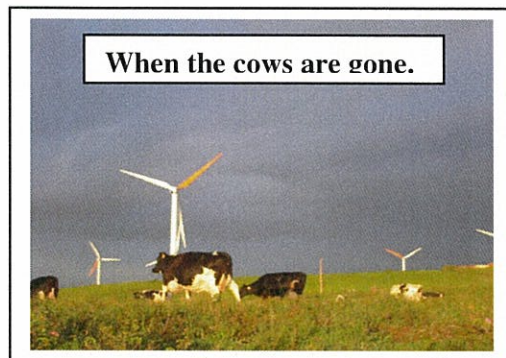


DAIRY

Appendix B Part 2

The Dairy Producers Response To
House Concurrent Resolution 170, Senate Draft 1



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Abstract

In 2007, the Hawaii State Legislature approved the Livestock Feed Reimbursement Program (LFRP) initiated by the Hawaii Department of Agriculture (HDOA). The LFRP was designed to assist in the sustainability of the livestock industry besieged by the high costs for transportation and feed. Approval of this program (\$3m/year for 2 years) resulted in House Concurrent Resolution 170, Senate Draft 1 requesting the HDOA, the Dean of the College of Tropical Agriculture, the president of Hawaii Farm Bureau and members of various sectors to examine current policies, procedures, operations and best practices to develop a long term solution to effectively protect the livestock industry. The unfunded mandate limits the scope of this report.

A survey questionnaire was developed to gauge what the pertinent issues were to the recipients of LFRP (dairy producers) that would help them continue their operations. The farmers were encouraged to make suggestions. Their identity would be protected. This report summarizes their views. A brief narrative is provided to ensure a better understanding of the issues.

The study showed no single silver bullet that would remedy the challenges ahead. The issues identified were: a) updating the Milk Act, b) marketing of local milk, c) faster emergency powers for HDOA to address changing needs of the dairy industry, d) monitoring the quality of imported milk, e) support for UH for research and extension services so that it can provide greater assistance to producers, f) establish closer working relationships with USDA/NRCS via UH, g) land for establishing dairies, h) developing irrigation systems for pasture production, i) faster permitting process for preferential industry (dairy) and j) land to grow feed locally. Other items identified were incentives for dairy operations to grow and development of a livestock agriculture park. The multiple factors identified would require the leadership of all state agencies including the legislature.

The Livestock Industry in Hawai'i

In 1988, the livestock industry generated over \$87.3 million in farm gate value in the state's agriculture sector. Dairy, beef, eggs and hogs were ranked in the top 10 of the diversified agriculture components. Milk sale in 1988 was valued at \$32.2 million dollars resulting in the dairy operation to be in the 4th position in diversified agriculture. By 2006, total sales of livestock products at farm gate plummeted to \$53.3 million, a 39% decrease.¹

The beef cattle industry has transitioned from feeding cattle for the finished market to one dominated by cow-calf operations. The recent gains in farm gate value were a result of higher prices of wean-offs and feeder cattle. Declining revenues were experienced by the poultry industry (broiler and eggs) and the dairy. Today, we no longer have island fresh chicken. The dairy industry went from \$32.2 million to \$14.5 million in less than two decades. The islands were totally self sufficient in milk in 1980 until the heptachlor incident. By the end of 2007, we will produce less than 20% of our fluid milk needs. We expect further reduction in the near future unless some key issues are addressed.

The Livestock Feed Reimbursement Program (LFRP) was intended to be a short-term measure to support the dairy industry. The legislature, in its wisdom, saw the need to identify factors that can help prevent the decline of the industry and hence initiated HCR 170, SD1. This report reflects the effort to address the unfunded mandate passed in the 24th legislative session.

Methodology

A survey questionnaire was developed to gather information from dairy producers on what they felt was important to assist them to continue in their business as well as for the industry. Surveys are common tools used to gather information. It is fast, efficient and cost effective. However, surveys lack the element of interactive stimulation that could potentially identify factors that an individual may not have thought of alone or solutions for a common problem. The respondents were asked to score each item identified (1 = highest importance to 5 = least important). Each section was followed by an opportunity for the respondent to make suggestions or comments. A copy of the survey questionnaire is included in the appendix.

The Rationale

Processors, people in the transportation businesses, retailers, etc. were not included in this report due to the following reasons:

- They were not the targeted beneficiaries of the LFRP which triggered this resolution
- The drastic decline in the industry was in the number of dairy operators
- Dairy producers confront the challenges in their industry directly
- It was assumed that the intent of the resolution was to identify critical bottlenecks followed by appropriate actions to ensure there would be a local supply of milk
- No funds were provided, hence, limiting a more inclusive study.

¹ Hawaii Agriculture Statistic, Hawaii Department of Agriculture.

The Participants

The target group was limited to dairy producers. They were the recipients of the LFRP. They were assured that their identity will not be divulged. Ample opportunities were provided for them to make suggestions (and all were included in this report). Two producers were from the Big Island and two producers were from Oahu. Two of the four are pasture dairy operations with state leases, while the two on Oahu are dry lot operations. (There are no pastures available on Oahu for dairies.) One of the producers on Oahu recently closed his farm. The other will decide shortly if she will stay in business.

We were unable to contact two other producers; one closed his operation in August and moved out of state, and the other was out of town. Other producers who were once part of the industry were not surveyed.

The Narrative

While I have been working with the industry for the past 20 years, this write up would reflect only the opinions of the respondents. When appropriate, brief information to enhance clarity was provided (*in italics*).

Results

The questionnaire had five parts: a) the Milk Act, b) State Agencies, c) Federal Agency, d) Statewide Policy and e) Miscellaneous. Scores at 1.0 – 2.0 were assumed to be important items while scores higher than 2.0 were considered less important. Scores close to 5.0 were least important issues. The results were tabled into 3 columns. The first column represents the average score of the survey, the second column shows the number of responses for each item and the third column shows the number of producers who voted the items with a 1.0 score (highest importance). The results are presented in Table 1. Explanations and a summary of the results are as follows:

I. The Milk Act (Hawaii Revised Statutes Chapter 157).

The producers are of the opinion that the Milk Act needs to be updated (scored 2.0). There was little support to get rid of the Milk Act (scored 4.7).

Within the Milk Act, the following issues were the top priorities:

- a) **Pricing (scored 1.30)** – The desire is to keep pricing based on the two existing methodologies outlined in the Milk Act. [*The methods are: a) for Oahu, milk prices float with Class I milk in northern California plus \$12.20 (which was shipping costs and premium) and b) for the Big Island, milk prices for producers are based on a “Cost of Production Study”.*] Producers on Oahu would like to see some modification to their pricing by having it reflect the increases in the cost of shipping and handling. Pricing to producers are further affected by milk utilization and producers would like to see NO Class II utilization.

- b) **Milk Utilization** (scored 1.30 and 1.50) – There is no support for any Class II utilization. The producers would like to have all Class 1 utilization or all Class 1 utilization as long as there is milk imported in bulk for fluid use. [*Milk for fluid use (drinks) is classified as Grade A Class 1 use. Milk used in soft processing e.g. yogurts, sour cream, cottage cheese, etc. is classified as Class II use. The price a producer receives is dependent on the amount of his milk used in each classification. Class II has generally been lower prices; 1/3 of the Class 1 price is frequently cheaper than mainland imports of fluid milk. A dairy producer received a blend price based on the amount of milk he produced and the categories it was utilized. In fact all his/her milk can be used for Class II purposes although that was not the intent of the Milk Act at the time it was written.*]
- c) **Shortage** (definition; scored 1.50) – This term exists in the Milk Act. Producers felt that this phrase needs to be clarified to reflect that shortage refers to a situation where bulk milk is imported for fluid purposes or there is fluid milk imported into the state. [*Shortage in the Milk Act has no clear definition. Although there was an attempt to define it in the late 1980s, it was set aside when there was consensus to work together in the industry. Shortage is currently interpreted as the lack of availability of fluid milk in the retail space. As such, even when local milk production has decreased, it is assumed that there is no shortage and it is being replaced by mainland imports in bulk shipment. It is unlikely that this was the intent of the Milk Act when it was drafted forty plus years ago.*]
- d) **Quota** (scored 2.3) – There seems to be little consensus on quota or how to manage it. [*Quota within a milk shed reflects the amount of fluid milk needed for that market. Quota provided some assurance of the milk being used by local processors at one time. It has value since it is perceived as a “guaranteed” market for the production. If a producer(s) does not produce his/her quota, it can be forfeited and redistributed within the milk shed. Quota was one way to ensure milk production is met within the state.*]
- e) **Fat** (scored 1.70) – The consensus was to keep the pricing of milk fat the same. [*Raw milk delivered to a processing plant with fat above 3.3% is awarded a premium for each 0.1% fat above the base.*]
- f) **Marketing** (scored 1.50) – There is a desire to continue to label locally produced milk with “Island Fresh” and to increase marketing of local milk. [*The dairy industry took the lead to have locally produced milk carry a label/logo that identified it as “local”. In 1988, when the “Island Fresh” legislation was passed, local milk was the first item to carry the “smiling daisy” logo which is synonymous to locally produced products.*]

II. State Agencies

Several state agencies work with or regulate the dairy industry. The Hawaii Department of Health (HDOH) regulates milk sanitation (includes on farm inspections) and quality issues related to raw and processed milk. The HDOH divisions in solid waste, wastewater and clean water also regulate the management practices of dairy farms. The HDOA administers the “Milk Act” which covers a whole spectrum of issues from milk pricing to

utilization and marketing. It also monitors the quality of feed and administers regulations that govern animal health. The University of Hawaii-Manoa via its College of Tropical Agriculture and Human Resources (CTAHR) provides research and extension services to the producers as part of its land grant mission.

- a) **HDOA** – Emergency power of the Board (*scored 1.75*) – The producers saw that providing the Board of Agriculture with emergency powers to address the concerns of the industry as important. [*Currently, emergency powers for the HDOA are limited to major catastrophic events or diseases. When market circumstances for the dairy industry change nationally, local producers are affected. In addition, local producers are affected by changing dynamics of shipping. However, there exists no rapid avenue to meet their soaring costs while milk prices to the farmers are decided by the Board of Agriculture. This is particularly crucial to the Oahu producers given their incomes are based on a “float” with California milk price since 1998. Each day delay in action (just to move the cumbersome process of hearing and decision making) could result in thousands of dollars loss in daily revenues. This is further impacted by the need to have the decision of prices for the farmers be reviewed by the Small Business Advisory Board (SBAB). Although the SBAB has been most supportive, the process delays any action taken by the Board of Agriculture by an additional 60 days. A large dairy of 1,000 milking cows could potentially lose \$60,000 or more just awaiting for government actions even if those actions were favorable.*]
- b) **HDOH** (*scored 1.75*) – The producers felt that it was important to monitor the quality of imported milk. [*Currently, fluid milk is imported in super cooled bulk tankers but unrefrigerated during transit from California to Honolulu. The only yard stick to measure quality is that the temperature of the milk must be 45⁰F or lower at the time when the seal is opened at the processing plant. The milk is then repasteurized and sold as fresh fluid milk. There have been many cases of milk spoiling prior to the expiration date on the carton.*]
- c) **UH** (*scored 1.0 – 1.25*) – The producers felt that more research on forages, grazing management, visits by extension staff to provide assistance, and funding for UH to perform these tasks is important. [*There is limited funding for such research at the national level.*]

III. Federal Agency

The United States Department of Agriculture, Natural Resource Conservation Services (USDA/NRCS) administers the Environmental Quality Improvement Programs (EQIP) and provides services on soil conservation. They have worked closely with the CTAHR on issues relating to animal nutrient management. The joint effort/collaboration of the USDA/NRCS and the CTAHR is important to the producers (*scored 1.25*).

IV. Statewide Policy

Statewide policies affect the industry in many ways. A limited category was identified in the survey for the producer’s evaluation. The items identified were:

- a) **Land for establishing pasture dairies (scored 1.5)** – Three out of four dairy producers listed this as top priority scoring it at 1.0. [*Two of the three remaining dairies are on pasture land. The dairy that is not on pasture may decide to close in the very near future. Pasture reduces feed cost to the operations. These dairies are on pastures and on state land managed by the Dept. of Land and Natural Resources.*]
- b) **Irrigation systems (scored 1.5)** – The producers saw the importance of water for forage production. [*This is crucial to ensure a constant supply of feed, especially following the Oct. 2006 earthquake.*]
- c) **Faster permitting for preferential industries (dairy; scored 1.5)** – Producers thought that if the industry were to grow, the process to establish new dairies must be hastened.
- d) **Land to grow feed (scored 1.25)** – The producers realized the importance of growing feed locally and land for this purpose is important. [*Corn silage is an important feed in the dairy industry and corn can be grown here readily.*]

V. Miscellaneous

Two other items listed by the producers were: 1) provide incentives for dairy operations to grow and 2) develop livestock agriculture parks. Both these items were suggested by dairy producers (**scored 1.0**).

Summary

A set of items were identified to be important for the dairy industry to be successful. These factors were: a) updating the Milk Act, b) providing emergency powers to allow the Board of Agriculture to act on issues affecting the dairy industry, c) monitoring of imported milk, d) support for UH/CTAHR to do research and assist the producers, e) continue the close working relationship of USDA/NRCS and UH to assist farmers, f) address statewide policies on agricultural land and viable irrigation systems.

It is likely that before the end of the 2008 legislative session, only two dairy operations will remain in the state. Both are on state leases. The state would increase its dependency on imports for this crucial food item deemed a necessary nutrient in children's and elderly diets. Most of the items identified in this report rest on the leadership of the legislative body to develop policies and take action to support the dairy industry.

Table 1. Dairy producers responses to HCR 170 S.D. 1 survey questionnaire.

Table 1. Responses to HCR 170 Survey Questionnaire.

Rank from 1-5, the importance of the issue; 1 being highest, 5 being lowest.

Milk Act

The Milk Act is 40+ yrs. old; written under a totally different circumstance.

Update

Get ride of it totally

suggestion: One even said "NEVER" to getting rid of the Milk Act.

More disclosure from processor on labelling/utilization and pricing.

Responses

Industry	# Response	# of 1s
2.0	4	1
4.7	4	0

If it is to be updated what are the important issues

(You can suggestion an item and rank it.)

Pricing

Keep pricing as it

Merge into one pricing system

Cost of Production Study

Float with California + shipping+premium

1.30	4	2
3.00	1	0
2.00	3	1
1.50	2	1

suggestion: a) Index it with the cost increases with shipping and handling charges

b) No Class II utilization

c) Provide premium for local milk

Milk Utilization

Have Class I and II (like now)

Have Class I only

Have Class II only

Have Class 1 only if there is milk imported for fluid mkt

5.0	2	0
1.5	4	2
5.0	2	0
1.3	4	3

suggestion: a) There should be no Class II for locally produced milk due to shortage.

as reflected by importation of milk for fluid use.

Definition of Terms (Change or improve)

Shortage

(currently it reflects only shortage in the shelf at retail)

1.5	2	1
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suggestion: a) Shortage exist as long as there is bulk milk imported.

b) Define it to say that if milk is imported there is no shortage.

Quota

Totally Abolish it

Merge into one milk shed

Keep it as it for 2 milk shed

3.0	3	0
3.8	4	0
2.3	3	2

suggestion: a) Provide producers unlimited quota with all milk at Class 1 as long as milk is imported.

b) Must address the cost of transportation of one milk shed is to be established.

Fat

Standardized without additional premium

Keep it like it is (remember we're a fluid mkt)

Make local butter (Mountain Apple brand).

4.0	2	0
1.7	4	2

suggestion:

Miscellaneous

Marketing of local milk
 Eliminate quota forfeiture
 Keep quota forfeiture rules "as it"

1.50		4		2
2.00		4		1
5.00		2		0

suggestion: a) promote "Island Fresh" and "Buy Local"

State Agencies

HDOA Fill the milk "commissioner's" position ASAP
 Monitor milk prices by via contract
 Mointor milk prices via full time position
 e.g. Steve Dulce's old position

3.0		2		0
3.0		3		1
3.5		2		0

Faster emergency power to HDOA's board
 to response to need

1.75		4		2
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suggestion: Eliminate the review process by other boards and
 have HDOA board with full governance.

HDOH Monitor milk quality produced locally
 Monitor milk quality of imported milk

2.25		4		2
1.75		4		2

suggestion: Define repastuerized milk and label as such so
 consumers is educated.

UH More research on forages for the tropics
 More research on grazing management
 Frequent visits by UH staff for assistance
 Funding sources?

1.25		4		3
1.25		4		3
1.25		4		3
1.00		4		4

suggestion: a) Forgage development is urgently needed to sustain dairy industry and grow animal feed.

Federal Agency

USDA/NRCS Closer working relationship via UH
 Assistance on waste/nutrient mgt.

1.25		4		3
1.25		4		3

suggestion: More extension agents and funding for research.

Statewide policy

Land for establishing pasture based dairy operations
 Irrigation systems
 Faster permitting for preferential industries
 Land to grow feed e.g. corn silages, forages, etc.

1.5		4		3
1.5		4		3
1.5		4		3
1.25		4		3

suggestion: Land, water and homegrown forage are top priorities.

Miscellaneous Issues (suggestions without order)

- 1 Provide incentives for dairy operations to grow
- 2 Develop livestock agriculture parks
- 3 Require the disclosure of agriculture land to new owners
- 4 Ensure pricing of milk reflects increases in shipping and handling cost.
- 5 Develop agriculture land trust and incentives to landowners to facillitate long term lease that are conducive for livestock.

1.0		2		2
1.0		2		2
1.0		1		1
1.0		1		1
1.0		1		1

Appendix 1: The Survey Questionnaire.

