FACING the Challenges
ONE THING IS FOR CERTAIN, going from five years of drought with reduced acreage to an over-abundance of water and reduced planting has been a challenge you cannot anticipate. Combined with Proposition 65 litigation, increasing regulation and armyworm, this year has been one to remember. On the positive side, the industry and the Commission have met these challenges with determination and hard work. The outcome — the challenges have been faced and good progress made on some of our most difficult issues.

Entering into its fourth year, the CRC and USA Rice continue to pursue our case to defend our industry against an activist attorney who seeks to require warning labeling on U.S. rice. Our evidence clearly shows this is not the case. We look forward to a trial in 2018.

Regulation focused on groundwater quality for nitrates and salt continue to advance. Rice continues to be very active in a stakeholder process to develop a regulatory pathway for farmers to continue to farm, while providing drinking water for those communities without clean drinking water. Our efforts include support of replacement drinking water funding in a statewide bond, relief from enforcement for 15 years, and a basin plan amendment that will provide a framework for future relations.

Armyworm pressure was thought to be increased by the drought, until the flooding this year also increased the pressure. Needless to say, the success in gaining an unprecedented third year of emergency use of Intrepid was crucial in controlling this increasingly vexing pest in rice.

Last year saw a huge increase in coverage of water in the media. In response, the CRC worked with the Northern California Water Association to provide accurate information. Our photos and videos were used widely by the media in covering the record rains, Oroville impacts on our levees and the value of the Yolo Bypass to the Sacramento Valley.

Challenges will come. Some you plan for and others find you first. What is important is your response. The California Rice Commission met them all head on and came out with some important victories.

Tim Johnson
President & CEO,
California Rice Commission

Mark Kimmelshue
Chairman,
California Rice Commission
Crop Protection | After years of drought, the wet winter brought about a delay in the planting season. The recent, unusual weather conditions are the source for the latest term, “new normal,” among the rice industry. Changes to weather conditions also demonstrate the resilience of rice farmers and the collective agricultural industry facing the ever-present challenges for controlling pest pressures in the field.

Weed control is always a challenge in California, since the weather conditions are conducive to plant growth. Insect pressure is minimal in California rice culture, and an increase in the armyworm population raises awareness of the limitations to current available crop protection tools.

The armyworm is usually an insignificant pest that reaches treatable levels once every five years. Armyworm pressure was significant for a third consecutive year with drought conditions the blame for the armyworm outbreak in 2015. Experts assume the past wet winter did not result in temperatures cold enough to limit the overwintering armyworm population. Fortunately, the industry was able to obtain the use of a soft chemistry to control armyworm through an emergency process.

We are fortunate to have accessibility to a team of rice experts with collaboration expanding to the Farm Advisors through Cooperative Extension, the University of California at Davis experts/researchers, the Rice Research Board, the Rice Experiment Station, the Department of Pesticide Regulation and the U.S. Environmental Protection Agency/Office of Pesticide Programs, pest control advisers, county agricultural commissioners, and rice growers, as resources to continue effectively managing crop protection materials for the benefit of the rice industry.
Endangered Species Management | The California Fish and Game Commission took official action to designate the Tricolored Blackbird as a “candidate” for listing under the California Endangered Species Act (CESA) based upon the rapid decline of the species in California. As a “candidate” for listing, the species became fully protected under the provisions of CESA, making any “take” expressly prohibited by law.

As part of efforts to help the Tricolored Blackbird recover and avoid possible enforcement actions on rice farms, the CRC produced a new educational brochure in partnership with the University of California, Davis and Audubon California. The brochure, targeted to growers, explains how these birds are often mixed in flocks of other blackbird species at the time of the year that growers are concerned with depredation in rice. It also highlights the challenges of identifying them during this time, especially within large flocks, and offers guidance on how to help the species with habitat management on non-cropped open space areas on the farm.

We greatly appreciate the time and technical expertise provided by Dr. Robert Meese of UC Davis and Samantha Arthur of Audubon California in helping us produce this guidance. We could not have done this without their partnership and commitment to this project.

Our new Tricolored Blackbird Brochure provides greater understanding on this fully protected species.
Largely due to the unique situation of having many fallowed rice fields and plenty of water for habitat projects, we experienced a heightened interest in our main conservation program — the Regional Conservation Partnership Program (RCPP). In fact, demand was so strong that the Natural Resources Conservation Service (NRCS) obligated the remaining $2.2 million of RCPP funds in 2017 on more than 25,000 acres of shorebird habitat projects. Some of these are multi-year contracts that will be completed over the next few years.

**BirdReturns Program** | Our ongoing partnership with The Nature Conservancy, entitled Bird-Returns, continued into its fourth consecutive year. This is the program where growers bid against one another for the opportunity to deliver waterbird habitat benefits.

This year, nearly 3,700 acres of shorebird habitat were put in place between the spring and early-fall shallow flooding programs. The program continues to be very popular, with bids for about five times more acres coming in than the program could ultimately fund in 2017.

**Looking Ahead** | With the full obligation of the remaining RCPP funding for 2017, this marks a pause in the conservation programs the CRC helped develop and implement, beginning with the

Over the past six years, APPROXIMATELY $24 MILLION has been put to work on Sacramento Valley farms to incentivize growers to expand habitat values for waterbirds, by installing bird-friendly practices on about 425,000 acres.
original Waterbird Habitat Enhancement Program since 2011, and eventually evolving onto the RCPP. Over the past six years, approximately $24 million has been put to work on Sacramento Valley farms to incentivize growers to expand habitat values for waterbirds, by installing bird-friendly practices on about 425,000 acres. This legacy is certainly a testament to our cooperative efforts with NRCS, which provided nearly all significant funding, and the strong support and technical assistance from our network of wildlife conservation partner organizations, including:

- Audubon California
- The Nature Conservancy
- Central Valley Joint Venture
- Point Blue Conservation Science
- Ducks Unlimited
- Delta Waterfowl
- California Waterfowl

We will now turn our attention to developing the next big thing for conservation in California rice. Our focus, in large part, is on the next Farm Bill as we pursue a dedicated program to provide sustainable investment in ricelands habitat in the U.S. Flyways.
Water quality program management is a challenge facing agriculture throughout the state, and not unique to rice. The rice industry has over 30 years of experience with stewardship practices, including involvement in water quality monitoring programs. Our experience was the foundation for the CRC to proactively develop a rice-specific water quality program and commodity coalition.

The mandate to form coalitions provides grower sign-up for compliance with the state regulatory program. Rice growers north of Sacramento are automatically members of a rice-specific coalition. Participation with the development of permanent regulation began simultaneously with all agricultural interests in 2003. The rice specific regulation was one of the last through the approval process in 2014.
Permanent water quality regulation and implementation is through the Waste Discharge Requirements (WDR) Order. Considerable research went into developing the Rice WDR to demonstrate that rice-farming practices do not further degrade surface and groundwater conditions. Our work in advance of the water quality regulation gave rice growers the least restrictive mandatory program.

In 2017, rice growers met individual regulatory compliance through reporting under the Farm Evaluation and Nitrogen Management Plan. The CRC has the only web-based reporting program to streamline the process and save rice growers the additional cost of third-party data entry.
Federal | The arrival of an unconventional Presidency paired with a new Congress required quick, adaptive federal advocacy aimed at making sense of a turbulent, ever-changing federal government. Fresh insight into new leadership at key federal agencies, namely the U.S. Department of Agriculture (USDA), Department of the Interior and the U.S. EPA proved paramount during this period of change.

Transitioning from a governing philosophy set over the past eight years to one seemingly set by the moment has placed greater emphasis on clear, calm advocacy seen with quick U.S. EPA approval of a new crop protectant for California rice in April. Meanwhile, underscoring the importance of overseas markets has aided USDA Secretary Sonny Perdue as he fashions a reorganized trade agency and advises the President on trade agreement benefits for rice.

Keeping California rice policy priorities apace of Congressional work on the next Farm Bill will accelerate in the coming year. California lawmakers are positioned to help strengthen risk management policies and modernize conservation policy that will foster greater wildlife habitat benefits on working farmland capable of seasonal flooding.

State | California continues to forge its own way on state policy and regulations, largely in response to what it sees as a rollback at the federal level. The results were an extension of AB 32, the landmark state climate change legislation, and a number of immigration and labor-related bills.

Despite backlash at the state levels, bills impacting agriculture were fairly limited. Rice was involved in two promising efforts this year. The first was an effort to get tax credits to growers for winter flooding. While the bill failed to get out of its final committee, we will be working with Assembly Member Quirk next year on an alternative approach to provide growers’ offsets for the cost of winter flooding, in recognition of the critical habitat provided by rice for waterfowl and shorebirds of the Pacific Flyway.

The second effort was an all Ag effort working with the Environmental Justice community to identify solutions to address drinking water impacted by arsenic, Chrome-6, nitrates and industrial solvents in the state. Ag agreed to contribute $30M a year taxing fertilizers and through several industry-specific assessments. For that consideration, protection from liability and State Water Board enforcement was provided for 15 years. The effort to fund the wider (and more pervasive) problems of naturally-occurring contaminants, as well as industrial pollutants, hit a snag on the funding side. While polling clearly showed Californians were willing to pay $1 to fund drinking water cleanup, the Association of California Water Agencies strongly opposed. The bill was held over for the next year, and every effort will be made to address concerns and craft a solution that works for Ag.
New areas of strategic focus | Last year, the CRC undertook an eight-month process to evaluate the big issues facing the industry and develop a five-year strategic plan to address the changes we see coming.

Two new areas of focus were identified. First, the need to expand our conservation programs into the area of fish — specifically how rice fields may be used to help support the Northern California Water Association and other efforts on winter-run salmon. The idea has been offered, and small-scale trials indicate, that salmon may benefit from the food created in winter flooded rice fields. Developing new partnerships, proving the science and creating programs that are workable in ricelands will be our focus.

Managing changing state demographics was also identified as a priority. The changing face of the state (and its politics) will have a huge impact. How does rice connect with the growing urban and ethnic demographic in a meaningful way that builds alliances? How do we focus on shared values and shared outcomes in an increasingly fractured political climate? Tall orders, but necessary if rice is to remain relevant in the future.

New crop protection tools | New compounds were available to rice growers for the first time in over 10-years. Butte Herbicide brought the industry novel technology in the constant battle for weed control. For the first time in years, the industry has new crop protection tools under development for future registration. The industry experienced significant armyworm outbreaks for the third consecutive year with soft chemistry available to control the pest. Armyworm, not typically a significant annual pest in California rice fields, was found at treatable levels. It appears the recent wet winter did not reverse the drought changes in the armyworm habitat and biology. Fortunately, tools were available for control through an emergency process.
The CRC undertook an eight-month process to evaluate the big issues facing the industry and develop a five-year strategic plan.
As our industry faced the challenge of late and reduced rice planting due to excessive spring rainfall, we continued to expand our social media outreach and media engagement to convey the many benefits of California Rice to our target audiences of Legislators, decision makers, opinion leaders and media.

**Highlights in Public Education included:**

- Record total social media reach, including 11.8 million combined reach for the California Rice and Sacramento Valley Facebook and Twitter Pages, an 84 percent increase.

- Near-record attendance and strong media coverage at our Legislative Day Reception, emceed by KCRA 3 Anchor Gulstan Dart. Assembly Member Jim Cooper won the highly-competitive Capitol Roller Competition.

- Favorable and increased media coverage, with 134 inquiries last fiscal year, an 11 percent increase. China trade developments and planting delays fueled the increase.

- Expanded reach of Sacramento Valley Water messaging, with all channels up more than 130 percent. Twitter reach grew 158 percent, while Facebook reached three million people during January and February.

- Completed year six of our partnership with the *Armstrong & Getty Radio Show*, including their harvest visit and hundreds of live testimonials. Additional coverage on *Capital Public Radio*, *Comstock’s Magazine* and *Capitol Weekly*.

- Fifth consecutive presence at the Farm to Fork Festival in Sacramento, which drew an estimated 65,000 people to Sacramento’s Capitol Mall. Our California Rice Booth had a steady stream of visitors, while there was a packed venue for our rice cooking demonstration from Chef Craig Takehara of Binchoyaki Restaurant and Emcee Mark S. Allen of ABC-10 TV.

Social media continues to be a vital way to engage with the public — Californians and the world alike — about our rice, the people who grow it, and the wildlife that benefits from it.
Candidate Donald Trump talked a very tough line on trade and trade agreements. Within days of the inauguration, President Trump pulled the United States out of the Trans-Pacific Partnership (TPP) agreement. He then announced the U.S. intention to “modernize” the North American Free Trade Agreement (NAFTA) and the U.S. Korea Free Trade Agreement (KORUS). Administration officials have also called into question the ability of the World Trade Organization to meet the trade policy objectives of the United States.

These are not “usual times” for much of U.S. agriculture, including California rice, as evidenced by this new trade policy environment. In somewhat of a protective stance, we are now fighting under the banner of “Do No Harm” to preserve trade agreements like NAFTA and reminding the administration that, without the WTO, there would be no rice export markets in Japan, Korea, Taiwan, and, prospectively, China.

While rice was excluded from KORUS and we were not satisfied with the rice provisions in TPP, we have ongoing trade with Korea and Japan and far to go in obtaining market access opportunities that many would consider fair and equitable. Obtaining this objective requires ongoing and smooth government to government trade relationships.

Our challenge is to assist in efforts to modernize and update trade agreements and trade organizations while protecting hard-won market access gains and promoting continued U.S. leadership that presses for more export opportunities for the California and U.S. rice industry.

Proposition 65 | We continued our effort to defend California and U.S. rice against an activist attorney seeking to require Prop 65 warning labels on rice. After reviewing our opponent’s samples and testing methods, we are even more confident that our arguments will prevail in trial.

While there has been a significant amount of legal maneuvering this last year, all of the evidence in the case has been reviewed and assessed by our counsel. We are confident in our case and look forward to a trial in 2018 to resolve this matter on behalf of the rice industry.

If successful, we will establish clear and easy to follow limits for inorganic arsenic, lead and cadmium and discharge all current legal actions on U.S. grown rice by the Consumer Advocacy Group.

In other news, the Office of Environmental Health Hazard Assessment has appropriately drafted regulations setting a naturally occurring level of inorganic arsenic in U.S. grown rice. Recognizing that arsenic is present in the soils and water where rice is grown, this safe harbor would further reduce (or potentially eliminate) the amount of arsenic subject to Prop 65 exposure assessments. The regulation is supported by our industry.
These are

NOT “USUAL TIMES”

for much of U.S. agriculture, including California rice, as evidenced by this new trade policy environment.
FINANCIAL OVERVIEW

STATEMENT OF FINANCIAL POSITION

<table>
<thead>
<tr>
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<th>2017</th>
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<tbody>
<tr>
<td><strong>ASSETS</strong></td>
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<td>Cash &amp; Investments</td>
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<td>Receivables</td>
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<td>Prepaid Expense</td>
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<td>Equipment</td>
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<td><strong>TOTAL ASSETS</strong></td>
<td>$4,505,662</td>
<td>$4,892,084</td>
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|               |             |             |
| **LIABILITIES** |             |             |
| Accounts Payable | $1,170,799  | $446,735    |
| Contracts Payable | 148,282     | 163,214     |
| Notes Payable   | 0           | 0           |
| Deferred Program Revenue | 0       | 0           |
| Accrued Expenses | 68,109    | 52,515      |
| **NET ASSETS, UNRESTRICTED** | $3,118,472  | $4,229,620  |
| **TOTAL LIABILITIES & NET ASSETS** | $4,505,662  | $4,892,084  |

STATEMENT OF ACTIVITIES

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<thead>
<tr>
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<th>2017</th>
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<tr>
<td><strong>Revenue</strong></td>
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<td>$6,006,804</td>
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<td>Promotion &amp; Regulatory Expense</td>
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<td>Operating Expense</td>
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<td>CDFA Departmental Expense</td>
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<td>Change in Unrestricted Net Assets</td>
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<td><strong>Unrestricted Net Assets</strong></td>
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<td><strong>Beginning of Year</strong></td>
<td>$4,229,620</td>
<td>$4,583,476</td>
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<td><strong>End of Year</strong></td>
<td>$3,118,472</td>
<td>$4,229,620</td>
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*NOTE: Chart represents direct spending by category; operating expense not allocated to programs. Audited financial statements available upon request.
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