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CRS Report for Congress

Specialty Crops: 2007 Farm Bill Issues

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Specialty Crops: 2007 Farm Bill Issues

Summary

Congress is moving ahead expeditiously with consideration of omnibus legislation to replace the expiring Farm Security and Rural Investment Act of 2002 (P.L. 107-171, the 2002 farm bill). Farm bill policies governing U.S. Department of Agriculture (USDA) programs on marketing, crop insurance and disaster assistance, protection against pests and diseases, export promotion, and domestic food assistance, among others, are important to the competitiveness of the specialty crop sector of U.S. agriculture. The sector includes fruit, vegetable, tree nut, and nursery crop producers, processors, manufacturers, wholesalers, importers, and exporters.

Although specialty crops are not eligible for direct support under USDA's farm commodity price and income support programs, the policies that Congress sets for the those programs affect them. Chief among these policies is one Congress originally adopted in the 1996 farm bill, and extended through 2007 in the 2002 farm bill, that largely restricts commodity program participants from planting fruits and vegetables on program base acres. Specialty crop interests long have maintained that the provision is essential to protect the sector from the economic damage that could occur if additional acres of vegetables (in particular) suddenly came into production. On the other hand, because the planting restriction has come under challenge in the World Trade Organization (WTO), the Administration argued in favor of lifting it in the 2007 farm bill.

Both H.R. 2419 (the House-passed 2007 farm bill) and the Senate-passed amendment to H.R. 2419 extend the planting restriction through FY2012. The House farm bill includes a separate title covering horticultural (specialty) and organic crops (Title X), which contains a total of $1.6 billion in mandatory funds and authorizes appropriations over five years for several major new and continuing programs. The Senate bill contains some of the same specialty crop and organic agriculture provisions as the House version. It provides $393.2 million in mandatory funds and authority for at least $40 million in appropriations over five years. The Senate committee provisions are contained in Subtitle F of Title I, Producer Income Protection Programs (the commodity title).

The bills generally concur on provisions to (1) continue the program making block grants to states for research, marketing, and promotion projects benefitting specialty crops, though they differ on the level of mandatory funding ($365 million over five years in H.R. 2419, $270 million in the Senate bill); (2) continue the program of cost-share assistance to producers for organic certification, with a one-time transfer of $22 million in mandatory funds; and (3) expand the current Farmers' Market Promotion Program, providing $30 million (Senate) or $35 million (H.R. 2419) in mandatory funds. The bills differ on provisions concerning pest and disease surveillance, and purchases of fruits, vegetables, and nuts for domestic nutrition programs above those already required, among other things.

This report will be updated as necessary as congressional consideration of the 2008 farm bill progresses.

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Introduction

Specialty crops (fruits, vegetables, tree nuts, and nursery crops) are not eligible for direct support under USDA's farm commodity price and income support programs. Nonetheless, the policies that Congress sets for those programs significantly affect the specialty crop sector's economic well-being. Federal policies on trade, conservation, credit, marketing programs, domestic food assistance, and research also all affect the specialty crop sector.[1]

Congress sets the policies in these areas, for the most part, in an omnibus, multi-year authorizing law commonly called the "farm bill." Many of the provisions of the most recent omnibus farm bill, the Farm Security and Rural Investment Act of 2002 (P.L. 107-171), expire in 2007. In the second session of the 109th Congress, the House Committee on Agriculture held field hearings to gather information from stakeholders in preparation for consideration of a new farm bill to replace the expiring one.

Some stakeholders and policymakers are calling for specialty crop issues to occupy a larger role in farm bill policy discussions than in the past. They note that the traditional farm commodity support programs are under pressure from constraints on the federal budget, as well as from developments in existing trade obligations and from negotiations on further trade agreements.[2] Policies covering U.S. agriculture more comprehensively could provide a way to address those pressures while increasing U.S. competitiveness, they argue.

Several major legislative proposals focusing on policies and programs of importance to the specialty crop sector were introduced in the 110th Congress in preparation for the 2007 farm bill debate. These bills include H.R. 1600 (Cardoza), the EAT Healthy America Act; H.R. 1551 (Kind)/S. 919 (Menendez), the Healthy Farms, Foods, and Fuels Act; and S. 1160 (Stabenow), the Specialty Crops Competition Act, among others. The Administration also proposed several policy reforms affecting specialty crops as part of the comprehensive 2007 farm bill proposal that it released in February 2007. A number of stakeholder groups also

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[1] For background information on all federal programs affecting specialty crops, see CRS Report RL32746, *Fruits, Vegetables, and Other Specialty Crops: A Primer on Government Programs*, by Jean M. Rawson.

[2] For information on the relationship between international trade negotiations and U.S. farm policy, see CRS Report RS21005, *Agriculture in the WTO Doha Round: The Framework Agreement and Next Steps*, by Joseph J. Schwarz, and CRS Report RS20840, *Agriculture in the WTO: Limits on Domestic Support*, by Randy Schnepf.

issued position statements concerning the specialty crops issues they would like to see addressed in the next farm bill.

Sector Snapshot

Sales of fruits, vegetables, and tree nuts account for nearly one-third of U.S. crop cash receipts and one-fifth of U.S. agricultural exports, according to USDA's Economic Research Service (ERS). When floriculture, greenhouse, and nursery crops are included, specialty crops account for approximately 50% of all U.S. cash receipts of farm crops.[3]

Despite their relatively large share of crop receipts, specialty crops occupy only about 3% of U.S. harvested cropland. Although certain states and regions are predominant, nearly every state has some commercial specialty crop production within its borders. **Figures 1, 2,** and **3** (in the **Appendix**) illustrate the distribution, nationwide, of areas producing fruits, vegetables, tree nuts, and nursery crops, shown as percentages of the total market value of agricultural products sold (including livestock).[4]

About three-fourths of growers are considered specialized, which means that they receive at least half of their gross value of production from the sale of fruits, vegetables, tree nuts or horticultural crops. According to ERS survey data, specialized farms account for 95% of the total value of U.S. specialty crop production, although more than half of them have annual sales of less than $250,000 and identify off-farm income as their primary means of support. Specialized farms may produce one or two other commodities in addition to their specialty crop, according to ERS, and about 15% of them also participate in the major commodity support programs.

The remaining 5% of the value of U.S. specialty crop production comes from non-specialized fruit and vegetable farms, which may produce as many as four other commodities (often including livestock) besides their specialty crop. Nearly half of these farms grow one or more of the major commodity crops and participate in the price and income support programs, according to ERS.

Vegetables, dry beans, and potatoes — for processing — are grown primarily on large-acreage, non-specialized commercial farms. California is the overwhelming leader in production, but certain states in the Northeast, Central and Upper Midwest, and Pacific Northwest also are major producers.

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[3] *Fruit and Vegetable Backgrounder* (USDA, Economic Research Service, April 2006) is the source for all the statistical information in this section. It is available online at [http://www.ers.usda.gov/].

[4] The maps show the value of specialty crops as a percent of total market value of all agricultural products sold, including livestock. Data from ERS's *Fruit and Vegetable Backgounder*, cited above in this section, compare specialty crop values to other *crop* values.

Selected Issues and Their Current Status in the 2008 Farm Bill Process

Planting Flexibility[5]

A key issue for the some parts of the specialty crop industry is the continuation of a 2002 farm bill provision that restricts the ability of participants in the farm income and commodity price support programs to plant fruits and vegetables on acres on which they receive benefits (base acres). Congress first inserted this provision in the 1996 farm act (P.L. 104-127), after it had adopted a proposal to allow producers of program crops to respond to market signals and grow different crops on base acreage. The restriction was extended through 2007 by the 2002 farm bill.

Specialty crop producers, in general, have maintained since 1996 that allowing program crop producers to switch even small numbers of acres to fruits or vegetables would negatively affect markets, and thus growers' annual income.

In 2005, a World Trade Organization (WTO) challenge to U.S. farm commodity programs raised questions concerning the use of the planting flexibility restriction under existing trade commitments.[6] Discussion on whether to extend the restriction in the next farm bill thus has an important trade policy aspect as well as domestic market aspect.

A number of reports have been issued since late 2006 that examine the possible effects on domestic fruit and vegetable producers of eliminating the planting restriction. These analyses suggest that the adverse effects of removing the restriction likely would be small relative to the overall industry, although there could be larger impacts on individual producers, commodities, and regions.

Current Status. The House and Senate versions of H.R. 2419 maintain the 2002 farm bill provisions restricting the planting of fruits and vegetables on base acres. They authorize a pilot Farm Flex program in Indiana under which tomatoes may be planted on up to 10,000 base acres.

Government Purchases for Nutrition Programs

USDA directly purchases and then donates a variety of non-price supported commodities, including fruit, vegetable, and tree nut products, for consumption through domestic nutrition and food assistance programs. These purchases and donations help groups of nutritionally vulnerable recipients (such as low-income

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[5] For detailed analysis of this issue, see CRS Report RL34019, *Eliminating the Planting Restrictions on Fruits and Vegetables in the Farm Commodity Programs*, by Renee Johnson and Jim Monke.

[6] For more detailed information and analysis of this issue, see CRS Report RS22187, *U.S. Agricultural Policy Response to WTO Cotton Decision*, by Randy Schnepf, and CRS Report RL33697, *Potential Challenges to U.S. Farm Subsidies in the WTO*, by Randy Schnepf, Jasper Womach.

school children, participants at family child care homes, and others) to eat a healthy diet and avoid hunger, while also helping to balance supply and demand for various commodities.

Current Status. The House-passed H.R. 2419 contains a provision that sets the current and projected expenditures of Section 32 funds for purchases of fresh, frozen, canned, dried, or value-added fruits, vegetables, and nuts for nutrition programs as the authorized levels for the next five-year farm bill period.[7] The Senate bill contains the same provision, with technical differences. Both bills contain provisions to expand to all states a pilot program that provides free fresh fruit and vegetable snacks to schools. The House bill would provide $70 million annually for the program. The Senate bill would permanently authorize the program and provide $225 million in mandatory funding the first year, with subsequent years' funding adjusted according to the Consumer Price Index.

Market Expansion Through Promotion Programs

A key provision of the Specialty Crops Competitiveness Act of 2004 (P.L. 108-465), which was the first law that Congress passed on specialty crop policies specifically, is the authorization, through FY2009, of a program of block grants to states to support projects in research, marketing, education, pest and disease management, production, and food safety. In most states, the state department of agriculture administers this program. The act authorizes $44.5 million in annual appropriations for the program; Congress appropriated $7 million in FY2006 and the same in FY2007.

Expansion of this program and an effort to provide mandatory funding for it is a major focus in the 2007 farm bill debate. Specialty crop interests have consistently urged Congress to provide mandatory funds for the block grant program, arguing that the government should increase its investment in the sector in light of its value to U.S. agriculture as a whole. However, producer groups and lawmakers from states where commodity crops predominate are not in favor of redirecting money to support other programs if it means reducing the current level of support for the commodity programs.

Current Status. Title X of H.R. 2419 extends the program of block grants to states and provides mandatory funding for the program totaling $365 million over the five-year farm bill period. The Senate bill would provide $270 million over the period from FY2008 through FY2011.

The rural development title of the House-passed farm bill reauthorizes and increases funding for the Value-Added Producer Grants program that was created by the Agricultural Risk Protection Act of 2000 (P.L. 106-224), providing a one-time

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[7] Section 32 is a permanent appropriation that since 1935 has earmarked the equivalent of 30% of annual customs receipts to support the farm sector through a variety of activities, the largest of which is purchasing food commodities for the child nutrition and other domestic food programs. For more information, see CRS Report RS20235, *Farm and Food Support Under USDA's Section 32 Program*, by Geoffrey S. Becker.

mandatory transfer of $30 million for the program, renamed the Value-Added Market Development Program. The program makes planning grants and provides working capital for marketing value-added agricultural products. H.R. 2419 provides that 10% of the funding be set aside for beginning and socially disadvantaged farmers and ranchers, and that another 10% be reserved to help small and medium-sized farm operations make marketing alliances with other segments of the supply chain. The Senate bill reauthorizes the program with no administrative changes, and makes funding subject to annual appropriations.

The trade title of the House-passed bill provides $38 million over a five-year period for Technical Assistance for Specialty Crops (TASC), a program that helps exporters of U.S. specialty crops overcome other countries' non-tariff trade barriers, particularly those associated with plant pest and disease concerns. The Senate provision, which is located in Title I of the bill, would provide $6.8 million annually in mandatory funds for TASC, through FY2011. In FY2012 and subsequent years, the Senate bill would provide $2 million.

In the House bill, the trade title makes foods produced under the Organic Foods Production Act of 1990 (Title XXI of P.L. 101-624) eligible for export assistance under the Market Access Program (MAP) and also increases mandatory funding for MAP to $225 million annually beginning in FY2008. MAP is a cost-share program between USDA and commodity organizations or agribusinesses to promote U.S. agricultural products overseas. The Senate measure expands MAP funding by $10 million increments beginning in FY2008, reaching $240 million in FY2011, and returning to the $200 million level for FY2012 and subsequent years.

Disease and Pest Protection

Stakeholders traditionally have expressed the concern that efforts to identify and mitigate the effects of existing pest and disease threats and to prevent the importation of new ones need to be strengthened.

H.R. 1600 (the EAT Healthy America Act, introduced in early 2007) included provisions to establish a new program of cooperative agreements with states to conduct early pest detection activities, and to return the import and entry agricultural inspection functions to USDA from the Department of Homeland Security, where they were transferred in 2003. These provisions appeared in the Horticulture and Organic Agriculture title that the House Agriculture Committee reported out as part of the total farm bill on July 23, 2007.

Current Status. Title X of the House-passed farm bill establishes a cooperative federal-state program for early pest detection and surveillance and for threat identification and mitigation. The bill provides $10 million in mandatory funds for the program in FY2008, $25 million in FY2009, $40 million in FY2010, $55 million in FY2011, and $70 million in FY2012. The Senate bill contains the same provision, with some technical differences, and provides the same level of mandatory funds as the House provision in FY2008-FY2010, $50 million in FY2011, and $64 million in FY2012.

Research

In hearings before the farm bill debate, specialty crops producers and trade associations argued strongly in favor of increasing federal expenditures for specialty crop research. They maintained that research provides critical support for the industry, without risking challenges under international trade rules. The EAT Healthy America Act (H.R. 1600) and the Administration's farm bill proposal called for using mandatory funds to substantially increase agricultural research on the production and economics of specialty crops.

Current Status. The research title of House bill establishes a Specialty Crop Research Initiative to award competitive grants to scientists for research on a wide range of issues. It provides $215 million in mandatory funds over the five-year farm bill period and also authorizes annual appropriations of $100 million for the Initiative. The research title of the Senate bill likewise establishes an initiative, and provides $80 million over the farm bill term.

Organic Agriculture

Certain of the farm bill proposals that were introduced or released early in 2007 called for a substantial expansion of the National Organic Certification Cost-Share program. The program, which was established by the 2002 farm bill, gives USDA authority to defray the costs of producers and handlers seeking organic certification through FY2007, and authorized a one-time, mandatory transfer of $5 million from the Commodity Credit Corporation (CCC) to establish a National Organic Certification Cost-Share program. The funds cannot cover more than 75% ($500 maximum) of a producer's or handler's costs for becoming certified. The transfer occurred in FY2002 and remained available until fully expended, which was in fall 2006.

Some of the early farm bill proposals also contained a provision to make technical assistance available to farmers wanting to convert their operations from conventional to organic practices, and to reimburse transition costs up to $10,000 per farm or handling operation.

Current Status. Both the House and Senate bills extend the certification cost-share program, provide a one-time transfer of $22 million in mandatory funds to be available until expended, and raise the maximum amount that a producer or handler can receive to $750. Both bills also provide mandatory funding to improve USDA's collection of segregated data and survey information about the price, production, and marketing of major organically produced commodities. The House bill would provide a one-time transfer of $3 million for this purpose. The Senate bill language contains a detailed list of required data sets, studies, and market surveys, and provides a one-time transfer of $5 million for this purpose.

The House bill establishes a program of cost-sharing and incentive payments to producers who want to convert their farms to organic production and authorizes $50 million in annual appropriations to support the program. The Senate bill contains a similar provision under the Environmental Quality Incentives Program (EQIP) in

Title II — Conservation. The provision authorizes both technical and financial assistance. The Senate bill provides $6.4 billion for all EQIP activities over the five-year span of the farm bill.

The 1990 farm bill established an organic agriculture research and extension initiative supported by $3 million annually in mandatory funding. The House-passed farm bill would provide $25 million annually in mandatory funds for the initiative, and authorizes an additional $25 million in annual appropriations. The Senate bill reauthorizes the initiative and provides $16 million annually in mandatory funds through FY2012 for that purpose.

The Senate bill contains a number of provisions addressing other issues of importance to the organic community. It would set increased appropriations levels for the activities of the National Organic Program, which received $2 million in FY2006 and FY2007. The Senate provision authorizes appropriations of $5 million in FY2008, rising to $11 million in FY2012.

Additional Provisions

In addition to the above, the House and Senate bills include provisions to —

- increase the amount that nursery tree growers can receive in payments for weather-related losses under the Tree Assistance Program from $75,000 to $150,000 (both bills); the House bill reauthorizes discretionary funding, the Senate bill would provide mandatory funding;
- authorize $20 million in annual appropriations for grants to communities to help them operate organic gardens or greenhouses for growing fresh produce in urban areas (in the House bill);
- establish a Healthy Food Enterprise Development Center with $7 million in mandatory funds to make competitive grants to entities that will increase low-income families' access to healthy affordable foods (in the Senate bill); the House bill authorizes appropriations for competitive grants to study the issue of access to food;
- allow fruit and vegetable marketing orders to implement quality-related food safety programs (in the House bill);
- authorize USDA to educate consumers and handlers of fresh produce on science-based sanitary handling methods (in both bills); the Senate bill authorizes $1 million annual appropriations for this purpose;
- establish a matching funds grant program to help state and local governments, grower cooperatives, and other eligible organizations improve the cost-effective movement of specialty crops to local, regional, national, and international markets (House and Senate bills); and
- provide $20 million over five years to support a network of facilities to be sources of pest- and disease-free planting stock for horticultural crops (both bills).

Appendix

Figure 1. Value of Vegetables, Melons, Potatoes, and Sweet Potatoes as Percent of Total Market Value of Agricultural Products Sold: 2002

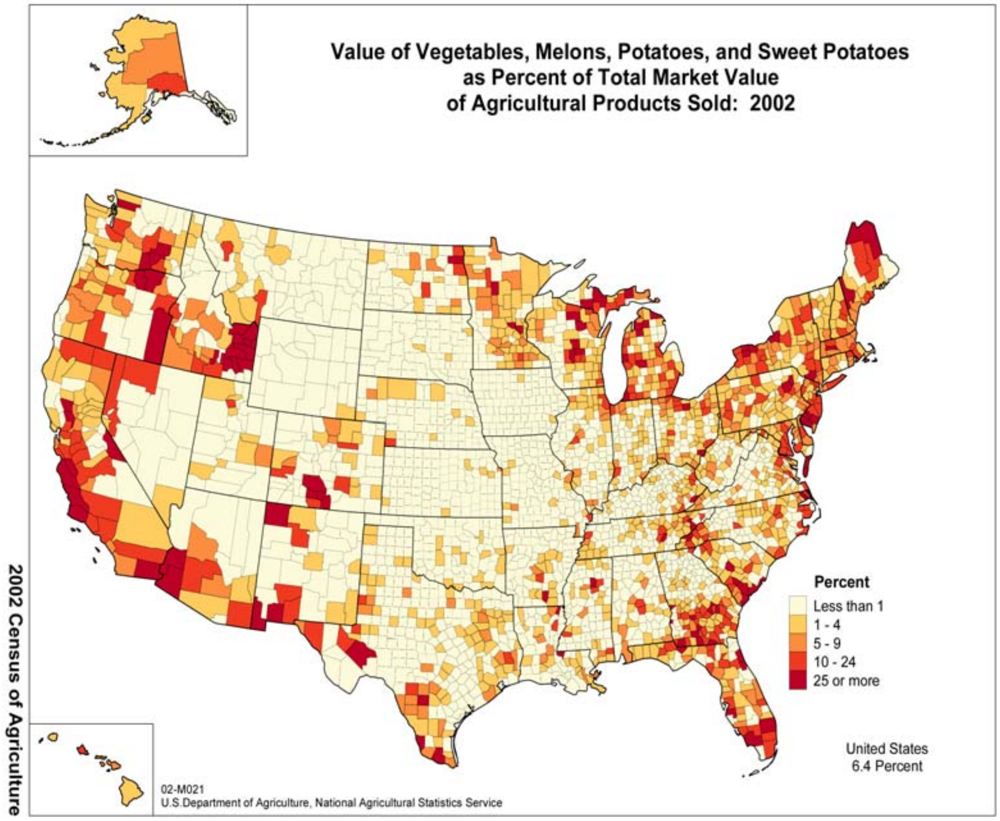

Figure 2. Value of Fruits, Tree Nuts and Berries as Percent of Total Market Value of Agricultural Products Sold: 2002

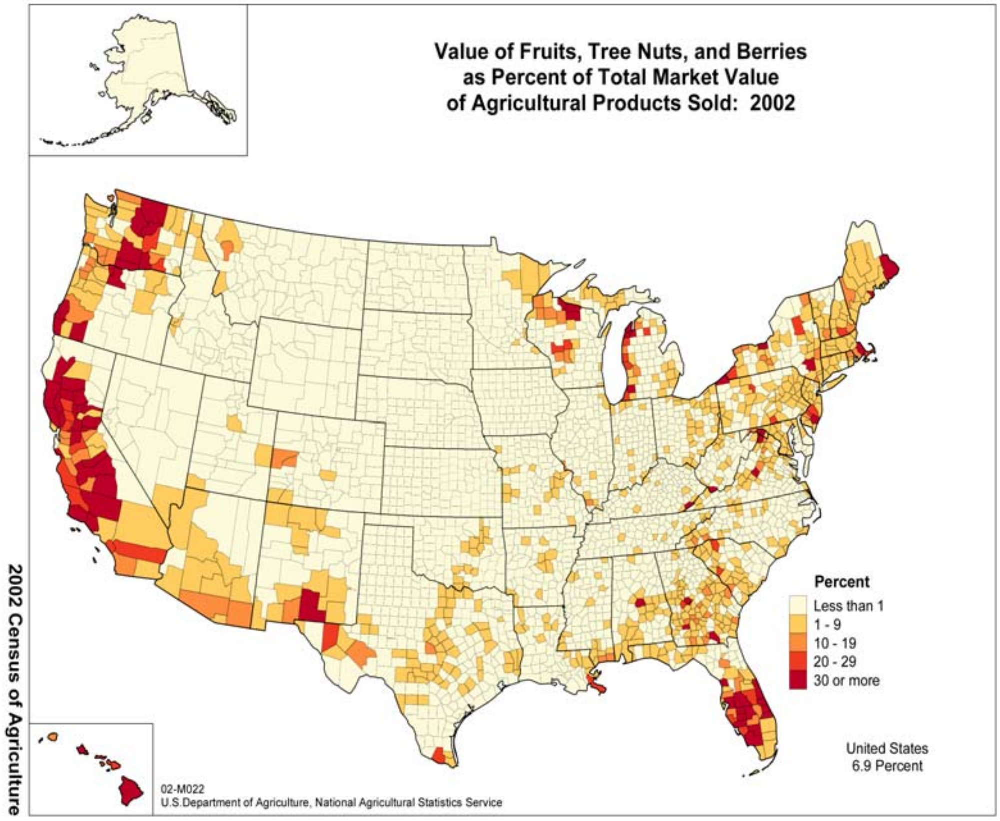

Figure 3. Value of Nursery, Greenhouse, Floriculture, and Sod as Percent of Total Market Value of Agricultural Products Sold: 2002