

*Protecting Idaho's dairy industry through environmental,
legal and legislative leadership since 1924*

October 2016

From the Boardroom

By Tony VanderHulst, IDA President

Fall is shaping up to be a busy and exciting season for the IDA and UDI organizations. Highlighting our efforts will be the UDI Annual Meeting coming up November 16th & 17th. This year's Annual Meeting is on course to be the largest one so far, with a number of great speakers! Please be sure to register, if you have not done so yet. Dairymen can register by going to UDI's website: <http://idahodairy.com/annual-meeting/>.

IDA 2016 Board of Directors and Resolution Committee elections were just completed. Adrian Kroes from District I has decided to step aside from his leadership roles in the IDA. He has served with me on the Board of Directors since 2010 and has been

on the Executive Committee for 5 of those years. Adrian, thank-you for all your service and leadership throughout your time on the Board and the friendship we have built! We are happy to announce that Ted VanderSchaaf has been elected to fill Adrian's Director seat from District I. Ted is a graduate of UDI's Ambassador program and we are confident he can step into his Director role with a good understanding of the organization and be able to contribute from day one. Looking at the results from the remaining contests, incumbents were re-elected in all other Director and Resolution Committee seats.

(Continued on page 5)

Visa Reform Could be the Smartest Way to Secure our Border

By Ali Noorani is Executive Director, National Immigration Forum

Staff Note: This article was first published as an Op-Ed in the Washington Post. Bob Naerebout, IDA Executive Director, serves on the National Immigration Forum Board of Directors.

Our immigration system must serve the interests of all Americans.

And the vast majority of Americans — Republicans as well as Democrats — recognize that our immigration system is broken, and support a new process that replaces our outdated laws. One key area is visa programs that are part of our legal immigration system. We need to update visa programs in a careful way that helps our economy — not reduce visas significantly, as some politicians and policy makers have proposed.

The last update to the number of permanent worker visas took place in 1990, the year Germany reunified. Our current legal immigration system does not meet our economic needs because our inflexible visa system constrains the growth of businesses, therefore undermining the competitiveness of the American worker and the livelihood of our families.

America's dairy industry is a unique example: Farmers regularly report labor shortages and raise concerns about availability of reliable year-round labor. More than half of dairy laborers are immigrants, and 79 percent of the U.S. milk supply comes from dairies with immigrant labor, according to a 2015 Texas A&M report paid for by the National Milk Producers Federation.

(Continued on page 7)

Page 2 Federal Dairy Issues Update

Page 3 Will Technology Squeeze Out Late Adopters

Page 4 Global Dairy Disposition

Page 6 Soil Sampling; Post-harvest or Pre-harvest

Page 8 Upcoming Meetings & Events

Federal Dairy Issues Update

By Charlie Garrison

The U.S. Congress was able to pass a temporary funding bill last month to keep the federal government open from the beginning of the new fiscal year on October 1st through December 9th. Members of the House and Senate were eager to wrap up business and get back home to campaign for reelection.

The temporary funding bill, called a “continuing resolution” keeps most of the federal agencies funded at the levels of the previous fiscal year. The Defense and Veterans Affairs budgets both were increased and additional resources were included to fight the spread of the Zika virus in affected areas of the country. Many conservatives in the Congress wanted to see the temporary bill run well into next year but Democrats would not agree to anything that went past January 1st. Compromise was required again in this instance since neither party had the 60 votes necessary to end debate in the Senate on a bill that any one member might oppose.

One of the consequences of the continuing resolution was that it gave USDA a new infusion of cash for its programs. Just this week USDA Secretary Tom Vilsack announced that he was making another \$20 million available to purchase cheese and donate it to food banks in an effort to help dairy farmers struggling with low milk prices. Two months ago Secretary Vilsack announced that the Department was allocating \$20 million to purchase approximately 11 million pounds of cheese to donate to food banks. The Secretary indicated at the time that the limited amount of assistance was due to the fact that most of his funding for programs like this had already been committed by that point, the 11th month of the federal government’s fiscal year. The cheese from the first announcement is expected to be purchased in November. The cheese from this week’s announcement is to be bought in March of 2017.

Following the November election, the Congress will return to Washington, D.C. to consider legislation to fund the federal government for the remainder of FY 2017, which ends next September 30th. Members of Congress representing dairy farmers in other parts of the country have indicated they will be looking to add more dairy assistance to that funding bill. If the projected record harvest comes in as expected from the corn belt, low prices will have producers of other commodities looking for assistance as well. The

USDA Secretary’s inbox may start to fill up with requests for assistance later this year.

Legislators from states with significant agriculture and other land use industries are still working to pass a bill that would require the EPA to pull back the Waters of the U.S. (WOTUS) rule. Many consider WOTUS to be a power grab by a federal agency that already has agreements in place with state agencies to regulate water quality. A bill to pull back WOTUS has passed the House and received 57 votes in the U.S. Senate. Those 57 votes are a majority but not enough to break a filibuster so no bill has been sent to the President’s desk as of yet. Following the Senate vote, 11 members who voted against the pull-back wrote to the EPA Administrator saying that they remain open to supporting such a bill if needed based on the agency’s implementation of the Rule. Many in agriculture now think that condition has been met and will be urging those 11 Senators to support a WOTUS pullback bill between now and the end of the year.

The Farm Regulatory Certainty Act, HR 5685, continues to gain support in the House of Representatives. The bill to clarify that Congress never intended for the Resource Conservation and Recovery Act (RCRA) to apply to practices on farming operations now has a bipartisan list of two dozen cosponsors and has drawn the support of nearly two dozen industry organizations. Idaho Representatives Mike Simpson and Raul Labrador both support the House bill. Senator Mike Crapo is considering introducing companion legislation in the Senate. IDA thanks these three, along with Senator Jim Risch for their efforts to bring common sense to environmental regulation at the federal level.

On the subject of international trade, the Trans Pacific Partnership (TPP) between the U.S. and 11 other Pacific-Rim countries remains in political limbo here in this country. While ratification of the TPP may be President Obama’s highest priority for his remaining weeks in office, both major party presidential candidates say they oppose the deal in its current form. In addition, leaders in the House and Senate have said repeatedly that they will not bring it up for a vote during the “lame-duck” session of Congress following the election. On balance the TPP is a good agreement for Idaho dairy producers and IDA continues to voice its support for the deal should it ever be brought up for a vote.

(Continued on page 7)

Will Technology Squeeze out the Late Adopters and Increase Rate of Consolidation in Agriculture?

By Lawson Thalmann, Director of Business Development

One step at a time, the concept of the Internet of Things (IoT) is infiltrating the agriculture space. From drones flying high in the sky to health monitors nestled in one of the cow's four stomachs, these internet-enabled devices are collecting data and turning them into actionable insights. Farms adopting these technologies will start to run faster and smarter – they may even run away from their smaller counterparts.

Investing in Smart Farming

While “smart farming” is still maturing, it is maturing fast. The return on investment is relatively unproven at this point in time, but I argue that it will start to become much clearer in the next couple of years. At that time, we will see the early adopters really hit their stride.

Unfortunately, many farms simply will not have the financial capability to invest in these technologies. Surely, the entry price will decrease over time, but I'm afraid it will remain high enough for long enough for many less capitalized farms. Aside from price, there is also a time and human capital investment. You need people to help monitor the devices and others to manage the data. The knowledge required is not easy to attain. This acts as a further barrier to entry for the farms lacking tech-savvy individuals.

But, once the barrier has been successfully overcome, you can start analyzing the data produced. As time goes on, the data becomes more insightful as you can compare past to present and find best practices. Instant and continuous feedback allows the farm to be nimble in tweaking processes to find the right formula for success. For example, you can find which seeds provide the best yield. A drone can collect and present this information to you, turning time spent on tedious data collection into more time for decision making. This will manifest itself in larger profits for those farms compared to their peers.

This positive feedback loop will lead to diminished costs and maximized revenues. Each improvement will build on itself – further separating the data-powered farms from the rest.

Replicating Success

Once the process is streamlined, it is then easier to

implement on newly acquired land. Since the farm management team will have observed the technology's positive effects on profit, it will see the land as more valuable than the owners of the more traditional farm down the street do because they can reproduce the success. The current owners aren't projecting the same profit potential because these technologies aren't an option. Therefore, the tech-enabled farmer is willing to offer a higher price for the land than his counterparty expected to get – resulting in a sale.

This concept is seen in the private equity industry. Private equity firms buy companies in which they see an opportunity for management efficiencies to improve returns for the business. In most cases, this means replacing the current management team and changing the strategy of the business. What I see is bigger farms simply acting like private equity firms in implementing new technologies that could not have been achieved by the current owner and management team.

Consolidation

Let's step back and see what this means in the bigger picture. If we look at the dairy industry, there are a little over 40,000 farms in operation. According to USDA data, that number has been consistently decreasing by about 40-50% every decade while the average farm size doubles. Therefore, it doesn't take an expert to guess that in another 10 years we're going to have even less farms than we do now. How fast this will happen is the question. My argument is that it will happen at an increased rate.

There are examples in other industries that have been studied over the years. For example, there is a concept called the Consolidation Curve coined by the *Harvard Business Review* ([See article](#)). It explains how an industry goes through four stages of consolidation starting with its formation – or in the case of the dairy industry – its deregulation. They estimated the timeline for this process to be 25 years. The dairy industry started to become deregulated about 20 years ago. However, government intervention isn't completely gone – meaning the dairy industry isn't a completely free market. Therefore, the development of the dairy industry consolidation is slower than the

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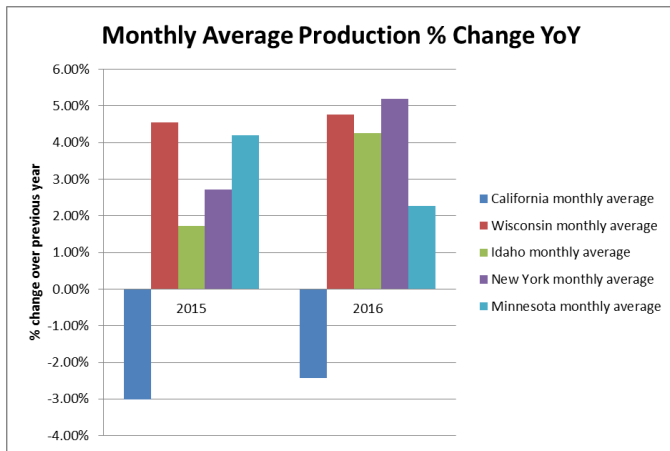


Global Dairy Disposition

By James Carr, West Coast Dairy Operations Manager

US milk production for the first 8 months of 2016 averaged 17.9 billion pounds on a monthly average basis which is up 1.7% over 2015. Best of class practices has increased average monthly milk per cow for the same time period from 1,888 pounds in 2015 to 1,917 in 2016 or 1.54%.

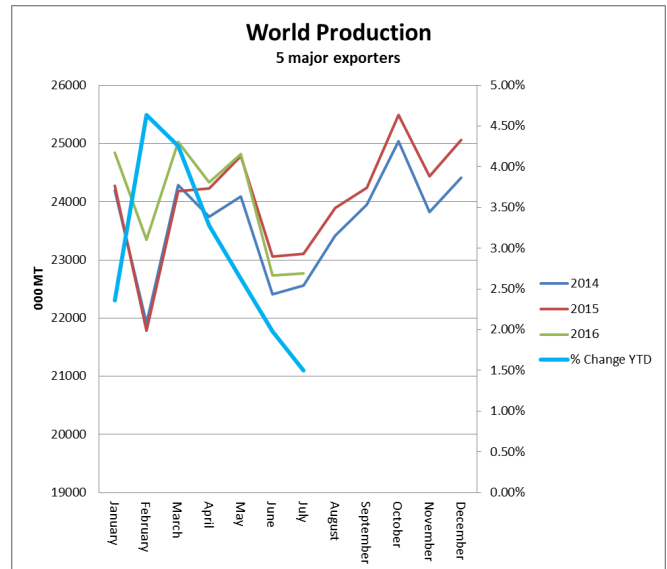
The top 5 producing states in the US are seeing different paths of production. California continues to lose production but at a slower rate than in 2015. The average monthly production in 2015 was 3.4 billion pounds down 3% and average monthly milk per cow was down 2.9% YoY. In 2016 that production decrease on average monthly production (through August) was down 2.4% and milk per cow is down 2.1%. The other 4 top producing states continue to see their monthly averages increase.



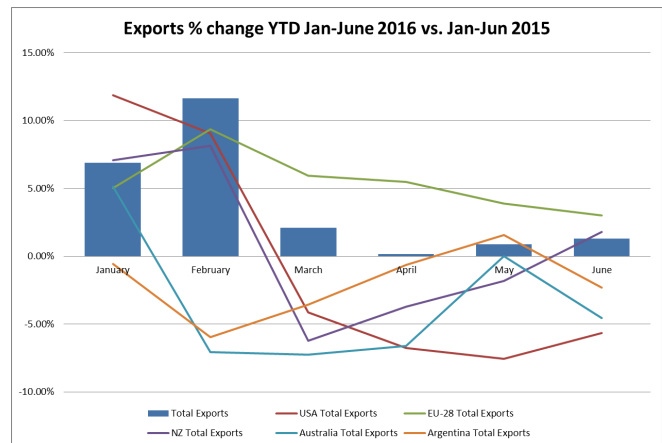
Wisconsin average monthly production is 2.5 billion pounds up 4.8% on .08% more cows with milk per cow up 4.6%. Idaho average monthly production is 1.2 billion pounds up 4.3% on 1.5% more cows with milk per cow up 2.8%. New York average monthly production is 1.2 billion pounds up 5.2% on .5% more cows with milk per cow up 4.7%. Minnesota average monthly production is 813 million pounds up 2.3% on .2% more cows with milk per cow up 2%.

World milk production started the year strong (up 4+% through March) but has slipped since. This slippage was due to poor pricing and the devastating floods in Argentina. World production through July continues to outpace last year up 1.5% YTD and

nearly 3% ahead of 2014 (pre-EU quota removal).



US Dairy has moved away from a localized industry supporting and supplying communities to a globalized agricultural business that exports just over 21% of our product production. The 1st half of the year we saw 2016 US exports down 5.65% YTD while total exports (5 major exporters) were up 1.31%.

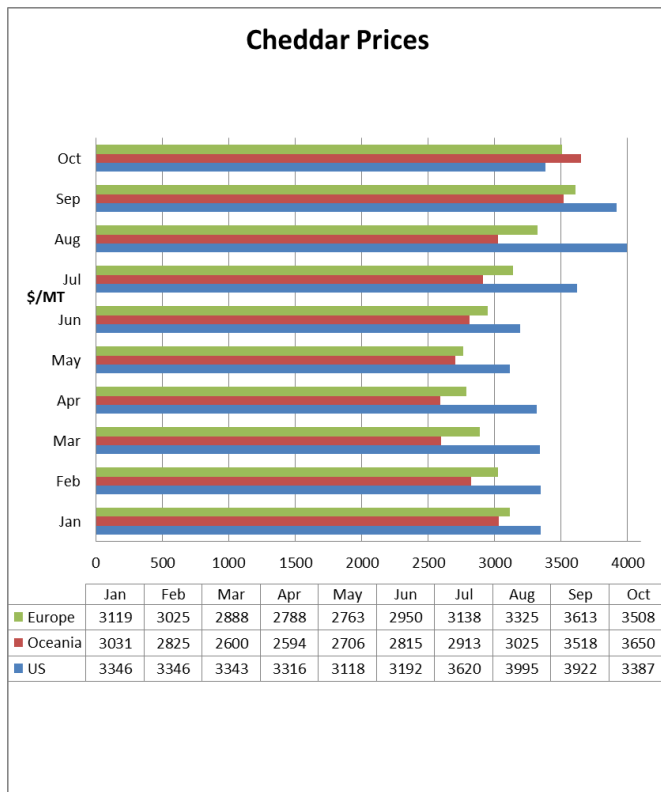


Much of that loss in export sales was due to price differentials between US and other exporters. Through June, US continues to lose cheese exports (-18.4% YTD) to EU-28 (+14.8% YTD) and NZ

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(FC Stone - Continued from page 4)

(+9.3% YTD). This has been a multi-year trend that seems to have been accentuated because of the removal of quotas in Europe and Russia's ban on US/EU imports. Recently US prices have been more competitive and should make our products more enticing in the export market.



Total SMP/NDM exports are down 2.8% through June with the US down 4.4% and EU-28 down 13.68%. Chinese SMP/NDM import growth is only up .5% YTD (through July) down from 29% growth from the 1st quarter. Mexico has been one of the bright spots; imports up 20% through May. US SMP/NDM exports to Mexico have increased 23% through July.

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(From the Boardroom- Continued from page 1)

IDA proposed policy changes, being recommended by the Resolutions Committee, were mailed earlier this month. All those changes are coming with a 'do pass' recommendation from the IDA Board of Directors. There are no fundamental changes to IDA positions or ideology, but a number of policies are being reworded for clarity. Please be sure to review the changes and if you have questions call Rick Naerebout at 208-308-3383. We will present the changes to the Membership at the Annual Meeting and will be moving through them fairly quickly given the limited amount of time we have to work with, so please try and ask clarifying questions prior to that presentation.

IDA and UDI have recently completed updates to the 2016 Industry Profile. This edition is a collaborative effort between the two organizations and includes highlights of how your promotion investments are positively impacting our local communities, the industry's image, market access and ultimately, your milk checks through increased demand coming from increased consumer confidence in dairy. We are excited to have UDI join IDA in this publication so we can better highlight the good coming from your investments in the two organizations! A copy of the profile will be mailed to each dairymen prior to the Annual Meeting. Let us know what you think so we can continue to improve on this already great publication.

Lastly, we introduced you to the Idaho Dairy Safety Initiative in our last edition of the Idaho Dairy Focus. The first meetings of the Initiative were held in Twin Falls in late July with overwhelming attendance. Earlier this month we held the same set of meetings in the Treasure Valley. Dr. Robert Hagevoort of New Mexico State University and Dr. David Douphrate of the University of Texas Health Science Center have done a great job introducing Idaho dairymen to the growing expectations coming from consumer and regulators in the areas of worker safety, training and welfare.

We are continuing to push forward, advancing the Idaho Dairy Safety Initiative. Dr. Hagevoort and Douphrate have obtained a grant to begin delivering onsite worker safety training for Idaho dairy employees. They will be back in Idaho in early 2017 to begin delivering those programs. If you are interested in having your dairy employees participate, please contact Bob Naerebout at bob@wdbs.us or by calling him at 208-308-3382.

Soil Sampling; Post-harvest, Pre-harvest, or Both?

by Dr. Stephanie Kulesza, IDA Consulting Services, Inc.

Hello Dairymen!

With corn coming off the fields, many of you are about to haul manure in preparation for next year or before planting your second crop. I wanted to remind you that annual soil tests for phosphorus are required for compliance with your Nutrient Management Plans, and it's a good idea to take soil samples before applying manure, whether in the fall or spring, to determine nutrient levels in your fields. You can take soil samples pre-plant in the spring, post-harvest in the fall, or both! Deciding which time of year is best for soil sampling depends on your crop rotation, manure application schedule, and personal preference. It is important to sample around the same time every year to get the best idea of trends within your fields. Also, there are benefits to soil sampling at both times of the year. So, let's talk about each in a bit more detail.

Pre-plant soil sampling

The most common time of year to soil sample is in the spring. Pre-plant soil sampling is important for determining soil nutrient values prior to planting the first crop of the year. This gives you an indication of how much, if any, of the nutrients you applied in previous years are available and whether you need to apply any starter fertilizer. However, sampling in the spring can have some drawbacks, specifically with timing. If spring soil sampling is delayed due to weather or if the lab and soil sampling companies are busy with the spring rush, manure applications and planting may be delayed. This is a busy time of year, but spring sampling provides a lot of useful information regarding your crop nutrient needs.

Post-harvest soil sampling

Post-harvest soil sampling can help determine the amount of nutrient uptake achieved throughout the growing season and provide information for nutrient needs of the next crop. Fall soil sampling can give you a "report card" of how you did that year based on nitrogen and soil test phosphorus levels left in the soil. If you are double-cropping, a post-harvest soil test can also provide information on how much nitrogen and phosphorus is needed for your second crop. This can save money and prevent over application of nutrients. If crop uptake was less than expected or there was more nitrogen and phosphorus released from manure applied earlier in the year, you'll need

to apply less manure or fertilizer for the next crop, which is good information to have. But, the major benefit of post-harvest soil sampling lies in timing and planning. A soil sample taken in the fall will give you plenty of time to calculate application rates for the spring growing season. You'll beat the spring rush and have a handle on manure application rates while the fields are still frozen, giving you a little more flexibility to get into the fields as soon as the weather warms up in the spring.

Whether you decide to spring or fall soil test, make sure you keep five years of soil test phosphorus records on site for Idaho State Department of Ag inspectors to review and make sure your Nutrient Management Plan has been updated within the past 5 years. It is important to take soil samples at the same time of year, every year, because there can be some seasonal variability. When collecting soil samples, take a representative sample from each field and send them to a certified lab for analysis. Whether sampling in the spring or fall, it's a good idea to get a full fertility analysis annually, which typically includes nitrogen, phosphorus, potassium, organic matter, salts, and micronutrients. If soil sampling in the spring and fall, you can opt to analyze only nitrate and soil test phosphorus for one of the seasons. This can lower the cost of analysis while providing useful information. Following these tips can help keep you on track to meet your nutrient management goals. If you have any questions about soil testing or nutrient management, please contact me at (208)358-4005 or steph@idahodairymens.org. I'm happy to help out in any way I can!

Cheers,
Steph



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(Visa Reform - Continued from page 1)

Yet here's the rub: We have no effective visa for such the legal entry of such workers. The H-2A visa covers temporary, seasonal agricultural workers, but there is no "milk season"; milking cows is a year-round endeavor. The H-1B visa program covers temporary high-skilled workers, and dairy jobs do not meet the requirements.

People often seek progress on immigration reform by calling for a stand-alone E-Verify bill to guarantee a legal workforce. But without visa reforms, this type of enforcement program would gut the dairy industry, lower production of milk and increase dairy prices across the board.

That's just one example. A functioning work visa program would control legal immigration, align it with our economic and social needs and minimize the incentive to skip the legal immigration process. Frankly, the smartest way to secure our border is to have a 21st-century immigration process that advances the social and economic interests of all Americans.

Here are other components of a visa process that works: First, a legal immigration process that includes visa numbers in line with labor and workforce needs will make it easier for employers to hire immigrants with documentation. Sourcing labor in this way will help create new upstream and downstream jobs in the United States, instead of outsourcing entire industries.

Second, a reformed visa system should allow foreign students educated at U.S. colleges and universities to obtain work visas and contribute their talents here after graduation. We should be stapling green cards, not plane tickets, to diplomas.

Finally, visa reform must keep the family at the core of our immigration process. American families with loved ones abroad face a growing wait for a visa allotment process that has not changed in a generation. Employment- and family-based visa reform should go hand in hand.

Congress, with leadership from our next president, can account for our economic needs in a way that benefits American workers and businesses alike. Visa reform may not electrify the electorate, but it is crucial.

(Federal Dairy Issues - Continued from page 2)

The Trans Atlantic Trade and Investment Partnership (T-TIP) agreement is not faring even as well as the TPP. Talks have largely broken off following the "Brexit" vote in Great Britain in favor of leaving the European Union. The negotiations already faced difficult hurdles with GMOs, Geographic Indicators (GIs) and the tendency of the Europeans to employ sanitary and phytosanitary issues to keep U.S. dairy products out of their markets. Now, many European politicians are reportedly ready to abandon the talks out of concern that populist sentiment taking hold in some countries may turn some current elected officials out of office in next year's elections.

Finally, politicians in New York and Wisconsin have asked the U.S. Trade Representative's office and the USDA to investigate a new Canadian dairy ingredient pricing scheme that is already costing some U.S. suppliers sales north of the border. The new Class VI pricing category for filtered milks produced in Canada results in manufacturers there being able to buy those domestic products below cost. That amounts to favorable treatment for a dairy ingredient category for Canadian product vs. imports, which the U.S. maintains is a violation of rules under both the World Trade Organization (WTO) and the North American Free Trade Agreement (NAFTA).

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free market industries that were studied by the HBR.

What this means for dairymen

Technology could speed the consolidation back up as opportunities for profit arise out of process efficiencies. These opportunities will increasingly be taken by the early adopters. The division between the two types of farms is not so cut and dry. There are plenty that find themselves in the middle. This means they'll need to decide which side of the fence they want to be on. There's nothing wrong with deciding to keep the farm traditional and eventually sell itself to a neighbor. The sale could be a very profitable one for the family and even start the farmer's retirement early. In some cases, there's not much of a decision. They will simply have no choice but to remain in the late adopter camp that will ultimately receive a buyout offer that is too good to refuse. However, if you have the desire and capability to catch the technology train before it takes off, my recommendation is to start now by doing some research into which hardware and software are appropriate for your farm.



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Upcoming Events

- Oct. 31 - Nov. 2 NDB/NMPF/UDIA Annual Meeting - Nashville, TN
- November 15 UDI Board Meeting - Boise, ID
- November 16-17 UDI Annual Meeting - Boise, ID

Board of Directors - United Dairymen of Idaho

Tony VanderHulst—President, IDA; Co-Chair, UDI **Adrian Kroes**—Vice President, IDA **Pete Wiersma**—Treasurer, IDA
Tom Dorsey—Chairman, IDPC; Co-Chair, UDI **Bob Naerebout**—Executive Director, IDA **Karianne Fallow**—CEO, IDPC

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