

NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

AGRICULTURE COMMITTEE

Tuesday, April 18, 2000

Northern Crops Institute, North Dakota State University Campus
Fargo, North Dakota

Representative John M. Warner, Chairman, called the meeting to order at 9:00 a.m.

Members present: Representatives John M. Warner, James Boehm, Michael D. Brandenburg, Thomas T. Brusegaard, April Fairfield, Lyle Hanson, Gil Herbel, Shirley Meyer, Phillip Mueller, Jon O. Nelson, Eugene Nicholas, Dennis J. Renner, Arlo E. Schmidt, Ray H. Wikenheiser; Senators Bill L. Bowman, Meyer Kinnoin, Herb Urlacher, Terry M. Wanzek

Members absent: Representatives Rod Froelich, Keith A. Kempenich, James Kerzman, Ed Lloyd, Robert E. Nowatzki, Earl Rennerfeldt

Others present: See attached appendix

It was moved by Representative Boehm, seconded by Representative Nicholas, and carried on a voice vote that the minutes of the previous meeting be approved as distributed.

DAMAGE CAUSED BY PRAIRIE DOGS

Chairman Warner said he received a letter from Representative Earl Pomeroy in response to the copy of the letter Representative Pomeroy received that was sent to the Forest Service Division, United States Department of Agriculture, in opposition to increased prairie dog numbers on the national grasslands. He said Representative Pomeroy supports the committee's position.

AGRICULTURAL MARKETING STUDY

Northern Crops Institute

Ms. Pat Berglund, Director, Northern Crops Institute, welcomed the committee and provided information on and a tour of the Northern Crops Institute. She said the Northern Crops Institute is funded by four states--North Dakota, Minnesota, South Dakota, and Montana. She said 60 percent of funding comes from North Dakota. She said funding sources include commodity checkoff dollars and general fund appropriations. She provided a brochure of the educational and technical programs and services provided by the Northern Crops Institute. She provided a newsletter that highlights activities completed by the Northern Crops Institute during 1999. She highlighted articles entitled *Koreans Increase Use of US Wheat After Testing at NCI* and *Durum Mill Used for Education*

and Research. Copies of the brochure and newsletter are on file in the Legislative Council office.

In response to a question from Representative Nelson, Ms. Berglund said samples used by the Koreans to test the baking quality of wheat came from Portland cargo samples.

In response to a question from Representative Warner, Ms. Berglund said providing translation services at the Northern Crops Institute is very expensive. She said there is a trend for more people to be fluent in English. She said there is less demand for translation services than in the past.

In response to a question from Representative Schmidt, Ms. Berglund said countries on which this country has placed an embargo are not invited to the Northern Crops Institute. She said the reason they are not invited has to do with the inability for them to receive a sponsorship. She said the travel expenses and tuition for education at the Northern Crops Institute usually are paid by a sponsor.

Variety-Specific Demand and Quality Issues

In response to a question from Representative Mueller, Ms. Berglund said the wave of the future for grain marketing is in variety-specific demand. She said buyers are looking for particular varieties that will work particularly well for certain purposes.

In response to a question from Senator Wanzek, Ms. Berglund said smaller producers who can meet a particular need have many opportunities. She said producing for an end use is extremely important. She said the United States grading system is not developed enough to take into account certain qualities of grain.

In response to a question from Senator Bowman, Ms. Berglund said it is uncertain whether a buyer will pay a premium for a specific quality of product. She said quality is important, but lower price is a competitive factor.

In response to a question from Senator Urlacher, Ms. Berglund said if a buyer has a specific requirement as to dockage, the buyer needs to place that in the contract with the seller.

Trade Issues

In response to a question from Representative Herbel, Ms. Berglund said the Canadian Wheat Board

is a one-desk system and has given away up to a percentage point of protein to buyers for free. She said it is difficult for United States sellers to compete with the Canadian Wheat Board because our economic system does not support giving away value for free.

Plant Pathology

Mr. B. D. Nelson, Professor, Plant Pathology Department, North Dakota State University, welcomed the committee and provided a tour of the Plant Pathology Department. He provided a handout on the activities conducted by the Plant Pathology Department. A copy of his handout is on file in the Legislative Council office.

Cereal Science

Mr. Dennis Wiesenborn, Associate Professor, Agricultural Engineering and Cereal Science, North Dakota State University, welcomed the committee and presented information on the improved processing of niche oilseeds. A copy of his testimony is on file in the Legislative Council office. Mr. Kahalil Khan, Professor, Department of Cereal Science, North Dakota State University, provided a tour of the Cereal Science laboratories.

Agricultural Economics

Mr. William W. Wilson, Professor, Department of Agricultural Economics, North Dakota State University, made a presentation on the marketing of agricultural products. Mr. Wilson said the way to increase prices through marketing is by education and information. He said policies that affect price the greatest are European Union subsidies, China not being in the World Trade Organization, and the conservation reserve program taking land out of production. He said the marketing system should rely on the private sector and government support should be in research and development. A copy of his presentation is on file in the Legislative Council office.

Mr. Dwight Aakre, Farm Management Economist, North Dakota State University Extension Service, provided testimony and a presentation on production decisions. Mr. Aakre said in the future there will be larger farms, a decline of small communities, a reduction of input suppliers, more direct purchasing of supplies, a decline in crop acres, an increase in cow/calf agriculture, an increase in capitalization from recreation, an increase in the conservation reserve program-type programs, and an increase in the abandonment of marginal acreage. He discussed the consequences of completely free trade, technology, and farm policy. Copies of his testimony and presentation are on file in the Legislative Council office.

Trade Issues and Governmental Policy

In response to a question from Representative Nicholas, Mr. Wilson said the greatest international

problem affecting price is the subsidies provided by the European Union. He said producers in this country cannot compete with the European Union without massive subsidies. He said the problems with Canada affect the price of grain in the amount of \$1 to \$3 per ton. He said European Union subsidies affect price by approximately \$40 per ton or \$1 per bushel. He said the conservation reserve program does not make sense in a free trade environment. He said the conservation reserve program takes land out of production and other countries react by placing more land into production.

In response to a question from Senator Wanzek, Mr. Wilson said state government should channel its efforts toward quality, consistency, and reputation.

In response to a question from Representative Mueller, Mr. Aakre said freedom to plant what you want is not a policy he expects to change. He said one way to ensure that supply responds to price would be a farmer-owned reserve. He said the biggest problem in agriculture is that the price of rental property includes government payments. He said until government payments and rental values are divorced, farmers will not gain from farm programs.

In response to a question from Representative Nelson, Mr. Aakre said acreage reduction in the United States will not affect price because other countries will put land into production to fill the void. He said because producers in the United States produce 75 percent of the world supply of corn, they can affect the price by affecting the supply.

In response to a question from Senator Bowman, Mr. Aakre said although this country exports meat and imports the same amount of meat as it exports, this country cannot expect other countries to buy our products if we do not buy theirs.

In response to a question from Senator Urlacher, Mr. Aakre said political sanctions have no great impact on price and are not an effective policy tool. He said if this country sanctions another country, a third country will provide the sanctioned goods at a comparable price. He said European subsidies affect all producers.

In response to a question from Representative Fairfield, Mr. Aakre said the European Union has a different agenda from the United States. He said the European Union's farm policy is a social policy.

In response to a question from Senator Urlacher, Mr. Aakre said a family farm is a farm from which a family earns its living and is responsible for most of the decisions of the day-to-day operations of the farm. He said the term is not based on size.

Market Concentration

In response to a question from Senator Bowman, Mr. Wilson said excluding the meatpacking industry, food processors are not making monopoly profits. He said last year there was a negative 21 percent return on investment for food processors. He said the trend

of farmers receiving a smaller portion of the pie has been going on for a long time and cannot be blamed on food processors. He said to be profitable, farms will have to evolve to take advantage of all the economies of size. He said a great size is not required to gain all the economies of size.

Production and Supply

In response to a question from Senator Bowman, Mr. Wilson said by spending money on research and increasing production, the price of agricultural products may go down; however, this does not mean that money should not be spent on research. He said the only way prices will increase because of less research is if the United States could convince all countries not to spend any money on research. He said it is impossible to convince others not to invest in the future of the agricultural industry. He said the first group to benefit from research does have a window of opportunity to profit above competitors. He said value-added crops and market information are means by which higher prices for crops can be gained other than through research.

In response to a question from Representative Nelson, Mr. Wilson said the world surplus of grain is controlled by the United States because we can store grain better than any other country. He said we have had governmental programs that have induced the storage of grain. Canada has to sell each year's crop because Canada only has enough storage for one year's crop.

Mr. Aakre said although most industries practice supply management, farmers cannot because of their large number. He said only government has the resources to control management; however, this is not politically popular. He said regardless of price, farmers increase production. He said technological advances and high-fixed costs ensure increased productivity regardless of price.

Variety-Specific Demand and Quality Issues

In response to a question from Senator Urlacher, Mr. Wilson said Canada keeps varieties of wheat separate through the national varietal release program. He said varieties are separated on the state level in the United States. He said visual distinguishability is required in Canada. He said this allows easy segregation in the handling process. He said it would be difficult to require visual distinguishability in this country. He said this state plants 20 times more varieties of wheat than Canada.

In response to a question from Representative Brusegaard, Mr. Wilson said producers will be better off financially if they take advantage of economies of size and provide for the separation of grains. He said this country has an advantage in our separation system because of better on-farm storage.

In response to a question from Representative Mueller, Mr. Wilson said there will be a benefit from

variety-specific segregation when suppliers convince customers of the worth of the increased cost. He said testing will evolve to handle segregation.

In response to a question from Representative Brandenburg, Mr. Aakre said for farmers in the United States to benefit from using safer chemicals, there would need to be labeling. He said most grain buying is done on price alone.

Social and Familial Impact of Low Prices

Mr. Sean Brotherson, Extension Family Science Specialist, North Dakota State University Extension Service, and Ms. Debra Pankow, Extension Family Economics Specialist, North Dakota State University Extension Service, provided testimony on the familial and social impact of the farm crisis. A copy of their testimony is on file in the Legislative Council office.

In response to a question from Senator Bowman, Mr. Brotherson said farmers state that depressed market conditions, the weather, and the government are the cause of the farm crisis. He said farmers have little or no control over these factors that cause stress.

In response to a question from Senator Wanzek, Mr. Brotherson said management, marketing, and risk management are important skills that need to be taught to and developed by farmers.

In response to a question from Representative Nelson, Ms. Pankow said the Extension Service is doing focus group research on the transition out of agriculture and is designing educational programs.

In response to a question from Representative Nelson, Mr. Brotherson said the Extension Service is reluctant to teach farmers how to get out of agriculture; however, the Extension Service is developing programs because of the need. He said most farmers who have made a transition out of agriculture have said they should have done it earlier.

REPORT BY AGRICULTURAL RESEARCH AND EDUCATION BOARD

Activities and Expenditures

Mr. Jerry Doan, State Board of Agricultural Research and Education, presented testimony on the board's evaluation of research activities and expenditures. He provided a handout on the allocation of the agricultural research fund in fiscal years 1998 through 1999 and 1999 through 2000. He said funds available for grants have increased from \$556,790.30 for fiscal year 1998 through 1999 to \$679,786.76 for fiscal year 1999 through 2000. In addition, the handout contains a list of all the research projects and the amount of money granted for fiscal year 1998 through 1999. A copy of this handout is on file in the Legislative Council office.

Mr. Doan said the Agricultural Research and Education Board is required to have its budget completed by February. He said the budget was approved at 110 percent by the Board of Higher

Education in March. He said the budget is prioritized and will be pared down to comply with the Governor's 100 percent budget request.

Mr. Doan said over the years the board has shrunk its operation line in the budget, which has resulted in a loss of flexibility. He gave examples of calf scours research and scab-resistant wheat research for which it was difficult to find extra money when the situation made it desirable to provide more funding.

Mr. Doan said the board has developed a long-term approach to beef research. He said the two goals of beef research are to provide lower cost of production and to increase the value and wholesomeness of beef. He said the board's barley initiative is investigating the feeding of low-grade barley to cattle.

Biotechnology

Mr. David Lambert, Chairman, Agricultural Economics Department, North Dakota State University, provided testimony on the State Board of Agricultural Research and Education activities associated with researching and developing market opportunities for biotechnologically enhanced crops. He said the study of genetically modified crops is focused on wheat. He said there are four subject areas of focus--the quality of wheat, the desired end-user traits, potential market impact, and identification of varieties and traits for future development. He said as part of the quality issues there is a study of identity preservation. He said it costs between three and six cents per bushel in this part of the country to preserve the identity of wheat through segregation. He said there was a study done of 45 end users of spring wheat to determine what they want now and in the future. He said the potential market impact of Roundup-ready soybeans is \$8 million, assuming a 50 percent adoption rate. He said farmers will receive 19 percent of this impact. He said seed companies will receive 45 percent of this impact. He said if there is worldwide adoption of Roundup-ready soybeans, the impact will be \$2.4 billion; however, farmers will only receive six percent of this impact. Mr. Lambert said for there to be identification of varieties and traits for future development, there needs to be cooperation between entities engaged in research and development and those engaged in marketing. He said an identification study is in its early stage. He said in

December he applied to the Food and Drug Administration for a grant.

In response to a question from Senator Wanzek, Mr. Lambert said there is no product in the United States market that is genetically modified and provides a direct benefit to consumers, e.g., like a cure for cancer.

Senator Wanzek said consumers need to be informed of the benefits of genetically modified crops before there is increased production as a result of genetically modified crops.

In response to a question from Representative Fairfield, Mr. Lambert said the impact of genetically modified crops on the structure of agriculture will be more vertical integration and more contracting.

COMMITTEE DISCUSSION

Committee counsel reviewed the status of the committee's studies. He said the last testimony on the grain credit-sale contract study was from the Public Service Commission. He said the Public Service Commission was creating a pamphlet for farmers to provide information on the sale of grain. He said the wildlife depredation study had resulted in one bill draft that would have prohibited the Game and Fish Department from discriminating against or penalizing a landowner in the deerproof hay yard program for entering a hunting for compensation agreement. He said the committee has taken no formal action on the bill draft.

Committee counsel said the multistate agricultural marketing commission study has a broad directive that allows the study of the marketing of agricultural products. He said the committee has been receiving information on the marketing of agricultural products. He said areas for future study include receiving testimony from representatives from the federal government and information on foreign trade issues.

Chairman Warner adjourned the meeting at 4:35 p.m.

Timothy J. Dawson
Committee Counsel

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