Izaak Walton League of America

2012 Farm Bill Issue Briefs

II. Conservation Compliance and Crop Insurance

November 19, 2010

The Izaak Walton League of America is a private, non-profit conservation organization that for more than 88 years has supported strong federal conservation policies on private lands, especially agricultural lands. Our nationwide membership lives, works and recreates in rural communities. We have a decades-long record of supporting farm families and collaborative efforts to achieve conservation that sustains agriculture, rural economies, habitat, and all natural resources.

I. Current conditions and compliance background

Current budgetary conditions make seeking major new funding for conservation difficult. At the same time, a pattern of consistently high prices for program crops means, 1) traditional price-floor and target-price based Farm Bill subsidies are often not being issued, and 2) subsidized insurance policies based on crop revenue have become a primary way Farm Bill payments are made to producers. Given these conditions, the 2012 Farm Bill process must recognize and re-prioritize the existing and logical covenant between taxpayers and producers represented by the conservation compliance regimen.

The compliance regimen was established in the 1985 Farm Bill and consists of Wetlands Conservation (WC) or "Swampbuster," and Highly Erodible Land Conservation (HELC). HELC technically consists of two elements, "Sodbuster" which applies a soil conservation plan requirement to HEL that is broken for production, and HEL conservation compliance which requires a soil conservation plan on all HEL already in production. Failure to meet compliance requirements results in the withholding of USDA benefits that otherwise would be paid to a producer.

Penalties for not complying apply to virtually all USDA payments, loans, or other benefits, including those programs administered by FSA (Title I, CRP) and NRCS (Title II conservation programs), with one major exception.

Federal Crop Insurance programs administered by USDA's Risk Management Agency (RMA) are entirely exempt. When WC and HELC were originally introduced in the 1985 Farm Bill, crop insurance subsidies were included. However, in the 1996 "freedom to farm" bill, crop insurance subsidies were specifically exempted from compliance requirements. Encouraging more producers to participate in the Crop Insurance program was cited as a chief rationale for the exemption.

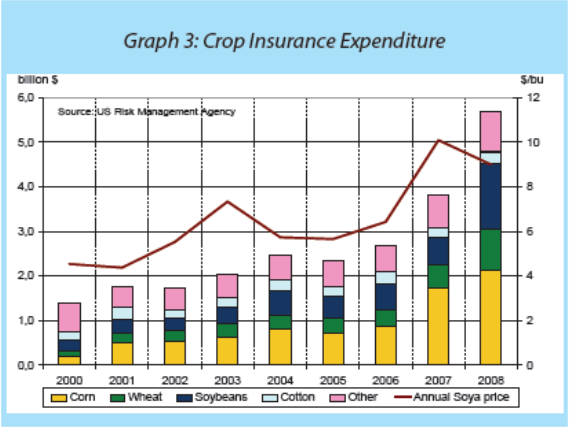
II. Crop Insurance background

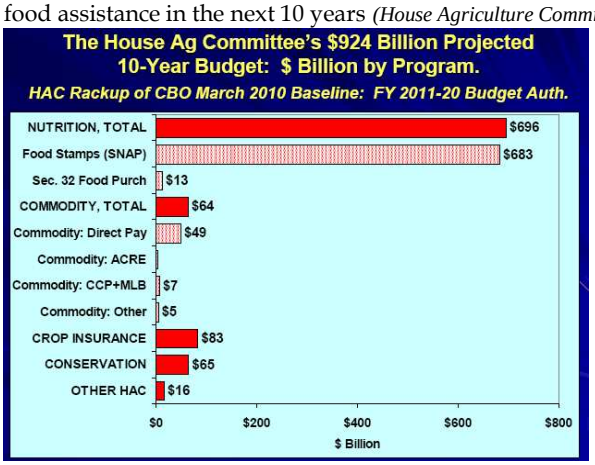
The next Farm Bill is certain to see an emphasis on risk management (crop/revenue insurance) amid intense budget-trimming pressure.

Subsidized crop insurance is a logical and effective support system for farmers that has exploded in popularity in the last decade. Most of the acreage devoted to major field crops is enrolled in the crop insurance program. In 2009, program participation rates exceeded 80 percent for corn, soybeans, wheat, cotton and peanuts.[1]

The popularity of revenue insurance and resulting large indemnity payments is evidence that producers have done the math and know what rewards them best. For the first time ever, the budget for the next Farm Bill shows crop insurance exceeding the totals for either commodity or conservation spending.[2]

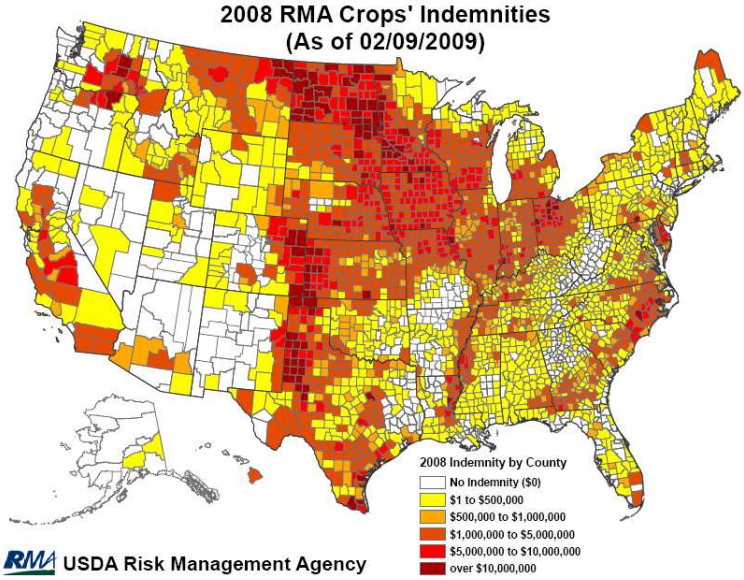
Crop Insurance is expanding rapidly, growing by more than 4 times in 8 years *(RMA)*;
CBO budget shows Crop Insurance spending second only to food assistance in the next 10 years *(House Agriculture Committee)*





The paradigm shift where most policies now insure price—even on a bumper crop, as well as on predictably meager crops on poorly-producing, newly-broken prairie—makes protecting resources and keeping sensitive land out of production look like a bad choice. In fact, USDA's Risk Management Agency's launching of the new COMBO product for 2011—which streamlines insurance choices to basically revenue or yield—signals that RMA sees the marketplace as rapidly moving to insure revenue on commodity crops.

Crop Insurance, the majority insuring crop price, will commonly pay out
in excess of $5 or $10 million or more in farm counties *(RMA)*



Subsidized insurance can provide an inherent incentive for risky production, which makes compliance mechanisms a necessity for all crop-insurance/risk-management programs. Crop Insurance subsidies average at least 60 percent of the total premium for crop insurance, and often much higher.

And, again, with the majority of crop insurance payouts functioning independently of crop failure or weather disasters, and instead are the result of insuring a projected price, producers can customarily average returns far greater than the premiums they invest year-in and year-out.

Over 10 years, even producers who typically pay the highest out-of-pocket premium rates are still experiencing a ratio of dollars received to dollars paid well in excess of 100%.(FAPRI)

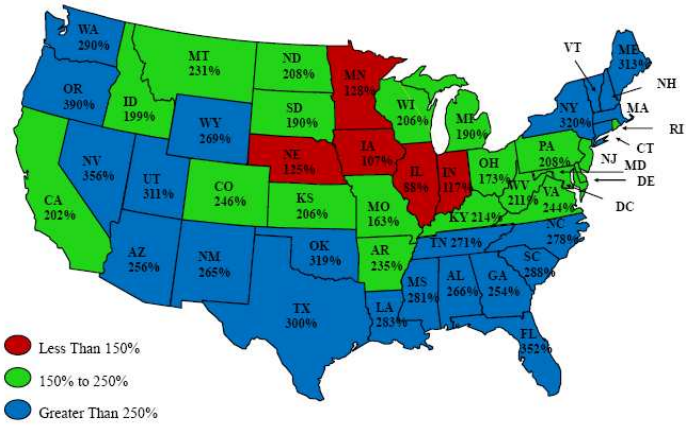


Figure 10. Ratio of indemnities to producer-paid premiums, 2000-2009

The Federal Crop Insurance program is not in and of itself bad policy, but any Farm Bill policy that reduces risk must be accompanied by policies that protect against reckless and destructive reactions to the resulting artificially low-risk conditions for program participants.

III. 2012 Farm Bill proposals for Crop Insurance and Conservation Compliance

The 2012 Farm Bill debate must address 1) the problems and opportunities posed by the expanding role of subsidized crop insurance, 2) the cost-saving yet effective elements (existing and new) of conservation compliance policy, and 3) the current lack of compliance requirements on crop insurance eligibility. IWLA advocates:

a). Re-establish compliance requirements for federal crop insurance eligibility so that all existing or new crop and revenue insurance or other risk management programs must be subject to all existing or new conservation compliance provisions.

b). Enact a nationwide "Sodsaver" provision to prohibit federal farm program and Crop Insurance subsidies on parcels converted to production from the nation's remaining native land that does not have a prior cropping history.

Other potential new compliance elements

c). Revise all soil conservation plans approved, applied, and maintained before July 3, 1996 to at minimum meet current HEL planning standards.

d). Require all land in production eroding at unsustainable levels, both HEL and non-HEL, to have a soil conservation plan to be eligible for any USDA benefits.

Questions: contact Brad Redlin, Director of Agricultural Programs for the IWLA at bredlin@iwla.org or 651.649.1446 ext. 13

[1] Westhoff. "Crop Insurance: Background Statistics on Participation and Results." FAPRI-MU Report #10-10. Food and Agricultural Policy Research Institute, University of Missouri. 2010. http://www.fapri.missouri.edu/outreach/publications/2010/FAPRI_MU_Report_10_10.pdf

[2] Jagger, Craig. "Federal Budget Issues & the Next farm Bill." Presented to Farm Foundation Forum, "Budget Implications for the Next Farm Bill." September 14, 2010. http://www.farmfoundation.org/news/articlefiles/363-Jagger_Budget_Color_Farm%20Found_09-14-10.pdf