

INTERIM COMMITTEE REPORT ON  
EMERGING ISSUES IN AGRICULTURE

JANUARY 27, 2009

January 27, 2009

The Honorable Ron Richard  
Speaker of the House of Representatives  
State Capitol, Room 308  
Jefferson City, MO 65101

Dear Mr. Speaker:

Your Interim Committee on Emerging Issues in Agriculture acting pursuant to your request, has met, taken testimony, deliberated, and concluded its study on Emerging Issues in Agriculture. The undersigned members of the Committee are pleased to submit the attached final report.

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Representative Charles Schlottach, Chair  
Vice Chair

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Representative Brian Munzlinger,

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Representative David Day

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Representative Mike Dethrow

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Representative Jim Guest

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Representative Steve Hobbs

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Representative Martin T. Rucker

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Representative Luke Scavuzzo

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Representative Tom Shively

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Representative Mike Thompson

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Representative Tom Todd

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Representative Terry L. Witte

Speaker of the Missouri House of Representatives, Rod Jetton, appointed the Interim Committee on Emerging Issues in Agriculture and charged the committee with examining Missouri's agricultural programs and policies. The Committee traveled extensively throughout rural Missouri and received testimony from agricultural associations, industry experts, producers, and individuals involved with agricultural education and finance.

The Committee toured agri-businesses including: Ozark Wings Hunting Preserve, Caulfield; AGP biodiesel production facility and Life Line Foods ethanol production facility, St. Joseph; wind farms, King City, Conception, and Rock Port; several large hog confinement operations; Golden Triangle ethanol production facility, Craig; Circle A Angus Ranch, Iberia; Sharp's Dairy, Heartland; and Cardwell Lumber (producers of barrels used in the production of wine and other spirits), Ewing. The Committee also toured the University of Missouri Field Study Center in Mountain Grove, and the University of Missouri Greenly Research Center near Novelty.

After reviewing the information acquired and carefully deliberating thereon, Mr. Speaker, your Interim Committee on Emerging Issues in Agriculture respectfully submits the following findings and recommendations for your consideration:

### **FUNDING, PROGRAMS AND INCENTIVES**

**FINDING:** The Department of Agriculture (Department) is underfunded and lacks broad-based resources to adequately manage, develop and maintain Missouri's rich agricultural diversity. The silo approach to targeting single resources causes inequity in the agriculture sector as a whole. It's not that the Department shouldn't help commodity groups develop and add value to their resource, because value-added agriculture is an important part of Missouri agriculture that allows producers to invest in themselves and collectively better their lives. However, the Department's approach must be broad based developing, creating, and fostering strong, capable, and diverse divisions within the department.

Missouri's agricultural sectors directly contributed over \$12.4 billion annually to the state, constituting about seven percent of Missouri's gross state product. Missouri's agricultural sectors employed 245,513 workers paying over \$6.4 billion in salaries.

The total (including intermediate and induced) economic impact of agricultural sectors in Missouri is over \$31.4 billion, constituting about 13.3 percent of Missouri's gross state product.

Agricultural sectors and indirect industries employed 580,451 workers, paying \$17.3 billion in salaries.

### **RECOMMENDATIONS:**

- Adequately fund the Department so it can develop and promote Missouri agriculture to its fullest extent. In addition, the Department should make recommendations for the legislation to develop incentives to create new programs that foster the entrepreneurial spirit. These incentives should be designed to meet objectives that create wealth and add value, are environmentally friendly and include a host of other objectives. The objectives must be clearly stated. The incentives program MUST also have a clearly defined exit strategy in advance of implementation.
- The Department must collaborate more with the University and should departmentalize by commodity division, working with the university and commodity groups. It could possibly use some check-off funds and work with varied interest groups to do research and development for divisional support to industrialize various commodities.

- The Department, and, therefore, agriculture policy, should not predetermine a size-type approach for a uniform system to commercialize agriculture industries. Each area and resource in Missouri has a unique natural strength that should allow for a combination of production facilities and utilize those area's assets. For example: Mountain Grove's 70-cow pasture dairy utilizes rotational grazing and a very limited low impact concept versus Heartland Dairy that has 5000 cows and intensified production,

utilization of commercial feed stuffs and high capitalization cost – both produce high quality milk and have an equal opportunity for profitability and sustainability.

***SPECIAL NOTE:*** *The wine and grape industry developed a great working model of a small industry that has added value, created jobs, introduced entrepreneurship, and created a learning culture and product development. Their model could be easily imitated.*

**FINDING:** A program prospectus was distributed to the Committee. In brief, the idea is to create an initiative that supports the identification, development, marketing and subsequent commercialization of ideas and concepts. This would “add value” to products that are produced and/or processed in Missouri, regardless of where the ultimate consumers may reside.

**RECOMMENDATION:** Create a Commercial Agriculture Marketing Program collaborating with commodity groups, the University of Missouri and the Department of Agriculture.

**FINDING:** Currently, because of a lack of available tax credits, new value-added projects qualifying for New Generation Cooperative Incentive Tax Credits are backed up over a year. For the past several years, the Agricultural and Small Business Authority (Authority) has been forced to choose between providing tax credits to new producer-owned agribusinesses or providing grants to groups of producers planning new agribusinesses. (The proceeds from the sale of Agricultural Product Utilization Contributor Tax Credits, 348.430 RSMo, also under the \$6 million Agricultural Tax Credit cap, are sold by the Authority; the proceeds are used to provide grants for feasibility and marketing studies, legal fees and management expertise to producers creating new agribusinesses).

**RECOMMENDATION:** Statutorily increase the dollar amount of Agricultural Tax Credits issued by the Authority from \$6 million per year to \$11 million per year, with \$1 million ear-marked for Agricultural Product Utilization Contributor Tax Credits.

**FINDING:** Eliminating dollars currently dedicated to the Renewable Fuel Incentive Program would further collapse and distress businesses, and cost farmers and investors, as well as communities both in jobs and incomes.

**RECOMMENDATION:** Continue to fund the Renewable Fuel Incentive program for all current state commitments.

### **RENEWABLE RESOURCES**

**FINDING:** Missouri voters approved Proposition C last November to require investor-owned electric utilities to generate or purchase electricity from renewable energy sources such as solar, wind, biomass and hydropower with the renewable energy sources equaling at least two percent of retail sales by 2011, increasing to 15 percent by 2021, including two percent from solar energy.

**RECOMMENDATION:** Develop and implement renewable energy sources as approved by Missouri citizens in Proposition C last November.

### **FORESTRY PRODUCTS**

**FINDING:** Woody biomass is considered a primary feedstock for green energy initiatives and cellulosic ethanol production. Missouri forests have the potential to provide massive quantities of green fuel if intensive management strategies are implemented and biomass harvesting infrastructure is developed. Most experts indicate that biomass must be a major consideration in implementing the intent of the Proposition.

Given the current economic condition of the industry, it is very difficult to procure the capital necessary to invest in biomass harvesting equipment. The development of biomass utilization systems that would provide employment for rural citizens, improve the quality and sustainability of Missouri forest land, and provide a renewable fuel for electricity and/or ethanol production is in the best interests of all Missourians.

**RECOMMENDATION:** Assist the Missouri Forest Products industry in developing the harvesting infrastructure that will be required to meet the future demand for biomass.

## **ANIMAL AGRICULTURE**

**FINDING:** A judge recently ruled that we can no longer raise livestock in certain circumstances within 15 miles of a state park. This is a major concern to the animal agricultural community.

**FINDING:** Some potential producers will not expand or locate in Missouri because of inconsistent and constantly changing operational requirements. Young persons wishing to enter farming are discouraged, if not priced out of animal agriculture. Local economies, and by extension the state's economy, are being adversely affected by lost productivity.

**RECOMMENDATION:** The fundamental right to use one's own property is paramount to a free society, and land use is the key development of any economy.

Those individuals who have used their land for their livelihood and have been in communities for several generations should have priority.

Traditional farming operations should be allowed to continue to farm, expand with modern, more efficient and environmentally-friendly practices, and add value to our communities. Of course, best management practices should be maintained.

**FINDING:** Recently, chemical fertilizers have more than doubled in price.

**RECOMMENDATION:** Make use of animal wastes as fertilizer which is both financially and environmentally beneficial as demonstrated by the Circle A Angus Ranch near Iberia.

**FINDING:** The state could aid producers in linking waste producers with waste users.

**RECOMMENDATION:** Create a waste (possibly all animal wastes) hotline/ website within the Department of Agriculture.

**FINDING:** A newer, more efficiently designed milking parlor, as demonstrated by the University of Missouri, Southwest Center, located in Mt. Vernon and praised by David Drennan, Executive Director of the Missouri Dairy Association, both saves time and associated labor thereby making dairy farming more profitable and less labor intensive.

**RECOMMENDATION:** Fund the Milking Parlor Upgrade Program, business planning grants, and first-year interest payments on dairy cows if financed through the Missouri Linked Deposit Program. These programs, designed to aid the dairies of the state, are administered by the Agricultural and Small Business Development Authority.

**FINDING:** Missouri's cattle industry consists of about 2.1 million cows and ranks 2<sup>nd</sup> in the nation. The beef industry in Missouri is the largest segment of agriculture and agriculture is the largest contributor to the state's economy. Rising costs for feed, fuel, fertilizer and a weakened dollar have all contributed to a decline in cattle operations and cow numbers. The largest affected segment of the industry is the producer with a cowherd of 30 head or less. In the last year, this group had the highest attrition rate in the industry.

In the past year Missouri has lost between 300,000 and 400,000 cows. This leaves approximately 1.6 million to 1.7 million cows in this state. A net loss of 300,000 cows equates to conservatively 200,000 less feeder calves for sale. At an average of \$600 per calf this is a \$120 million loss to the state's economy. This amount does not reflect the loss of economic activity associated with maintaining the cows lost, which is an additional \$105 million. In other words, Missouri's cattle industry has experienced a loss of over \$225 million in direct costs, plus the loss of jobs in the related fields.

It is evident that Missouri agriculture is at a crossroads. Missouri's national prominence in agriculture in certain areas is eroding because of an extremely challenging market, and deteriorating environmental and economic conditions. Factors contributing to our state's weakened agricultural status include, but are not limited to, the following:

1. Aging producers (average age is 57). Fewer young potential producers are entering a profession that is costly to enter, labor intensive, weather- dependent, and economically uncertain;

**Note: Producers, regardless of associated costs and risks, do not set a price for the commodities they produce. Basically, they produce their commodity and then see what the market will give them.**

2. Shrinking available capital both for operation and expansion of operations;
3. Recent wild price fluctuations in the commodity market are now attributable to yet another variable: speculators;
4. Dwindling pasture land because of economic pressures forcing producers to put every acre possible into crop production;
5. Consolidation of agribusinesses, which reduces the number of commodity buyers and by extension competition among commodity buyers; and
6. Natural disasters including floods, drought, hail, and ice storms damage or destroy crops, buildings, and livestock.

**RECOMMENDATION:** Provide critical and immediate assistance to Missouri's beef industry.

The Missouri Cattleman's Association provided the committee with some recommendations that would provide immediate assistance to Missouri's beef industry. Their recommendations, which the committee agreed would be beneficial, include:

1. Eliminating personal property tax on cows and/or livestock;
2. Providing incentives to keep land in grass, such as a tax incentive on added haying and grazing acres;
3. Fully funding an aggressive promotion of the Beef Tax Credit; and
4. Adequately funding the University of Missouri, College of Agriculture,

Food, and Natural Resources.

## **REPORT SUMMARY**

Members of this committee found it a pleasure to travel the state and meet so many individuals who are dedicated and committed to improving Missouri's diverse agricultural community. Through its travels and meeting many individuals, the committee found that there are serious challenges currently facing every aspect of Missouri's agriculture. Specific areas of serious concern to members of this committee (listed in no particular order) are:

1. Missouri is milk-deficient and is losing its dairies;
2. Missouri is quickly losing its place in cattle production as well as the attendant infrastructure associated with this distressed industry;
3. Missouri forest resources are largely unused (or misused) and lack professional management;
4. Crop production, while generally strong, faces rapidly rising production costs. In addition, many producers lack on-farm storage facilities that help the producer hedge market fluctuations; and
5. Missouri lacks a centralized professional agency/program whose mission is market identification for every commodity with respect to value-added agriculture. Feasibility studies and legal advice on the best business structure are also critical to the success of any value-added agricultural venture. Sound planning aids obtaining financing, attracting producer participation, and the success of the project.

Although Missouri's agricultural dominance is being tested, the state still provides some major agriculture advantages that lend a positive light to the industry. These advantages include:

1. A varied and generally favorable climate;
2. Cutting edge information for producers provided by the University of Missouri, College of Veterinary Medicine and College of Agriculture as well as the regional universities;
3. A location in the center of the country with a favorable infrastructure for transportation of commodities to the market both nationally and internationally;
4. Varying soil and topography that allows diversity in the commodities produced; and
5. Adequate ground water as well as generally dependable rain amounts.

In summary, the challenges facing Missouri's agricultural community are immense, but this committee believes Missouri has the potential to become a dominant player in today's world market. We strongly believe that if the recommendations outlined herein are addressed in a timely and efficient manner, the state's agricultural stature will, once again, rise to its former, superior distinction.