

INTERIM JOINT COMMITTEE ON AGRICULTURE

Minutes of the 3rd Meeting of the 2019 Interim

September 9, 2019

Call to Order and Roll Call

The 3rd meeting of the Interim Joint Committee on Agriculture was held on Monday, September 9, 2019, at 10:00 AM, in Room 154 of the Capitol Annex. Representative Richard Heath, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Paul Hornback, Co-Chair; Representative Richard Heath, Co-Chair; Senators David P. Givens, Stan Humphries, Robby Mills, Dennis Parrett, Damon Thayer, Robin L. Webb, Stephen West, and Whitney Westerfield; Representatives Myron Dossett, Kelly Flood, Joe Graviss, Mark Hart, Kim King, Matthew Koch, Phillip Pratt, Rick Rand, Brandon Reed, Rob Rothenburger, Steven Rudy, Dean Schamore, John Sims Jr, Wilson Stone, Nancy Tate, Walker Thomas, James Tipton, Susan Westrom, and Les Yates.

Guests: H.H. Barlow, Executive Director, Kentucky Dairy Development Council, and Laura Knoth, Kentucky Corn Growers Association.

LRC Staff: Stefan Kasacavage, Kelly Ludwig, Nathan Smith, and Susan Spoonamore, Committee Assistant.

The August 22, 2019 minutes were approved, by voice vote, upon motion made by Representative Reed and seconded by Senator Thayer.

Overview of the Kentucky Dairy Industry

H.H. Barlow, Executive Director, Kentucky Dairy Development Council (KDDC), stated that KDDC actively pursues education, promotes and represents dairy farmers, and fosters an environment of growth for the Kentucky dairy industry. The KDDC's Board of Directors comprises 20 members; 12 dairy farmers and eight allied industry representatives. The KDDC is funded through a grant provided by the Kentucky Agricultural Development Fund along with dues paid by allied industry organizations and advertising receipts from the Kentucky Milk Matters Newsletter. KDDC also receives donations from individuals and dairy farmers. The KDDC Dairy Consultant Program's primary purpose is to provide manpower to implement and facilitate programs.

Mr. Barlow explained that nationally, in 1997, there were 110,000 dairy farmers, and milk production was approximately 168 billion pounds. In 2017 the number of dairy farmers dropped to 40,000 but milk production increased to 218 billion pounds. He said that in 2005 Kentucky had 1,500 dairy farmers and presently there are only 500 still in business. The largest dairy farm is in Logan County, Kentucky where there are 2,300 cows.

He stated that improved efficiency in milk production had created an excess in the milk supply. In 2018, the increased milk supply caused farmers in Wisconsin and New York to pour their milk out because there was nowhere to send it for processing. He said that due to the oversupply of milk, depressed milk prices, and closing of processing plants, 19 Kentucky dairy farms were forced to liquidate last year. Kentucky milk has mostly been sold for fluid consumption, while nationally, most of the milk goes into the production of cheese. Kentucky has three fluid dairy processing plants and four product processors.

Liquidation of dairies, diminishing profits, loss of infrastructure (large animal veterinarians and the closing of dairy supply companies), lack of markets, loss of fluid milk consumption, and loss of dairy farm equity are some of the main challenges for Kentucky's dairy industry. Kentucky produces only half of what the processing capacity is, so a lot of milk is shipped into Kentucky. Once the new processing plant in Michigan goes online, it should open up the milk market in Kentucky.

Kentucky has an abundance of natural resources, ideal environmental conditions, and strong market potential. Dairies can act as a strong economic engine for rural communities. One cow can produce enough milk to bring in \$4,000 per year. According to a Wisconsin study, each cow contributes over \$14,000 to the local economy. Kentucky's strongest tool for dairies reaching their potential is the Kentucky Dairy Development Council (KDDC). It is the only organization in the state that focuses on the dairy industry. The mission of the KDDC is to educate, promote, and represent dairy farmers in order to maintain the industry as a leading agricultural economic engine for rural Kentucky. In addition to several other KDDC programs, the Young Dairy Farmer Initiative program is important to the future of the industry. Through the Milk Incentive Leadership Kentucky Program (MILK), over \$8 million has been paid directly to producers who had to meet certain goals. A producer can be paid up to \$12,000 per farm. Half of the \$8 million came from the Agricultural Development Fund and the processing industry matched those funds. The KDDC has four dairy consultants; three of the four owned and operated dairy farms and the fourth worked in dairy processing. Their knowledge and experience is valuable to the future success of the dairy industry in Kentucky.

Mr. Barlow said that the liquidation of dairy farms had slowed down and things should get better. There is still a lot of work ahead to keep the dairy industry from declining, but KDDC is committed to making the industry a success.

Mr. Barlow explained that the University of Kentucky sold the research dairy farm, and the dairy has to be closed by 2021. KDDC is working with the University of Kentucky and Eastern Kentucky University to merge the dairies into one location at Eastern Kentucky University.

In response to Senator Thayer, Mr. Barlow stated that he did not know where the distilleries were getting their supply of dairy products to add to their bourbon cream products. He agreed that a local source of milk would be good for the Kentucky dairy industry.

In response to Representative King, Mr. Barlow said that each school system bids out for their milk supplies. He said he did not know about the universities.

In response to Representative Stone, Mr. Barlow said that the milk pricing market is a complicated system and states are split into territories. Kentucky is not under the component pricing index that includes being paid for protein in the milk, which is the main building block for cheese. This would have to be changed under Federal Order hearings and KDDC is very interested in seeing the federal pricing system changed.

In response to Senator Webb, Mr. Barlow said it is a problem dealing with animal welfare organizations that do not understand certain practices in the dairy industry, such as dehorning.

In response to Senator West, Mr. Barlow explained that the University of Kentucky is selling the Coldstream dairy farm in order to acquire land in Lexington for campus expansion. The landswap is a result of an agreement with the Lexington-Fayette Urban County Government. The dairy professors are concerned about the program, as getting a student to drive 40 miles to Eastern Kentucky University might be a problem. There is something to be said for hands-on experience. There is no talk about moving the UK Dairy to other areas in or nearer to Lexington.

In response to Senator West, Mr. Barlow said if some of the federal rules could be changed it would help Kentucky dairy farmers. Kentucky dairy farmers are frustrated and have talked about leaving the federal system.

In response to Representative Westrom, Mr. Barlow said that \$190 million worth of milk was produced in Kentucky last year. Even with fewer dairies, the number of cows on farms has increased. He said genetics, nutrition, and technology have helped milk production efficiency.

In response to Representative Tipton, Mr. Barlow asked that the committee send a letter or resolution to our Kentucky Congressmen urging them to pass the United States-

Mexico-Canada Agreement (USMCA). It is vital to the dairy industry to have this agreement in place.

In response to Representative Tipton, Mr. Barlow said that dairy farmers do need a federal guest worker program. Representative Tipton noted that the National Holstein Convention would be held in Lexington in 2023.

Senator Hornback said that a guest worker program for dairy would need to be different from other programs. Dairy farmers need help 365 days a year. He also explained that Kentucky is a deficit state in milk production. Kentucky has to ship milk in and farmers pay for those shipments.

In response to Senator Hornback, Mr. Barlow said labeling for alternative milk products needs to be addressed.

In response to Senator Givens, Mr. Barlow stated that farmers need to do a better job of telling the story of animal agriculture. He said that out of every 100 pounds of milk sold, 15 cents goes into promotion. He said that KDDC could start organizing farm tours for school children.

Discussion on Renewable Fuel Standard-Renewable Volume Obligation

Ms. Laura Knoth, Kentucky Corn Growers' Association, said that the United States Environmental Protection Agency (EPA) is now allowing the sale of E-15. The EPA recently waived Renewable Volume Obligations (RVO) to small refineries. In doing so, the waivers will have dire consequences for the farmers in Kentucky and the United States. The Kentucky Corn Growers' Association, representing over 5,000 corn farm families, sent a letter to the EPA commenting on the proposed rule for the 2020 volumes. The letter contained recommendations about adjusting the 2020 RVO percentages, remand and restore the 500 million gallons missing from the 2016 RVO, and develop a plan for reallocating the renewable fuel blending volumes.

In response to Representative Schamore, Ms. Knoth said all of agriculture is in a tough situation right now. Grain farmers are experiencing a 40 to 50 percent decrease of prices in the last few years. She said there are several contributing factors for the reduced demand of corn such as large crops and trade disruptions.

Ms. Knoth explained that on her recent trip to Japan, the group met with international importers/buyers of U.S. beef and pork. Japan is experiencing a meat boom and is finding U.S. meat products to be of the highest quality.

In response to Representative Stone, Ms. Knoth said that the United States needs to export more grain products, meat, poultry, dairy products, and ethanol. Kentucky exports

approximately 10 percent of its grain crop -- nationally that number is 25 percent. She said that over half of Kentucky's grain crops go to livestock and poultry.

In response to Senator Hornback, Ms. Knoth said 35 to 40 percent of Kentucky's corn goes into the ethanol market. She explained that the by-products from ethanol comes back in the form of dry distillers grain, corn oil, and the CO₂ is used at a dry ice facility. Kentucky is sending approximately 10 percent of its corn to the ethanol industry and 10 to 15 percent to the bourbon industry.

In response to Representative Tipton, Ms. Knoth said that E-85 fuel can only be used in flex-fuel vehicles. She said that Kentucky Corn Growers' Association and the national association are meeting on a regular basis with the American auto industry, the renewable fuels industry, and the petroleum industry. Higher blends are expected in order to meet fuel standards of today's engines. Ms. Knoth also said that the Grain and Forage Center of Excellence has the best researchers for increasing grain production in the future.

In response to Representative Flood, Ms. Knoth said that Kentucky had not been able to export grains to China for the last three or four years. She said that not exporting to China had nothing to do with the current administration. China decided not to accept grain exports because of hybrids and traits that had not been approved in China. China cut some contracts because of price. She said that Kentucky corn growers want trade on all fronts, but right now they are focusing on every other market available. Ms. Knoth explained that Japan was the number one importer of wheat and beef and number two for corn and pork. Japan has been a longtime partner for American exports. Ms. Knoth stated that the United States-Mexico-Canada Agreement is the most important issue on their agenda. Mexico is the number one market for corn, and Canada is the number one export market for ethanol.

Senator Hornback stated that he believes there were several factors for not shipping corn to China: one being the price and the other being that China stole intellectual property pertaining to agriculture technology and corn varieties.

Meeting adjourned.