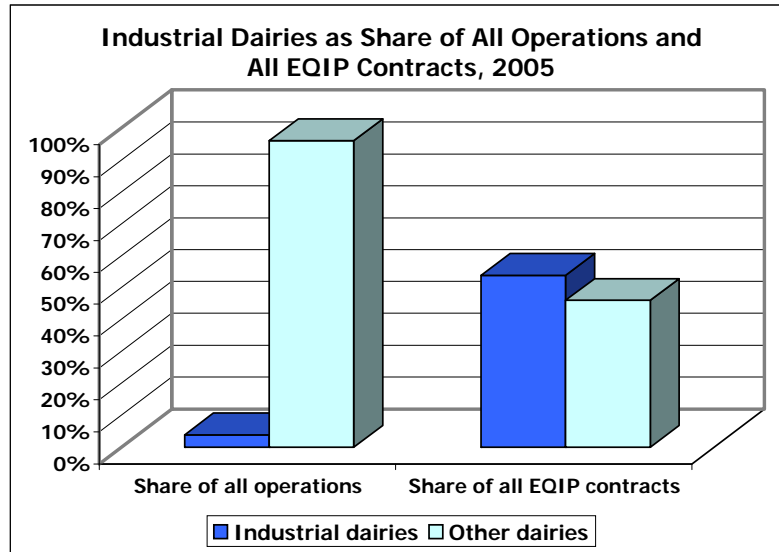
Based on the percentages above, we can estimate that roughly 744 industrial dairies and 276 industrial hog operations received EQIP contracts the year the ARMS were conducted. In contrast, only 101 mid-sized dairies (those with 100-199 head) and 41 mid-sized hog operations (those with 500-999 head) received contracts.⁴

Industrial operations' share of EQIP contracts is far larger than their representation in their respective industries. Although industrial dairies make up only 3.9% of all dairies, they received 54% of all EQIP contracts given out to dairies in 2005 (see Figure 1). Industrial hog operations

⁴ These estimates were confirmed by using the same method used for industrial operations to calculate contract numbers for the other size categories. The totals for all size categories were added together and compared to NRCS' publicly-reported total for EQIP contracts to the hog and dairy sectors for the years 2004 and 2005 respectively. The estimate and the reported totals differed only slightly.

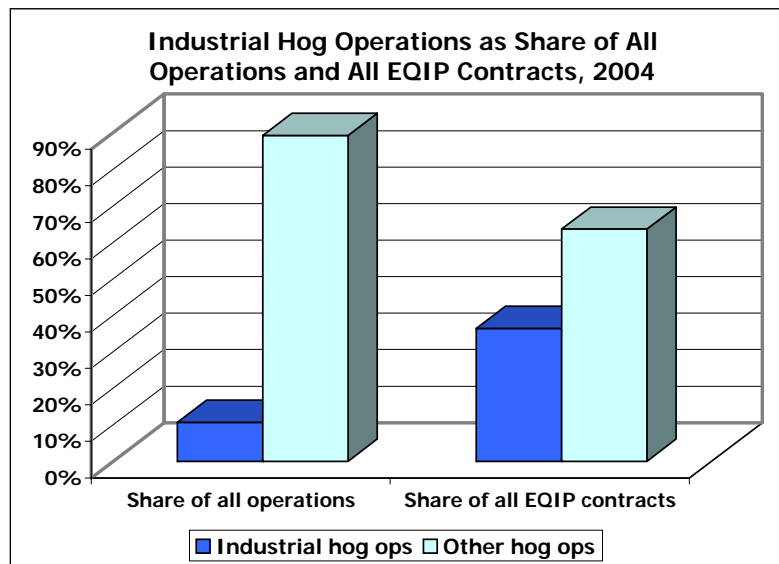
account for only 10.7% of all hog operations, yet they received nearly 37% of all EQIP contracts (see Figure 2).

Figure 1.



Source: ARMS 2005; NASS Agricultural Statistics Database; and author's calculations

Figure 2.



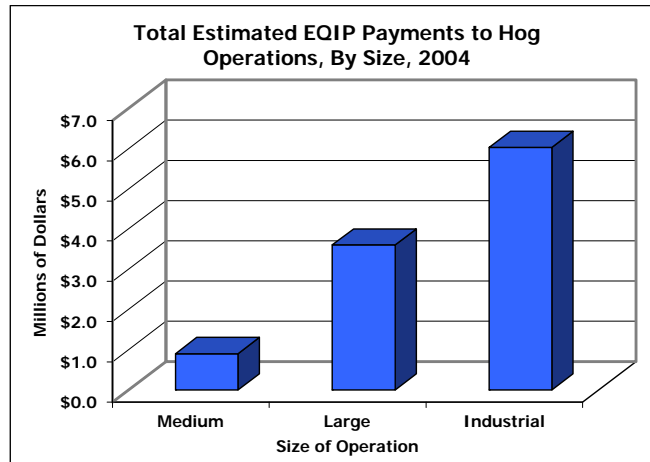
Source: ARMS 2004; NASS Agricultural Statistics Database; and author's calculations

National Payments: Hogs

In 2004, the average EQIP cost-share payment to a hog operation was \$21,875 (USDA 2004). If we assume that industrial hog operations received average-sized payments—which may be an underestimate, since their contracts tend to be cost-shares for infrastructure and may therefore be

more expensive than other livestock contracts—then industrial hog operations received roughly \$6.03 million in EQIP funds in 2004, 37% of the total payments made to the hog sector that year. In contrast, medium-sized operations received \$900,000, only 5.4% of the total payments made to the hog sector (see Figure 3). ARMS did not report EQIP contracts to small hog operations because of insufficient data, so there is no way to know how many received funding.

Figure 3.

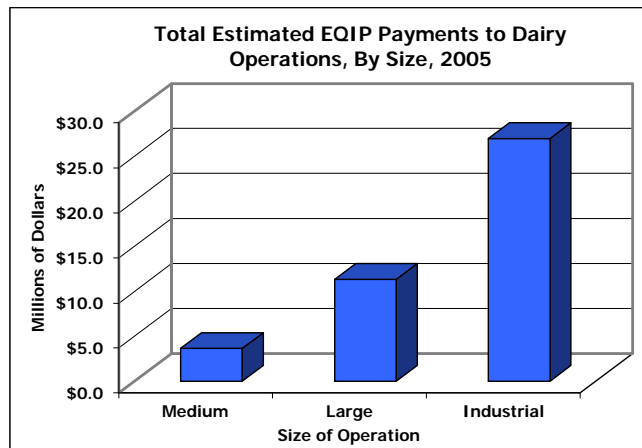


Assuming the same percentage of industrial hog operations as above received EQIP payments between 2003—when they were first eligible for funding—and 2007, then these operations have captured an estimated total of \$35.6 million in EQIP cost-share payments over the five-year period. Again, this should be considered a minimum estimate. In contrast, mid-sized hog operations have received an estimated \$4.8 million in total payments over five years.

National Findings: Dairy

In 2005, the year the dairy ARMS was conducted, the average dairy EQIP payment was \$36,211 (USDA 2005). Again assuming that industrial dairies received average-sized payments, they captured roughly \$27 million in EQIP cost-share funds that year. In contrast, mid-sized dairies of received an estimated \$3.6 million (see Figure 4).

Figure 4.



Between 2003 and 2007, industrial dairies received an estimated total of \$144 million in EQIP payments—54% of all dairy payments, despite the fact that they represent only 3.9% of all dairies. As with hogs, this should be considered a conservative estimate, since their contracts may be more expensive than cost-shares for smaller operations. In contrast, large operations received an estimated total of \$59.7 million over five years, or 22% of all funding to the dairy sector, while mid-sized operations received only \$19.3 million in total payments – a mere 7% of all dairy funding allocated.

According to our estimates, since EQIP expanded, roughly 1,000 industrial hog and dairy operations in the United States have captured at least \$35 million per year in funding through the EQIP program.⁵ Additional payments have been made to beef cattle feedlots, poultry, sheep, goat and bison operations, and, for the first time in 2007, intensive aquaculture operations. These payments cannot be quantified due to a lack of data.

Inefficient use of taxpayer funds

If industrial livestock operations are truly capturing such a large share of EQIP contracts, taxpayers should be concerned. USDA has made the management of manure nutrients, primarily nitrogen and phosphorus, a priority goal in the EQIP program. A study by the USDA's own Economic Research Service finds that mid-sized hog operations achieve a greater reduction in excess nitrogen per dollar they receive through EQIP than do industrial hog operations (Key 2004). Yet nationally, industrial operations are targeted for EQIP funding because they are the sources of the greatest amount of pollution. EQIP may therefore be subsidizing the growth of a highly-polluting model of livestock production rather than rewarding the operations that return the greatest environmental benefits to the community.

EQIP and the Growth of Industrial Hog and Dairy Operations in the Midwest

Minnesota, Missouri and Iowa are three of the top ten hog-producing states in the nation. They are also significant dairy-producing states. These states have seen tremendous growth in the number of large operations over the past decade: Since 1996, the number of industrial hog operations has increased by 122% in Minnesota, 140% in Missouri, and 155% in Iowa (see Figure 5). The growth of industrial dairies has been similarly rapid in Iowa and Minnesota, where the number of operations increased by 300% and 900%, respectively, over the same period (see Figure 6). Missouri, which had no industrial dairies in 2001, had ten by 2007.

⁵ This estimate was made using the following methodology: We assumed that the share of industrial hog and dairy operations receiving EQIP funding as reported in the 2004 and 2005 ARMS stayed constant each year between 2003 and 2007. Using USDA annual data on the number of industrial hog operations and dairies (USDA/ERS 2003-2007), we estimated the number of operations that received contracts for those years. The number of industrial dairies receiving EQIP funds ranged from 709 in 2003 to 790 in 2007, while the number of industrial hog operations ranged from 261 in 2003 to 286 in 2007 – roughly 1,000 per year combined. Then, using publicly-available NRCS data on the average cost-share payment to hog and dairy operations through EQIP between 2003 and 2007 (USDA/NRCS 2003-2007), we estimated the amount of funding that would have gone to industrial hog and dairy operations if they had received average-sized contracts in those years. The total averaged \$35 million per year.

Figure 5.

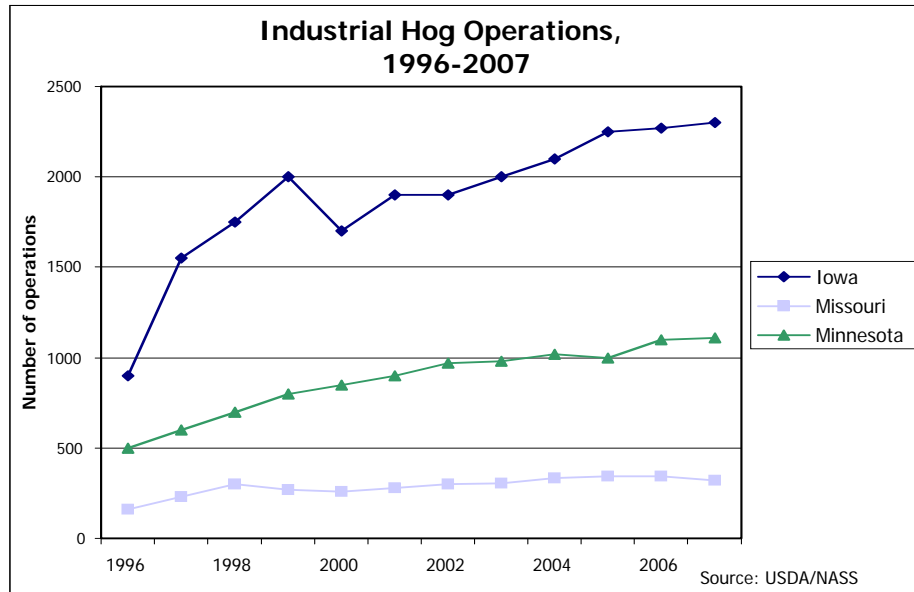
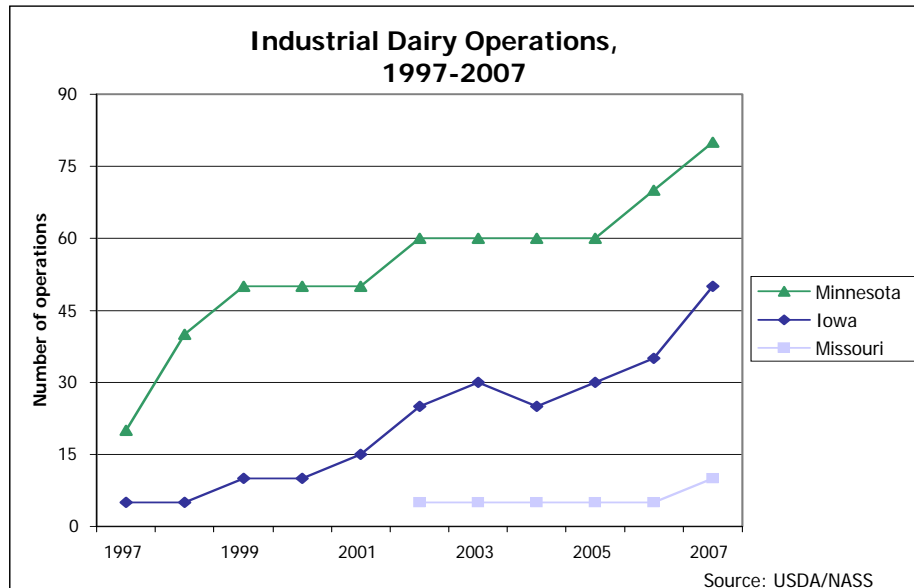


Figure 6.



As discussed above, the EQIP program at the national level has disproportionately favored large operations since they became eligible for waste-related cost-shares in 2002. What role has EQIP funding played in the continued growth of industrial operations in these three states? ARMS data is no help in answering this question, as it is only available as a national average. Because access to information about EQIP contracts was so restricted in the 2002 Farm Bill, we could not access recent state-level information on the use of EQIP by industrial hog and dairy operations.

We can get a general sense of the role of EQIP in the growth of industrial operations in Minnesota, Missouri and Iowa by examining EQIP policies at the state level. The findings, detailed below, show that industrial operations are clearly targeted for funding in these three states. Highly-polluting operations are generally prioritized; waste-related practices receive a greater share of payments than any other practice in all three states; and the size of an average waste contract has grown significantly since 2002. In addition, state ranking criteria prioritize waste-related proposals above proposals for longer-term conservation practices such as grazing management, habitat protection, conservation crop rotation or pest management. In all three states, EQIP contracts are available to operations that plan on expanding significantly, despite broad agreement in the scientific and environmental communities that enlarging these already-massive operations is environmentally destructive.

State Case Studies: The Prioritization of Industrial Operations in EQIP Minnesota

Waste-related payments a top priority

EQIP funding in Minnesota expanded rapidly after the passage of the 2002 Farm Bill, growing from \$7.9 million in 2002 to \$26 million in 2007. Over this period, waste management⁶ has consistently been one of the top-funded practices through Minnesota EQIP. Feedlot runoff control, waste storage facilities and manure transfer together captured an average of 20% of all EQIP payments in the state between 2003 and 2007. In contrast, prescribed grazing captured an average of 3.1% of funds; pest management averaged 2.9% of funds; and wildlife habitat restoration and management averaged only 0.9% of funds. On the positive side, residue management (no till and strip till) consistently rivaled waste-related practices for funding. But it was the only management-intensive practice to come close.

The dramatic growth of EQIP after 2002 did not translate into more Minnesotans receiving payments. Instead, the average size of waste-related contracts grew. In 2001, 91 contracts were given out in Minnesota for waste management and utilization, averaging \$12,800 each. In 2003, only 85 contracts were given out for waste management—but the average contract was over \$47,000. In 2007, 53 waste management contracts were awarded, averaging \$50,000 each (USDA/NRCS 2007).

The criteria used by the state to rank EQIP applications target industrial operations for funding by prioritizing the largest and most polluting operations. When applications are considered by state NRCS officials, they are assigned a certain number of points based on priority criteria determined by the state. In Minnesota, local EQIP work groups can also add or subtract points based on additional priorities recognized at the local level. Applications with the highest number of total points are selected for funding. The state of Minnesota ranks livestock waste applications based on their score on the Feedlot Evaluation rating system (FLEVAL), which measures an operation's potential to pollute (MBWSR 2008). Applicants receive an additional 6 points on the EQIP ranking system for having a high potential to pollute, while those with low potential to pollute receive only 1 point.

⁶ Categories of EQIP funding have changed names over the lifetime of the program and may differ between states. In this report, "waste-related practices" and "waste management and storage" are used interchangeably and refer to the following EQIP payment categories: Waste facility cover, waste management system, waste storage facility, waste treatment lagoon, waste utilization, manure transfer, feedlot runoff control, closure of waste impoundment and comprehensive nutrient management plan.

Industrial operations benefit from Minnesota EQIP

Before the 2002 Farm Bill's privacy provision went into effect, the Land Stewardship Project successfully requested a list of EQIP payments made for animal waste systems in Minnesota in 2002 and 2003. Here are a few of the facts gleaned from the 2003 data:

- The average individual payment for animal waste systems that year was \$47,202.
- In Becker County, one producer received \$285,500 to build a manure lagoon nearly 1 million cubic feet in size.
- In Goodhue County, a producer received \$138,802 to build a 143,000 cubic foot manure lagoon.
- In Swift County, an industrial operation received \$125,000 to fix its roof structure.
- In Wabasha County, three producers received a combined total of \$619,000 to build manure storage ponds and tanks totaling 1,120,000 cubic feet in size.

Source: Minnesota NRCS via the Land Stewardship Project

In effect, the largest livestock operations with the most poorly-designed waste management facilities, or those located in environmentally-sensitive areas, receive the highest priority for public funding (Minnesota NRCS 2007).

Funding Expansion?

In both the 2002 and 2008 Farm Bill debates, family farm and conservation organizations worried that industrial operations would use EQIP funds for capital infrastructure to expand their size (SAC 2007). Under Minnesota EQIP policy, applicants may expand by up to 25% and continue to be eligible for funding under the program (Cornelius 2008). That means that a 5,000 head hog operation could add an additional 1,250 hogs and still be eligible for EQIP payments.⁷ While this is more stringent than regulations in the states discussed below, there is still a real possibility that Minnesota EQIP funds are subsidizing the expansion of already large operations, concentrating even more animals and related air and water pollution in one place. But we will not know for sure unless NRCS begins to publicly track operation size in its evaluation of the EQIP program, allowing the public to determine whether expansion is one outcome of giving funding to industrial livestock operations.

⁷ Some states have put a cap on the amount of EQIP funding that industrial operations can receive. According to Minnesota's NRCS Resource Conservationist, as operations get larger and their need for EQIP cost-shares increase, they will hit the cap. This could provide a financial disincentive to expand beyond that point (Cornelius 2008).

State Case Studies: The Prioritization of Industrial Operations in EQIP

Iowa

Waste management payments spiraling upward

EQIP funding in Iowa jumped from under \$4 million in 2001 to over \$21 million by 2007. Waste management has been an even greater priority in Iowa EQIP than in Minnesota: Animal waste-related applications captured just 6% of EQIP funding in 2001, but received an average of 28% of all EQIP payments in Iowa between 2003 and 2007. In contrast, prescribed grazing has received an average of 3.8% of all funding since 2002, while pest management received an average of 2.7% of funding. The establishment of conservation cover, an important runoff-reducing practice, received an average of 0.2% of funding.

The average payment for waste storage skyrocketed as well. In 2001, Iowa gave out 24 EQIP contracts for waste management and storage averaging \$9,700 each; in 2003, 110 contracts were funded averaging nearly \$25,000 each. By 2005, the average waste contract totaled \$52,000 (USDA/NRCS 2007).

Iowa's ranking system and expansion

The ranking criteria used by Iowa NRCS give highest priority to EQIP applications that propose to reduce pollution from livestock waste. A full 20 extra points are given to applications from existing livestock operations with identified "resource concern problems" — the worst-polluting operations. If the operation is located in an impaired watershed, it receives an additional 5 points.

There are no prohibitions on new or expanding industrial operations receiving payments under Iowa EQIP regulations, although the ranking system is weighted in favor of existing operations that do not plan to expand. Operations slated for expansion receive only 5 points rather than the full 20, while new livestock operations located in environmentally-sensitive areas receive negative 10 points.⁸

Still, under the ranking criteria, a highly-polluting industrial operation located in an impaired watershed would receive 25 points as long as it did not plan to expand. That is compared to the 5 points received by applicants hoping to use EQIP funds to promote habitat for at-risk species, reduce erosion and sedimentation through pasture management, or convert row crop acres to hay, pastureland, forest or wildlife habitat. These applications would be given the same weight – 5 points – as a highly polluting industrial livestock operation with plans for expansion (Iowa NRCS 2008).

⁸ As in Minnesota, expansion may also be slowed by a cap on the amount one operation can receive for waste storage.

EQIP funding for waste storage in Iowa counties

Sioux County and Plymouth County are two of the top hog-producing areas in the nation. These counties also have unusually high proportions of large operations. Fifty percent of hog operations in Plymouth County house over 1,000 hogs, as do 51% of operations in Sioux County. Here's how EQIP has played out in these areas:

- Between 2003 and 2006, Iowa NRCS approved 55 waste storage contracts for Sioux County totaling \$2,682,528.
- Just between 2005 and 2007, Iowa NRCS approved \$1.43 million in waste storage payments to 29 producers in Plymouth County.
- In 2007, the average waste storage contract in Plymouth County was worth \$89,174—more than twice the national average.

Source: NRCS Protracts Database

State Case Studies: The Prioritization of Industrial Operations in EQIP *Missouri*

In Missouri, as in the rest of the country, the EQIP program expanded significantly following the 2002 Farm Bill. Total payments jumped from \$2.6 million in 2001 to over \$20 million in 2007. As in other states, the number of producers receiving payments for waste-related practices did not increase proportionally: 79 waste-management contracts were given out in Missouri in 2001, increasing to 103 in 2003 and 144 in 2007.

But unlike other states, Missouri's contracts to hog and dairy producers since 2002 have consistently been above average in size. Between 2003 and 2007, payments to hog producers nationally averaged \$25,400, while national dairy payments averaged \$38,400. Over that 5-year period, hog payments in Missouri averaged \$34,200 and dairy payments averaged \$49,200—28% and 35% higher than the national average, respectively. Specific years were even more out of the norm. In 2005, the average size of an EQIP dairy contract nationally was \$36,200. In Missouri that year, the average contract was a whopping \$88,700. In 2006, when the average U.S. hog EQIP contract was \$39,000, Missouri's average was \$65,000.

As in Minnesota and Iowa, waste storage, treatment and transfer have soaked up the largest share of funds of any category of practices, averaging 20.3% of all Missouri EQIP payments between 2003 and 2007. The state's program was less generous when it came to non-waste-related practices. Pasture and hayland management accounted for an average of 9.2% of payments between 2003 and 2007, while other management practices typical to multifunctional, biodiverse farms fared even less well. Pest management received an average of 5% of funds; wildlife and upland habitat restoration and management averaged 1.8%; and conservation crop rotation—a category of payments that can be used to fund transition to organic agriculture (Missouri NRCS 2007)—received only 0.18% of funds on average since 2003 (USDA/NRCS 2007).

Massive expansion, subsidized

Missouri ostensibly limits EQIP funding to expanding livestock operations. However, a closer reading of state EQIP regulations shows that the Missouri program allows industrial operations to undergo massive expansion and still be eligible for cost-share funding. Consider the following:

Wasting away in some Missouri counties

Problems created by excessive amounts of livestock waste have been the main focus of Missouri's EQIP program. Consider examples in two of the state's top hog-producing counties:

- In 2007, four producers in Saline County received almost \$300,000 in payments for animal waste storage—an average payment of \$70,000 each.
- In 2006, Cole County was the recipient of \$115,000 in manure transfer payments—federal funding to move manure off the farm because the operations produced too much to apply to available cropland.
- NRCS has approved a total of nearly \$5 million in funding for manure transfer in Missouri since 2003.

Source: NRCS Protracts Database

- Under Missouri EQIP regulations, a livestock operation is defined as an existing (not expanding) livestock operation if it plans to increase animal numbers by 50% or less.
- Expanding operations are broken into three categories: Low Expansion, Medium Expansion and Large Expansion. Low expansion is defined as a 50.1% to 150% increase in animal numbers. Medium expansion is a 150% to 250% increase, and large expansion is an increase of over 250%.
- The cost-share rates available to livestock operations through Missouri EQIP differ depending on the rate of expansion, ostensibly to discourage operations from using taxpayer funds to expand significantly. For example, while existing operations are eligible to have EQIP pay for 50% of a proposed practice, operations undergoing Large Expansion are only eligible to receive a 30% cost-share through EQIP.
- However, the cost-share rates for existing and Low Expansion operations are the same. This effectively allows any livestock operation expanding by *up to 150%* to qualify for the maximum cost-share of 50%.
- The rules on expansion put smaller operations at a disadvantage compared to larger ones. For example, by defining expansion in percentage terms rather than by total animal numbers, Missouri EQIP allows already large operations to expand significantly while penalizing much smaller operations. For example, under the current regulations, a 5,000 head hog operation could expand by as much as 150% — to up to 12,500 animals — and still be considered Low Expansion, qualifying it for the maximum cost-share. However, a 150-head operation seeking to expand to 450 hogs, technically a 200% increase, would be considered Medium Expansion and would be eligible for a lower level of cost-share than the industrial operation.
- Only waste facility covers and anaerobic digesters are subject to a cost-share maximum payment of \$100,000. Other waste-related practices are not subject to this limit (Missouri NRCS 2007b).

Stopping the Waste Stream: Recommendations for the EQIP Program

The findings presented here suggest that EQIP has taken a disturbing turn since 2002. Originally intended to reward small- and mid-sized crop and livestock producers for their stewardship while supporting the adoption of long-term, cost-effective management practices, EQIP has shifted to prioritizing larger payments to highly-polluting industrial livestock operations. Sustainable operations—those that provide local jobs, keep profits in the community, care for the land and are good neighbors—may be shut out of the program as industrial players snap up payments for technological Band-Aids such as lined manure lagoons or the transport of manure to new areas.

Even more discouraging than these findings is the difficulty associated with accessing information on the use of EQIP funds. Taxpayers are asking whether the EQIP program uses their money effectively to safeguard the public good. NRCS has not provided the information needed to answer that question. Although livestock waste pollution is a clear priority for the EQIP program, and while NRCS does appear to record the size of the operations it funds and the volume of waste created by them, that information is not made available to the public. To our knowledge, NRCS has not even initiated an internal program to track or monitor the impact of EQIP funding on the expansion of industrial operations or to measure the actual environmental outcomes of waste-related payments. Initiating such a process is particularly critical in light of the findings presented here, which suggest that EQIP may be subsidizing a polluting system of livestock production.

In sum, while EQIP continues to be used by many livestock and crop producers throughout the nation to carry out environmentally beneficial practices, a disproportionate share of funds now go to highly polluting livestock operations. This is a fundamental flaw in the policy and may jeopardize the goals of the program. Moreover, the program suffers from a lack of oversight, insufficient record keeping, and, as a result, a lack of public accountability. The following recommendations would help NRCS promote transparency and ensure that the program supports environmental stewardship in agriculture – a laudable goal for a taxpayer-funded program – over the long term:

- **The amount of EQIP funding available to an individual operator should be capped** at \$150,000 in order to maximize efficiency in the EQIP program and ensure that funds reach a greater number of applicants. Until this change can be achieved at the federal level, each state should include in its priorities a recommendation to cap EQIP funding at \$150,000 per operation.
- **EQIP should not subsidize the construction or expansion of industrial livestock operations.** During the rulemaking process, USDA and Congress should prohibit funding for waste facilities on all new and expanding industrial livestock operations.
- **Taxpayers and policymakers deserve to know how EQIP funds are being used.** Legislators should strike existing language prohibiting USDA from releasing detailed information on the use and amount of conservation program contracts.

- **EQIP should be structured to deliver the maximum amount of environmental performance for the least amount of taxpayer money.** NRCS should return to prioritizing contracts based on cost-efficiency, not on the level of pollution generated by the operation. Guidance should be provided from the federal level to states to develop EQIP ranking systems that deprioritize new, expanding and existing CAFOs from funding for waste management systems.
- **NRCS should analyze the use of EQIP by industrial livestock operations.** Congress should appropriate money and instruct NRCS to track EQIP funding to livestock operations by size category and the amount of manure generated by the operation. Tracking the size of the operations receiving funding through EQIP will help the public better assess the impact and efficiency of the program. It will also help NRCS meet internal goals by ensuring that funds are encouraging sustainable, responsible and cost-effective manure management strategies.

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