

# CRS Report for Congress

## Specialty Crops: 2007 Farm Bill Issues

Updated July 23, 2007

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Prepared for Members and  
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## 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 argue that the 2007 farm bill should extend the planting restriction through 2012 in order 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) and could face further difficulties in ongoing trade negotiations, other stakeholders are in favor of lifting it.

Several legislative proposals containing comprehensive policy initiatives intended to benefit the specialty crop sector have been introduced as "marker" bills in the months leading up to House and Senate committee consideration of the 2007 farm bill. In general, these bills would make USDA's conservation, trade, pest and disease protection, disaster assistance, and research programs more attuned to the unique characteristics of the specialty crop industry. Additionally, many of the bills would substantially increase the amount of fruits and vegetables that USDA purchases for distribution through the school lunch program and a number of other nutrition programs that reach low-income, nutritionally vulnerable segments of the of the U.S. population.

This report will be updated as necessary as congressional consideration of the 2007 farm bill progresses.

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# Specialty Crops: 2007 Farm Bill Issues

## 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.<sup>1</sup>

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 109<sup>th</sup> 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.<sup>2</sup> 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 have been introduced in the 110<sup>th</sup> 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; S. 541 (Feingold), the Rural Opportunities Act; S. 1160 (Stabenow), the Specialty Crops Competition Act; and H.R. 2144 (DeLauro). The Administration also proposed several policy reforms affecting specialty crops as part of the comprehensive 2007 farm bill proposal that it released

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<sup>1</sup> 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.

<sup>2</sup> 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.

in February 2007. Finally, a number of stakeholder groups have 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.<sup>3</sup>

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).<sup>4</sup>

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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<sup>3</sup> *Fruit and Vegetable Background* (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/>].

<sup>4</sup> 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 Background*, cited above in this section, compare specialty crop values to other *crop* values.

## Selected 2007 Farm Bill Issues

### Planting Flexibility<sup>5</sup>

A key issue for 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.

For a different reason, the 2002 extension of the planting flexibility restriction caused problems for a number of farmers in the Midwest and Lake States (Minnesota, Wisconsin, and Michigan) who traditionally grow vegetable crops on contract for processing, in rotation with soybeans. 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 108<sup>th</sup> Congress and again in the 109<sup>th</sup>, but no action was taken on them.

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.<sup>6</sup> Discussion on whether to extend the restriction in the next farm bill thus will have an important trade policy aspect as well as domestic market considerations.

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.

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<sup>5</sup> 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.

<sup>6</sup> 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.

Most of the major farm bill proposals that have been introduced would substantially expand USDA's purchases of fruits and vegetables for nutrition programs under a variety of authorities. Among others, H.R. 1600, H.R. 1551/S. 919, S. 1160, H.R. 2144, S. 541, and the School Fresh Food Act of 2007 (S. 1031, Clinton) would all increase funding to expand the availability of fresh fruits and vegetables through the school nutrition programs, and to expand the access of low-income and nutritionally vulnerable citizens to fresh produce through donation programs and farmers market programs. The specialty crop title of the farm bill that was sent forward to the House Agriculture Committee in June 2007 calls for purchases of fruits, vegetables, and nuts above the amounts required by the 2002 farm bill to be made using approximately \$200 million annually in Section 32 funds.<sup>7</sup>

## 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 FY2007.

Expansion of this program and an effort to provide mandatory funding for it is a major focus in the 2007 farm bill debate. On June 7, 2007, the House Horticulture and Organic Agriculture subcommittee marked up and forwarded the specialty crop title of the farm bill to the full committee. The subcommittee's version calls for mandatory funding for block grants to states, starting at \$20 million in FY2008 and rising to \$55 million in FY2012, contingent upon offsets being made elsewhere in the budget. 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. The question of finding offsets for proposed increases in this and other

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<sup>7</sup> 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.

programs, such as nutrition, conservation, and rural development, will be of critical importance as the 2007 farm bill debate progresses. 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.

Concerning policies to expand foreign markets for U.S. specialty crops, H.R. 1600, S. 1160, and the Administration's proposal would increase mandatory funding for the Technical Assistance for Specialty Crops program, which focuses on overcoming other countries' pest- and disease-related trade barriers, and for the Market Access Program, which shares the costs of marketing 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.

Of interest to the industry are proposals in H.R. 1600 to (1) establish a new program to conduct risk assessments to prioritize foreign pest and disease threats specific to specialty crops (supported with \$40 million annually in mandatory funds); (2) establish a new program of cooperative agreements with states to conduct early pest detection activities (supported with annually increasing levels of mandatory funds, up to \$50 million in FY2012); and (3) return the import and entry agricultural inspection functions to USDA from the Department of Homeland Security, where they were transferred in 2003. These provisions are contained in the title that the Specialty Crop and Organic Agriculture subcommittee sent forward to the House Agriculture Committee on June 7, 2007.

## **Research**

H.R. 1600, S. 541, and the Administration's farm bill proposal call for substantially increasing agricultural research on the production and economics of specialty crops, with mandatory funds. H.R. 1551/S. 919 and the Administration's proposal also would provide mandatory funds for a research initiative focused on organic agriculture, which is a small but steadily growing segment of U.S. fruit and vegetable production. In addition, H.R. 1600 and H.R. 1551/S. 919 propose reauthorization and increased funding (mandatory) for the Value-Added Producer Grants program that was created by the Agricultural Risk Protection Act of 2000 (P.L. 106-224).

## **Organic Agriculture**

In addition to provisions to increase research on organic agriculture, certain of the farm bill legislative proposals would reauthorize and substantially expand the National Organic Certification Cost-Share program. The program, which was established in Title X of 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.

H.R. 1551/S. 919 would provide \$25 million annually through FY2013 for the cost-share program, and \$5 million annually for USDA's accreditation and enforcement activities. The bill proposes making \$30 million annually in mandatory funds available through USDA's Natural Resources Conservation Service (NRCS) to support technical and education assistance, and to reimburse producers and handlers for certain costs related to making the transition from conventional to organic farming.

The specialty crop title of the farm bill sent forward to the full House Agriculture Committee on June 7, 2007, would provide \$25 million in mandatory funds in FY2008, to remain available until expended, for the cost-share program. It would increase the maximum amount a producer or handler could receive to \$750.

## Most Recent Legislative Activity

On July 19, 2007, the House Agriculture Committee completed markup of a new bill to replace the expiring 2002 farm bill. H.R. 2419, as reported out by the committee, contains a Horticulture and Organic Agriculture title for the first time — Title X. The full committee made several changes to the title sent forward by the Horticulture and Organic subcommittee in June. In addition, certain other titles of the bill address some of the other issues covered in this report.

**Block Grants.** A key provision of Title X of H.R. 2419 is the extension of the program of block grants to states for research, marketing, education, and other activities on behalf of specialty crops grown in each state. Section 10102 provides mandatory funding for the program beginning at \$40 million in FY2008 and increasing gradually to \$75 million in FY2012.

**Trade Promotion.** The trade title of H.R. 2419 provides increases in mandatory funds for the Technical Assistance for Specialty Crops (TASC) program. Currently, TASC receives \$2 million annually in mandatory funds. Title X would increase available mandatory funds for TASC to \$4 million in FY2008, \$6 million in FY2009, \$8 million in FY2010, and \$10 million in FY2011-FY2012. Section 3003 of 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.

**Nutrition Program Purchases.** Concerning purchases of fruits, vegetables, and nuts for USDA nutrition programs, the provision in the subcommittee markup is retained: USDA is required to spend increasing amounts of Section 32 funds to make purchases for nutrition programs in addition to those it makes already. Title

X would provide \$190 million in FY2008, \$193 million in FY2009, \$199 million in FY2010, \$203 million in FY2011, and \$206 million in FY2012 and each fiscal year thereafter for purchases of fresh, frozen, canned, dried, or value-added fruits, vegetables, and nuts.

**Pest and Disease Protection.** The full committee version of Title X does not contain the earlier provision establishing a separate, mandatorily funded foreign pest and disease risk assessment. However, the committee added threat identification and risk assessment to the list of activities that would be eligible for federal cost-share assistance under the provision establishing a cooperative program with states for early pest detection and surveillance. The committee-reported title makes available for the cooperative program \$10 million in mandatory funds in FY2008, \$20 million in FY2009, \$30 million in FY2010, \$40 million in FY2011, and \$100 million in FY2012. Section 10401 of Title X retains the earlier provision to return agricultural import inspection at U.S. ports of entry to USDA from the Department of Homeland Security, where it was transferred in 2003.

**Research.** The research title establishes a Specialty Crop Research Initiative to award competitive grants to scientists for research on a wide range of issues. It authorizes annual appropriations of \$100 million in FY2008 through FY2012 for this purpose. The rural development title of H.R. 2419 reauthorizes the Value-Added Producer Grants program and provides \$30 million annually in mandatory funds through FY2012.

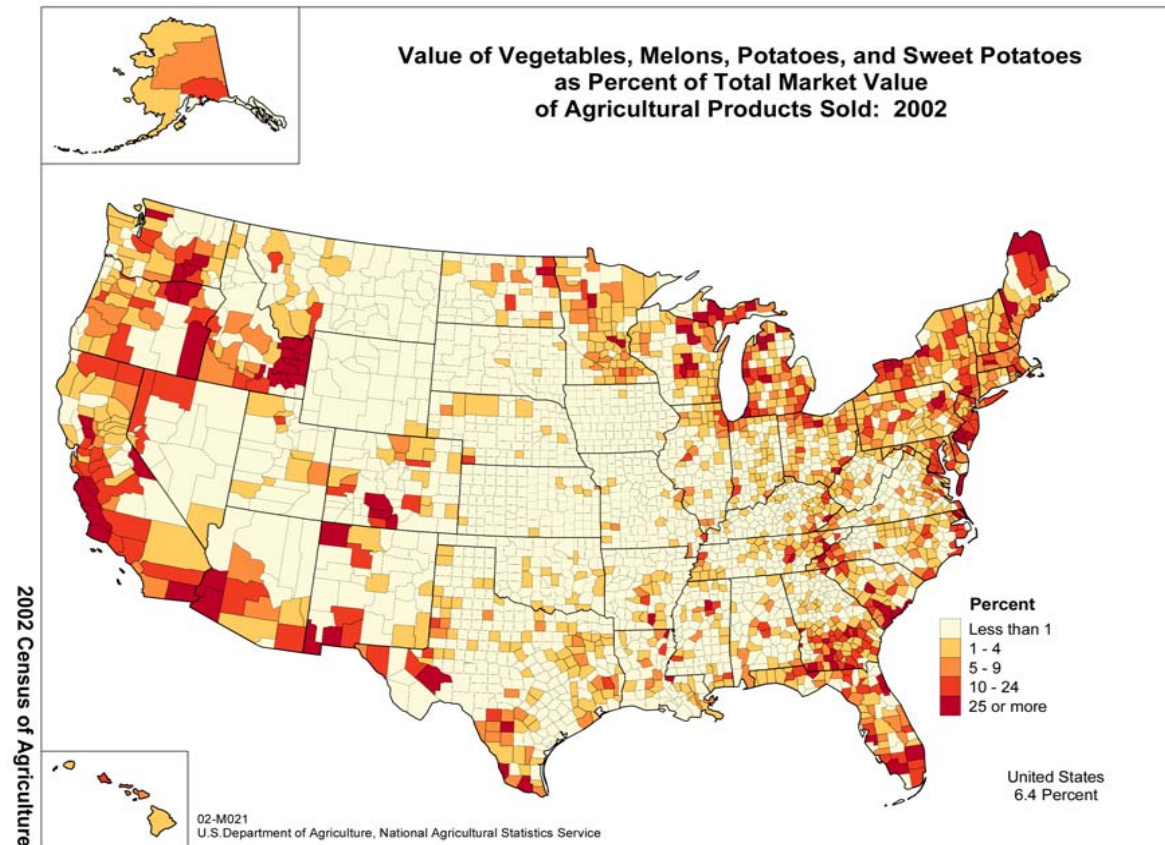
**Organic Agriculture.** The full committee version of Title X authorizes a one-time transfer in FY2008 of \$22 million in mandatory funds to USDA to support the National Organic Certification Cost-Share program. The limit any one producer could receive in cost-share assistance would be raised from \$500 to \$750. The committee also adopted an amendment that authorizes \$50 million in annual appropriations to support a program providing technical and educational assistance to farmers who want to convert their farms to organic production. The research title of H.R. 2419 extends the Organic Research and Extension Initiative from FY2009 through FY2012, and provides authority for annual appropriations of \$25 million. Under the 2002 farm bill, this initiative annually receives \$3 million in mandatory funds through FY2008. An amendment was adopted in full committee expressing the sense of Congress that USDA's in-house science agency, the Agricultural Research Service, should spend an amount of its total budget on organic research that is commensurate with the value of organic food sales to total food sales.

**Miscellaneous.** Other provisions in Title X would (1) make it possible to add quality-related food safety programs to marketing orders; (2) increase production and market data collection and dissemination for specialty crops and organically produced crops; and (3) provide mandatory funds for the Farmers' Market Promotion Program, among other things.

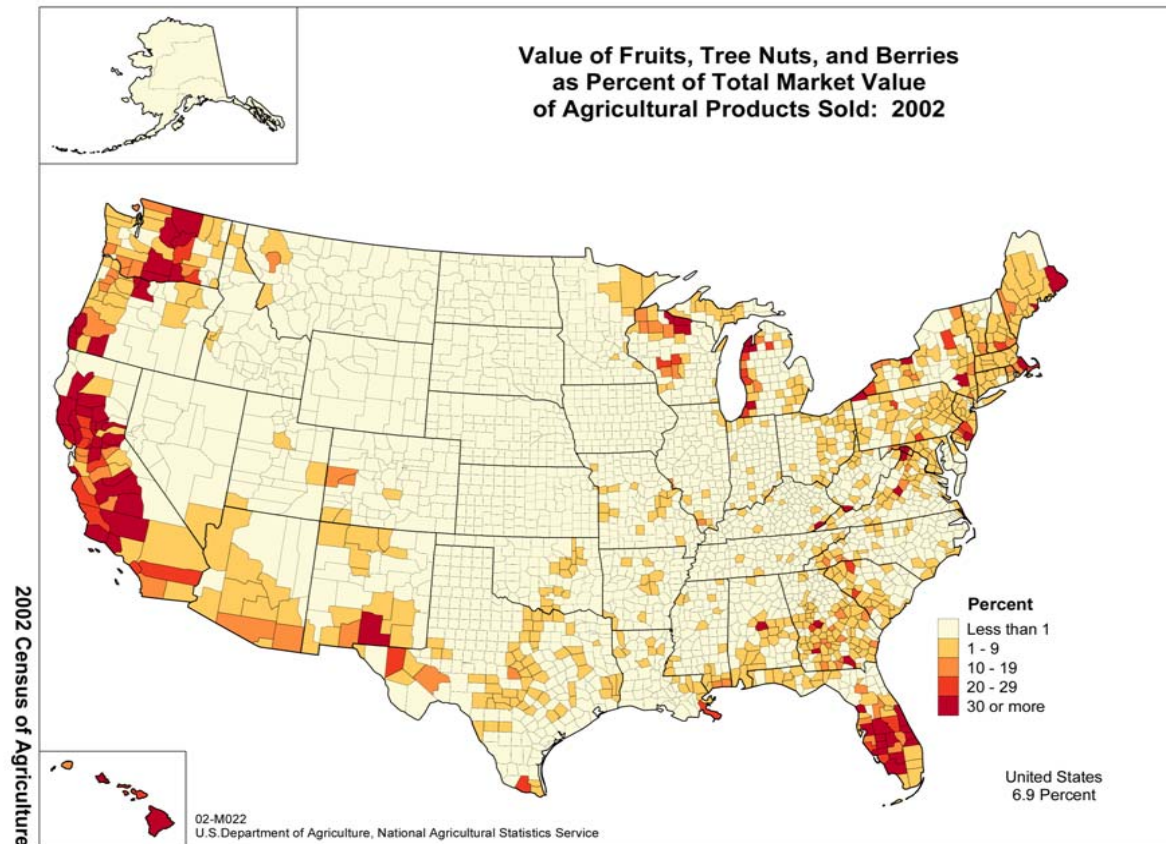
**Planting Flexibility.** The commodity program title of H.R. 2419 maintains the 2002 farm bill provisions restricting the planting of fruits and vegetables on base acres. However, it does authorize a pilot Farm Flex program in Indiana under which tomatoes may be planted on up to 10,000 base acres.

## 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**

