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Specialty Crops: 2008 Farm Bill Issues

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Summary

Congress has completed action on omnibus legislation to replace expiring law governing the programs and policies of the U.S. Department of Agriculture (USDA). The new Food, Conservation, and Energy Act of 2008 (P.L. 110-246, H.R. 6124) contains provisions on marketing, crop insurance and disaster assistance, protection against pests and diseases, export promotion, research, and domestic food assistance, all of which 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 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. The Food, Conservation, and Energy Act of 2008 extends the planting restriction through FY2012, but authorizes a pilot program in seven midwestern states to allow planting of fruits and vegetables — exclusively for processing — on base acres.

P.L. 110-246 also includes, for the first time in the history of the farm bill, a separate title covering horticultural (specialty) and organic crops (Title X). The title provides substantial mandatory funding over the life of the farm bill and beyond for several major new and continuing programs. The key provisions include (1) reauthorization of the program making block grants to states for research, marketing, and promotion projects benefitting specialty crops, providing $466 million over 10 years in mandatory funds; (2) reauthorization of the program of cost-share assistance to producers for organic certification, with a one-time transfer of $22 million in mandatory funds; (3) expansion of the current Farmers' Market Promotion Program to increase direct farmer-to-consumer marketing opportunities, providing $33 million in mandatory funds; (4) establishment of a federal/state pest and disease detection and control program with $377 million in mandatory funds over 10 years; and (5) creation of a network of nurseries to grow pest- and disease-free plant stocks for horticultural crops, with $20 million in mandatory funds. The title also contains a section authorizing $10 million annually in appropriations for research on colony collapse disorder in honeybees.

The nutrition title of P.L. 110-246 contains provisions intended to increase the availability of fresh fruits and vegetables in the school lunch and other domestic nutrition assistance programs. For greater detail on these provisions, see CRS Report RL33829, *Domestic Food Assistance: The 2007 Farm Bill and Other Legislation in the 110th Congress.*

This report will be updated if events warrant.

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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." In May 2008, Congress passed a new farm bill to replace the previous one, the Farm Security and Rural Investment Act of 2002 (P.L. 107-171), which expired in 2007 (Congress extended it until the new bill could be enacted).

Some stakeholders and policymakers called for specialty crop issues to occupy a larger role in farm bill policy discussions than in the past. They noted 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 argued.

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 included 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 issued position statements concerning the specialty crops issues they wanted to see addressed in the new farm bill.

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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 RS21905, *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.

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 Status in the Enacted 2008 Farm Bill[5]

Planting Flexibility[6]

A persistent issue for the specialty crop industry is the status of continuation of a policy set in previous farm bills 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.[7] 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.

In the Enacted Bill. The Food, Conservation, and Energy Act of 2008 (P.L. 110-246) maintains the 2002 farm bill provision restricting the planting of fruits and vegetables on base acres. However, the act authorizes a pilot project in seven midwestern states that will allow fruits and vegetables — exclusively for processing — to be planted on 75,000 base acres. USDA is required to evaluate and report to Congress on the impact the pilot project is having on the price and supply of both fresh and processed fruits and vegetables.

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[5] For a comparison of the provisions in P.L. 110-246 with the provisions in the House and Senate bills, and with previous law, see CRS Report RL34228, *Comparison of the 2008 Farm Bill Conference Agreement with the House and Senate Farm Bills.*

[6] 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.

[7] 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.

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 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.

In the Enacted Bill. Section 10603 requires USDA to purchase additional fruits, vegetables, and nuts for nutrition assistance programs, above the traditional purchases of $200 million per year. USDA must purchase an additional $190 million in FY2008; $193 million in FY2009; $199 million in FY2010; $203 million in FY2011; and $206 million in FY2012 and thereafter. Section 10101 requires the Secretary to arrange for an independent evaluation of USDA's purchasing process in order to ensure that the funds are principally devoted to procuring fresh fruits and vegetables.

The enacted bill also creates a new program to provide fresh fruits and vegetables to elementary schools, replacing a program that began as a pilot project in a limited number of states. The new program will operate in all states, in those elementary schools that the state designates. The act provides mandatory funding of $40 million in October 2008; $65 million in July 2009; $101 million in July 2010; and $150 million in July 2011. Funding in future years will be indexed for inflation. Half of the annual funding will be divided equally among the states, and the remaining half will be allocated under a formula based on population.

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, was 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 authorized $44.5 million in annual appropriations for the program; Congress appropriated $7 million in each of FY2006-FY2008.

Expansion of this program and an effort to provide mandatory funding for it was a major focus in the 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 were not in favor of redirecting money to support other programs if it meant reducing the current level of support for the commodity programs.

In the Enacted Bill. Title X of P.L. 110-246 extends the program of block grants to states and provides mandatory funding for the program totaling $224 million over the five-year farm bill period. Congress did not redirect commodity program funds to support the block grant program. The House bill would have provided $365 million in mandatory funding; the Senate bill would have provided $270 million over the period from FY2008 through FY2011.

The rural development title of P.L. 110-246 reauthorizes and provides $15 million in mandatory funding for the Value-Added Producer Grants program that was created by the Agricultural Risk Protection Act of 2000 (P.L. 106-224). The program makes planning grants and provides working capital for marketing value-added agricultural products. The new act stipulates 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. Organic producers also are eligible to receive these grants.

The trade title of the conference agreement provides $37 million in mandatory funding 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 trade title also maintains mandatory funding for the Market Access Program (MAP) at $200 million annually, and specifies that organically produced commodities are eligible for marketing assistance. MAP is a cost-share program between USDA and commodity organizations or agribusinesses to promote U.S. agricultural products overseas.

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. The latter provision was dropped in both the House and Senate farm bills, but other significant pest and disease provisions were retained in the conference agreement.

In the Enacted Bill. Title X of P.L. 110-246 establishes a cooperative federal-state program for early pest detection and surveillance and for threat identification and mitigation. The act provides mandatory funding of $12 million for the program in FY2009, $45 million in FY2010, and $50 million annually in FY2011 and FY2012. Bill language prohibits USDA from considering the availability of non-federal funds in the states' applications for federal funds.

Title X contains additional provisions relating to pest and disease control. Section 10202 provides $5 million annually in mandatory funds over four years to establish a National Clean Plant Network to grow pest- and disease-free planting stock for the specialty crop industry. Section 10203 amends the Plant Protection Act (PPA; 7 U.S.C. 7701 et seq.), the act authorizing USDA's Animal and Plant Health Service's activities on the plant health, to increase the penalties for violating the PPA, expand the violations for which penalties are assessed, and clarify subpoena authorities under the PPA.

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.

In the Enacted Bill. The research title of P.L. 110-246 (Title VII) provides $230 million in mandatory funds for a specialty crop research initiative over the five-year farm bill period and also authorizes annual appropriations of $100 million. This amount is greater than that provided in the House and Senate bills ($215 million and $80 million, respectively.) Bill language stipulates that five subject areas for research — crop improvement, identification of pest and disease threats, production efficiency, improved technologies, and prevention and detection of food safety hazards — should each receive at least 10% of the grant funds. Recipients must commit to providing a 100% match, either in funds or in-kind support.

Organic Agriculture

The National Organic Certification Cost-Share Program, which was established by the 2002 farm bill, authorized a one-time, mandatory transfer of $5 million from the Commodity Credit Corporation (CCC) with which USDA helped to defray the costs of producers and handlers seeking organic certification. There was a $500 maximum on the amount a producer could receive, and the federal share could not account for more than 75% of a producer's total costs. The transfer occurred in FY2002 and remained available until fully expended, which was in fall 2006. Certain of the farm bill proposals that were introduced or released early in 2007 called for a substantial expansion of this program. Some 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.

In the Enacted Bill. Section 10301 extends the certification cost-share program, provides a one-time transfer of $22 million in mandatory funds to be available until expended, and raises the maximum amount that a producer or handler can receive to $750. Conferees deleted the requirement that the federal share of a producer or handler's certification not exceed 75%. The enacted bill also provides

$5 million in 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 bill contains a detailed list of required data sets, studies, and market surveys, and authorizes an additional $25 million in appropriations over the five-year farm bill period to maintain support for these activities.

The enacted bill adds language to the conservation title (Title II) to establish that producers are eligible for technical assistance under the Environmental Quality Incentives Program (EQIP) for converting their farm to organic production. Efforts to authorize a $50 million program in the farm bill specifically for this purpose were not successful. The bill increases mandatory funding for all activities under EQIP by $3.4 billion.

The 1990 farm bill established an organic agriculture research and extension initiative supported by $3 million annually in mandatory funding. The enacted bill provides $78 million in mandatory funds over the FY2009-FY2012 period for this initiative, and also authorizes annual appropriations of $25 million.

Additional Provisions

The enacted bill contains a number of provisions addressing other issues of importance to the horticulture and organic agriculture communities. Among these are provisions to —

- increase the amount that orchardists and nursery tree growers can receive in payments for weather-related losses under the Tree Assistance Program from $75,000 to $100,000;
- authorize increasing appropriations for USDA's National Organic Program Office, starting at $5 million in FY2008 and rising to $11 million in FY2012, for the purpose of improving program efficiency and regulatory oversight activities;
- expand the Farmers' Market Promotion Program with $33 million in mandatory funds over the five-year term of the farm bill;
- establish a Healthy Food Enterprise Development Center with $5 million in mandatory funds to make competitive grants to entities that will increase low-income families' access to healthy affordable foods;
- authorize $1 million in annual appropriations for a program to educate consumers and handlers of fresh produce on science-based sanitary handling methods;
- authorize $9 million in annual appropriations to support market news and price information on specialty crops; and
- authorize $10 million in annual appropriations for grants to conduct research on honeybee colony collapse disorder.

Appendix

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

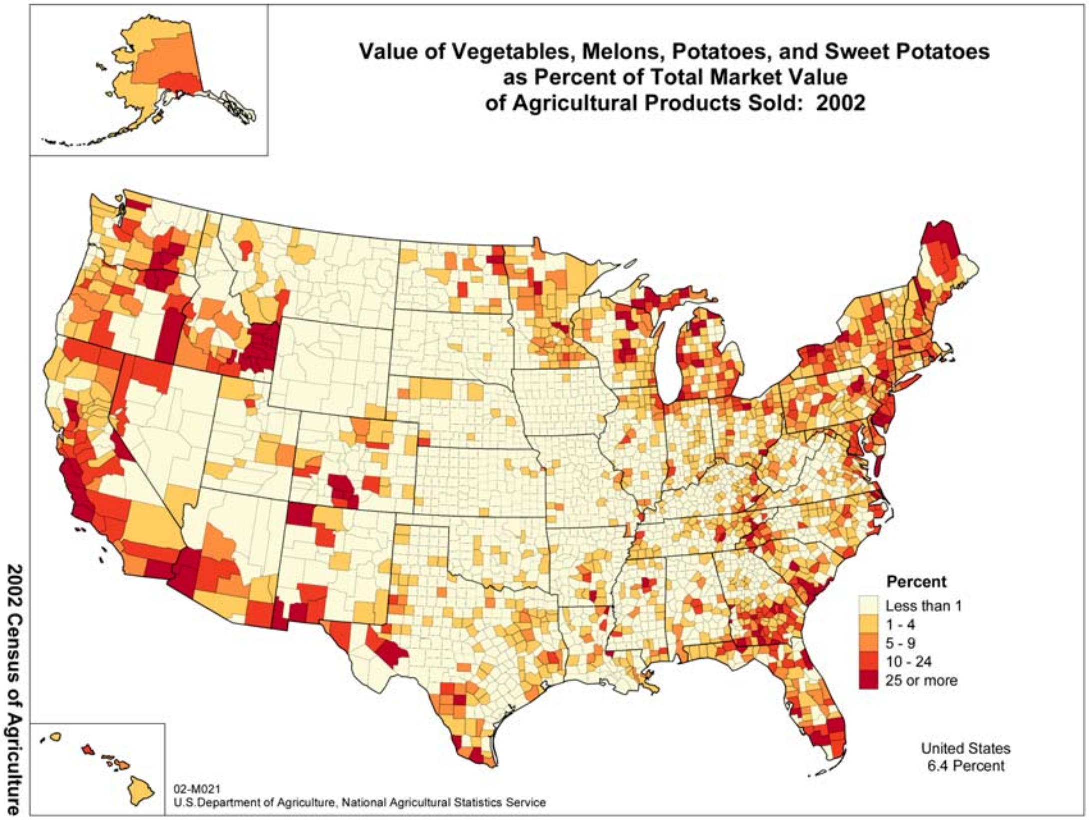

Figure 2. Value of Fruits, Tree Nuts and Berries as Percent of Total Market Value of Agricultural Products Sold: 2002

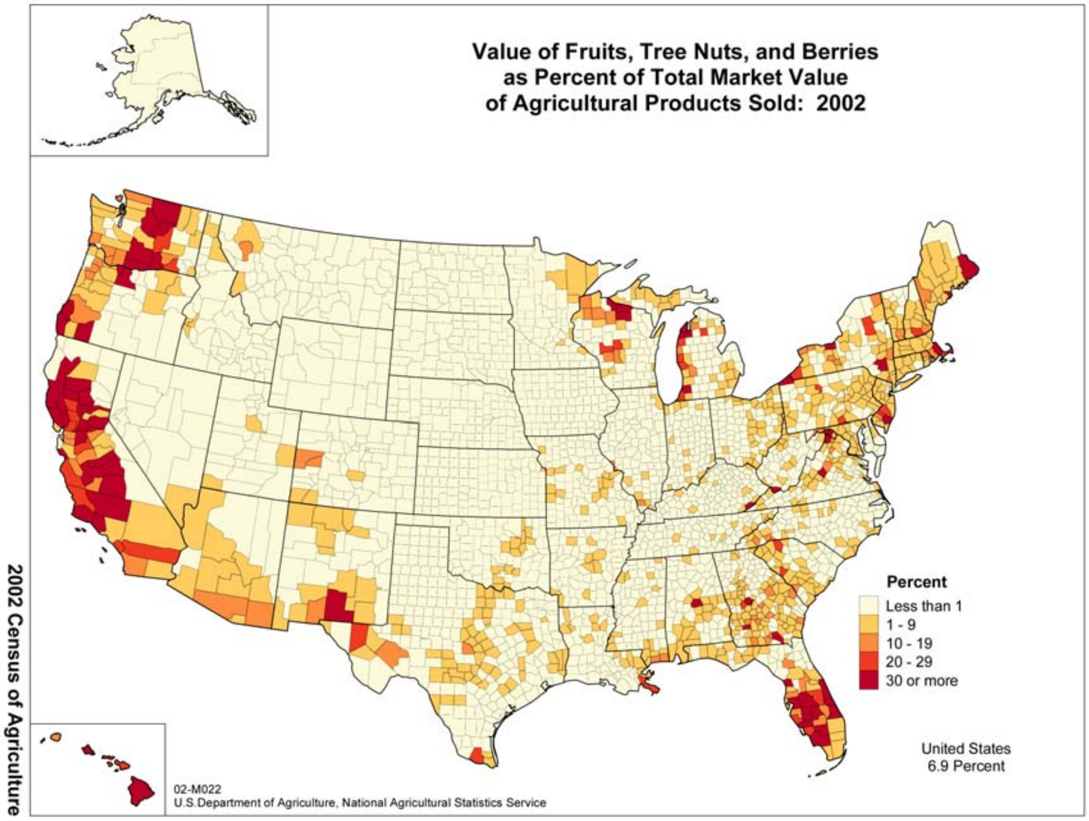

Figure 3. Value of Nursery, Greenhouse, Floriculture, and Sod as Percent of Total Market Value of Agricultural Products Sold: 2002