

MINUTES
SENATE AGRICULTURAL AFFAIRS COMMITTEE

DATE: Thursday, March 02, 2017

TIME: 8:00 A.M.

PLACE: Room WW53

MEMBERS PRESENT: Chairman Rice, Vice Chairman Den Hartog, Senators Patrick, Bayer, Guthrie, Johnson, Thayn, Foreman, and Jordan

ABSENT/ EXCUSED: None

NOTE: The sign-in sheet, testimonies and other related materials will be retained with the minutes in the committee's office until the end of the session and will then be located on file with the minutes in the Legislative Services Library.

CONVENED: **Vice Chairman Den Hartog** called the meeting of the Senate Agricultural Affairs Committee (Committee) to order at 8:07 a.m.

PASSED GAVEL: Vice Chairman Den Hartog passed the gavel to Chairman Rice.

PRESENTATION: International Trade Office Managers Briefing. Eddie Yen, Idaho-Asia Trade Office Manager, and Laura Johnson, Bureau Chief of Marketing, Idaho State Department of Agriculture (ISDA) said Idaho has three full time trade offices. The managers of these offices are here today to report on their markets and developments that are taking place in their regions. These managers are one of Idaho's most important assets for the international market development strategy for our State. Idaho exports \$2 billion in food and agricultural products a year. Idaho is very export dependant State because the State cannot consume everything it produces. Half of Idaho's wheat; one in six rows of potatoes are exported. Nationally, one in three acres of U.S. production is destined for export. The top export destination graphics for 2016 shows that Mexico is the number one agricultural export market, followed by Canada, China, South Korea, Japan, and the Netherlands. (See Attachment 1).

Eddie Yen, Idaho-Asia Trade Office Manager, stated that in 2016 the total export from Idaho to Taiwan surpassed \$6 million, which places Taiwan as the third largest export market for Idaho products. In 2016 there was a political change in Taiwan. The new regime has interests in green energy and geothermal technology; **Mr. Yen** plans to market Idaho's expertise in the geothermal energy. Products that Idaho has been shipping to Taiwan are fresh fruit, white peaches and cherries, fingerling potatoes, beef, wheat, and hay. Southeast Asia region of: Vietnam, Philippines, Thailand, Malaysia, Indonesia, and Singapore import \$60 billion of Idaho products. Some of the products that are imported for this region are dairy products, fresh fruit cherry and apple, and frozen potatoes for the fast food chains.

Chairman Rice asked if there were any Idaho products that had high tariffs in the countries. **Mr. Yen** replied that fresh agricultural products do not have a high tariff in Taiwan or Southeast Asia. Generally the import tariff is higher then for the countries domestic products, but the people are willing to pay the prices for the freshness and products they cannot buy in their own country.

Tara Qu, Idaho China Trade Office Manager, began her presentation with a brief overview of the goals of the Chinese Government and how they will impact the export/import market. China is refocusing from low-cost manufacturing to innovation, intelligence and competitive.

Some of the governments goals are to catch up with U.S., Japan, and Germany in technology and market and change from attracting foreign investments to investing abroad. Because of the growing middle class population, the nation is becoming a consumption driven country; which has brought more opportunities. The developing middle class focus is on food safety because their water and ground is so polluted. This middle class consumer will try to buy imported food products, if they can afford the price; especially for their babies and children. Imported food means "safe" to these consumers.

China has become the top U.S. export market for food products. The total U.S. export to China was \$25.9 billion in 2015. Idaho is the fourth largest export market to China totaling \$620 million in 2016, which is a 10.6 percent increase. Products worth over \$1 billion include grains/wheat, forest products, fish products, cotton, and soy beans. The U.S. potato export to China has tripled over the past five years, driven by western cuisine. White wheat is another huge market in China that is developing among the middle class population in the demand for bread products.

Senator Johnson asked how are these imported products distributed to China's population. **Ms. Qu** explained the Chinese delivery logistics is driven by online buying. There are many delivery companies that ship packages all over the nation. The consumer can sometimes get their packages delivered within 24 hours. The longest delivery times are 48 to 72 hours. **Senator Johnson** asked Ms. Qu to describe their railway infrastructure. **Ms. Qu** stated that the railroad travel is convenient, fast, and on-time; most of the population travels far distances in the country by this method.

Fabiola McClellan, Idaho Mexico Trade Office Manager, stated that Mexico is the number one destination for agricultural products from Idaho. The important trends affecting future Mexican spending are the uncertainty on both sides of the border. The Mexican consumer is worried about the economy of their country, but there are very strong indicators in the 2016 U.S. to Mexico remittance increases of 9 percent growth that the economy is still vibrant. There is 11 percent in new job growth; Mexico is maintaining the highest GDP growth in Latin America. These indicators point to a continuity of the economy. The devaluation of the peso against the U.S. dollar is a concern, but with more American dollars coming in through remittances Mexico has more purchasing power. American products cost more because of the devaluation but over the last 15 years a sector of the population has become accustomed to having American products in their households; Ms. McClellan predicts this trend will remain.

During the 2009 recession Mexico discovered through innovations of packaging growth of their markets. When they downsized from the 30 egg cartons to dozen eggs the market realized a 12 percent growth. Ready to consume beans were repackaged into smaller quantities and that sector grew 350 percent. During the 2014 fiscal reforms the Greek yogurt market took off in Mexico with a 500 percent growth. The past has shown that these uncertainties have driven innovation and capitalize on segments of the market.

The Mexico Trade Office is involved in the collaborative effort of the bean seed research projects between the Idaho Bean Commission and Costa Rica.

PRESENTATION Seed Industry. Roger Batt, representing Idaho Eastern Oregon Seed Association, commenced the presentation by introducing the Board of Directors of the Idaho Eastern Oregon Seed Association, who will help present in different segments the seed industry. Most of the population does not realize or understand how critical the seed industry is for Idaho. Idaho is one of five major seed production areas in the world, producing about 50 different species of seed crops and hundreds of varieties.

The economic impact for the State is \$500 million for 2016; this fact of the agricultural impact because of the proprietary information and intellectual private property rights. Canyon County alone produced \$300 million of this seed business. One of the reasons that Idaho is a global production area is its dry climate and the unique ability to divert irrigation water from the reservoir systems. These farms produce these crops under drip and flood irrigation to prevent diseases and pests. The seeds are shipped to 120 different countries from Idaho (see global map Attachment 2). Again, most of the population do not know Idaho's critical importance on seed production and how far it extends to reach global populations to feed the world.

Large Seed Production: Brett Lolley, Monsanto, stated Idaho, at one point in time, produced 85 percent of the world's sweet corn seed this has diminished to 70 percent. The Treasure Valley Treasure Valley is very conducive to growing sweet corn seed. The heat of the high desert climate along with the condensed growing season allows harvesting prior to frost. The dry climate is conducive in keeping the bacterial and fungal infections out of the crop, which affects how well corn seed can be shipped to other countries. Idaho's field size allows better placement of corn varieties for different market segments. Idaho has been growing sweet corn for 100 years in the Treasure Valley so there is grower knowledge that is unparalleled. Because of this grower knowledge they will be quicker to get the production to where it needs to be then other areas of the country. There are more than ten companies that have proprietary varieties grown in the Treasure Valley. The Treasure Valley has an estimated 6,000 acres of production which translates into 8.5 million pounds of seed worth \$18 million. The future of production of corn is tied to the research from the seed companies who are investing in development of varieties and production methods.

Small Seed Vegetables: Travis Parish, Bare Vegetable Seeds, said small seed vegetables along with the acreage grown in Idaho include: carrots, 2500 acres; onions, 1500 acres; radishes, 1500 acres; turnips, 500 acres; and lettuce, 700 acres. These seed crops do well in the Treasure Valley because of the climate and optimal pollinating period. Treasure Valley is sought after for production of seed globally because of the factors of climate, irrigation, pollinating, knowledge, and disease resistance. These seed companies are seeking production ground in Treasure Valley now and for the future. Some challenges that the seed industry is facing is urban sprawl in production areas. Increasing world population will increase the demand for seed production. EPA cancellation of chemical label registrations needed for the crops to produce disease and insect free seed. Challenges to the irrigation water rights along with the pollinator availability.

Alfalfa Seed and Hay: Kirk Whittig, Forage Genetics, spoke on alfalfa seed and hay which feeds one of the biggest industries in the State, dairy. Forage Genetics contracts approximately 38 million pounds of seed across the world. In Idaho 17,500 acres produces 16 million pounds of seed valued at \$37 million. Forage Genetics is the only company to bring biotech into alfalfa seed with two product lines: 1) round-up-ready tray; and 2) lower lignin alfalfa. There are about one million acres of alfalfa planted in the State, producing 4.5 million tons of alfalfa hay per year worth \$540 million of hay produced. Only a quarter of the seed stays in the State; the next largest market for the seed is Argentina/Chile area. The issues facing Forage Genetics seed production in the State are: EPA regulations, general competitive issues with a strong U.S. dollar, urban encroachment, and cutter bee prices out of Canada.

Dry Edible Bean Crops: Regina Lohnes, Trinidad Benham Corporation, said that the corporations dry edible bean crops in Idaho total 119,000 acres with \$70 million in sales. The dry bean crops do exceptionally well in the Idaho climate for the same reasons that previous speakers have pointed out. All of the critical growing regions

in the U.S. source their dry edible bean seed from Idaho seed and all of the major dry bean companies operate in Idaho.

Idaho has a great reputation around the world for quality seed because of farmers, agricultural groups, Idaho State Department of Agriculture, Idaho Crop Improvement, and lawmakers partnering together to create quarantine rules and inspection protocols that have built and protected Idaho's agricultural industry.

Peas Seed Production: Aaron Phillips, Del Monte Foods, reported that peas are a cool season crop making them well adapted to Idaho. The geography and micro-climates of Idaho allow peas to be grown in multiple regions. The daily high and low swings in the desert environment are conducive to quality seed; peas like a mean temperature of 55 to 65 degrees. Peas and other legumes are desirable in crop rotations because they break up disease and pest cycles, provide nitrogen, improve soil microbe diversity, conserve water and are important in a state producing potatoes. There are four main growing areas in the State: 1) the Palouse; 2) Treasure Valley; 3) Magic Valley; and 4) Eastern Idaho. Idaho's 2016 peas crop produced 16 million pounds of seed. The processor and fresh industries are contracting in peas because of popularity but they are a very consistent crop that provides great value to Idaho growers.

Cover Crop Seed Production: Kevin Osborne, Allied Seed, explained the new up and coming segment of the seed industry of the last 10 to 15 years is cover crop seed production. Cover crops are a crop grown for the protection and enrichment of the soil. These cover crops are not a direct cash crop to the grower, but are used as a way to benefit the soil and cash crops in the future. In growing cover crops there are two ways that the crop is terminated: 1) the entire plant material will be turned into the soil to benefit that soil; or 2) the crop will be grazed so there is benefit to livestock operators. The cover crop benefits are:

1. Nutrient cycling - many of these crops will send down a large tap root deep into the soil to pull up nutrients. After the decay the plant will release the nutrients to be crop available the following year.
2. Weed suppression - the nature of the crops and there growth will out-compete many of the weeds and in some crops they release a chemical that naturally controls weeds.
3. Compaction reduction - many of the cover crops are deep rooted materials and they will penetrate harder soil which will disrupt the compaction by weather events or mechanical means.
4. Increase organic matter - turning the plant matter into the soil which helps with erosion control. The East Magic Valley is considered a highly erodible area for the Natural Resources Conservation Services NRCS is promoting these cover crops for the erosion control in this area.
5. Improve water infiltration and penetration - because of the increased organic matter with the penetration of the deep roots it aggregates the soil so water infiltrates into the soil along with water holding.
6. Pollinator attractor - growers are planting these cover crops to bring in honey bees to there land along with other pollinators which are parasitic to other insects; pests to their crops.
7. Nematode control - this crops can be used in the sugar beet and potato industry.

For a list of the cover crops see Attachment 2. This list of crops accounted for 3,000 acres of production and \$3 million in wholesale seed.

Allied Seed imports much of the seed for these cover crops because of market restraints. Even with the seed they had to import, they had \$5 million in wholesale seed sales for 2016. Allied Seed has partnered with a German Company which is a premier cover crop company in Europe. In Europe, soil fumigation is not used because of population. Germany had to come up with nematode resistant crops so they turned to these cover crops to meet this need. In 2016 Idaho started producing their varieties for sale within the U.S. This will benefit Idaho growers with easier access to these seeds.

In the use of a bio-fumigate the grower will turn the crop into the ground and the plant has a natural chemical that fumes the soil. The sugar beet nematode soil fumigant is a trap crop. This type of crop releases chemicals that causes the nematode cyst to hatch and the root is resistant to the feeding of the cyst and the life cycle is disrupted and dies.

Roger Batt concluded the presentation by reporting other areas that the Seed Industry is working on are:

- The EPA concern of losing pesticide labels. In 2009 the Seed Industry established a Idaho Oregon pesticide council that is working on new labels and fighting EPA for the labels that are currently available to the industry to keep production viable for the State.
- Land use concerns of development in the Treasure Valley. The industry has been working with local government to preserve agricultural land for the future and also protect private property rights.
- Administrative rules to place a moratorium on slabbing production in the State. The industry does not want to lose the valuable bean seed industry and soy beans have diseases and vectors that can be transmitted to beans.

**PASSED
GAVEL:**

Chairman Rice passed the gavel to Vice Chairman Den Hartog.

**MINUTES
APPROVAL:**

Senator Bayer moved to approve the minutes of February 14, 2017. Seconded by **Senator Jordan**. The motion carried by **voice vote**.

Senator Bayer moved to approve the minutes of February 16, 2017. Seconded by **Senator Guthrie**. The motion carried by **voice vote**.

HCR 15

Stating Findings of the Legislature and Rejecting a Certain Rule of the Idaho Wheat Commission. Representative Thomas Dayley, stated **HCR 15 and 16** are two resolutions that are disapproving rules that the Wheat Commission published last year; Wheat Commission wanted to withdraw for amendments. Procedually the rules cannot be withdrawn without the Legislature rejecting these rules. The House has rejected these rules through the concurrent resolutions that are before the Committee today.

MOTION:

Vice Chairman Den Hartog moved to send **HCR 15** to the floor with a do pass recommendation. Seconded by **Senator Bayer**. The motion carried by **voice vote**.

HCR 16

Stating Findings of the Legislature and Rejecting a Certain Rule of the Idaho Wheat Commission. Representative Thomas Dayley stated this is the second concurrent resolution rejecting rules from the Wheat Commission.

MOTION:

Vice Chairman Den Hartog moved to send **HCR 16** to the floor with a do pass recommendation. Seconded by **Senator Bayer**. The motion carried by **voice vote**.

ADJOURNED:

There being no further business, **Vice Chairman Den Hartog** adjourned the meeting at 9:32 a.m.

Senator Rice
Chair

Carol Deis
Secretary