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Congress of the United States

House of Representatives

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MEMORANDUM FOR MEMBERS OF THE GOVERNMENT REFORM SUBCOMMITTEE ON ENERGY POLICY, NATURAL RESOURCES AND REGULATORY AFFAIRS

FROM: Doug Ose

SUBJECT: Briefing Memorandum for December 12, 2003 Field Hearing, "Problems Facing the U.S. Specialty Crop Industry"

On Friday, December 12, 2003, at 10:00 a.m., the Government Reform Subcommittee on Energy Policy, Natural Resources and Regulatory Affairs will hold a field hearing on the domestic and international policies and practices affecting the specialty crop industry. It will be held in the National Steinbeck Center, which is located at One Main Street, Salinas, California. The hearing is entitled, "Problems Facing the Specialty Crop Industry."

U.S. Specialty Crop Industry

The U.S. agricultural sector is primarily divided into two types of crops: program crops and specialty crops. Program crops are farm commodities, such as wheat, corn, cotton, and rice. According to the U.S. Department of Agriculture's Economic Research Service, in 2001, the gross farm receipts for program crops in the U.S. totaled about $47.9 billion. Specialty crops are comprised of 250 different crops, including fruits, nuts, vegetables, forage crops, flowers, wine grapes, and other agricultural commodities. In 2001, specialty crops accounted for about $58.7 billion of the farm receipts in the U.S.

Traditionally, Federal agricultural policy has focused almost exclusively on program crops. Growers of program crops receive about $20 billion annually through Federal price supports and other Federal programs, some of which were authorized in the Farm Security and Rural Investment Act of 2002 (Public Law 107-171). Additionally, program crops benefit from export assistance programs, such as the Export Enhancement Program, the Export Credit Guarantee Programs, and the Dairy Export Incentive Programs. By virtue of the statutory definition of eligible commodities, specialty crops are excluded from the same kind of assistance.

In contrast to program crops, specialty crops do not receive any price supports. Moreover, they are marketed to foreign countries, some of which have provided price supports for their own specialty crop industries since the early 1990s. As a result, from 1996 to 2001, the total value of fruits, vegetables, and nuts imported into the U.S. increased sharply, while U.S. exports of these crops remained relatively stagnate. Over the same period, the value of European Union (EU) fruits, vegetables, and nuts imported into the U.S. increased 42 percent, while U.S. exports of these crops to the EU decreased nearly 11 percent.

In 2002, exports of all U.S. specialty crops were valued at approximately $9.3 billion, while specialty crops being imported into the U.S. were valued at $11.4 billion. The result was a $2.1 billion trade deficit for the U.S. specialty crop industry.

Specialty crops are grown in all 50 States and the U.S. insular possessions. The nation's largest fruit-producing States are California, Florida, and Washington. Based on acreage from the National Agricultural Statistics Service, California accounted for 48 percent of fruit acreage in 2000. California is the largest producer of grapes, strawberries, peaches, nectarines, and kiwi fruit. California is also a major producer of other non-citrus fruit like apples, pears, plums, and cherries. Florida's primary fruit crop is citrus; Washington is the largest apple producer in the U.S.

Vegetable production occurs throughout the U.S., with the largest acreage in California. The Upper Midwest States of Wisconsin, Minnesota, and Michigan and the Pacific States of California, Washington, and Oregon account for the largest vegetable acreage for processing.

Global and Regional Trade Liberalization

Export of U.S. specialty crops is vital to the industry's economic viability. With U.S. production of major specialty crops increasing and domestic consumption of these products remaining flat, U.S. growers have relied on exports for some major specialty crops to soften the downward pressures of falling domestic prices. The developing Pacific Rim countries, Eastern Europe, and the South American markets have potential for U.S. export growth, as their economies are likely to grow faster than the more mature economies of Western Europe and North America.

Trade issues that are especially important to specialty crops include sanitary and phytosanitary (SPS) measures, foreign price support programs, and tariff barriers. SPS measures are technical barriers designed for the protection of human health or the control of animal and plant pests and diseases. Under the 1994 Uruguay Round Agreement on the Application of SPS Measures, members of the World Trade Organization (WTO) agreed to (a) base any SPS measures on an assessment of risks posed by the import in question and (b) use the best scientific methods in assessing the risk. Specialty crops are sensitive to SPS applications because of the perishable nature of the commodity. SPS measures are administered by USDA's Animal and Plant Health Inspection Service (APHIS) and are put into effect when a foreign country wishes to import a new commodity into the U.S. However, APHIS sometimes decides to allow a product into the U.S. without acquiring proper scientific or economic information about the new commodity and, thus, creates a risk to the specialty crop industry.

Foreign price support programs pose significant problems to the U.S. specialty crop industry. There are two different types of foreign subsidies: export and domestic. An export subsidy is a government benefit given to an industry that is dependent on exports. A domestic subsidy is a benefit not directly linked to exports. Countries subsidizing specialty crops compete with U.S. unsubsidized products, thus creating a trade deficit for the U.S. specialty crop industry. For example, the EU is currently providing an excess of $2 billion to the tomato industry. In contrast, there is not a subsidy for U.S. tomatoes.

Tariff barriers continue to hinder U.S. specialty crops export volumes. A tax imposed on imports by a government (a tariff) may be either a fixed charge per unit of product imported, a fixed percentage of value, or a combination of the two. According to the U.S. Department of Commerce, the average foreign tariff on imported U.S. fresh vegetables is 64.4 percent, while the U.S. average tariff on all countries for imported fresh vegetables is 5.9 percent. Similarly, the average foreign tariff on imported U.S. fresh fruit is 56.7 percent, while the U.S. maintains a 4.4 percent tariff on foreign fruit.

Domestic Policies Affecting the Specialty Crop Industry

In addition to international practices, domestic policies, including conservation and sustainability techniques, agricultural research, and financial assistance programs, significantly affect the competitiveness of the U.S. specialty crop industry.

Conservation practices are important to the long-term future of the industry. However, they are often expensive given the diverse nature of specialty crop operations.[1] To enhance environmental practices by the agricultural industries, Congress included the Environmental Quality Incentives Program (EQIP) in both the 1996 and 2002 Farm Bills. Essentially, EQIP enables U.S. farmers to apply for up to $2.5 million in loans to fund environmental improvements for their farms. Although these loans are helpful, many specialty crop growers have been unable to make meaningful environmental improvements to their operations because of the $2.5 million loan cap.

Research is also important to the competitiveness of the specialty crop industry. Yet, research undertaken to date under the 2002 Food Quality Protection Act (FQPA) has been inadequate. In recent studies, FQPA failed to address various issues, such as air quality, urban sprawl pressure, integrated pest management (IPM) tools, and the growing need for water saving practices. Moreover, FQPA research has also not addressed ways of identifying invasive species and sustainability practices.

The Market Loss Assistance Program of 2002 is one of the few Federal programs that provided assistance to the specialty crop industry. This program allocated $164 million in grants to States to aid their specialty crop industries. These grants aided the marketing and promotion of specialty crops throughout the U.S., and contributed to some programs, such as the Produce for Better Health Foundation's 5-A-Day nutritional campaign. These types of marketing and

[1] Given the seasonality of specialty crops, growers must plant various types of crops throughout the year. Each of these crops may cause different environmental effects. Thus, growers often need to make a variety of environmental improvements, which can substantially increase conservation costs.

promotion campaigns are essential to the specialty crop industry because of the highly perishable nature of specialty crops. Also, these programs are important because they serve as a means of cultivating consumer awareness of the product, which, in turn, increases consumption.

Addressing the Problem

The rapid decline in U.S. exports, coupled with a dramatic rise in foreign imports, is problematic for the specialty crop industry. Many producers in this industry are struggling financially due to cheap, subsidized foreign imports that have displaced U.S. products here and abroad. The U.S. industry's viability is currently dependent upon maintaining existing U.S. tariffs and securing tangible safeguards and import relief mechanisms to protect U.S. industries from a sudden flood of imports. As a whole, this industry requires the reduction - and eventual elimination - of foreign tariffs, as well as the elimination of domestic and international price support programs.

When allowing foreign product into the U.S., the best available science must be used to evaluate the risk of costly pest and disease outbreaks. Peer review will ensure that many troublesome outbreaks of exotic pests and diseases are avoided. Certain industry members have recommended legislation to require APHIS to use peer review.

This hearing will focus on the domestic and international issues faced by the specialty crop industry, and will seek to determine if legislative or regulatory changes are needed to ensure that the U.S. specialty crop industry can effectively compete in the international marketplace.

The invited witnesses for the hearing are: A.G. Kawamura, Secretary, California Department of Food and Agriculture; Joseph Zanger, Member, Board of Directors, California Farm Bureau Federation; Jim Bogart, President, Grower-Shipper Vegetable Association of Central California; John D'Arrigo, Chairman, Western Growers Association; Robert Nielson, Vice President, Tanimura & Antle; and, California Asparagus Commission.