

2016-2017 ANNUAL REPORT TO PRODUCERS

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High quality wheat commands strong presence at home and abroad

(excerpted from ND Agriculture Magazine, story by Neal Fisher and Jessica Walter Boehm)

North Dakota's wheat industry continues to flourish even though North Dakota farmers currently have more diverse crop choices and opportunities than just a few years ago.

"Wheat is still king for many North Dakota producers, but crop choices continue to diversify and expand," says David Clough, chair of the North Dakota Wheat Commission (NDWC).

The state is No. 1 in production of both U.S. hard red spring (HRS) wheat and durum, with annual output of approximately 250 million bushels of HRS and 50 million bushels of durum, nearly half of the nation's HRS and two-thirds of U.S. durum production.

"U.S. millers, bakers, and pasta processors and quality conscious markets worldwide pay premiums for these two unique wheats," Clough says. They are highly sought after to augment the quality of less robust wheat crops, from alternate U.S. and global origins.

NDWC reports nearly 70 nations import U.S. HRS and durum from North Dakota and the region on a regular basis, at prices often exceeding other classes and origins by \$1 to \$2 per bushel.

North Dakota's prized durum wheat is always a key ingredient in your favorite authentic Italian pasta dishes.

"HRS is the largest wheat class produced in North Dakota, but durum is the world's premier pasta ingredient," says Neal Fisher, administrator of the NDWC. "You might be able to make pasta from other wheats or perhaps a blend, but in Italy, if it's not 100 percent durum, it's not pasta – that's actually a law in Italy. U.S. durum, mostly grown in North Dakota, has a distinct advantage in Italy because of its very high quality processing traits and great color scores."

"Quality reputations do not happen by accident," Clough says. "Our HRS and durum varieties are developed with time-tested agronomic and end use characteristics sought as dual priorities."

Clough and Fisher note producers have choices and that both yield and quality must be addressed or producers will

not grow the variety. Most are developed at North Dakota State University (NDSU) through leveraged arrangements of producer dollars via their Wheat Commission checkoff investment, supplementing very important state and federal general fund appropriations and grants.

Private sector companies have also ramped up variety development efforts, further broadening overall choices, genetics, and much needed wheat industry investment.

North Dakota wheat farmers have a strong support system, thanks to organizations such as the NDWC, North Dakota Grain Growers Association (NDGGA) and North Dakota-based U.S. Durum Growers Association (USDGA). All three grass roots organizations have specific missions and programs, but regularly work together, drawing on industry partners, bolstering the North Dakota's wheat industry, through research, promotion, education, and advocacy.

Dan Wogsland, executive director of the NDGGA, says NDWC contracts with NDGGA and USDGA for the development of domestic policy positions benefit wheat and durum farmers on the local, state and federal level, such as crop insurance, water management, disaster programs, and other critical Farm Bill issues. The groups also work together on producer education endeavors with the NDSU Extension Service.

"The NDWC does an excellent job in research and promotion of North Dakota wheat, while the USDGA and NDGGA handles most of the policy and Farm Bill issues," adds Wogsland. We continue to focus on doing the best job possible for our farmers.

"The state's signature wheat classes have been produced in North Dakota for more than 150 years," Clough says. "We have a bright future as the world's premier source, as long as we continue to work with all of our partners to deliver on our high quality, high performance reputation."

Export Development Efforts

International marketing remains a key focus for investment of check-off funds by the NDWC. This effort includes hosting numerous trade visits by customers to meet directly with producers, and learn about our premium quality wheat, and grain handling and marketing infrastructure. In addition, these visits enable interaction with the NDSU wheat breeding and quality researchers, as well as experts on economics and transportation. The larger scale, “on the ground” investment is in collaboration with other wheat producing states with the joint funding of U.S. Wheat Associates (USW). USW has 17 offices located in key regions worldwide, working directly with customers and optimizing export opportunities for U.S. producers.

In the 2016-17 marketing year, overall U.S. wheat exports rebounded from a very challenging 2015-16 year, increasing by 37 percent to 1.04 billion bushels. While burdensome world supplies pressured base wheat prices,

HRS enjoyed a price premium in the market, along with increased sales. Total HRS exports reached 315 million bushels, up 24 percent from the previous year. Of note was a shift in top markets, with the Philippines and China being first and second, surpassing Japan, our most frequent top market, followed by Taiwan and the European Union. A shortage of quality and protein in world wheat supplies benefited HRS demand with year on year increases noted in most markets.

U.S. durum exports reached 20 million bushels, but were down 25 percent from the previous year. A large Italian crop, and challenges with unusually high DON levels in the U.S. northern durum crop constrained export opportunities. Top destinations were Italy, Algeria, Nigeria, Guatemala and Japan. Durum exports remain highly concentrated into a few large markets, as smaller buyers are constrained by the volume levels of modern grain handling and rail infrastructure.

Research and Customer Service

Research and customer service investment totaled \$1.7 million in 2016, up marginally from the previous year, and accounted for the largest program area of the annual budget. Producer check-off funds are a key support source for the NDSU hard red spring, durum and hard red winter breeding programs. These funds complement state and federal support sources, and focus on operating expenses, technician support and equipment needs. NDSU developed varieties still account for the largest share of planted acres in the state, but competition from private and other public breeding programs continues to grow. This competition is certainly good for producers, and maintaining a robust NDSU varietal development program only adds to those benefits.

Quality has been a hallmark of North Dakota grown

wheat for many years, and keeping our wheat at the top of the world quality spectrum remains a priority. The wheat and durum quality labs receive a large share of annual check-off support for this reason, but also to undertake cutting edge research on issues faced by domestic and international customers. Producers can take pride in the fact that the NDSU wheat labs are world renowned for their research on wheat quality.

In addition to funding for the core breeding and quality programs, the NDWC also supports expanded germplasm development, improved disease and pest management, and soil fertility and salinity research. Projects and programs in marketing and transportation research remains a smaller share, but steady area of support, focused on monitoring rail rates and service and improving risk management.

Trade Policy

The NDWC along with USW and the National Association of Wheat Growers (NAWG) is involved in trade policy matters to improve market access and sales opportunities for ND wheat producers.

A focused trade policy agenda is a necessary complement to decades of successful market development efforts conducted by U.S. producers. With 95 percent of the world’s consumers living outside U.S. borders, a fair and competitive playing field for U.S. wheat is essential to long-term export opportunities and producer bottom lines.

A sample of priority measures follow:

- Seek increased funding for USDA Market Access Program and Foreign Market Development programs in the next farm bill. Currently wheat producer check-off funds are directly matched nearly \$2 to \$1, providing a significant boost to producer market development resources.
- Initiate and achieve comprehensive and forward looking trade agreements that eliminate import duties,

TRADE POLICY: continued on next page

Trade Policy *continued*

ties, provide improved rules for market access, and disciplines on non-tariff barriers, such as phyto-sanitary measures. The Trans Pacific Partnership (TPP) has been abandoned by the U.S., but the other countries in the region continue to pursue an agreement. Bilateral agreements with Japan and other key Asian markets for U.S. wheat must now be a top priority for U.S. wheat producers and U.S. agriculture.

- Increase the transparency and enforcement of trade distorting support programs and export subsidies used by advanced developing countries, such as China, India, and Brazil. These subsidies have escalated in recent years, particularly in China, directly lowering world wheat values due to excess production. A WTO case against China has been initiated regarding its wheat support prices and market access issues.

- Canada’s open market transition continues, but slowly. Canadian grading and wheat classification issues continue to limit U.S. wheat producer opportunities to deliver wheat into Canada on an equal basis. The NDWC, USW, and other industry partners are working to resolve these long standing trade issues both in and out of the NAFTA re-negotiation process.

Promotion At Home

The NDWC works on domestic promotion through the Wheat Foods Council (WFC) and the National Pasta Association (NPA), which are supported by producer and industry members to serve as the marketing arms for the wheat and pasta industries. The WFC educates influencers and consumers on the health benefits of wheat foods and combats misinformation on gluten-free trends, fad diets, and modern wheat breeding and production.

As part of its strategic plan implemented in 2016, the WFC is working on engaging personal trainers as a new influencer group. Utilizing members of its advisory council, WFC has attended national meetings with trainers and provided webinars as a way to educate this group on the value of wheat-based foods in the athlete’s diet. These seminars have been well attended. The WFC also hosted a group of chefs from restaurants across the U.S. for a course at the Culinary Institute of America emphasizing the diverse options for wheat-based foods.

The Council continues its work with registered dietitians, providing sound, nutritional information and recipes. NPA connects the Commission 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 \$681,000 to the NDGGA and USDGA to aid their work in addressing domestic policy issues in 2016-17. Efforts include farm bill, crop insurance and disaster aid, conservation and regulatory overreach issues, all of which are important to North Dakota producers.



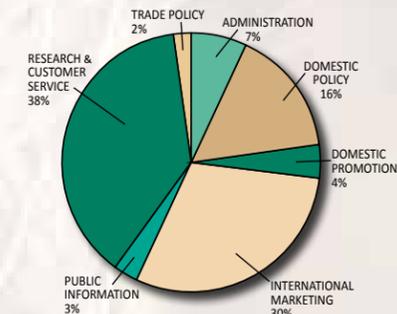
The NDGGA works to educate officials on farm policy issues impacting North Dakota small grain producers.

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 2016-17 Operating Expenditures
\$4,516,220



OPERATING EXPENDITURES

Administration	\$298,617
Domestic Policy	\$721,844
Domestic Promotion	\$191,147
International Marketing	\$1,380,101
Public Information	\$157,425
Research & Customer Service	\$1,699,086
Trade Policy	\$68,000
TOTAL	\$4,516,220

Financials for July 1 to June 30

	Actual FY 2016-17	Budget FY 2017-18
Beginning Balance	\$6,235,310	\$6,703,438
Checkoff Collected	\$5,332,803	\$3,448,000
Interest Income	\$6,080	\$5,750
Sales/Miscellaneous	\$16,270	\$11,250
Total Receipts	\$11,590,463	\$10,168,438
Refunds to Producers	\$370,805	\$241,360
Expenditures	\$4,516,220	\$4,505,933
Ending Balance	\$6,703,438	\$5,421,145