

**AGRIBUSINESS DEVELOPMENT CORPORATION**

Minutes of the Board of Director Meeting of September 28, 2016 meeting  
Department of Agriculture Plant Quarantine Conference Room  
1849 Auiki Street, Honolulu, Hawaii 96819

Members:

|                    |                       |
|--------------------|-----------------------|
| Letitia Uyehara    | Lloyd Haraguchi       |
| Yukio Kitagawa     | Sandra Kato-Klutke    |
| Denise Albano      | Leilyn Koev           |
| Margarita Hopkins  | Douglas Schenk        |
| Scott Enright, DOA | Jeffrey Pearson, DLNR |

Absent:

DBEDT

Guests:

|   |                                  |
|---|----------------------------------|
| Steven Kai, Syngenta                    | Landis Ignacio, KAA              |
| Steve Lupkes, BASF/Beck's               | Linda Rosehill, Rosehill & Assc. |
| Teresa Dawson Environment Hawaii        |                                  |
| Dawn Huff, KIUC/Joule Group             |                                  |
| Cynthia Au, Rep. Marcus Oshiro's office |                                  |

Staff:

James Nakatani  
Lynn Owan  
Ken Nakamoto  
Cindy Doi

Counsel:

Myra Kaichi, Deputy Attorney General

A. Call to order.

Chairperson Uyehara called the meeting to order at 9:00 am.

B. Approved of Minutes of August 24, 2016 meeting.

Mr. Enright moved to approve the minutes; Ms. Klutke seconded the motion; motion carried unanimously.

C. Request for approval to issue a license to Umi's Farm for land located at Kekaha, Kauai; identified as a portion of Tax Map Key (4)1-2-02-01.

Mr. Nakamoto made the presentation to issue a land license to Umi's Farm for the production of fruits and vegetable for local consumption on 5 acres located along the Hukipo Road which is a

vacant site known as the mud pond that has access to a well for ample clean water. The recommendation is to approve the issuance of a 35-year land license to Umi's Farm in Kekaha, Kauai subject to the following terms and conditions: the term shall be for 35 years; the annual fee is based on the rate of \$150 an acre; the annual rental shall re-open every 10<sup>th</sup> year of the term; licensee shall pay an annual maintenance fee to the Kekaha Agriculture Association that would cover water delivery rates, and other incidental, administrative and infrastructure costs; and no sublicensing the whole or any portion of their premises without the prior written approval of the ADC Board.

Mr. Enright moved to approve the recommendation; Ms. Klutke seconded the motion.

Ms. Klutke asked if Umi requested for more acres, could he expand in that area. Mr. Nakamoto replied probably only about 5 more acres could be given. However if he requested more than 5 acres there are other areas around that are unutilized. For now, this is a pilot for Umi and he wanted to keep the cost down so he could get a good start.

Ms. Hopkins asked if ADC is requiring each farmers to prepare a conservation plan. Mr. Nakamoto replied ADC requires all tenants do a conservation plan which is part of their license requirement. There could be a plan for the entire area but each farmer needs their own plan.

Ms. Klutke asked if ADC received a marketing plan. Mr. Nakamoto replied yes, a marketing plan was received. Ms. Klutke stated that she knows him personally and would like to recommend that the board vote in favor of Umi's Farm. ADC is looking for farmers on Kauai so if we start with small farms then others may step forward.

Mr. Enright asked Landis Ignacio if he knows Umi's Farm. Mr. Ignacio replied yes, Umi presently has a small retail shop in Waimea and markets some of his existing produce in that shop. It is exciting to see small farmers stepping up to the plate and it's KAA's goal to promote more farming in the area. Umi Farm is a "building out" type of plan and he would like to incrementally build as he becomes more profitable. Mr. Ignacio looks forward to more small farmers. This particular area has 12 acres but has several hundred surrounding areas that are available. There is water and electricity and could support more farmers. Umi Farm does look promising and his plans to plant vegetable crops first is wise.

Motion carried unanimously.

D. Request for approval of assignment of land license LI-K0801, and land lease LE-K1201 from BASF Plant Science LP to Beck's Superior Hybrid Corporation

Ms. Owan made the presentation for approval of assignment of land license LI-K0801 and land lease LE-K1201 from BASF Plant Science LP to Beck's Superior Hybrid Corporation and if assignments are approved sublicense 10 acres.

Land License LI-K0801 – BASF's current land license is 967.25 tillable acres and 244.64 non-tillable acres for a gross total of 1,211.89 for farming. The license is a twenty year license effective April 1, 2008 with 11 years, 6 months remaining.

Land Lease LE-K1201 – BASF also leases 10 acres for a storage/office/administration building and processing handling facility. The land lease is for 35 years, effective July 16, 2012 with 30 years, 9 months remaining and a ten year option to extend. BASF successfully completed construction of its improvement facility in 2013 with costs exceeding six million dollars.

In June 2016, BASF presented Beck's Superior Hybrid Corporation as its assignee of both Kekaha lands and its seed-handling facility. Beck's has been in business since 1937, and is currently a family-owned closely held corporation headquartered in Atlanta, Indiana. It proposes using the Mana lands for corn breeding nurseries, isolated crossing blocks, and parent see increases. Its primary crop in Kekaha will be hybrid corn. The amount of fields in active agricultural use may be as much as 200 acres at any given time. As part of the terms of the assignment, BASF will lease back approximately 10.22 acres from Beck's for monitoring purposes, and to provide a buffer for volunteer plants containing regulated material in accordance with federal regulations. The lands will be transferred via assignments, and the facility will be transferred via a bill of sale. BASF has indicated that the purchase price for the assignments and bill of sale does not exceed the cost of construction of the facility.

The recommendation is for the board's approval with the following conditions: the assignment of land license LI-K01801 and land lease LE-K1201 and the sale of the seed-handling facility on the condition that BASF provides a written summary of the cost of construction of the facility, and that such cost exceeds the purchase price of this transaction; that rent remain unchanged subject to rent reopening in accordance with the existing terms of each instrument; if necessary, and pending determination of the amount of acreages in active agricultural use, that Beck's be required to prepare soil conservation plan suited to its operations; and that all remaining terms and conditions of land license LI-K0801 and land lease LE-K1201 remain in full force and effect.

Ms. Klutke moved to approve the recommendation; Ms. Hopkins seconded the motion.

Chair stated that the title needs to be amended. Due to BASF leasing back 10.2 acres from Beck's for monitoring purposes to provide a buffer zone per federal regulations, the title of this item needs to be amended for approval. The item title should be "Request for approval of assignment of (1) land license LI-K0801 (2) land lease LE-K1201 from BASF Plant Science LP to Beck's Superior Hybrid Corporation (3) if the assignment are approved a sublicense from Beck's Superior Hybrid Corporation back to BASF Plant Science LP for a portion of the assign fields for monitoring and destroying volunteering plants".

Ms. Klutke moved to amend the agenda title request as stated above; Mr. Haraguchi seconded the amendment to change the title. One board member was not present for the vote. Motion carried.

Steve Lupkes was present to answer any questions. Ms. Klutke asked how long BASF would sublicense the 10.2 acres from Beck's. Mr. Lupkes replied they are hoping for four years but don't know exactly how long. Ms. Klutke stated if it is less than the number of years left on the lease with BASF and ADC, BASF would probably terminate with Beck's. Then come back to

ADC to terminate. Mr. Lupkes replied at some point they would come back to ADC to terminate.

Mr. Enright said that he spoke with the director of agriculture in Indiana which Beck is based out of Indiana. He found out that Beck's is a very reputable company and have a large market share in that region in the Midwest. We are very well served in the selection of Beck's coming in and being able to maintain that acreage of production, job security and getting a very creatable operator.

Mr. Kitagawa asked what was the intent of Beck's coming to Hawaii. Mr. Lupkes replied Beck's is a very successful corn breeding company out of Indiana that is an expanding and slightly less than 20 percent annual growth rate for the past 20 years. For their winter productions they would outsource that to a third party. Because of their growth and where they are at right now, Beck's feel that they are at the size where they can control their winter production. Then this opportunity came up with BASF leaving and to come in to buy an operation with land, equipment and skilled employees.

Motion carried unanimously on the amended motion.

E. Request for approval to amend License No. L-08202 to Syngenta Hawaii, LLC to withdraw 846.82 acres of tillable land in Kekaha, Kauai, Tax Map Key (4) 1-2-02-01 (por).

Mr. Owan made the presentation to amend Syngenta's License No. L-08202 to withdraw 846.82 acres of tillable land in Kekaha. This item was heard and deferred at the August 24, 2016 meeting to allow more investigation into the impact of Syngenta's return of fields and to review the license to see if there is any penalty for withdrawal of acreage. A correction was made on the Syngenta's total acres of 2,115.40 acres, consisting of 1,784.07 tillable and 331.33 non-tillable acres. However the withdrawal of 846.82 acres remain the same. The effective date is the date approved by ADC.

Mr. Enright moved the approval of the amendment of License No. L-08202 to Syngenta Hawaii; Mr. Haraguchi seconded the motion.

Steven Kai from Syngenta made a short update. He stated that this request was made in May 2016 and part of a strategy at the time to reduce Syngenta's acreage to better manage their cost. At the time, they made a decision to reduce their acres and also made some reduction of staff. Last month Syngenta announced that they would be changing their business model and selling their assets in Hawaii but continuing through contract work to whoever buys Syngenta. They are currently in the process of working through proposals from buyers to purchase Syngenta Hawaii LLC and therefore would contract with Syngenta to provide the same services that they currently provide in house. As an independent company, whoever buys Syngenta Hawaii LLC would have the opportunity to provide services to smaller companies. Such as Beck's would be a potential client but there are about 40 regional companies in the mid-west that all have a desire to do nursery or production here in Hawaii during the winter. One of the things indicated to the potential buyers is that there is a growing market for companies to do work in Hawaii. As a result, there is a distinct possibility that the new company may be coming back to ADC asking

for more land. To be clear, there is no guarantee but wanted to share that because the business model that Syngenta is promoting to the potential buyers includes the possibility of doing contract work for small growers. Also Syngenta sells some of their products to these regional companies and some do their own crossing or product their own hybrids it sells to them. As Syngenta was downsizing there has been significant amounts of work being put into diversification. While this is a request for approval of the withdrawal of 846 acres, there is anticipation by other companies to get some of those acres back.

Mr. Kitagawa stated that he hopes that companies coming in would consider hiring local employees. Mr. Kai replied that Syngenta has been looking at companies that would retain as much employees that they can. The new companies would provide services to Syngenta that are equivalent to what they are doing now. They believe that doing work for some of these smaller companies might be an increase in employment and land use. Mr. Kitagawa felt that we as a board should try to encourage the companies coming in to look at local employees. Mr. Kai commented that he felt Syngenta has done a decent job of hiring local employees.

Mr. Schenk asked if Syngenta currently has a buyer or are they searching for a buyer. Mr. Kai replied that they are in the process of accepting proposals from a list of buyers. That list of buyers includes some companies that are based in Hawaii. Mr. Schenk stated that Syngenta cut back on their staff and also made a decision to reduce their acreage. Mr. Kai stated that as part of their cost management they decided to cut back on production acres and research acres. So they consolidated to the level that they needed to be as of May 2016 being that Syngenta would continue to operate in Hawaii. Obviously in the last few weeks, that model has changed but they still want to pursue this so the buyers would have the opportunity to make decisions whether more or less acres would be needed.

Also regarding the question on any penalty for the withdrawal of acreage, Ms. Owan replied that there is no penalty.

Ms. Klutke asked Mr. Ignacio what is the effect of Kekaha Agriculture Association and other tenants with the withdrawal of these acres of land. Mr. Ignacio replied the more acres in the portfolio the better off for KAA which means more maintenance takes place on the property. The less acreage means the maintenance level drops. For instance, the new farmer Umi's Farm would need to carry his weight as well. The more members KAA has makes it more comfortable or affordable for the small farmers. It is important to have as many acres out there. But with the level that Syngenta is withdrawing at this point in time, it is still acceptable and would not significantly impact KAA because they are still able to retain Beck's. They are very happy with Beck's because they are a successful company but also a family owned company. Mr. Nakatani stated that with what Mr. Ignacio has said we need to start rethinking the whole structure because there is a different business model coming in and it presents opportunity for smaller farmers to come in and yet coexist with bigger operations. Mr. Ignacio stated that KAA has recognized this for many years that they are dependent on the amount of acres that are being farmed. They are hopeful to come back to the ADC board with a new model that they would be proposing and hope that model would solidify their position and move them into the next century.

Motion carried unanimously.

F. Executive director's reports and updates:

1. Kekaha, Kauai

Administrative correspondence from the environmental protection agency, office of civil rights.

Ms. Kaichi reported that ADC received a letter from EPA Office of Civil Rights alleging civil right violations against ADC and the DOA. That allegation against the ADC is that by leasing lands to tenants that use pesticides in an area that inordinately impacts native Hawaiians, ADC is committing civil rights violations under Title 6. Title 6 is a federal law that says that if you receive federal grants and aids, you cannot discriminate based on race. The ADC has not actually received a copy of the letter. ADC has seen the letter because DOA's public information officer downloaded the letter off the Civil Beat Website. We did receive a letter from EPA saying they are looking into preliminary matters like jurisdiction. At this point, the jurisdiction over the ADC is unknown by the EPA. We have not received any notice from the USDA nor any communication of the US Department of Justice. It is a letter in the form of a complaint. ADC should just wait to see what happens.

G. Adjourn.

Mr. Enright moved to adjourn; Ms. Hopkins seconded the motion.

Meeting adjourned at 10:10 am

Respectfully submitted,



Cindy Doi  
secretary