

# Congress of the United States

July 20, 2009

The Honorable Thomas J. Vilsack  
Secretary of Agriculture  
200-A Jamie L. Whitten Building  
Washington, D.C. 20250

Dear Secretary Vilsack:

One of the most pressing issues in agricultural conservation is the loss of native grassland, which is exacerbated by features of the crop insurance system that underwrite highly risky conversions of native grassland to crop production, because the risk of crop loss is not adequately reflected in the premium paid. We encourage you to take action under existing statutory authority to eliminate unsound crop insurance incentives that encourage the continued conversion of grassland to cropland.

Grassland plays a vital role in providing wildlife habitat and in sequestering carbon. The loss of grassland is particularly critical in the Prairie Pothole Region, which supports more than half of all migratory waterfowl in North America, as well as many upland species. We requested that the Government Accountability Office (GAO) investigate whether federal policies were giving producers an incentive to convert grassland. GAO issued a September, 2007 report entitled "Farm Program Payments Are an Important Factor in Landowners' Decisions to Convert Grassland to Cropland." According to the National Resources Inventory, the nation's private grassland decreased by almost 25 million acres from 1982 and 2003, most of which was converted to cultivation of field crops.

The report found that the net crop insurance payout per acre in South Dakota counties that had high levels of conversion from grassland to cropland was nearly twice the state average payout per acre. This indicates that the risk of production in areas of previously unbroken sod is disproportionately large compared to the premiums paid. The crop insurance system – including other producers paying in to the system – is subsidizing the risk of breaking land for crop production, providing an incentive to producers to take unreasonable risks.

Based on estimates of the total U.S. cropland acres converted from pasture or grassland between 1992 and 2003 and the per acre indemnity differential calculated for South Dakota in the GAO study, we estimate that the annual cost to the federal crop insurance program of this conversion across the seven states in the Upper Midwest and Great Plains could be as much as \$299 million in additional crop insurance indemnities paid. This estimate is based on insured acres and indemnities paid in those states over the 2006-2008 period, and assumes that 75 percent of the converted grassland or pasture is enrolled in the crop insurance program. Indemnities paid on pasture and rangeland policies are excluded from the analysis.

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The Department of Agriculture has authority and the responsibility to manage the crop insurance program effectively, and particularly not to provide insurance at a loss when it is an incentive for additional environmentally damaging land conversion. Unfortunately, the problem of grassland conversions encouraged by access to federal program funding is continuing. Though individual farmers may certainly choose to convert grassland to cropland, federal crop insurance must not shield the producer from losses if the land is simply unsuited to crop production.

Congress adopted a provision in the Food, Conservation and Energy Act (FCEA) of 2008 allowing governors in certain states to choose to exclude certain land in their states on which native sod was the principal cover from eligibility for federal crop insurance for a period of five years. However, no governor chose to utilize this process prior to the deadline established by USDA to opt in.

The provision of the FCEA is distinct from the authority of USDA to manage and to maintain actuarial and fiscal integrity of federal crop insurance. The fundamental question here is whether the crop insurance system is operating on an actuarially sound basis with regard to newly broken grassland. USDA should consider the impacts of allowing land that has not been previously cultivated for crop production to be given production guarantees comparable to land with proven production records. Taking a more prudent approach will better reflect the actual risk associated with newly broken land and reduce the artificial incentive to break new land for crop production.

We appreciate your consideration of this request.

Sincerely,



Tom Harkin  
Chairman



Collin C. Peterson  
Chairman