

Positioning Washington's Dairy farms and support industries for the next 20 years

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The Washington State Dairy Federation represents the interests of dairy farmers across the State of Washington. The Federation has worked since 1892 to ensure a successful political and business climate for Washington dairy farmers. The dairy industry is and has been composed almost exclusively of family run businesses. Of the 456 dairy farms in the state, 454 are family owned.

We envision that dairy farmers will continue to thrive and provide Washington's citizens with a financially strong piece of our rural economy. Farms are a reliable piece of our rural tax base, a sustainable, efficient, safe, reliable, great tasting, and local source of food. Dairy farmers provide milk as well as fertilizer for a diversity of crops. Through increased technology, we hope to see increased opportunities to provide other services such as electricity through the use of methane digesters. Recent protests and food strikes, as well as alarms being raised by the United Nations all highlight this fact; farmers need to feed more mouths than ever. The demand for food is expected to increase 50% by the year 2030. Washington State is truly blessed: we have abundant water and great natural transportation resources like the ports of Puget Sound the Columbia River. The bulk of our dairy farms are managed by families; many with four, five, six or more generations of history and experience in agriculture. Many commercial farmers have college training. Farmers have learned from the pain of past recessions and depressions to build the financial strength needed to survive low prices. These things, great wealth of natural resources along with smart, tough, financially savvy, and well-educated farmers provide the backdrop for policy decisions. We hope this paper provides some insight into what we, in the dairy sector, suggest are action items to help us move forward to provide a more secure future for dairy producers, the rural communities we help support, and provide more food for a growing world in a safe and responsible manner.

Health: The last year has marked the most dramatic cost increases in the past thirty years. First a bit of history; since 2001 dairy prices have seen increased volatility, and a severe downturn after 9-11 challenged even the most well-managed farms to hold on to enough equity to survive. This was followed by a recovery in demand that increased prices for a while, with another severe downturn in 2005 until late 2006. The price recovery in most of 2007 (as compared to costs) generally allowed producers to re-pay debt and reposition their financial situation... until late 2007 and into 2008. Substantially higher feed costs began in the fall of 2007, followed by the dramatic increases in fuel and fertilizer prices. While milk prices received are also up, dairy farmers experience many of the same issues our neighbors are wrestling with: the cost squeeze! This spring has seen the increases accelerate for every energy-related expense. Diesel fuel has dramatically increased; two to three fold in the past three years and over a dollar a gallon just this spring, fertilizer prices are up double and triple. Grain prices have doubled in the last year. While energy related costs are squeezing farms, other costs are rising as well. Labor costs continue to increase from the "rising tide" effect of the minimum wage escalator. A recent national survey was published in Hoard's Dairyman that showed Washington's dairy producers pay the highest wages in the nation for farm labor. Family healthcare insurance costs are

affecting both farm families and employees. To summarize the health of the industry: Generally 2007 was helpful, but the past year has seen increased risk and extreme inflation in feed, fuel and fertilizer costs that will reduce or eliminate profits unless milk prices remain high enough to cover the costs.

It is nearly impossible to forecast the health of the industry in ten years if the increased expenses for feed, fuel and fertilizer are here to stay. It is possible to postulate on some likely recommendations, and those are at the end of this paper. However, because the changes have come and are coming so quickly, it is difficult to clearly understand the trend changes at this point. There are some fundamental shifts in economics that can be guessed at such as: increases in purchased feed and fertilizer costs shifts the economic benefit toward locally or home grown feed produced with the use of a manure based cropping programs. Fuel, labor and feed efficiency all become more critical; hence a logical conclusion can be reached that perennial cropping of grass or grazing will have higher efficiencies than annual crops or purchased feed prior to 2008. This makes quality land in close proximity to a dairy, along with predictable, sufficient amounts of available irrigation, likely to be an essential part of health of the farms. Fertility is essential for efficient crop production. Washington's dairy industry, along with state and federal cost share and technical assistance, has made tremendous investments in manure storage and manure based fertilizing systems. These systems, with the ability to store and use these nutrients, have given a strong advantage to farms able to make use of this valuable resource. As fertilizer prices increase, these investments give Washington farmers a competitive advantage, if sufficient agricultural land is kept in production for feed.

Processing: The vast majority of dairy producers ship milk through one of five cooperatives to the four major in-state processors. The rest supply several smaller processors, and there are numerous small producer-distributors of fluid milk and cheese. The processors and the cooperatives are generally strong, and we expect these last few large cooperatives and processors to remain here in the Northwest. The medium sized bottlers have suffered some losses over the years, but the core group seems to have weathered the storm and appears to be respectably positioned to serve the local markets. There are a few issues to fix, and the processors can generally answer the question regarding what is needed to encourage growth and additional capital investment. The recent closure of the Wilcox Family dairy division, and the closure of Vitamilk a few years ago, leads to speculation concerning why the closures occurred and whether those issues been resolved. Some possible causes and accompanying solutions: Some losses, like Vitamilk, might simply be a continuation of a trend to fewer, large, and more efficient manufacturers able to withstand volatility through higher capitalization and economies of scale. However, the Federal Milk Marketing Order (FMMO) rules have allowed a Montana processor (Country Classic) to have a small, limited, but important competitive advantage in the Eastern Washington/Spokane market. Changes were proposed last year to the FMMO. These changes were withdrawn but may be considered in the future. Leveling the playing field would be a productive change. However, farmers, processors, Cooperatives and federal USDA officials will need to develop consensus before proceeding with the changes needed to level this playing field.

A recent lack of milk processing capacity along the west coast is troubling, with current effects most prominent in California (which blames a poor business and permitting climate

for investment). Little new construction of processing capacity has been developed in the past decade. Processors like Darigold and Farmers Coop. Creamery can answer the whys and wherefores of this.

Education: there continues to be good opportunities for school age kids to participate in dairy activities including 4-H, FFA and pure-bred shows. Dairy specific Extension education and in-state college level classroom education has been a challenge for the past several years, having suffered many position cuts at WSU. We have had the services of a fantastic Extension-Researcher in nutrient management and recently added personnel in air-quality research, livestock veterinary extension and agricultural economics. These additions, in the past 18 months, at WSU school of AG are a marked change; an appreciated “re-investment” in agriculture education personnel, including the dairy program, over at Pullman. We hope to see added capacity in production livestock Extension positions at Prosser and at Mount Vernon. The new on-campus dairy science position should be in place this fall. We hope to see improvements in crop science in the area of forage production and feed efficiency. Up-grades and additions to WSU research, extension and teaching capacity must continue for us to continue to provide more food, fiber, feed and fuel.

Dairy producers were some of the first adopters and remain heavy users of the internet as an information source. This has caused a re-thinking of the manner and methods for extension, but the future stills holds a place for strong research and a method for transferring information back to the farm in usable form. To provide for the forum in the future for this, we have focused on upgrading the WSU dairy at Pullman to modernize and add more capacity for research and teaching. The WSU dairy is physically approaching the point of diminishing returns, repeated evaluations of the Knott Dairy Center suggest these structures are likely more expensive to repair than to replace and must soon either be replaced or eventually even duct tape and baling wire will not save the farm. If the dairy farm goes so will the dairy program, the teaching and research staff will eventually be lost to terminal decay. The loss of the dairy center, the program and research capacity at Pullman would leave a hole that will be difficult to fix.

Infrastructure: Land and Water: Expanded demand for Bio-fuels has created demand on existing farmland. National and local ethanol production has created new demand for corn without an additional land base. Recent price surges in corn simply support what the markets have told us this past year: **a demand increase without additional supply will result in increases in price!!!** Simply wishing we could provide food, feed, fiber and adding fuel to the list we expect our farms to provide for America and a hungry world is not enough. To maintain and grow a crop based/bio-fuel production system will take additional farm land, added irrigation capacity (with water storage and delivery systems). The Pacific Northwest is suited well for this challenge, with great rivers, tremendous snow-pack and outstanding potential for adding irrigated acres in eastern Washington. There is the challenge of how to add this capacity while retaining a strong electrical generation system and restoring a healthy salmon and steelhead run to the Columbia Basin rivers, this opportunity is one of the next great challenges we face. Dairy Farmers need land for alfalfa, corn grain and silage. No additional water to convert dry-land to irrigated means no new acres to support bio-diesel crops, no new land to supply ethanol

corn grain. The federal and state desire that we grow more of our own fuel must be accompanied by a growth in the resource base upon which to grow these feed-stocks.

Farmland losses in Washington continues:

- ♣ Upward Pressure on Prices. For a dairy farm in any proximity to a metro area, recreational area or scenic area, once a decision has been made to exit from the business, the land value for development makes it virtually impossible and certainly illogical for the family to take a lower price as farmland.
- ♣ GMA provides a de-facto incentive to build more houses on farmland; higher value per parcel means higher property taxes. If, and especially when, parcels are physically removed from any current and future Urban Growth Area, then the county can also prevent annexation by a city and the county doesn't lose the property tax revenue.
- ♣ Zoning; some counties maintain 40 acre minimum Ag. Zones, but state model code is 20 acre lots. 20 acre lots is a great way to destroy commercial agriculture, this is especially troubling on the prime soils and unique Ag. soils in areas close to metropolitan areas. Simply put, 20-40 acre parcels are in demand, now more than ever, for rural estates, and we are losing our future one McMansion at a time.

Solutions:

- ♣ Added capacity and reliability of water supply east and west side of state.
- ♣ Match and fund local develop right purchase programs.
- ♣ Provide more incentives to keep prime Ag soil in Agriculture.
- ♣ Look at GMA and the inherent "incentive" within for counties to encourage "higher value building" that leads to higher property taxes. Our rural counties are broke and raising property taxes is their only means of increasing revenue, more and more we are losing out. Though never overtly stated, if the choice is keep a few farms or find a way to allow a bunch of houses, the incentive is with the housing.

Energy: Methane fueled electrical energy has great potential to provide a renewable, controllable, environmentally intelligent piece of our future electrical needs. Methane digestion of manure, food and feed substrates offer farmers the ability to produce electrons, a certificate of renewable production and a marketable carbon credit/certificate. To achieve these benefits we must prove this technology is reliable, profitable and environmentally sound. Barriers include unnecessary regulations, monopolistic utility regulations, un-realistic prices offered to new renewable sources of generating capacity, historically low returns on investment leading to a failure to gain reliable capital. These are hurdles we are working to overcome. As per regulations, recent discussions with Department of Ecology hopefully will yield a smooth transition to minimally restrictive process to address concerns in the solid waste program at Ecology. Longer term, dairy farmers must be able to market power at a rate yielding a reasonable return on investment on capital. If future carbon reductions are to be required of farmers, these reductions must, when clearly identified, remain marketable. We will be working to ensure that verified carbon reductions retain a standard and an identity separate from the renewable "tags" and advocate for the highest value from the market place.

- ♣ Monopoly solution: consider creation of a marketing cooperative of dairy farmers that generate electricity, giving them the ability to bundle and wheel power and carbon credits.

Environmental: The efforts of dairy farmers to protect water quality of the state have been a smooth success story. However, like the proverbial water balloon, when you push on one side of it, the other side bulges. Storage of manure for both protection of surface water quality and fertilizer value is a fundamentally sound practice; however the storage of manure also results in a steady naturally occurring release of many compounds. In particular ammonia and methane are of new concern; ammonia because it adds airborne emissions with eventual deposition of ammonia in water far from our farms; methane because of its greenhouse gas effect. Both of these gasses are naturally occurring in animal agriculture, but the increased focus on air emissions means we will be expected to do our part in reducing impacts. More science is needed and underway at this time. Once it is well understood what a dairy farm releases into the air, we will then need assistance in finding ways to reduce that release. A serious threat to the industry, and most likely one of the largest threats to re-investment in larger dairy farms, is the continued use of third party lawsuits against individual farmers in the Northwest. Well intentioned federal laws like the Clean Air Act are being abused by lawyers and activists bent on putting farms out of business or reaping substantial financial settlements from farmers. These suits also aim to force policy changes via litigation or the threat of litigation, with the added incentive of creating substantial opportunity for profit by the lawyers instigating these suits against dairy farms across the west and in Washington.

- ♣ Extortionary abuse of Federal laws has to stop.
- ♣ Farmers will need functional tools and consistent expectations regarding their roles and responsibilities for the Clean Air Act, Clean Water Act, Safe Drinking water Act, State Ground water laws, Endangered Species Act

3. What are the opportunities that we need to act on now in order to keep the industry profitable?

There are several:

The East Asian market, the weak dollar and generally increasing demand for “better” food (dairy beef, poultry proteins) has positioned Washington as the logical best American gateway to furnish these markets. We need to explore how to enhance the opportunities for our processors to grow their capacity and ability to supply these markets.

Both conventional and organic dairy farmers are finding it hard to deal with shortages of quality feed and price increases in grain markets. This is highlighting the short- and long-term need to develop closer, bigger and new supplies of grain production capacity. While some organic grain production is in eastern Washington, David Granastein at WSU has pointed studies which show that without irrigation, organic corn, sunflower or other organic grain production is difficult if not impossible, and makes conversion of land to organic grain production systems a very risky proposition without irrigation. Added

demand from ethanol plants in the Basin and under construction along the Columbia have put a tremendous demand on conventional grain. The land that is now contracted to supply grain for fuel has had a ripple effect on the land available for other crops... farmers report tremendous increases in land rents. Solution? We must increase the availability of land in general but specifically the amount of irrigated land. We have the land, we have the water, and we just need to navigate the difficult path of getting this water onto the land while protecting the fish resources.

Here are few specific projects:

- ♣ The Columbia Basin irrigation project is not complete and on a slow schedule to finish, accelerating this build out of the project would serve to increase the potential for additional grain production for feed, food, grain (organic and conventional) as well as gains for the added demand for fuel (ethanol and Bio-diesel currently and potentially future feedstock's for cellulosic)
- ♣ Regulations are generally well understood, but occasionally there are problems, or competing visions and interpretations in implementation. An Agricultural Ombudsman position has been created in several counties and this model might be really effective in assisting farmers with regulatory (not just WSDA regulations) Issues and connecting with the folks that can relieve tension and get to win-win solutions.
- ♣ In a similar vein as the Ag Ombudsman, many states and counties across Washington have adopted an Ag Advisory board. WSDA and Agriculture has a very positive relationship with the farming community but policy discussions and recommendations are ad hoc. Before another process is added such as a State Ag board, the legislature should commission a discussion to find out if other states Ag Departments and legislatures have found the creation of an Ag. board to be productive.
- ♣ As Federal CRP contracts expire farmers will be tempted by recent price increases to not re-enroll these acres. Many acres enrolled can be farmed with out unduly harming the environment, however some conservation incentives could be provided to ensure some conversation on these acres as they return to productive use but don't setback gains in environmental improvements such as erosion or wildlife habitat effects.

4. What challenges need to be considered to ensure the future of Washington State agriculture?

Several challenges come to mind not only here, but across the west.

A. Immigration reform must be resolved. The American economy has not had responsible Congressional action since 1986 to address how many additional workers are needed to keep a healthy economy. Some estimates show the congressionally allotted slots for legal and available workers has shortchanged the American economy by 500,000 workers **per year** for the past 20+ years. The dairy industry, like many others, is beginning to experience labor shortages due to the lack of available willing workers. Just like energy, capital, education and raw materials, the US economy needs workers, mechanization has assisted some farm crops in relieving worker shortages, but dairy needs a relatively

highly-trained year-round source of workers to keep our farms and cows healthy. This situation is reaching a critical stage across the west.

- B. There has generally been a lack of investment in dairy processing facilities. California is experiencing a severe shortage of dairy processing capacity. While processors blame the “unfriendly” business climate in California, the dairy farmers have found ways to increase supply, leading to the lack of balance in the processing capacity. While some Washington processors are only just beginning to limit production, it is clear there needs to be a careful evaluation of the barriers to investment in the dairy processing sector. Recent tax breaks for exported products have helped send the right kind of message. Jim Wegner at Northwest Dairy Association (NDA-Darigold) can address what can be done at the state level to assure that processors feel safe in their investment in dairy processing capacity in Washington and Oregon.

5. What can state-level government (the legislature) do to support the environment for agriculture with respect to the sector(s) you represent?

- ♣ More watered acres of land. Finish or accelerate the Columbia Basin Project. Finish the discussion and move to building more water storage in eastern Washington to benefit fish, farms and electrical users.
- ♣ Pressure Congress to provide a viable predictable process that provides sufficient numbers of workers for agriculture to plant and harvest crops, care for our livestock and feed this country!!!
- ♣ Assist in developing a functional development rights purchase program that focuses on the high value lands in the at risk agricultural ecosystems, such as northern Whatcom County, the Skagit Valley, the Kittitas Valley and around Chelan, Wenatchee and Sunnyside-Yakima.
- ♣ Methane digesters have tremendous potential, but unnecessary regulations and permitting requirements will stymie their adoption, the process must be easy to comply with, not duplicative and not expensive.
- ♣ If Carbon Emissions are capped, let us be part of the solution through carbon credits.
- ♣ Review GMA and look at the de-facto incentive within that “encourages” housing development (be it one acre parcels or 20-40 acre McMansions) on farmland parcels
- ♣ Find ways to assist processors to encourage their capital investment in Washington to help our farmers supply dairy products for a hungry world.

Conclusion

We face choices as never before over the next ten years. It is our choice to make whether we build more water storage or not, either decision is a choice. We can choose to keep farmland in farming, or allow it to disappear just like the unique soils of the Fife and Kent valleys. These soils, now lost to agriculture, once supported a thriving, smart, tough, stable group of Japanese and Dutch families that raised vegetables and bulbs in these farm fields. The choice was made in that valley to pave over and cover with warehouses. Our future across the state is writ larger but it is the same choice that once faced the Kent valley. The choices and policies we have made in the past and will make in these next few years will determine if the farm families stay and our farmland feeds us and our rural communities or not.

What is unique in the world today is that there are few places left to go! Today a farm family squeezed out by pressure from encroaching urban neighbors, or regulations, or huge financial incentives to subdivide and sell has few places left on this planet to go to start anew in agriculture. The history of farmers has been one of migrations: the Irish, Dutch and German sons and daughters could and did leave their homelands in the 1700s and 1800s and moved to America to plow the rocky soils, first of New York, and then the plains and hills of the west. More recently, these same families could send their sons and daughters to eastern Washington or more lately off to Brazil to clear the brush of the Malpais. Over the next ten years we will see this long migratory history come to an end, the few remaining acres of exploitable but “un-used” farm lands on this planet will be largely gone. We know that clearing the rainforest of Brazil is not smart or sustainable, yet this too will be done in short order. Argentina and Africa have some room for agricultural growth if political stability ever comes, and Eastern Europe, with a proud agricultural history is just now emerging from behind the curtain, but Australia has learned the hard way about the arid and drought-prone nature of their continent. China and India have many mouths yet to feed and not many options. So we, more than any other country and especially here in Washington because of our very blessings, have some really tough choices these next ten years. We can be selfish or locked in endless squabbling about whether or not 1% less water in the Columbia River will harm fish, or about whether conservation of water is something we reward with water spreading or relinquishment, and so on. We have developed endless processes that encourage the safe but selfish pathways of the precautionary principle. We have little or no time left before food and the lack thereof is headlines every night. We can be smarter and learn how to conserve water and then spread it, or learn how to use water from a river at times when it doesn't harm fish. We can remain gridlocked in legal ego trips fomented by lawyers and forced on judges that can only take the narrow view of either their client or the law. OR, we can find a new path way forward, one that allows discussion and decisions to happen in a predictable process that rewards success, yet provides cover when we collectively make a mistake. This, and the acceleration of the decision making process, is, of all the challenges, the greatest. We don't expect the Agriculture Department to lead this, but we do need someone to bring it up and then help pull us on to a better path.