

MINUTES
SENATE AGRICULTURAL AFFAIRS COMMITTEE

DATE: Thursday, February 15, 2018
TIME: 8:00 A.M.
PLACE: Room WW53
MEMBERS PRESENT: Chairman Rice, Senators Patrick, Bayer, Guthrie, Thayn, Harris, and Foreman
ABSENT/EXCUSED: Vice Chairman Den Hartog and Senator Jordan
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: **Chairman Rice** called the meeting of the Agricultural Affairs Committee (Committee) to order at 8:02 a.m.
PAGE GRADUATION: **Farewell to Committee Page Porter McPherson.** **Chairman Rice** asked Porter McPherson to tell the Committee about his experience as a page for the Committee and plans for the future.
PRESENTATION: **Idaho Potato Commission (IPC), Frank Muir**, President/CEO, IPC, stated the potato tax revenue came in \$1.4 million ahead of last year's budgeted amount. IPC budgets on a five-year rolling average yield, which gives them protection in case the yield is lower. Expenditures came in lower than budget by \$500,000. The net change in fund balance reflects a \$2 million increase in funds. The \$2 million will go into the reserve account and IPC has budgeted to spend the funds in 2018. The potato tax for 2018 is estimated at \$13.7 million, which is lower than last year. The lower revenue is due to the potato growers harvesting 20,000 acres less this year; this will be good for potato prices. The growers harvest 13 billion pounds of potatoes each budget year (Attachment 1).
Mr. Muir pointed out some challenges facing the IPC:

- The University of Idaho (UI) has proposed to build a new nuclear seed facility. IPC has committed \$1 million over a ten year period to fund this facility.
- The negative and costly impact of Electronic Logging Devices (ELD) has recently affected the IPC. Since November, the industry has repeatedly notified IPC that ELDs and Hours of Service (HOS) rules have caused a substantial increase in transportation costs. This had a negative impact on the supply of transportation.
- IPC funded a project by Dr. Joe Gunther, Professor of Economic of UI, to determine where in North America is the best state to build the next potato processing plant. Based on his study, Idaho is slightly behind one Canadian province as the best economic opportunity for this plant. Processing potatoes has grown and the biggest market for frozen potatoes is Asia. IPC plans to present this study to the Idaho Department of Commerce and assemble economic packages in order to build the plant in Idaho.

Senator Patrick stated he has visited the processing plant in Manitoba. He believes there are more risks involved in building a processing plant in Canada than in Idaho. One of the concerns is the exchange rate of the Canadian dollar versus the United States dollar. This economic factor can make a difference in competitiveness. Mr. Muir replied there is greater economic risk in the uncertainty

of investing capital in another country because of the exchange rate fluctuation. IPC believes there is more stability in the United States, along with acreage, quality, water resources, and labor.

Senator Harris referred to the assessment rate of 12.5 cents per hundredweight and suggested IPC could charge up to 15 cents. He asked if IPC plans to raise this assessment rate in the future. **Mr. Muir** answered IPC had a discussion with the industry five years ago to raise the assessment rate to the 15 cents. Most of the industry supported the idea, but one organization opposed the increase, so IPC chose not to pursue the increase at that time. IPC recognizes with inflation the cost of media dollars will continue to increase. The budget must be adjusted yearly in other areas to cover the rising media cost. Fiscal year 2019 will be a lower income and budget year because there will be no reserve dollars available.

Senator Harris asked how the 12.5 cents equates to an acre of potatoes. **Mr. Muir** answered the dollar amount is approximately \$50 per acre which is one-and-one-half percent of the farmer's sales price. This is an incredible return on their investment for marketing efforts. **Senator Harris** asked how much a producer makes per acre. **Mr. Muir** explained the producer profit per acre is a mystery for a number of reasons. IPC does not receive that information. IPC produces a cost to production report every year and the industry is skeptical of the data. There are reports generated that reflect the dollar return to the Idaho growers. He believed that the most important report is the farm gate revenue which reflects the average price times production. For the last six years, this revenue averaged nearly \$1 billion a year. What portion of this translates into additional profit is also unknown.

Mr. Muir stated prices for potatoes need to be higher than at present. IPC does not set grower prices, but with the Idaho Brand, if there is a price increase it does not result in a volume decline. Idaho potatoes are a premium brand and sometimes Idaho's own entities do not price the product from that angle. If producers were at the meeting today, they would say they need to make more money on their crops. The last couple of years have been difficult for the producers to have a good return on their crops.

Senator Thayn asked if the 12.5 cents are paid for by the grower. **Mr. Muir** responded 60 percent of the 12.5 cents are paid by the grower and the remaining 40 percent is paid by the first handler, either the processor or shipper.

Senator Harris asked for an update on the Potato Cyst Nematode (PCN) Program. **Mr. Muir** explained, at present there are 3,000 acres in Idaho that are considered infested with PCN. There are an additional 5,400 acres connected to this acreage; which calculates to 8,400 acres, less than 2 percent of all Idaho potato producing acreage. The eradication methods have been very successful. Of the 25 fields treated since 2007, 80 percent passed the first test to be deregulated. The farmer of one of the fields put in a potato crop and the first test result after the harvest tested negative for PCN. The objective of the program ten years ago was to eradicate PCN in Idaho and allow growers, if they chose, to go back to growing potatoes in the treated fields.

There are other tools to use for PCN eradication, such as the litchi tomato that generates a suicide hatch for PCN. This allows less use of chemical to eradicate the cyst. IPC has been involved with researchers globally who come to Idaho to study the methods applied through the PCN Program. The federal government has committed over \$100 million towards PCN eradication program. If the federal government had not offered their assistance, the PCN problem would have fallen onto the producers. Ten years ago, several countries shut their borders to Idaho potatoes when PCN was announced. This was just after IPC opened up shipping contracts with these countries.

Senator Harris asked for a brief explanation of the process of making a field clean from PCN. **Mr. Muir** replied that the eradication process is under the supervision of the United States Department of Agriculture (USDA) and Idaho State Department of Agriculture (ISDA) protocol. Once a field has tested positive for PCN a major testing of the entire field is completed to locate the hot spots in the field. In the beginning the protocol was to treat a field with methyl bromide. The producers are no longer using this chemical, but other chemicals. A series of cycles of the chemical application are applied and the acreage is tested after every harvest for PCN. If cysts are found in the ground, they are sent to UI and placed in a controlled environment with potato plants to see if they hatch. The PCN has to go through three cycles of the UI controlled environment; if the tests all come back negative the field is determined to be PCN free.

Senator Guthrie asked if an infected field could grow a different crop, such as hay, for three years and kill the cyst. **Mr. Muir** explained that a potato producer with an infected field can plant other crops, but it does not resolve the infestation. Test results indicate PCN can stay dormant for 30 years, waiting for the host crop to be planted. That crop will send out the chemical release to the cyst to release the nematodes. The concept of using a suicide hatch crop like litchi tomato can assist in eradicating PCN in infected fields. The tomato roots send out similar chemical signals to the PCN as the potato, but the cyst cannot attach to acquire nutrients from the litchi tomato.

Senator Harris asked what might be future potato prices. **Mr. Muir** answered that IPC's goal is for prices increase. This year has been a positive trend with lower acreage. As IPC audits retail prices across the country for price comparison, Idaho potato prices are always higher than local potatoes. Idaho potatoes are a premium priced product. When Idaho shippers reduce the price, they simply increase the margin for retailers. IPC's marketing campaign has raised awareness and consumer demand has gone up, so prices should rise.

PRESENTATION: **Idaho Wheat Commission (IWC), Blaine Jacobsen**, Executive Director, said the IWC is funded by a 3.5 cent per bushel tax; which translates into a budget of \$3.2 million. Half of IWC's revenue is spent on research, \$1 million goes to UI for various research programs; market development and grower education for the remainder of the revenue. The wheat industry is a \$415 million business and is the second largest crop in the State.

In recent years world production has outpaced consumption, but there are opportunities opening up for Idaho produced hard red and white wheat varieties because of drought conditions on the Great Plains. Another benefit to Idaho wheat production is that almost two-thirds of the wheat is grown under irrigation, so the crop is very consistent. Idaho still attracts a large number of trade teams. Idaho shipped wheat to 26 states in the past year because Idaho has a reputation for quality and consistency. Many customers will pass by other wheat growing areas to get wheat from Idaho.

IWC has worked for several years to establish hard white wheat in the Taiwan market and made substantial progress. Two wheat mills in Taiwan have agreed to contract for hard white Idaho wheat; several containers have shipped. Another growing market is Latin America, with 45 percent of the wheat exports out of United States (Attachment 2). Idaho, in collaboration with Oregon and Washington, are funding a wheat technician to grow the soft white sales in the countries of Chile, Colombia and Peru.

IWC had success in renegotiating a royalty split with the UI. IWC expects to direct about \$360,000 back into wheat breeding. The wheat industry is changing along

with the breeding programs; the programs that survive will have multiple sources of funding.

The check-off dollars are one source and royalty stream that comes from license varieties of wheat. Those monies will be reinvested into the wheat breeding program. IWC has partnered with Limagrain to develop a soft white winter wheat variety which will be on the market in 2018.

IWC uses the Snake and Columbia River system to get Idaho wheat to market. The river system activists want to remove the dams along this river system. IWC has placed advertising in the Lewiston Tribune during the days of the Lewiston Flotilla which is sponsored by the activists. This advertising is geared to raise the visibility of the trade teams in Lewiston and educate the public as to why the dam and river system are important. The message IWC is trying to convey is that the port and river system is vital to the economy of Lewiston and the Pacific Northwest. The activists are trying to influence millennials, as they advance into decision making roles, to adopt a similar attitude towards the dams. IWC created a video, targeted at millennials, to educate this generation on the wheat industry's use of the river system to deliver wheat to market.

The current challenges to Idaho wheat are:

1. Oversupply; prices should strengthen with the drought in the Great Plains;
2. Renewal of trade agreements is very important for Idaho's market share;
3. Educating wheat producers to allocate 10 to 15 percent of acres to higher-value, niche wheats;
4. Educating millennials on the value of the river system
5. Wheat is all non-GMO, across the country wheat is losing acreage to the crops that have GMO traits to make it more profitable for growers.

Chairman Rice stated he reviewed the Trans Pacific Partnership (TPP) agreement extensively. The TPP's major problem is it contains embedded end-runs around United States Congress and the states on environmental regulations. To move the agreement forward on the trade portion, the environmental regulations that were written in by the previous administration need to be removed.

ADJOURNED: There being no further business, **Chairman Rice** adjourned the meeting at 9:00 a.m.

Senator Rice
Chair

Carol Deis
Secretary