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Specialty Crops: 2007 Farm Bill Issues

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Summary

Congress is currently conducting field hearings in preparation for upcoming consideration of 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.

Of particular importance are the policies Congress sets for the major farm income and commodity price support programs for grains, oilseeds, peanuts, sugar, upland cotton, and dairy. Congress inserted a provision in the 1996 farm bill (P.L. 104-127, the Federal Agriculture Improvement and Reform Act) permitting program participants to plant different crops on their program acres and still receive benefits. Before final passage, Congress added another provision largely restricting participants from planting fruits and vegetables on those acres, after specialty crop interests expressed concern over the price volatility that the sector could suffer as a result. Congress renewed the planting restriction in the 2002 farm bill.

The upcoming farm bill debate on the planting restriction provision, as well as other key policies, will be affected by several new factors. Trade agreement concerns could potentially require a relaxation of planting restrictions, and constrain policies affecting the amount of spending for program crops. Additionally, legislation passed in 2004 (the 108th Congress) that created special programs to increase the competitiveness of specialty crops, and new, similar proposals introduced in the 109th Congress, indicate the specialty crop sector's active interest in greater federal investment in non-trade distorting support that would reflect the value of their contribution to U.S. agriculture. For example, the latest proposals call for increased funding to states for research and promotion efforts, strengthening activities to overcome phytosanitary (pest and disease) barriers to exports, expanding efforts to keep harmful pests and diseases from entering the country, and providing mandatory funding for a large competitive research grant program to address a broad spectrum of specialty crop development needs.

This report discusses potential 2007 farm bill proposals affecting the specialty crop sector as gleaned from the 2004 bill as introduced (H.R. 3242), as passed (P.L. 108-465), and from the proposals introduced in the 109th Congress (H.R. 3562/S. 1556; S. 2487). The report will track congressional consideration of the 2007 farm bill and will be updated as necessary.

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Specialty Crops: 2007 Farm Bill Issues

Introduction

Specialty crops (fruits, vegetables, tree nuts and nursery crops) are not eligible for 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. The House Committee on Agriculture began holding field hearings early in 2006 to gather information from stakeholders in preparation for drafting a new farm bill to replace the expiring one. A field hearing in upstate New York, held in late June 2006, included testimony from several specialty crop producers (available on the Committee's website).

The specialty crop sector is keenly interested in the renewal of certain federal farm policies from the 2002 farm bill. In addition, 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 point out that specialty crop producers are not beneficiaries of the $23 billion in USDA spending (in FY2005) on price and income support programs for grains, oilseeds, peanuts, sugar, upland cotton, and dairy, although the value of specialty crop sales accounts for roughly 50% of all U.S. farm crop cash receipts. Furthermore, observers 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.

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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*.

[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*, and CRS Report RS20840, *Agriculture in the WTO: Limits on Domestic Support.*

In 2004, the 108th Congress passed the Specialty Crop Competitiveness Act, which addressed issues related to domestic marketing, exports, research, and protection from invasive pests and diseases (P.L. 108-465; H.R. 3242). Three bills dealing with specialty crops have been introduced in the 109th Congress: H.R. 3562/S. 1556, in July 2005, by Representative Hooley and Senator Wyden, respectively; and S. 2487, in March 2006, by Senators Craig and Stabenow.[3] These bills, along with P.L. 108-465, are expected to serve as the basis for consideration of specialty crop provisions in the 2007 farm bill, and are the source of the policy issues covered in this report until the farm bill debate formally begins.[4] Policy recommendations from various stakeholder groups will be added to the report as they are made public.

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. When floriculture, greenhouse, and nursery crops are included, specialty crops account for approximately 50% of all U.S. cash receipts of farm crops.[5]

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 Appendix A, pages 10-12) 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).[6]

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,

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[3] H.R. 3562/S. 1556, the Specialty Crop and Value-Added Agriculture Promotion Act; S. 2487, the Specialty Crops Competition Act of 2006.

[4] See Senator Craig's statement on introducing S. 2487 in the *Congressional Record* for March 31, 2006.

[5] *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].

[6] Note: 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.

according to ERS, but only 15% of them 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.

Fruits and vegetables 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.

2007 Farm Bill Issues

Planting Flexibility

The most critical issue for 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 provision was extended through 2007 by the 2002 farm bill.

Specialty crop growers have maintained since 1996 that allowing program crop producers to switch even small numbers of acres to fruits or vegetables would negatively affect growers' annual income. In addition, they argue, they would be at a further disadvantage because program crop producers whose specialty crops lost money would still be able to receive federal payments on the base acres they had planted to fruits or vegetables.[7]

Conversely, the restriction on planting flexibility caused problems for a number of farmers in the Midwest and Lake States (Minnesota, Wisconsin, and Michigan). Many producers in these regions traditionally rotated soybeans with vegetable crops grown on contract for processing. The 2002 farm bill made soybeans eligible for declaration as a "base" crop. Some producers found themselves unable to continue their traditional vegetable rotation on their own land due to the planting restriction. Others had difficulty finding rental farmland, as the owners feared losing base acreage if the renter planted a vegetable crop after the soybean crop on the rented acres. Bills proposing various solutions for this problem were introduced in the 108th Congress and again in the 109th, but no action has been taken on them, so the issue remains open for farm bill debate.

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[7] See House Committee on Agriculture, Subcommittee on Livestock and Horticulture, Hearing, November 5, 2003, Serial No. 108-20, *Review of Domestic Policies Affecting the Specialty Crop Industry*. Available at [http://agriculture.house.gov/hearings/108/10820.pdf].

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.

Section 10603 of the 2002 farm bill included a provision setting a minimum threshold of $200 million in Section 32 funds to purchase fruits and vegetables for donation to schools.[8] USDA subsequently interpreted the law to mean that the minimum threshold applied to current purchases, whereas Congress and stakeholder groups argued that it was intended to provide for an additional $200 million in fruit and vegetable purchases above the existing program. Proponents of additional funds said they were intended to support the purchase of fresh fruits and vegetables to be delivered to schools through a system especially suited to delivering small lots of fresh produce (the majority of current program purchases are of canned, frozen, and dried commodities, due to the volume purchased and their distribution nationwide).

S. 2487, a specialty crop bill introduced in March 2006, contains a provision that would insure that a $200 million minimum threshold would apply to additional purchases of fruits and vegetables above those already made with Section 32 funds. As USDA is continuing to operate under its interpretation of the 2002 provision, this issue is expected to arise during the 2007 farm bill deliberations.

P.L. 108-465 Provisions for Further Consideration

Block Grants to States, Mandatory Funding? The key provision of the Specialty Crops Competitiveness Act of 2004 (P.L. 108-465) 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 initial bill (H.R. 3242) called for an annual expenditure of $470 million in mandatory funds from the Commodity Credit Corporation (CCC) to support the specialty crop block grant program.[9] The final bill instead authorized the program subject to annual appropriations, and limited annual funding to $44.5 million in FY2005-2009 ($7 million was appropriated for FY2006; $15.6 million is in the

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[8] 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 on this program, see CRS Report RS20235, *Farm and Food Support under USDA'S Section 32 Program.*

[9] The CCC is a wholly owned government corporation within USDA with the authority to have up to $30 billion in outstanding debt to the U.S. Treasury. The CCC repays the funds it borrows primarily through its regular annual appropriation. It serves as the funding mechanism for the farm commodity price and income support programs.

House-passed FY2007 USDA appropriations bill, and $10 million in the Senate-reported measure). The most recently introduced bill, S. 2487, calls for $200 million annually in CCC funds. The bill introduced in July 2005, H.R. 3562, calls for $500 million in annual appropriations.

Expansion of this program and a renewed effort to obtain mandatory funding are expected to be subjects of considerable debate once Congress begins drafting a 2007 farm bill. Proponents maintain that the block grants approach permits each state to tailor activities to fit the particular needs of its specialty crop producers and processors. Critics point to a similar, one-time, mandatory program in 2001, where it subsequently was determined that some states were not as effective as others in administering projects that had identifiable benefits.[10]

The larger issue, however, is whether the program should be supported with mandatory or discretionary funds. Those favoring the former argue that the economic importance of the specialty crop industry to the U.S. farm sector deserves greater equity with the major commodity crops in terms of the federal government's investment in its economic well-being. Specialty crop industry representatives speak in favor of support for programs that encourage private investment and drive demand and competitiveness in the United States and globally, but that do not distort domestic production or international markets. Current high deficit levels, however, pose a problem for increasing mandatory funding for agriculture without making offsets in the commodity or nutrition programs. Producer groups and lawmakers from states where commodity crops predominate are not in favor of redirecting money to support specialty crop programs if that means reducing the current level of support for the commodity programs. Reducing spending on domestic food assistance programs is likewise controversial.

Facilitating Exports. P.L. 108-465 authorized additional appropriations (in addition to $2 million in mandatory CCC funds authorized in the 2002 farm bill) for a competitive grant program that supports projects targeted at overcoming specific barriers to specialty crop exports: the Targeted Assistance for Specialty Crops program (TASC).[11] The bill as originally introduced did not call for additional appropriated funds but instead would have increased the amount of mandatory funding for the TASC program from $2 million to $10 million annually. The three bills introduced in the 109th Congress contain the same proposal.

P.L. 108-465 also contained language urging USDA's Animal and Plant Health Inspection Service (APHIS) to eliminate its backlog in issuing export certificates. These certificates document to importing countries that incoming U.S. produce meets the country's phytosanitary regulations. In response to Congress's request for a

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[10] House Committee on Agriculture, Subcommittee on Livestock and Horticulture, Hearing, November 5, 2003, Serial No. 108-20, *Review of Domestic Policies Affecting the Specialty Crop Industry*. Available at [http://www.gpo.gov/congress/house].

[11] The TASC program is administered by USDA's Foreign Agricultural Service (FAS). For background information on this and other USDA programs affecting specialty crops, see CRS Report RL32746, *Fruits, Vegetables and Other Specialty Crops: A Primer on Government Programs.*

status report on the issue, APHIS stated that it resolved 42 backlogged export petitions in 2005, which represented 46% of the total backlog, and that 50 export petitions pending since before 2005 still remained.[12] The original bill also would have required a more permanent and long-term solution to the backlog problem by requiring APHIS to establish a Sanitary and Phytosanitary Export Petition Division to eliminate the backlog within five years and to remain current subsequently.

P.L. 108-465 required USDA to deliver a report outlining the significant phytosanitary issues that affect the export of specialty crops. In response, the Department provided an May 2005 Foreign Agricultural Service (FAS) publication, *FAS Guide to World Horticultural Trade: U.S. Specialty Crops Trade Issues Edition*.[13]

The original bill contained a provision asking USDA for three reports on: (1) how the Supplier Credit Guarantee program (7 U.S.C. 5622)[14] could be modified to increase exports; (2) how World Trade Organization (WTO) member countries facilitate specialty crop exports; and (3) how the USDA can assist developing countries' agriculture without harming the market for U.S. specialty crops.[15] The three bills introduced in the 109th Congress contain provisions that would require the Government Accountability Office (GAO) to: (1) study whether specialty crops have benefitted from the trade barrier reductions negotiated under the Uruguay Round of trade talks, and (2) prepare a foreign market access plan for U.S. specialty crops based on the study's findings. Given the importance of export market development to the specialty crop sector, these proposals and more are likely to be debated in the 2007 farm bill context.

Protection from Diseases and Pests. Issues concerning APHIS's regulation of imported produce also were addressed in the Specialty Crops Competitiveness Act of 2004 (P.L. 108-465). Critics have charged that APHIS import decisions, in particular, are made by agency scientists and officials who might not have considered the fullest range of scientific information available. P.L. 108-465 requires APHIS to enter into an agreement with the National Plant Board, a non-profit organization of plant pest regulatory agencies in the states, to conduct a one-time peer review of the procedures and standards under which APHIS considers specialty crop import and export petitions.[16]

The original bill called for a more comprehensive and permanent solution to the critics' charges: H.R. 3242 would have required APHIS to establish an independent

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[12] Letter from Secretary Mike Johanns to House Agriculture Committee Chairman Robert W. Goodlatte. January 26, 2006.

[13] Available online at [http://www.fas.usda.gov/currwmt.asp].

[14] The Supplier Credit Guarantee program, administered by FAS, uses CCC funds to reduce the financial risk to exporters of U.S. agricultural products by guaranteeing a large portion of the payment due from importers under financing arrangements of up to 180 days.

[15] For additional information on trade barriers related to insect and disease concerns, see CRS Report RL33472, *Sanitary and Phytosanitary (SPS) Concerns in Agricultural Trade*.

[16] The final report is expected in summer 2006.

scientific and technical peer review process for the agency's import (as well as export) decisions that could be activated as necessary, depending upon a number of triggering factors. S. 2487 contains an identical provision. H.R. 3562/S. 1556 do not contain any provisions that concern APHIS issues.

The 2004 act also authorized $1 million to be appropriated annually to establish a Pest and Disease Response Fund within the U.S. Treasury to support APHIS emergency pest eradication and research activities. Congress has not made funds available to date for this purpose. The provision thus may come up for further discussion, along with the level of funding for such an account. The provision in H.R. 3242 would have given the authority for annual appropriations of such sums as necessary to achieve a $75 million balance at the beginning of each fiscal year. S. 2487 contains the same provision.

Relatedly, H.R. 3242 would have moved the Office of Pest Management Policy from USDA's in-house science agency, the Agricultural Research Service (ARS), to the Office of the Secretary, and authorized $5 million in annual appropriations for its activities. The final law does not contain the provision. The Office of Pest Management Policy was established in 1997 to play a broad role in coordinating the many USDA programs related to pest management issues. It was located in ARS to facilitate the contribution of research findings to the regulatory process, among other things. Proponents of moving the Office from ARS into the Office of the Secretary say that it would highlight its importance and make it more effective. S. 2487 contains the same provision as appeared in H.R. 3242.

Research. The 2004 act authorized an annual appropriation of $5 million to support research on alternatives to the soil and crop fumigant, methyl bromide, which is being phased out under an international agreement to reduce the use of gases that damage Earth's protective ozone layer.[17] Under its regular appropriation, ARS has $18.3 million in FY2006 for methyl bromide research. Federal dollars also support research on methyl bromide alternatives at the land grant colleges of agriculture in each state. In FY2005, an estimated $4 million supported such research. No additional funds have been appropriated to date under the authority granted in the 2004 act.

The final bill did not include a larger research provision in the original measure that would have authorized USDA to spend $30 million annually in mandatory CCC funds for a National Specialty Crops Development Initiative. Under the initiative, USDA would award grants on a competitive basis to projects addressing short-, intermediate-, and long-term needs in production technology, mechanization, marketing, product development, food security, and food safety, among other things. S. 2487 contains the identical provision; H.R. 3562/S. 1556 do not.

Congress traditionally supports agricultural research through annual appropriations of discretionary funds. Using mandatory funds for research has been controversial in the past. Appropriators have blocked the use of mandatory funds

[17] For complete information on ozone depletion rules and regulations and the phase-out of methyl bromide, see [http://www.epa.gov/ozone/mbr/index.html].

authorized for previous agricultural research initiatives and used the savings to support existing programs.

Additional Proposals

In addition to the policy options discussed above, P.L. 108-465 as originally introduced contained additional provisions in areas that the final bill did not address at all. Some of these proposals, and others, appear in S. 2487 and H.R. 3562/S. 1556, which were introduced in the 109th Congress. Each could potentially come under consideration during the 2007 farm bill debate. Briefly, they are as follows:

- Raise the limit that an individual specialty crop producer may borrow in direct operating loans from $200,000 to $500,000
- Raise the limit that an individual specialty crop producer may borrow in government guaranteed operating loans from private banks from $700,000 to $1.5 million
- Increase the amount that fruit and nut growers can receive under the Tree Assistance Program from $75,000 to $150,000 annually in the event of natural disasters
- Expand the adjusted gross revenue (AGR) insurance pilot program permanently to cover any county nationwide where crops, including specialty crops, are produced
- Establish a position within the Office of the U.S. Trade Representative to be responsible solely for trade matters related to specialty crops
- Establish an office in USDA solely to encourage the development and protection of intellectual property rights in plants and to serve as an advocate for the interests of specialty crops in domestic and international intellectual property rights matters
- Amend current patent law to facilitate obtaining patents for new plant varieties in order to improve enforcement of suspected infringements
- Allow marketing orders to include implementation of certain food safety programs, such as Good Agricultural Practices, Good Handling Practices, ISO 2000, etc.
- Reimburse producers and processors who obtain certification under standardized food safety programs
- Establish a program to educate consumers and handlers of fresh produce on proven practices for reducing microbial contamination
- Authorize the use of $5 million annually in mandatory CCC funds to establish a network of "National Clean Plant Centers" to produce, store, and make available disease- and pest-free materials for public and private laboratories and nurseries
- Remove the income limitation for eligibility under the Environmental Quality Incentives Program (EQIP)
- Provide education and technical assistance to assist growers applying for conservation programs

- Require USDA to give priority in eligibility for conservation programs to specialty crop producers who follow voluntary sustainable practices guidelines
- Require USDA to use $9 million in mandatory CCC funds in FY2007 to provide timely price information on specialty crops, and in subsequent years provide increased funding indexed to inflation
- Add fish and shellfish to the definition of specialty crop.

Outlook

Since the enactment of the Specialty Crops Competitiveness Act in 2004, spokespersons in public forums and at congressional hearings have continued to state that the specialty crops sector wants greater federal investment in research, marketing, pest and disease protection, nutrition programs, conservation programs, disaster assistance, crop insurance, and export development. These approaches, they maintain, do not distort production with respect to U.S. and global markets, but together would provide a safety net for producers and open the door to future growth.

Consideration of a 2007 farm bill is expected to provide a forum in which the above policies will be debated, and observers note that new factors are likely to shape the discussion. The future of the restriction on planting fruits and vegetables on program base acres is as linked to WTO-related issues as it is to the economic well-being of specialty crop growers, for example. Any changes in current policy are likely to increase pressure to consider new, non-trade distorting mechanisms not only to support the specialty crop sector but perhaps also the producers of program crops.

Also likely to be at issue is whether a significant federal investment in programs of benefit to specialty crops could be made with funds that are as reliable as those supporting the farm income and commodity price support programs. Had P.L. 108-465 passed as originally written, $508 million in mandatory funds would have supported specialty crop programs annually. In FY2005, $508 million would have represented 2.21% of the amount that went to producers of program crops in direct payments ($23 billion). Although previous proposals to reduce commodity program funding have not succeeded, trade, budget, and equity factors are shaping a context for 2007 farm bill consideration that appears to differ significantly from 2002.

Appendix A.

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

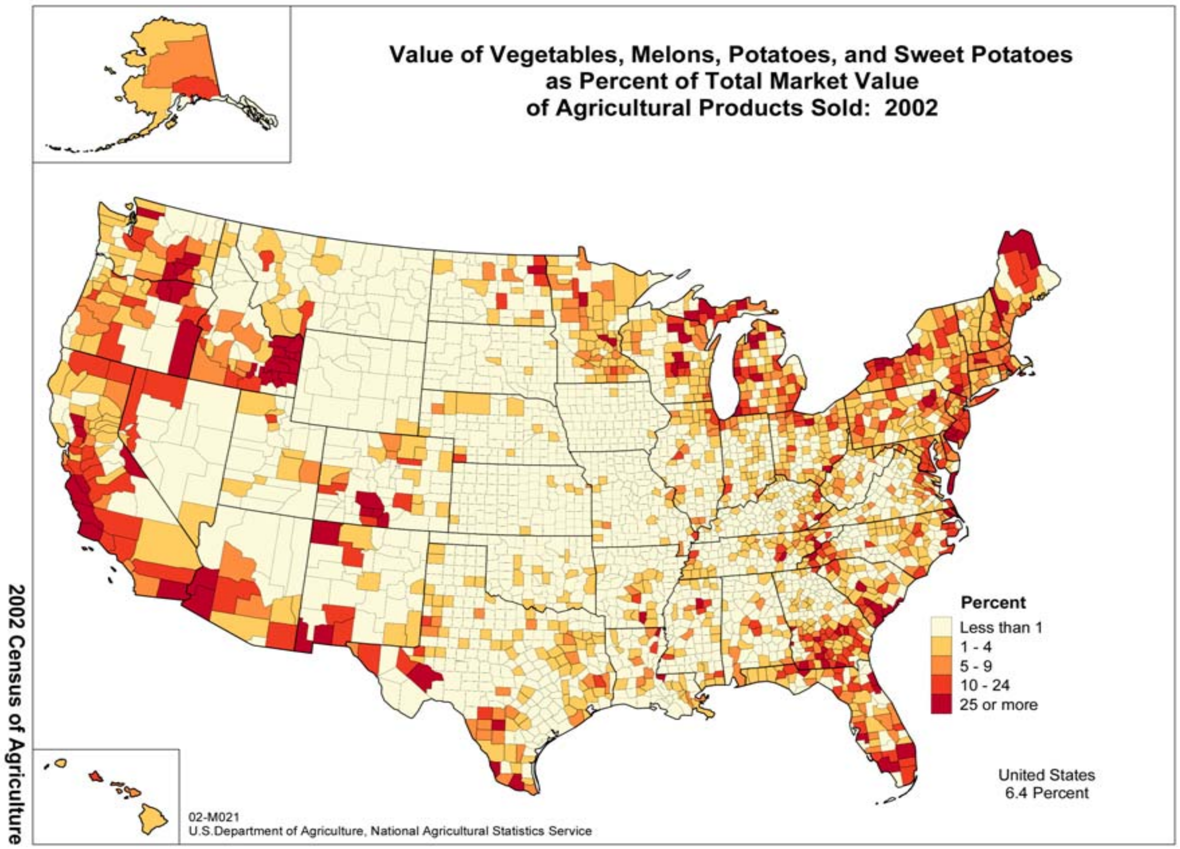

Figure 2. Value of Fruits, Tree Nuts and Berries as Percent of Total Market Value of Agricultural Products Sold: 2002

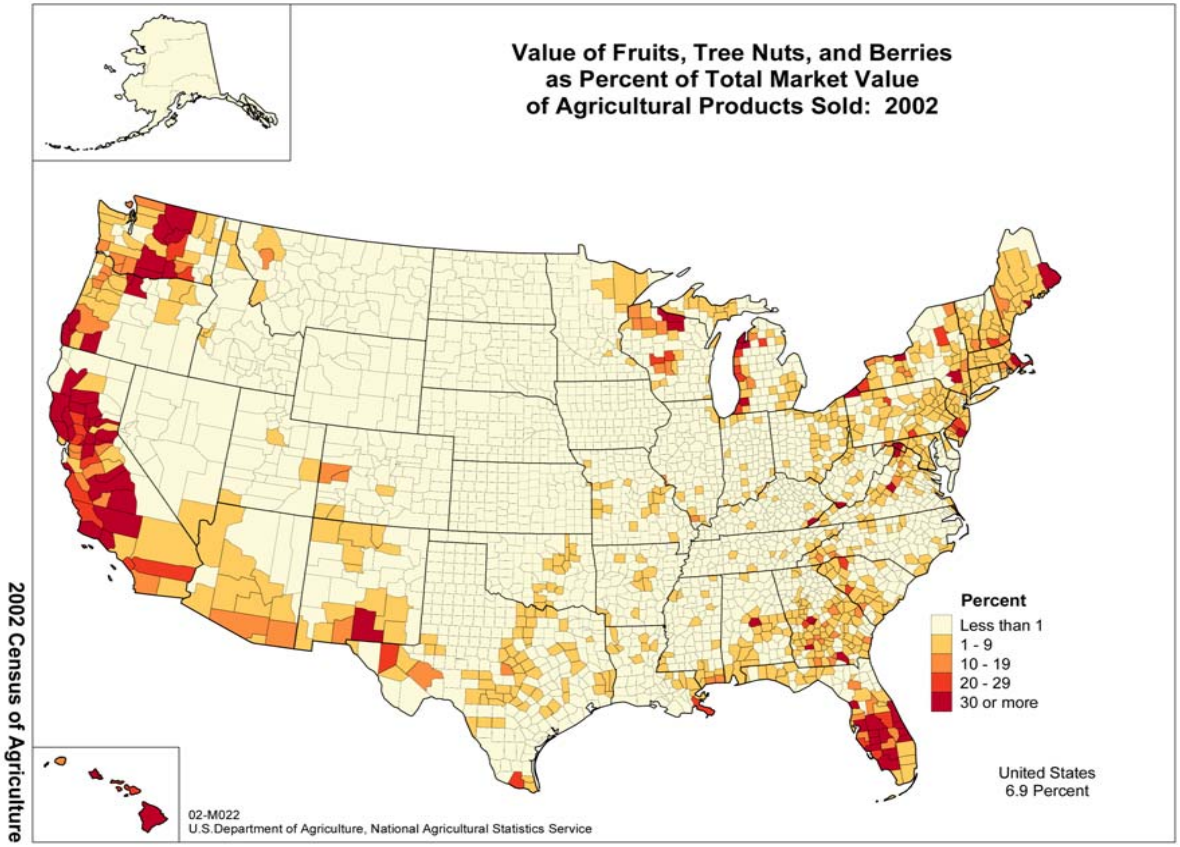

Figure 3. Value of Nursery, Greenhouse, Floriculture, and Sod as Percent of Total Market Value of Agricultural Products Sold: 2002