

An Analysis of the Effect of Removing the Planting Restrictions on Program Crop Base

Abstract

The Direct and Counter-Cyclical Program (DCP) provides income support to producers of program crops (most food and feed grains, oilseeds, peanuts and cotton) based on historic production patterns on each farm. While these payments are decoupled from current production patterns, recipients are restricted from producing (for market) fruits, vegetables and wild rice (i.e. specialty crops) on land tied to DCP benefits. Due to a recent WTO ruling that these restrictions violate criteria for decoupled programs, there is growing interest in eliminating them.

Informa Economics has analyzed how such an action could affect the specialty crop industry. We identified two sources of harm to existing specialty crop producers: 1.) DCP payments could be diverted to support (i.e. cross-subsidize) specialty crop production among those farmers eligible for these benefits, while existing producers receive no similar benefits; and 2) specialty crop acreage and production will increase, leading to lower prices and revenues for existing growers. The costs to the specialty crop sector from these two factors combined are estimated at nearly \$4 billion.

Cross Subsidization of Specialty Crops

Absent the planting restrictions, recipients of DCP payments would be free to plant any crop—including fruits, vegetables and wild rice—on land that continues to receive payments. Existing producers of specialty crops would receive no similar benefits, placing them at a competitive disadvantage to their subsidized counterparts. Damages to existing producers (or alternatively, the cost to alleviate the inequity in program benefits) are estimated as the average DCP payments (per acre) available to program crop farmers, weighted by the size of the specialty crop industry in each state and applied to all existing specialty crop acreage. The result is the following:

$\$76.04/\text{acre} \times 10.594 \text{ million acres} = \mathbf{\$805.57 \text{ million}}$ for existing fruit and vegetable producers to alleviate the DCP payment inequity.

Reduced Market Revenues to Existing Specialty Crop Producers

Our analysis finds that removal of the planting restrictions is expected to attract about 1.03 million acres into production of specialty crops. While this is less than one percent of the total program crop acreage base, it represents a 10% increase in total specialty crop acreage. Key observations include:

- The greatest potential for new specialty crop acreage is in California, reflecting the already large and diverse specialty crop industry that resides there. However,

the more than 230,000 acres in the state we predict could shift to specialty crops is still less than 6% of existing specialty crop acreage. This also represents about a 12% decline in program crop acreage in the state, which we expect to come mainly from cotton and rice.

- The states with the largest percentage increase in specialty crop area include Idaho and Colorado. Especially in Idaho, nearly all of the increase would be in potatoes. Potatoes are also likely to dominate the acreage shifts in Washington and North Dakota.
- Across the United States, the expected increase in specialty crop acreage would be distributed among many individual crops, based on existing geographic production patterns. Along with potatoes, crops that are expected to see an increase in acreage of 10% or more include peas, pears, sweet corn, apples, onions, cabbage, snap beans, berries, cherries, pumpkins, asparagus, cucumbers and squash.

Using conservative methods, we find that the increase in supply across all products would reduce the revenues of existing specialty crop producers by slightly over **\$3.1 billion per year**, relative to levels with the planting restrictions remaining in place. It is important to note that this represents solely a decline in revenue to *existing* producers of specialty crops, and does not consider the increases in specialty crop revenue expected by those program crop producers expected to enter the industry or expand existing specialty crop production.