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**STATEMENT OF THE**
**CALIFORNIA FARM BUREAU FEDERATION (CFBF)**
*Before the*
**U.S. HOUSE GOVERNMENT REFORM SUBCOMMITTEE ON ENERGY POLICY, NATURAL RESOURCES AND REGULATORY AFFAIRS**
*Regarding*
**PROBLEMS FACING THE SPECIALTY CROP INDUSTRY**
Salinas, California - December 12, 2003

The California Farm Bureau Federation (CFBF) applauds the House Government Reform Subcommittee on Energy Policy, Natural Resources and Regulatory Affairs for scheduling this hearing to discuss problems facing the specialty crop industry. Leading the nation in fruit and vegetable production, California specialty crop growers know well the pressures that have led to tree and vine removal programs, oversupply due to dumped foreign product and crop losses without suitable risk management programs. Good news does exist for the industry such as the increasing per capita consumption of fruits and vegetables and the sector's projected growth in exports. Unfortunately, local costs are surpassing global prices and the industry is hurting. In order to maintain a U.S. specialty crop industry, we need to seriously look at how domestic decisions and programs are impacting the viability of the industry.

While working to provide a reliable food supply through responsible stewardship of our country's natural resources, growers are attempting to balance numerous issues such as global competition, retail consolidation, unfunded government mandates, trade barriers, rising input costs and low commodity prices. Specialty crop growers are determined to find solutions outside the traditional U.S. farm support programs. Solutions can be identified through meaningful review and reform of domestic policies that impair the viability and global competitiveness of specialty crop producers. It is important to note, that unlike major program commodities, the specialty crop industry lacks any kind of a safety net and provides $28 billion in economic benefits to our nation – larger than any other sector.

The following comments describe Farm Bureau's perspective on how industry is influenced and reacting to particular issues and policies. Corrective actions and suggestions are also recommended. A summary of the primary recommendations can be found at the conclusion of this document.

**FRUIT AND VEGETABLE PLANTING PROHIBITION:**
The farm bill provision that prohibits the planting of fruits and vegetables on program crop acres must be maintained and implemented with the same spirit with which it was included in the 1996 farm bill. This provision was meant to prevent producers from "double dipping" – benefiting from volatile fruit or vegetable markets and then slipping back into government subsidy payments. While this provision has not been changed directly, structural changes to Farm Bill Title I programs have greatly reduced the penalties for producers who choose to plant a fruit or vegetable crop on base acres.

Any weakening of the prohibition would destabilize fruit and vegetable markets that do not receive benefits under Title I. What might seem like a small acreage shift relative to the size of national soybean production could be devastating to fruit and vegetable markets. The fruit and vegetable industry agreed to forego inclusion in direct payment programs for strong support of this prohibition. CFBF urges that it be maintained.

**RISK MANAGEMENT:**
Specialty crop producers have special risk management needs. While crop insurance has broad and generally predictable application among the major farm commodities there are unique problems within specialty crops that deserve Congress' attention. For many commodities, viable crop insurance programs are still lacking. To encourage maximum producer participation, Congress should pursue risk management programs that meet the needs of every commodity, small and large, in the most efficient and cost effective manner possible. Consideration should be given to cost-share programs that are actuarially sound and do not influence markets. CFBF encourages attention to and improvement of the adjusted gross revenue program.

**HOMELAND SECURITY / SAFE TRADE / BORDER PROTOCOL:**
Farm Bureau has worked closely with the Department of Agriculture on homeland security issues and appreciates the leadership of Secretary Veneman and Deputy Secretary Moseley. The creation of the Homeland Security Council at USDA has assisted in protecting our borders, food supply, research and laboratory facilities and technology resources from any intentional acts of terrorism.

Trade that is safe from the accidental and/or intentional introduction of pest and/or disease is critical to the health of our food supply and the health of our domestic agricultural industry. Congressional leaders must commit to safe trade that requires science-based inspection protocols and increase border inspections to ensure safety of incoming food products. U.S. imports of agricultural products are expected to grow in 2004 by $6.5 billion, from 2002 figures, with horticultural products projected to account for more than half the increase. CFBF strongly encourages that adequate funding be provided for APHIS to update detection methods, prevention strategies, monitoring systems and response actions. After all, according the USDA Plant Protection and Quarantine (PPQ), "dramatic increases in international travel, trade and containerized cargo make total reliance on traditional inspection procedures impractical."

Californians, unfortunately, know how an intentional or accidental introduction of a foreign animal disease or exotic pest to the food supply can be devastating. USDA and the California Department of Food and Agriculture have spent in excess of $200 million to control outbreaks of Exotic Newcastle Disease, bovine tuberculosis and the Mexican Fruit Fly – all of which came from outside our borders. Prevention is less costly than control and eradication.

CFBF supported the transfer of APHIS border functions to the new Department of Homeland Security (DHS), given assurances that the integrity of the programs would remain intact. It is imperative that personnel, training and quality control not be diminished under the "One Face at the Border" initiative proposed by the DHS. CFBF urges further dialogue between DHS, USDA and industry on this initiative and the further defining of DHS responsibilities relating to food safety and safe trade.

Agriculture and consumers must be assured that food safety remain a top priority under the department. To that end, Farm Bureau advocates the importance of trained agriculture specialists at our nation's points of entry and strongly emphasizes the need to ensure sufficient staff resources for Customs and Border Protection.

**NUTRITION:**

In order to deliver healthy diets, Congress should increase funds for fruit and vegetable nutrition programs and pass the "Healthy America Act" to promote improved nutrition and health by enhancing federal nutrition programs to provide greater access to, and expanding the role of, nutritionally valuable fruits, vegetables and 100% juice products.

In addition to the Healthy America Act, CFBF supports funding for the Global Food for Education Program and urges oversight and enforcement of regulations requiring government institutions to purchase U.S. grown food products.

**RETAIL CONSOLIDATION:**

The trade and marketing of fresh fruits and vegetables has undergone significant change the last several years with acquisition and mergers among chain stores and increased selling of products by warehouse-club stores. According to a USDA ERS report on *U.S. Fresh Produce Markets* released September 2003, "econometric analysis indicated that retailers do influence prices paid to fresh produce shippers and by consumers for some commodities." Concentration among food processors, distributors, marketers and retailers works to the disadvantage of agricultural producers and growers. Anti-trust legislation should be strictly enforced to ensure fair prices for agricultural products in state, national and international markets. CFBF encourages Congress to continue monitoring the impact of retail consolidation (including fees and services) on the industry.

**COUNTRY-OF-ORIGIN LABELING:**

CFBF supports implementation of country of origin labeling in an efficient, commonsense, cost-effective manner in keeping with Congress' intent.

**FARM LABOR:**

Specialty crop production is labor intense and as a result, higher labor costs and standards contribute to the cost disparities between world producers. Many factors contribute to the composite labor costs---OSHA standards and reporting requirements, out of control worker's compensation insurance costs, wage and housing standards. California agriculture employs over 400,000 workers as part of a seasonal and year-round work force. While there is general agreement that our country is dependent upon a foreign workforce to help grow and harvest our crops, not enough is being done to create an efficient, legalized process. Farm Bureau supports the Ag Jobs bill recently introduced in the House and Senate and we urge Congress to make immigration reform a priority.

**REGULATIONS:**

In any business the ability to compete comes down to the cost of producing versus what it cost your competitor to produce the same product. The United States faces stiff challenges competing with foreign producers especially among specialty crop products. The decline in California's garlic industry to a flood of cheaper product from China is the latest example. A major cause of our declining competitiveness is higher costs due to regulatory burdens, both the cost of compliance and handling the reporting requirements.

In addition to labor, other regulatory costs add to the burden, including air quality compliance matters, emerging water quality requirements, restrictions on methyl bromide use, higher water costs due to endangered species protection and wetland concerns.

Congress has attempted to rein-in regulatory costs by passing regulatory review legislation in which new regulations are subject to congressional review and various cost-benefit analysis requirements. But, more needs to be done, including studies on the cumulative impact of regulations and a more determined effort on the part of Congress to review the costs and benefits of existing regulations. And, if Congress concludes that more regulations and higher standards are the desired course, then Congress should examine ways to provide regulatory offsets or true incentives to farmers for the benefits that they routinely provide, such as wildlife habitat and carbon sequestration.

**RESEARCH:**

Research and new technologies will be key to helping our specialty crop producers compete, whether it's improved production, better and less costly disease and insect protection or mechanization. CFBF encourages Congress to continue its support of research of new technologies.

**TRADE; OPEN AND FAIR:**

The future of American agriculture is dependent upon maintaining existing export markets and creating new opportunities. To increase market access for U.S. products, we must first be aware of promising new and emerging market opportunities. And secondly, we must invest in marketing and promotion tools directed at those markets.

**World Trade Organization Agriculture Negotiations**

The World Trade Organization Doha Round presents a unique opportunity for the horticultural industry to reform inequitable trade policies that place our producers at a competitive disadvantage. Past trade agreements have provided more benefits to U.S. specialty crop importers than U.S. exports, primarily because of continued high tariffs in many countries and substantial foreign subsidies - while our competitors enjoy the ease of exporting their product into the U.S. because of our low tariffs.

To ensure that issues of interest to the specialty crop sector are addressed during the course of the Doha Round, a number of U.S. specialty crop organizations, including the California Farm Bureau Federation, have collaborated to form the **HORT Alliance (Horticultural Organizations for Responsible Trade)**. The Alliance is dedicated to pursuing aggressive and meaningful reform in the WTO agricultural rules governing market access, trade distorting internal supports, the use of export subsidies, and special consideration of seasonal and perishable products.

The long-term goal of the HORT Alliance is to secure an overall WTO agricultural agreement that produces tangible benefits for the fruit, nut and vegetable sector by correcting disparities that disadvantage U.S. growers, through the framework negotiations and, if necessary, through sector-specific negotiations. If the general framework agreed upon by WTO members is not aggressive enough to address the interests of horticultural and specialty crop producers, the HORT Alliance will likely request a sectoral initiative be negotiated to secure more aggressive reform for interested commodity groups within the specialty crop sector.

Within the WTO negotiations, the HORT Alliance is supporting:

- New rules that restrict how much a government may provide a trade-distorting (amber box) subsidy to any particular horticultural or specialty crop.
- Aggressive and significant reform in market access (tariffs, quotas, reference and entry price systems).
- Immediate elimination of export subsidies for horticultural and specialty crop products.
- Special consideration of seasonal and perishable products.

Market Access: Average nominal (bound) tariffs in the United States, the EU, and Japan generally fall between 0 to 25%. Globally, however, average tariffs on fruit, nut and vegetable products are much higher ranging from 30-50% on many commodities and some reaching well above 80%. Indeed, many of the countries that offer the greatest potential for U.S. specialty crop exports are those that maintain the highest tariffs. Among these are China, Egypt, the EU, India, Israel, South Korea, and Thailand. Examples of excessive tariffs include India's 105% tariff on raisins, Saudi Arabia's 100% tariff on dates, and South Korea's 136.5% tariff on onions and 368% tariff on garlic.

The trade-inhibiting effects of tariffs and quotas on agriculture are well documented. For example, in its 2003 submission to USTR for the National Trade Estimate (NTE) report on foreign trade barriers, the California Table Grape Commission reported that India's 30% tariff and other taxes on imported table grapes present a significant impediment to competitive access in one of the world's largest consumer markets. The Commission reported that in 2001, U.S. grape exports to India totaled $3.3 million, but the market could become a $10 million market if India's tariff and tax barriers were removed.

South Korea is another market where U.S. products face stiff tariffs and other trade barriers. In their 2002 submission to USTR, Sunkist Growers outlined the effects of both high duties and a tariff-rate import quota controlled and administered by the Korean citrus industry. In 2000-2001, the quota for orange imports to Korea was 40,000 metric tons. The in-quota tariff applied to orange imports was 50%, while the above quota tariff was 64.7%. Other citrus fruit faces similarly restrictive tariffs, including a 36% tariff for grapefruit and lemons and an out-of-quota tariff of 148.8% on specialty citrus. Sunkist estimates that if these market access barriers to Korea were removed, citrus exports from California and Arizona would grow $40 million to reach $100 million.

Export Subsidies: While most WTO member countries, including the United States, do not use export subsidies for specialty crop products, the European Union in 1998 subsidized 40% of its fresh fruit and vegetable exports (as well as 28% of its processed fruit and vegetable exports). In 2000, EU expenditures on export refunds for such products totaled approximately $42 million (46 million euros). And, in 2002, approximately $40.6 million was budgeted for fresh and processed fruit and vegetable subsidies. While these subsidies are within the EU's WTO commitments, they nevertheless distort the market for U.S. specialty crop exports, and increase unfair competition in third markets where U.S. products compete directly with those from Europe.

Domestic Support: While the U.S. provides some domestic support to its growers, the disparity between the U.S. and European levels of support is striking. For the most part, U.S. fruit, nut, vegetable and other specialty crop producers do not receive any amber box trade-distorting internal support payments. By contrast, the EU in 1999 subsidized it's fruit and vegetable sector to the tune of more than $11 billion, including lemons at $426 million (84% of production value), grapes at $213 million (13%) and tomatoes at $4.15 billion (19.4%). These dollar figures are approximate given the conversion from euros to dollars.

The disparity in the level of support provided to U.S. and EU producers must be rectified in the current negotiations. However, even if the U.S. proposal was adopted, the agreement would only require that overall average levels of support be equalized. It would be possible, therefore, for the EU to reduce expenditures on some commodities much more than on others, in effect enabling some commodities to continue being subsidized at high rates.

**Sanitary and Phytosanitary Issues:**
For trade to truly be open, barriers must be brought down. Many barriers exist in the form of sanitary and phytosanitary (SPS) provisions. Open trade must include scientific-based trade protocols that regulate U.S. imports and exports. The Technical Assistance for Specialty Crops program (TASC) helps producers resolve problems caused by SPS market barriers. Funding for TASC should be increased from $2 million to $10 million per year, as provided for in the Specialty Crop Competitiveness Act of 2003. Resolving SPS matters is a high priority for agriculture in ongoing U.S. Free Trade Agreement (FTA) talks. Unlike the U.S.-Chile FTA, Congress should require complete resolution to SPS matters as a prerequisite to any and all FTA votes.

**Trade Remedy and Import Sensitive Products:**
U.S. antidumping laws should be streamlined, more transparent and take into account seasonal and regional issues. Producers of specialty and perishable commodities who can show prima facie evidence of import injury should be provided financial assistance that includes, but not limited to, legal and research expenses. To more effectively address the needs of import sensitive products, new trade policies should be identified. Thanks to a specialty crop block grant funded by USDA, this work is currently be researched by Dr. Mechel S. Paggi, Director, Center for Agricultural Business at California State University Fresno. Such grant-supported research programs are of great value to the industry.

**Enforcement of Trade Agreements:**
China, the world's largest producer of fruits and vegetables, needs to speed up progress in meeting commitments the country made to become a WTO member. CFBF commends the House of Representatives for recently passing a resolution urging China to meet WTO commitments and maintain a more flexible currency. Further, it is imperative that intellectual property laws be mutually enforced, respected and protected by all trading partners – including China. The U.S. should insist upon strict implementation and enforcement of trade agreements.

**CROP PROTECTION TOOLS:**
The Food Quality Protection Act and other regulations must be implemented in a scientific, balanced, and transparent manner to ensure the continued availability of safe and effective chemicals, including methyl bromide. Further, in holding true to the intent of "transition," CFBF encourages EPA to implement FQPA in manner that will not disrupt agricultural production nor undermine our competitiveness in international markets.

**CONCLUSION:**
To summarize, CFBF encourages Congressional attention and action with regard to the following specialty crop issue areas and domestic policies:

1. Maintain the farm bill provision that prohibits the planting of fruits and vegetables on program crop acres.
2. Pursue risk management programs that meet the needs of every commodity in the most efficient and cost effective manner possible while giving attention and consideration to cost-share programs and the adjusted gross revenue program.
3. Commit to safe trade that requires science-based inspection protocols, increase border inspections to ensure safety of incoming food products and provide for adequate funding for APHIS to update detection methods, prevention strategies, monitoring systems and response actions.
4. Further dialogue between DHS, USDA and industry on the "One Face at the Border" initiative and the defining of DHS responsibilities relating to food safety and safe trade.
5. Monitor the impact of retail consolidation (including fees and services) on the industry.
6. Implement country-of-origin labeling in an efficient, cost-effective manner.
7. Support the Ag Jobs legislation and meaningful immigration reform.
8. Study the cumulative impact of regulations and review the costs and benefits of existing regulations while providing regulatory offsets or true incentives to farmers for the benefits that they routinely provide, including conservation practices.
9. Urge U.S. negotiators to pursue aggressive and meaningful reform in the WTO agricultural rules governing market access, trade distorting internal supports and the use of export subsidies, for specialty crop products.
10. Invest in marketing and promotion tools directed at emerging markets for specialty crop products and increase funds for the Technical Assistance for Specialty Crops Program to $10 million.
11. Streamline and make more transparent U.S. antidumping laws. Provide financial assistance to producers of specialty and perishable commodities who can show prima facie evidence of import injury.

Thank you, Mr. Chairman for scheduling this subcommittee hearing and for the opportunity to provide comments on problems facing the specialty crop industry.

Sincerely,

Bill Pauli

**BILL PAULI**
President