

2017-2018 Annual Report to Producers

Short 2017 crop displays great quality, processing features

The 2017 wheat production season began with reasonably normal conditions including mostly adequate spring moisture but cooler than normal soil temperatures, which actually slowed planting and early seedling development. Field conditions soon changed dramatically, especially in central and western regions. Persistently below average precipitation and hot, windy conditions ultimately resulted in lower average yields, greater abandonment, and much lower production.

Exceptions prevailed in northern and eastern areas, where significantly better conditions and higher yields helped support overall output. But the total 2017 wheat crop at 238 million bushels, fell far short of the three previous years' crops which averaged more than 350 million bushels each. The 2017 wheat harvest was the smallest since 2011, when 200 million bushels were harvested statewide. Ironically, the 2011 crop was plagued with the opposite problem, one of waterlogged soils, prevented plantings, and well below average yields.

Prior to the onset of the 2017 drought, wheat acreage in North Dakota had already been negatively influenced by eroding fundamental market conditions, with local 2017 pre-planting spring wheat prices below \$5.00 and durum prices below \$6.00 region wide. North Dakota wheat acreage dipped to a four year low of 6.7 million acres, following an earlier uptrend to 8.0 million acres in both 2014 and 2015 and 7.6 million in 2016. In 2017 wheat acreage was lost to soybeans, canola, and pulse crops.

While challenges facing regional spring wheat and durum producers were many, quality and marketability features of the remaining 2017 were very good. Both spring wheat and durum exhibited very strong grade distributions and exceptional performance characteristics. Protein content, test weights, kernel soundness and other positive quality factors helped re-inforce the strong value and performance reputations that have become readily associated with U.S. hard red spring (HRS) and durum (HAD) wheats worldwide.

Domestic millers and processors are a very important market segment for both of these premium quality wheats. Due to reduced availabilities in 2017-18, domestic use will surpass export volumes in spring wheat as well as durum. Millers, bakers and pasta processors consistently seek high protein and strong processing quality traits offered by these specialty wheats for their high end product lines. In the export arena, where U.S. spring wheat is marketed in 60 to 80 countries each season, the Philippines, Japan, Taiwan, Korea and China will again rank as the top five export destinations. Primary durum export markets are Italy, Algeria, and Nigeria, although added interest is anticipated from Central American destinations as well.

The North Dakota Wheat Commission (NDWC) continues to invest producer check-off dollars to address challenges, develop and maintain markets, and promote opportunities on behalf of North Dakota wheat producers. The seven producer-member Commission supports pertinent wheat research projects that have improved yields and performance for the producer and the customer; takes active roles in export market development, trade and domestic policy arenas; defends and enhances the image of wheat and wheat based foods; and provides outreach and educational opportunities for wheat producers in the state and region.

To the dedicated producers, stake holders, and partner organizations, U. S. Wheat Associates, National Association of Wheat Growers, ND Grain Growers Association, U.S. Durum Growers Association, NDSU, Northern Crops Institute, Wheat Marketing Center and others, thank you for your support.

Sincerely,

David Clough

David Clough, Chair

Neal Fisher

Neal Fisher, Administrator

Board of Commissioners & County Representatives

Back Row: Philip Volk, District 4; Jim Bahm, District 1; Bruce Freitag, Commissioner-at-Large; Greg Svenningsen, District 5; and Dustin Johnsrud, District 2. Seated: David Clough District 3; and Brian O'Toole, District 6.



Jim Bahm

District 1, New Salem, ND

District 1 2016-2020

Adams Bruce Hagen
Billings.....Loren Bock
Bowman.....Myles Richard
Dunn William Flaget
Golden Valley....Rick Stoveland
Grant.....Wes Frederick
Hettinger.....Keith Witte
MercerGary Knell
Morton..... Jim Bahm
Oliver Patrick Doll
Sioux Jamie Heid
Slope Farrell Lorge
Stark Lee Gullickson

Philip Volk

District 4, York, ND

District 4 2016-2020

Benson Philip Volk
Bottineau Lenny Artz
McHenry..... David Thom
Pierce Kenneth Schaan
Ramsey Matthew Olson
Rolette.....Mark Martinson
Towner..... Jeff Teubner

Dustin Johnsrud

District 2, Epping, ND

District 2 2017-2021

Burke..... Mitch McEvers
Divide Bruce Verlinde
McKenzie.....Ty Rolfsrud
Mountrail.....Aaron Skarsgard
Renville.....Del Gates
WardAaron Haaland
Williams Dustin Johnsrud

Greg Svenningsen

District 5, Valley City, ND

District 5 2017-2021

BarnesGreg Svenningsen
CassTodd Ellison
Dickey Mike Martin
Griggs.....Scott Tranby
LaMoure..... John Haro
Ransom..... Travis Dagman
Richland vacant
Sargent..... Roger Zetocha
Steele Scott Huso
Traill Steve Doeden

David Clough Chairman

District 3, Fessenden, ND

District 3 2014-2018

BurleighBlaine Doppler
Eddy..... Kent Myhre
Emmons..... Tom Bernhardt
Foster Charles Linderman
Kidder.....Tim DeKrey
LoganCory Schlecht
McIntoshRoss Litsey
McLeanBrian Fransen
SheridanJames Pellman
StutsmanDavid Gasal
Wells David Clough

Brian O'Toole

District 6, Crystal, ND

District 6 2014-2018

Cavalier Leon Hiltner
Grand Forks..... Gerald Uglem
NelsonJohn Steffan
Pembina Brian O'Toole
WalshAaron Kjelland

Bruce Freitag

Vice-Chairman

Commissioner-at-Large
Scranton, ND 2015-2019



Staff

Neal Fisher
Administrator

Jim Peterson
Policy & Marketing Director

Erica Olson
Market Development
& Research Manager

Keri Eil
Accounting Specialist

Jolene Beehler
Administrative Assistant



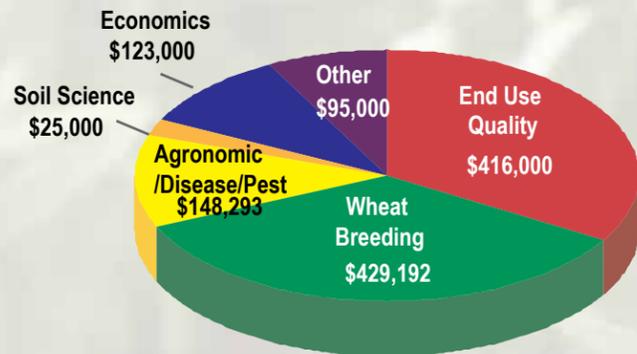
2017 Challenging for U.S. Exports

The challenging 2017 production season significantly tightened U.S. HRS and durum supplies. Prices rallied into mid-July, based on the expansion of the drought across the region, but fell sharply into the latter part of the season with global production pressuring prices and out-weighting local dynamics. The smaller U.S. HRS crop enjoyed a more significant class price premium, at times as much as \$2 per bushel over other classes of wheat. While positive for producers, this premium challenged export sales early in the season, especially compared to our main competitor Canada.

Total U.S. HRS exports fell to 228 million bushels, about 30 percent less than the previous year, and the lowest level since 2009. Sales and market share were challenged to the greatest degree in Mexico, China, Central America and smaller markets in the EU and Africa. The Philippines remained the top market for a 3rd straight year at 48 million bushels, although down from the record 62 million the previous year. Japan was a steady second with 40 million bushels. Others in the top five markets were Taiwan, China and Korea. Some

Research and Customer Service

The NDWC invested nearly \$1.4 million in research and customer service in the 2017 fiscal year. Investment in research projects totaled \$1.25 million, slightly lower than recent years, as reduced acres and smaller crops tightened available funds. The accompanying chart shows the break-out by



major research program area. Direct involvement in the hard red spring and durum wheat breeding programs, and end-use quality continue to be the major priorities supporting the development of varieties that perform for producers and customers alike commanding a premium in the world market. Disease and pest management, as well as soil fertility and salinity research, are becoming areas of greater emphasis, based on priorities expressed by producers. Marketing, transportation and economic research is also vital, as is general support for the Northern Crops Institute and the Wheat Marketing Center.

increases in export volumes were noted in the U.K., Italy, Guatemala and Costa Rica. Demand for higher quality bread products and demand for "improver" attributes of HRS supported these sales. Another strong year in domestic use of HRS was supported by a protein shortfall in hard red winter, offsetting some of the decline in exports

U.S. durum exports fell by 25 percent to 18 million bushels, the lowest level since the severe drought in 1988. Export sales were constrained by lower global trade, due to large durum crops in North Africa, which also lowered export prices offered by other durum exporters. The devastating drought across the northern U.S. cut durum production by 50 percent from 2016, to just 55 million bushels. This tightened logistics locally with export companies focusing on shipments from other regions with cheaper prices, such as Canada, the EU and Kazakhstan. Top U.S. durum export destination were Italy at 6.2 million bushels, and Algeria at 6.1 million, with Nigeria, Guatemala and Ecuador rounding out the top five with 2 million bushels.

Trade Policy

The Wheat Commission in collaboration with USW and NAWG is involved in trade policy matters to improve market access and create additional market opportunities for ND wheat producers.

Decades of successful, targeted market development programs actively conducted by U.S. wheat producers have expanded premium markets for producers. With 95 percent of the world's consumers living outside of the U.S., continued success in maintaining and expanding sales opportunities is highly dependent on a fair and competitive global playing field. A focused trade policy agenda is a necessary component in fulfilling this potential, ensuring long-term export opportunities, market growth, and profitable producer bottom lines.

A sample of the U.S. wheat industry's priorities in trade policy follows:

- Pursue increased funding for USDA's Market Access Program (MAP) and Foreign Market Development Program (FMD) in the upcoming Farm Bill negotiations. Wheat producer check-off dollars are currently matched \$2 to \$1, tripling the impact of ND and U.S. wheat producer investment in market development programs in current and future growth markets. Competition for these funds is growing at a time when our competitors have recognized the positive impacts and are attempting to establish their own market development efforts to compete with U.S. wheat.
- Achieve forward looking, comprehensive trade agreements that eliminate import duties, provide improved rules for market access, and disciplines on non-tariff barriers, such as phyto-sanitary measures. The United States pulled out of the Trans Pacific Partnership (TPP),

TRADE POLICY: continued on next page

Trade Policy continued

but the remaining 11 countries continue to pursue an agreement (TPP-11) without the U.S. Bilateral agreements with Japan, the Philippines, Taiwan, Indonesia and other key Asian markets for U.S. wheat are now a top priority for U.S. negotiators. Many elements of TPP offer desirable, high standard features to be pursued in any future negotiations to maintain existing premium markets (Japan, Taiwan) and capture explosive market growth potential (Philippines, Indonesia) that exists in the region and elsewhere. Re-entry into an improved version of TPP is worthy of consideration and should be encouraged.

- Enforce disciplines on trade distorting programs and export subsidies used by advanced developing countries China, India, and Brazil. These subsidies continue to escalate, particularly in China, creating excess production, displacing U.S. wheat, and lowering world wheat values. Enforcement of existing trade rules also increases stakeholder and public support for future trade agreements.

- Address issues with Canada's wheat grading and varietal registration issues. Canada's post-CWB transition process continues, but long lingering issues with wheat grading and classification of U.S. wheat and durum exports to Canada also continue to frustrate U.S. producers. Simply put, U.S. wheat producers do not have opportunities to deliver wheat into Canada on an equal basis. When attempts are made to market very high quality U.S. wheat in Canada, it is immediately downgraded to 'feed' grade and is priced accordingly. Conversely, Canadian wheat moving to U.S. destinations is treated as a totally equal commodity as it makes its way into the U.S. marketing and transportation systems. It is graded totally on its own merits, just as any U.S. origin wheat is sampled, graded, classified, binned, processed, or shipped. This issue and related concerns have been raised by U.S. wheat and durum producers for many years, as an issue of fairness. U.S. negotiators are very much aware of these issues as NAFTA re-negotiation moves forward.

Promotion At Home

The NDWC works on domestic promotion through the Wheat Foods Council (WFC) and the National Pasta Association (NPA). The WFC educates consumers and influencers on health benefits of wheat foods and combats misinformation on gluten-free trends, fad diets, and modern wheat breeding and production.

As part of its recent strategic plan, the WFC is engaging personal trainers as a new influencer group, educating them on the value of wheat-based foods in the athlete's diet.

WFC continues its work with registered dietitians, providing sound, nutritional information and recipes. NPA connects the NDWC directly to many of the large pasta manufacturers, which work collectively to expand domestic pasta consumption. The Commission also promotes National Pasta Month in October with local newspapers and radio stations.

Domestic Policy Partners

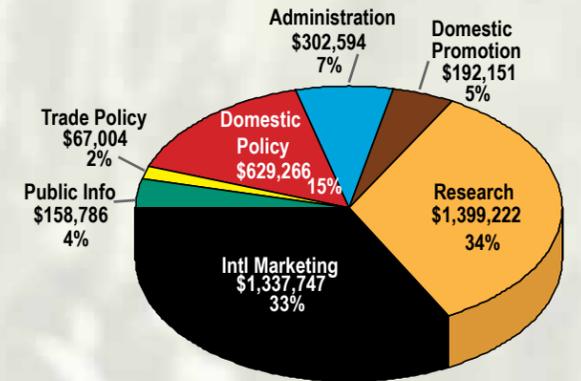
The NDWC directed \$589,000 to the ND Grain Growers Association (NDGGA) and the U.S. Durum Growers Association (USDGA) to aid their work in addressing domestic policy issues in 2017-18. Efforts include farm bill, crop insurance and disaster aid, conservation and regulatory overreach issues, all of which are important to North Dakota producers

The NDGGA works to educate officials on farm policy issues impacting North Dakota small grain producers.

The USDGA works to ensure that the unique needs of durum growers and the durum industry are represented by local, state and federal decision makers.

Your Checkoff Investment at Work

FY 2017-18 Operating Expenditures
\$4,086,770



Operating Expenditures

Administration	\$302,594
Domestic Policy	\$629,266
Domestic Promotion	\$192,151
International Marketing	\$1,337,747
Public Information	\$158,786
Research & Customer Service	\$1,399,222
Trade Policy	\$67,004
TOTAL	\$4,086,770

Financials for July 1 to June 30

	Actual FY 2017-18	Budget FY 2018-19
Beginning Balance	\$6,703,438	\$6,331,053
Checkoff Collected	\$3,911,293	\$4,958,000
Interest Income	\$8,719	\$9,500
Sales/Miscellaneous	\$18,899	\$18,000
Total Receipts	\$10,642,350	\$11,316,553
Refunds to Producers	\$224,526	\$347,000
Expenditures	\$4,086,770	\$4,676,979
Ending Balance	\$6,331,053	\$6,292,574