1999 SENATE AGRICULTURE

SB 2416

1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2416

Senate Agriculture Committee

❑ Conference Committee

Hearing Date 2/5/99

Tape Number	Side A	Side B	Meter #
1	X		0-END
1		X	0-915
2/11 2		X	1,230
Committee Clerk Signature Tricia Jorgenson			

Minutes:

Senator Wanzek called the meeting to order, roll call was taken, all were present.

Senator Wanzek opened the hearing on SB 2416.

Senator Kelsh introduced the bill. It gives money to study the wheat board. The study would take about a year and cost about $100,000.

Senator Wanzek: NDSU has already studied this, what is the difference between this bill and what they have already done.

Senator Kelsh: The ND Wheat Pool would only be in the U.S. and would be voluntary and the Wheat Board would say let's get in conjunction with Canada.

Senator Sand: They all have to sell wheat through the pool in Canada?

Senator Kelsh: Yes.

Senator Sand: Is the wheat coming down from the pool or is it individual farmers. Are there any teeth in this to make it succeed?

Senator Kelsh: If enough farmers see an advantage and vote for this there will be some teeth.

Senator Kinnoin: The farmers have to grow what the pool says?

Senator Kelsh: If they want to be in the pool yes.

Senator Kinnoin: It seems to me, I hate to have anyone tell me what to raise.

Senator Kelsh: Until farmers get over that point that they have to do what they want and get the prices they want, they can't have it both ways.

Senator Kinnoin: If they are going to stay in business they look for the best variations so they can make money.

Senator Kelsh: I agree with you to a point.

Senator Urlacher: The Canadian wheat board designates how much is allotted in that pool.

Senator Kelsh: I don't know for sure I am not an expert.

Senator Urlacher: Is the study intended to bring in other states?

Senator Kelsh: It would be eventual but this study is to help better ND.

Senator Wanzek: Farmers haven't been very good about responding to higher quality wheat, is that really the farmers fault.

Senator Kelsh: I think we've put a lot of importance on protein.

Senator Sand: Canadians do market the wheat through the wheat pool, many of them might haul all their wheat out at one time, under Canadian system this is not possible. Also, I heard awhile that one of the best things for ND would be if Kansas had a bumper crop.

Senator Kelsh: First issue, sell over a period of time, orderly marketing. Second statement, easier to go to Canada or Brazil. We don't preserve we mix, that is part of the problem.

Senator Thompson spoke in favor of the bill. ND producers are losing battle for selling of their ag products.

Ken Spitzer, retired farmer spoke in favor of the bill. Testimony enclosed.

Senator Sand: You never mentioned Europe.

Ken Spitzer: I am not that familiar with the numbers over there.

Senator Wanzek: We rule by majority but in this country we respect the rights of the individual as well, see some merit in this but there are some conflicting messages, concerned about consolidation and control.

Ken Spitzer: What choice do our young farmers have, it won't work any other way.

Senator Klein: Has there been any effort to work with the wheat commission?

Ken Spitzer: I have been working with them but I think everybody is holding back a little.

Senator Klein: It's your money in the wheat commission and that's where it should start with wheat producers within in that body being represented by the wheat commission.

Ken Spitzer: Wheat commission challenge to work with.

Dennis Meyer from Mandan spoke in favor of the bill. The European market is tough to compare to. This bill is an approach for a model for the world market.

Kelly Shockman a farmer from Grand Rapids, ND spoke in opposition of the bill. Testimony enclosed.

Senator Wanzek: One of the most important things government can do for farmers is to simply stand up for us in trade negotiations.

Kelly Shockman: The export is a trap that we fall into.

Senator Sand: Only 77% of the food grown goes into the world?

Kelly Shockman: I don't really know.

Ken Birtsch: from the ND Farm Bureau spoke in opposition of the bill. Farmers would be operating under very serious resources. Any mandatory will be met with resistance.

Steve Strege spoke neutrally. Handed out findings from paper.

Irwin Swanson spoke.

Senator Wanzek closed the hearing.

FEBRUARY 11, 1999

Discussion was held.

Senator Sand made the motion for a Do Not Pass.

Senator Urlacher seconded.

ROLL CALL: 7 Yes, 0 No

CARRIER: Senator Sand

Date: 2/11
Roll Call Vote #: 1

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2416

Senate Agriculture Committee

☐ Subcommittee on _____
or
☐ Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Not Pass

Motion Made By Sand Seconded By Urlacher

Senators	Yes	No	Senators	Yes	No
Senator Wanzek	✓				
Senator Klein	✓				
Senator Sand	✓				
Senator Urlacher	✓				
Senator Kinnoin	✓				
Senator Kroeplin	✓				
Senator Mathern	✓				

Total (Yes) 7 No 0

Absent _____

Floor Assignment Senator Sand

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2416: Agriculture Committee (Sen. Wanzek, Chairman) recommends **DO NOT PASS** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2416 was placed on the Eleventh order on the calendar.

1999 TESTIMONY

SB 2416

2416

Mr Chairman, members of the committee

My name is Kelly Shockman. I am a lifelong farmer and I live on my farm near Grand Rapids ND. I farm with 2 sons on a primarily grain farming operation

In my testimony today I will officially represent the National Farmers Organization of Ames, Iowa- the ND National Farmers, and to some degree my own feeling as a farmer.

The National Farmers in a Cooperative- a nationwide all commodity farm Bargaining and Marketing group with headquarters in Ames. Iowa. We are the largest marketing organization of farmers in America. We are not involved is selling farm supplies such as gas,oil,fertilizer or selling insurance or other services to farmers. We are strictly a Bargaining and Marketing Organization for farmers production and in nearly all marketing we never take title to the commodities we market.

My testimony presented here today will cover both SB 2416 that we oppose and SB 2427 that we support in concept but do not feel there is a need for the use of State Tax Dollars to make a Pool Program work for farmers.

SB 2416 calls for an appropriation of 100,000 dollars for a feasability study of forming a Wheat Marketing Board

The National Farmers is already doing what this proposed wheat marketing board would attempt to accomplish. We have been Pooling or Blocking many farm commodities, including all classes of wheat, since the early 1970,s. In 1949 it became very obvious to National Farmers that the Federal Gov.would never give farmers a decent price. Today with farmers comprizing less than 2 % of the population, or votes, it is even more obvious that the Political Sector will never anger the 98% of the people (eaters) to help 2% of the people (food producers)

The task of receiving a fair price from the marketplace is up the us farmers. We produce the food. We own it first, and it is up to us to DEMAND A FAIR PRICE befor the production leaves our farm. Collective Bargaining has worked for everyone that has used it. It will work for farmers to if enough of them will only try it.

We think this study would be a waste of tax dollars. Exhibit A included here is a good example.

Another consideration is at the currant farm commodity price level how many farmers would be around in the time it would take to study and form a Wheat Board ? We invite the NDSU and the Extension Service to visit National Farmers home office to look at what we have accomplished.

NDAK. EXTENSION SERVICE
ADVICE TO FARMERS SAME AS NFO GRAIN PROGRAM
Kelly S

A

1-9-99 — "SUN COUNTRY" JAST — ND.

Wheat marketing plan for the new year

By GEORGE FLASKERUD
NDSU Extension

Take time to develop a marketing plan for each crop that will be produced in 1999. Doing so could mean the difference between profit and loss for the farm. It could even mean the difference between survival and bankruptcy. Developing a marketing plan is probably the single most important management activity on the farm. A marketing plan for each crop is essential to overall farm financial planning.

In financial planning it is necessary to combine crop production costs (economic and cash) and government farm program payments with a marketing plan. This permits costs and returns to be estimated for the farm. Then it can be determined if the farm's cash will flow and if production will be profitable. If cash flow or profit problems appear, costs may need to be reduced or alternative enterprises considered.

It is best to keep the marketing plan for a crop fairly simple. That way it can be committed to memory and you will be more likely to act on it when key elements are triggered. Key elements include price objectives and time deadlines.

Price objectives are matched with time deadlines. About five objectives and corresponding deadlines are usually specified in a marketing plan. A percentage of the crop is sold when either the first price objective or time deadline is reached, another percentage of the crop is sold when either the second price objective or second time deadline is reached, and so on. The largest percentage is sold in the middle of the price range.

Time deadlines for selling a crop can be derived from the seasonal price pattern for that crop. Those times of the year when cash prices are usually the highest would be picked as selling deadlines, recognizing that they may need to be modified to meet cash flow needs and storage limitations. Seasonal price patterns for many of the crops produced in North Dakota are presented in North Dakota State University Extension Service circular EC-921.

Price objectives are set relative to a goal. A goal could be to sell in the upper one-third of the price range for the marketing year. A more modest goal would be sell the crop for a price above the state seasonal average farm price. Although seemingly modest, this goal is difficult to achieve, according to marketing publications.

The seasonal average farm price expected for a crop can be derived from several sources of information. Sources include current cash prices, cash forward contract prices, the futures market, USDA's price projections, and estimates by marketing advisory services.

If the goal is to sell above the state seasonal average, the lowest price objective could be set at about that level. The other price objectives could be evenly spaced so that the highest is about 115 to 120 percent of the lowest. Price charts can also be used as a guide in setting these other price objectives. An alternative is to set price objectives so that the seasonal average is exceeded, on average.

MARKET ADVISER

An example marketing plan for wheat produced in 1999 could be as follows:

* Sell 10 percent of the anticipated spring wheat crop by April 28 or when the September futures price reaches $3.80 on the Minneapolis Grain Exchange, whichever comes first.
* Sell an additional 25 percent by May 12 or when the price reaches $3.95.
* Sell an additional 30 percent by Nov. 17 or when the price reaches $4.10.
* Sell an additional 25 percent by Jan. 26 of the following year or when the price reaches $4.25.
* Sell the final 10 percent by April 27 of the following year or when the price reaches $4.40.

A common problem for many producers is to ignore the time deadlines for selling when prices fail to reach stated objectives, a serious blow to the finances and credibility of the farm manager. Even if price objectives have been set unrealistically high, relative to outlook information, the time deadlines make the plan realistic. Since the time deadlines are based on a recognized marketing concept (seasonal price pattern), the plan is acceptable to professional farm managers and those working with them. Producers can feel that they have made a good decision, even when price objectives are not reached. Marketing plans need to be reviewed and adjusted as new information becomes available. USDA reports generally provide the basic information for updating. This information can be supplemented by news reports of crop conditions throughout the world, weather reports and so on.

A marketing plan can be implemented using a number of marketing tools. The best tool to use depends on the situation. The use of elevator contracts as part of your marketing strategy makes sense, especially on that portion of production that can be produced with near certainty, probably the first one-third.

Cash forward contracts, hedged-to-arrive contracts (sometimes called futures fixed contracts) and minimum price contracts are elevator-contract alternatives that should be looked at for making preharvest sales. The best contract for a producer to use largely depends on current and expected futures prices, basis and cash prices.

The put option is an attractive marketing tool because it leaves upside price potential open and does not require delivery. But, that flexibility costs something—which must be paid for at the time of purchase. Consider using put options where uncertainty is the greatest, in effect, where uncertainty involves not only price uncertainty but production uncertainty—most likely the second one-third of production sold prior to harvest.

Selling one-third of anticipated production using a cash forward contract or a futures fixed contract and one-third using put options manages an enormous amount of price risk. A floor price is established on two-thirds of anticipated production while the price is still open to the upside on two-thirds.

2416

Agricultural Economics Report No. 410-S January 25, 1999

Economic Analysis of The Proposed North Dakota Wheat Pool - Summary*

North Dakota Farmers Union has proposed a wheat pool for marketing durum and hard red spring (HRS) wheat produced in the state. The primary objective of the pool would be to enhance net farm income. However, there are several concerns about the proposed wheat pool. These include the effectiveness of the pool in marketing HRS and durum wheat, the quantities of HRS and durum wheat that would be handled by the pool, needed incentive payments under alternative marketing conditions, how to finance the proposed incentive payments, and the structural mechanism necessary to implement the ND Wheat Pool.

Basic Characteristics of the North Dakota Wheat Industry

Wheat can be divided into common and durum wheat. Common wheat is used to produce flour for bread, rolls, muffins, cakes, and crackers. Durum wheat is used for pasta. Common wheat is divided into four classes: hard red winter (HRW), hard red spring (HRS), soft red winter (SRW), and white wheat. For protein ranging between 11.5 percent and 14.5 percent, there is substantial substitution between HRS wheat and HRW wheat, but durum wheat is hardly substitutable with other wheats.

North Dakota produces about 85 percent of the durum wheat and 50 percent of the HRS wheat produced in the United States. North Dakota's market share for durum wheat is about 60 percent of U.S. consumption. The United States imports about 24 million bushels (0.67 million metric tons) of durum wheat, mainly from Canada, and also exports about 45 million bushels (1.23 million metric tons) of durum wheat. North Dakota's market share of HRS wheat is about 40 percent of U.S. consumption. The United States imports about 45 million bushels (1.23 million metric tons) of HRS wheat, mainly from Canada, and exports about 239 million bushels (6.8 million metric tons).

What Is a Marketing Pool and How Does It Operate?

Purpose of a Pool

The main purpose of a market pool is to provide additional revenue to its members through (1) improved marketing efficiency and (2) market power. There may be efficiency gains from handling larger volumes of grain, logistic advantage, and entrusting marketing decisions to trained specialists, who have greater access to information about available supplies and market opportunities than individual producers. A market pool also may be able to exercise limited market power. A pool exerts market power to the extent that it can raise the price of a commodity by restricting supply, or by effectively discriminating between markets—offering higher prices in some market segments, and lower prices in others, in order to maximize net revenue.

Market Pool and Operation

A market pool is an arrangement by which producers market their crops collectively. This arrangement is formalized by means of a marketing agreement between a cooperative and its members. The marketing agreement is a legal

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*This leaflet summarizes Ag. Econ. Report No. 410 prepared by Dr. Won W. Koo, Dr. William Nganje, Dr. D. Demcey Johnson, Dr. Joon Park, and Mr. Richard Taylor. A copy of the report is available upon request from the Department of Agricultural Economics, P.O. Box 5636, North Dakota State University, Fargo, ND 58105-5636; Ph. 701-231-7441; fax 701-231-7400; or e-mail at cjensen@ndsuext.nodak.edu. This publication is also available electronically at this web site: http://agecon.lib.umn.edu/ndsu.html

strument which outlines the rights and responsibilities of both producers and their cooperative.

A market pool combines the crops of many producers. Marketing functions are performed by specialists or professional staffs. The proceeds are divided among pool members with each member receiving the same average price for each unit of commodity delivered to the pool. However, adjustments are often made to reflect differences among pool members in commodity quality, transportation costs, or services rendered. The costs of operating the pool are deducted from the proceeds of the sale of the commodity. In a typical case, the producer receives an advance payment when he delivers the commodity. As commodities of the pool are sold, an interim payment may be made. Once the pool is liquidated, operating expenses and other costs are deducted and the remaining proceeds are divided among pool members in a final payment.

Voluntary and Mandatory Pools

In a voluntary pool, producers are free to either join the pool or stay outside. This is contrasted with mandatory pooling, as exemplified by the Canadian Wheat Board (CWB) system. Another form of voluntary pool is a contractual pool; under this alternative, farmers sign a contract to deliver a specified portion of their production to the pool. Farmers who have contracted with the pool should be able to obtain the average price over the year. Also, a typical contract with producers is for more than one year. Hence, under this system, the pool can make a longer term marketing plan, which provides more stability in operating the pool than a pure voluntary pool. Marketing pools in the United States are all voluntary contractual pools. One of them is the Farmers Rice Cooperative located at Sacramento, California.

Advantages and Disadvantages of a Marketing Pool

Advantages of a marketing pool are (1) to make marketing decisions at a specialized level, (2) to reduce price risk, (3) to establish more orderly marketing and increased price stability, (4) to provide producers with higher than market wide average returns, (5) to improve quality and quantity control, and (6) to promote unity of purpose among producers.

Disadvantages of a marketing pool are (1) delay in receipt of full payment, (2) change to cooperative marketing philosophy, (3) loss of marketing control by the producers, (4) possible inadequate pool size, (5) loss of some short-term marketing opportunities, and (6) producer misunderstanding of the need for capital retention.

Can the Pool Exercise Market Power to Maximize its Revenue?

Benefits of North Dakota Durum Wheat Pool

Table 1 shows the quantities and prices of durum wheat under competitive and alternative pooling scenarios under two different types of pool: North Dakota pool and joint ND/Canada pool. Alternative market shares considered are 50 percent of the U.S. domestic consumption for the ND pool and 80 percent for the joint pool. In both cases, the pool seeks to exert market power by restricting sales to the domestic market and forcing up the domestic price, relative to competitive market conditions.

The ND Pool: Under the competitive market scenario, the quantity of durum wheat supplied by North Dakota is 41.47 million bushels at a market price of $3.50 per bushel, given a 50 percent market share. The domestic revenue is $144.51 million. The total revenue, including revenue from the world market, is $220.3 million.

Table 1. Quantities and Prices of Durum Wheat Under Competitive Market, North Dakota Pool, and Joint Options

	North Dakota Pool*	Joint Pool*
Competitive Market		
Quantity Supplied by Pool (million bu)	41.47	66.06
World Price ($/bu)	3.50	3.50
Domestic Sales Revenue ($ million)	144.51	231.21
Export Sales ($ million)	75.79	109.13
Total Revenue ($ million)	220.30	340.34
Unlimited Quantity Reduction Scenario		
Quantity Supplied to Domestic Market	28.99	38.90
Price Set by Pool	4.40	7.46
Domestic Sales Revenue	127.45	289.35
Export Sales Revenue	117.98	185.50
Total Revenue	245.43	474.85
Changes in TR	25.14	134.52
10% Reduction Scenario		
Quantity Supplied to Domestic Market	37.07	59.45
Price Set by Pool	3.80	4.46
Domestic Sales Revenue	141.27	265.10
Export Sales Revenue	89.99	128.41
Total Revenue	231.26	393.51
Changes in TR	10.97	53.17
15% Reduction Scenario		
Quantity Supplied to Domestic Market	35.23	56.15
Price Set by Pool	3.95	4.94
Domestic Sales Revenue	138.71	277.29
Export Sales Revenue	97.07	137.86
Total Revenue	235.78	415.16
Changes in TR	15.49	74.82

*The North Dakota Pool is based on 50% market share and the Joint Pool is based on 80% market share in the U.S. domestic market.

Under the unlimited quantity reduction scenario, the pool is allowed to reduce the quantity supplied to maximize the pool's revenue. Given a 50 percent market share, the pool reduces its supply of durum wheat from 41.47 million bushels to 28.99 million bushels to increase the price of durum wheat from $3.50 per bushel to $4.40 per bushel. The remaining durum wheat would be sold in the world market at the competitive market price. The world price decreases from $3.50 per bushel to $3.46, as the pool increases the supply of durum wheat in the world market. Revenue from durum wheat exports is $117.98 million under the 50 percent market share case. Total revenue is $245.43 million, which is the sum of the revenue from domestic sales and revenue from the world market. The increase in total revenue under this scenario, relative to the competitive scenario, is $25.14 million.

Under the 10 percent reduction scenario, the pool's supply is 10 percent lower than the competitive market supply. The pool supply is larger than under the unlimited quantity reduction scenario, but prices are much lower. Total revenue under this scenario is $231.3 million, which includes revenue from both domestic and foreign sales. The increase in total revenue under this scenario, relative to the competitive market scenario, is $10.97 million. Under the 15 percent reduction scenario, the pool supply is 15 percent lower than the competitive market supply. The increase in total revenue under this scenario, relative to the competitive scenario, is $15.49 million.

The Joint Pool: Under the competitive market scenario, both countries supply 66.06 million bushels at the market price of $3.50, resulting in domestic revenue of $231.21 million, given a 80 percent market share. Total revenue, including revenue from foreign sales, is $340.3 million.

Under the unlimited quantity reduction scenario, the quantity of durum wheat supplied by the pool is reduced substantially from 66.06 million bushels under the competitive scenario to 38.90 million bushels. The domestic price of durum wheat increases from $3.50 per bushel to $7.46 per bushel. Total revenue under this scenario could reach $474.85 million, which is the sum of domestic sales revenue ($289.35 million) and export sales revenue ($185.50 million). The increase in total revenue under this scenario, compared with the competitive market scenario, is $134.5 million. However, the pool could be constrained in raising the domestic price. If the domestic price exceeds the world price by more than the transportation costs plus handling charges at ports, other exporting countries could export to the United States and the domestic price would decrease.

Under the 10 percent reduction scenario, total revenue from domestic sales is $265.10 million and export revenue is $128.4 million. The increase in total revenue under this scenario, compared with the competitive market scenario, is $53.17 million. Total revenue under the 15

ercent reduction scenario is larger than under the) percent reduction scenario because of higher domestic prices. The increase in total revenue under this scenario, relative to the competitive market scenario, is $74.82 million.

North Dakota Hard Red Spring Wheat Pool

Since North Dakota supplies less than 50 percent of the hard wheat consumed in the United States, market shares considered are 40 percent of U.S. domestic consumption in the ND pool and 65 percent in the joint pool. The domestic price under the competitive market scenario is $3.15 per bushel.

Table 2. Quantities and Prices of Spring Wheat Under Competitive Market, North Dakota Pool, and Joint Options

	North Dakota Pool*	Joint Pool*
mpetitive Market		
Quantity Supplied by Pool (million bu)	112.67	183.13
World Price ($/bu)	3.15	3.15
Domestic Sales Revenue ($ million)	355.12	577.08
Export Sales ($ million)	357.44	580.83
Total Revenue ($ million)	712.56	1157.91
Unlimited Quantity Reduction Scenario		
Quantity Supplied to Domestic Market	105.33	164.78
Price Set by Pool	3.20	3.28
Domestic Sales Revenue	337.54	540.95
Export Sales Revenue	378.45	626.36
Total Revenue	715.99	1167.31
Changes in TR	3.43	9.40
10% Reduction Scenario		
Quantity Supplied to Domestic Market	101.29	164.78
Price Set by Pool	3.23	3.28
Domestic Sales Revenue	327.48	541.15
Export Sales Revenue	390.01	626.13
Total Revenue	717.49	1167.28
Changes in TR	4.93	9.37
15% Reduction Scenario		
Quantity Supplied to Domestic Market	95.79	115.61
Price Set by Pool	3.27	3.35
Domestic Sales Revenue	313.00	521.37
Export Sales Revenue	406.09	647.95
Total Revenue	719.09	1169.31
Changes in TR	6.54	11.41

*The North Dakota Pool is based on 40% market share and the Joint Pool is based on 65% market share in the U.S. domestic market.

The ND Pool: The quantities of hard wheat supplied by North Dakota in the pooling option is 112.67 million bushels. Total revenue from domestic sales under the competitive market scenario is $355.121 million (Table 2).

When the pool maximizes its profit by restricting its supply, the quantity of hard wheat supplied by the pool decreases to 105.33 million bushels with a 40 percent market share. However, there is a small increase in the price of HRS wheat under this scenario because of a high degree of substitution between HRS and HRW wheat. The increase in total revenue, relative to the competitive scenario, is $3.43 million. Under both 10 percent and 15 percent reduction scenarios, increases in total revenue are insubstantial.

The Joint Pool: Quantity of hard wheat supplied is 183.13 million bushels with a 65 percent market share. Total revenue from domestic sales under the competitive market scenario is $577.08 million.

When the pool maximizes its profit by restricting its supply optimally, the quantity of hard wheat supplied by the pool decreases to 164.78 million bushels, given a 65 percent market share. However, there is only a small increase in the price of HRS wheat under this unlimited quantity reduction scenario because of a high degree of substitution between HRW and HRS wheat. The increase in total revenue is $9.4 million. Under both 10 percent and 15 percent reduction scenarios, changes in the pool's total revenue from both domestic and export sales are $9.37 million and $11.41 million, respectively.

Benefits for the Canadian Durum Wheat Producers

Canadian producers would derive substantial benefits from cooperation with the ND pool. Since the CWB has mandatory pooling, there would be no free riders and consequently producers could get higher returns than the ND pool members.

Increases in the CWB's revenue from the pool operation for durum wheat range between $60.6 million under the 100 percent scenario (Canadian exports to the United States equal the average level for the last five years) and $52.7 million under the 60 percent scenario (Canadian exports to the United States are 60 percent of the average for the last five years) when the pool price is $5.00 per bushel. As the pool price decreases, additional revenue for the CWB also decreases.

Increases in the CWB's revenue from the pool operation for HRS wheat range between $64.5 million with the 100 percent scenario and $52.8 million with the 60 percent scenario when the pool price is $3.50 per bushel. However, when the pool price is set at $3.20, increases in the CWB's revenue are $9.3 million with the 100 percent scenario and become negative with the other scenarios.

The Long-Run Effects of the Pool

If the pool succeeds in raising the domestic price, this may induce an increase in production. The increased supply would weaken the pool's market power and make the pool operation less effective. The pool operation was simulated for 10 years from 1999 to 2008 to evaluate the effects of increased supply on the pool operation. The pool prices considered in this analysis are $5.00 per bushel, $4.60 per bushel, $4.20 per bushel, and $3.80 per bushel for durum wheat and $3.50 per bushel and $3.20 per bushel for HRS wheat.

Average prices of durum wheat received by the pool members under alternative pool prices are shown in Figure 1. When the pool price is set at $5.00 per bushel, average prices received by producers are $4.40 per bushel in 1999, decreasing to $4.12 per bushel in 2000, and stabilizing at $4.17 per bushel for the remaining period. As the pool price decreases, the average price received by producers also declines. However, average prices received by farmers under alternative pool prices are much higher than the competitive market price ($3.50), indicating that the pool operation for durum wheat is beneficial in the short and long run.

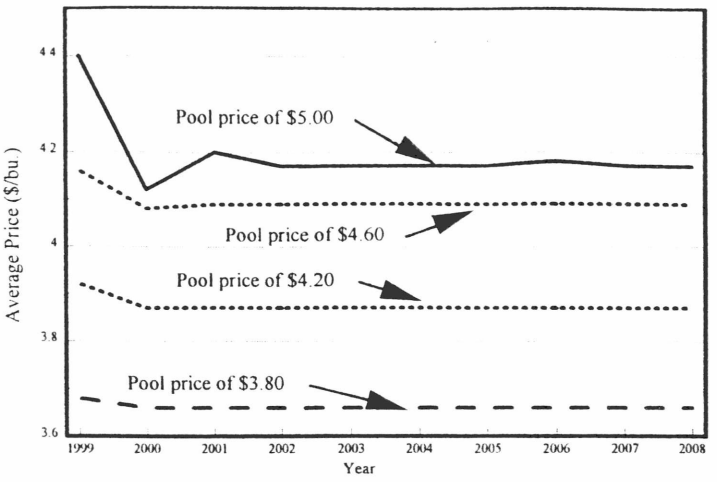

Figure 1. Average Price Received by Members of the Durum Wheat Pool

Average prices of HRS wheat received by the pool members under the alternative pool prices are shown in Figure 2. When the pool price is set at $3.50 per bushel, average prices received by producers range between $3.32 per bushel in 1999 and $3.31 per bushel in 2000. When the pool price is set at $3.20 per bushel, average prices received by producers are still higher than the competitive price, implying that the pool will provide additional revenue to producers in both the short and long run.

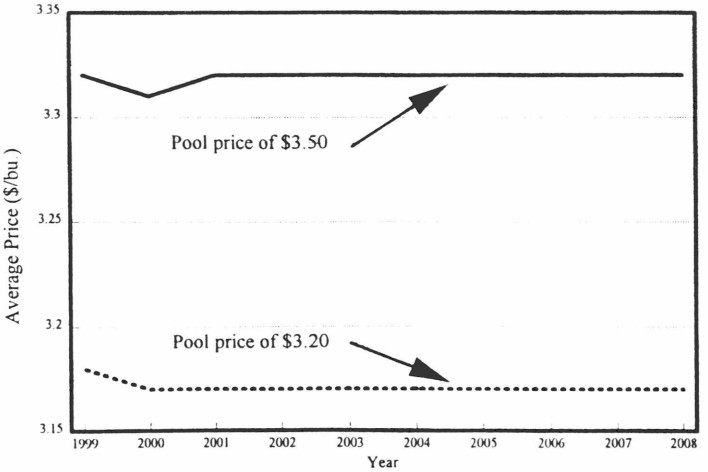

Figure 2. Average Price Received by Members of the Hard Red Spring Wheat Pool

Can the Pool Improve Marketing Efficiency?

Management and Operational Efficiency

Long-term viability of a pool may come to depend on operational efficiencies or competitive advantages that are not shared by other grain trading firms. Among the areas where the pool could develop competitive advantages are grain blending, logistics, and strategic quality management. As the pool's market share increases from 50 percent to 90 percent, it is estimated that producers could receive efficiency gains ranging from $0.165 to $0.284 per bushel for durum wheat and $0.074 to $0.09 per bushel for HRS.

Optimal Length of the Contracts

The minimum required contract length for the North Dakota pool would be four or five years. That is the time required for payoffs to stabilize, based on supply response assumptions in the analysis.

Market Strategies

The pool should adopt the following marketing strategies: (1) to provide consistent quality wheat for domestic and foreign customers through careful handling, cleaning, blending, and storage; (2) to establish long-term sale contracts with domestic and foreign customers through customized wheat quality; (3) to use quantity premiums to attract greater volumes to the pool and limit the free rider problem; and (4) to provide efficient risk management for its members, both intra- and inter-year.

Organizational Structure and Handling Mechanism

Handling Mechanism

The pool would collect wheat from member producers utilizing authorized local grain elevators. The grain elevators would contract with the pool to maintain variety segregation and the level of quality control required by the pool. Wheat would be delivered by member producers according to their delivery commitments, arranged at the time of sign up. Wheat is either cleaned and blended at the local elevator or shipped to larger regional elevators for cleaning and/or blending to meet or exceed quality factors, as determined by the pool and its customers, with input from technical experts in the market. After blending and grading, it could be sold to either the domestic or foreign markets, depending on the quality standards required by those markets. A portion of wheat could be processed into semolina for durum wheat or flour for spring wheat by the pool and sold to domestic and foreign food processors. The pool could directly ship wheat from local elevators to domestic processors and contract with grain companies to ship durum wheat to international markets.

Scheduled Payments

The initial payment would be paid to producers upon delivery of wheat to the local elevator. The initial payment would equal a percentage of current market price or the CCC loan rate for wheat in that county. The delivery of wheat would be spread out over the marketing year to ease the transportation of wheat. An interim payment could be made to producers after the committed volume of wheat is sold. The final payment would be made in April or May after the marketing activities of the pool are finished.

Organizational Structure and Operating Costs

The pool would be organized as a cooperative with an elected board of directors. The manager would be responsible for the day-to-day operation of the pool and would answer to the board of directors. The pool could be divided into five divisions: Sales and Marketing, Membership Promotions, Accounting, Transportation, and Research.

Assuming that the North Dakota Durum Wheat Pool handles 50 million bushels of durum, the total estimated operating expense would be $1,186,000, or about 2.37 cents per bushel. For a North Dakota Spring Wheat Pool handling 50

percent of the North Dakota spring wheat crop or about 136 million bushels, the total estimated operating expense would be $2,484,000 or about 1.83 cents per bushel.

Conclusions

The ND Durum Wheat Pool may provide additional revenue to durum wheat producers by raising the domestic prices jointly with the CWB in the North American market. If such cooperation is feasible, the domestic price could be driven substantially higher than the world equilibrium price, which would work to the mutual benefit of U.S. and Canadian producers. The pool also could provide additional revenue to its members by improving marketing efficiency. Efficiency gains through the pool operation are estimated to be $0.16 - $0.23 per bushel for durum wheat.

On the other hand, the ND Spring Wheat Pool is less likely to provide additional revenue to spring wheat producers in the state by raising domestic prices, even with full cooperation from the CWB. HRS wheat is highly substitutable with hard red winter wheat and the pool may not have enough market power in the North American market. Efficiency gains also could be smaller than for durum wheat. Efficiency gains are estimated to be $0.07 - $0.09 per bushel for HRS wheat.

Major Issues and Concerns

Incentive Payments and Contracts

The pool can offer incentive payments to those who participate in the pool. The purpose of this incentive payment is to attract producers to the pool operation. In general, higher incentive payments will attract more participants to the pool. The concern is how to finance the incentive payment. The payment could come from either the state government as a form of subsidy or from the state bank or commercial banks as a loan. A state government subsidy might violate the World Trade Organization (WTO) agreement, and would require approval of the North Dakota legislature. If the incentive payment is subsidy-neutral, it must be financed by a bank and the pool would be responsible for the repayment of the loan. In this case, the pool would have to arrange multi-year contracts with its members; otherwise, members would exit after receiving the incentive payment. The magnitude of the incentive payment, therefore, should depend upon the contract period and expected additional revenue from the pool operation.

Payments to Producers

Payments to producers will be lower than the domestic price of wheat set by the pool. The reason is that only part of the pool's wheat is sold at the high domestic price; the remainder is sold at a lower price in the world market. In addition, the pool will have operating expenses which should be paid from the pool's revenue. The final payment to producers would be the average price minus the pool's operating cost per bushel. The total payment to the member, therefore, is lower than the domestic price. Because of this difference, members could seek to exit the pool in order to receive the higher domestic price. These free riders would weaken the market power of the pool.

Supply Response

The supply of durum wheat is very elastic in some regions in the United States. For instance, the price elasticity of supply of durum wheat is 2.0 in the desert region and 0.98 in other regions. The price elasticity of supply is 0.86 in North Dakota. This implies that a 10 percent increase in the price of durum wheat would induce about the same percentage increase in supply. To the extent that additional production is supplied by free riders, this will weaken the market power of the pool. An alternative would be to form a U.S. durum wheat pool by including producers in all durum wheat producing states, mainly Montana, Minnesota, California, and Arizona.

Cooperation with the Canadian Wheat Board

For effective exercise of market power, the durum wheat pool would require cooperation from

the CWB. The CWB is capable of supplying large amounts of durum wheat to millers in the United States as long as the U.S. domestic price of durum wheat is higher than alternative markets, net of shipping costs. However, if the ND Wheat Pool and the CWB cooperate with each other, the two parties can jointly determine a minimum price of durum wheat, which would be much higher than the competitive price in the North American market. This cooperation would entail the CWB restricting its durum wheat exports to the United States to an agreed level. As long as the ND Wheat Pool and the CWB continue to honor the agreement, producers in the two countries could earn additional revenue. However, the legality of such cooperation (if based on an explicit agreement) would have to be determined. In absence of an explicit market-sharing and pricing agreement, cooperation would have to be implicit, based on recognition of mutual interests.

On-farm Storage

The carry-over stock at the end of the 1997-98 marketing year was about 23 million bushels for durum wheat and 228 million bushels for hard red spring wheat. Ending stocks for 1998-99 are projected to be even higher. The pool may have to absorb a major portion of these stocks to effectively exercise its market power, and some of the remaining stocks could be supplied to the domestic market by non-members. Large current carry-over stocks, therefore, may reduce the pool's effective market share and weaken its market power. An alternative is to export a large portion of the carry-over stocks under the Export Enhancement Program (EEP).

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US FARMERS WHEAT BOARD

Let's look at a US Farmers Wheat Board to improve prices.

Marketing Problems to Correct:

1. Low Prices for Wheat
2. Imports from Canada
3. Losing World Market Share
4. Large World Supply -- Poor World Economy (Asia) Destroys Our Total Market (Domestic and Export)
5. One Price For All Markets (Domestic and Export)
6. Cargill Buying Continental

Low Price

Cost of Wheat Production in 1997 -- $4.62 per bushel
Farmers need a wheat price of $5.00 per bushel.

Will government set a $5.00 wheat loan?
Congress resisted raising loan rates from $2.60 to $3.20
Can government stop wheat from coming in from Canada?
Can government increase our world market share?
Can government set up a multiple pricing structure?

How would a US Farmers Wheat Board approach these problems?

1. Wheat Board Markets all US wheat for domestic and export sales. Domestic 50% Export 50%
2. Supply contracts with Domestic mills for <u>total</u> supply.
3. All mills pay same price (average freight).
4. Supply mills with the grade they want, and guarantee future supply when they need it for $5.00 per bushel.
   This stops imports from Canada, and starts multiple pricing.
5. Local and terminal elevators are paid for handling, storage, and cleaning.

Export Market (50%)

1. Stop under-pricing Canada and Australia in the Export Market.
2. Work with Canada and Australia, and divide up Export Market.
3. Offer a foreign mill the grade and variety of wheat they want whenever they need a supply and guarantee a future supply.
4. Canada would welcome a US Wheat Board.

Cargill Buying Continental

This causes no big problems. The Farmers Wheat Board would be doing all the marketing and pricing of the wheat. Cargill and Continental would only be handlers.

What Will it Cost Farmers to Have a US Wheat Board?

1. It would require no stock, no seed money.
2. Marketing expenses deducted from sales.
3. It cost 1997 Canadian farmers $.05 per bushel.
4. Farmers lose the ability to market as individuals.

Closing thoughts....

At three farmers' meetings held in Kensal, Carrington, and Aneta, 64 farmers discussed different solutions to the farm problem. These were nonpartisan discussions, only looking for a solution to our problems . Sixty-two farmers voted to support a US Wheat Board to market their wheat; two farmers wanted more information.

Maybe it's time that we seriously consider having the North Dakota State University do a study to determine the benefits of a US Farmers Wheat Board to handle our marketing.

TABLE 11 - 5
Crop Enterprise Analysis, 1997
North Dakota Farm Business Management Education Program
State Report
(Farms sorted according to Return to Overhead per Acre)

SPRING WHEAT ON CASH RENTED LAND

	Average Of All Farms	Average Of Low 20%	Average Of High 20%
Number of fields	482	120	81
Number of farms	196	39	39
Acres	150.30	138.83	130.70
Yield per acre (bushel)	25.43	20.75	30.66
Operators share of yield %	100.00	100.00	100.00
Value per bushel	3.63	3.53	3.74
Other product return per acre	0.00	0.00	0.00
Total product return per acre	92.27	73.23	114.79
Miscellaneous income per acre	6.48	4.58	7.41
Gross return per acre	98.74	77.82	122.20
Direct expenses per acre			
Seed	8.93	9.84	9.27
Fertilizer	19.41	21.63	20.10
Crop chemicals	9.52	12.09	8.53
Crop insurance	5.54	6.94	4.34
Drying fuel	0.05	0.13	0.14
Fuel & oil	6.22	7.48	6.03
Repairs	9.36	12.59	8.65
Custom hire	3.93	6.25	1.79
Land rent	29.61	31.69	27.14
Machinery & bldg leases	0.11	0.23	0.00
Operating interest	3.92	5.16	3.31
Miscellaneous	0.30	0.31	0.67
Total direct expenses per acre	96.88	114.34	89.97
Return over direct expenses per acre	1.87	-36.52	32.23
Overhead expenses per acre			
Hired labor	2.99	3.22	1.78
Machinery & bldg leases	1.49	1.69	1.61
Farm insurance	1.34	1.61	1.48
Utilities	1.07	1.32	0.89
Hauling and trucking	0.02	0.00	0.10
Dues & professional fees	0.29	0.44	0.15
Interest	3.01	3.29	2.11
Mach & bldg depreciation	8.24	7.68	8.01
Miscellaneous	2.13	2.74	2.09
Total overhead expenses per acre	20.60	22.00	18.21
Total listed expenses per acre	117.47	136.34	108.18
Net return per acre	-18.73	-58.52	14.02
Total direct expense per bushel	3.81	5.51	2.93
Total listed expense per bushel	4.62	6.57	3.53
Net return per bushel	-0.74	-2.82	0.46
Breakeven yield per acre	30.59	37.33	26.92

1998 U.S. Farmers Wht Board Information Meeting - Kensal

Todd Timm	1164 Hwy 9 S	Kensal ND
Bernard J Kramer	Box 184	Kensal N.D.
Paul Spitzer	8406 6th ST SE	Kensal ND
Roger Florhaug	676 86th AV SE	Kensal ND
Chris Bredahl	8555 8th SE	Kensal N.D.
Glenn Ableidinger	Box 176	Kensal N.D.
Kevin Lipetzky	207 2nd Broadway	Kensal, ND
Bob Lipetzky	484 5th Ave S	Carrington
Clete Lipetzky	216 Broadway	Kensal N
Kent Florhaug	RR1 Box 204	Kensal, N.D.
J. Florhaug		Kensal N.D.
Bill Spitzer	8579 5th St. S.E.	Kensal N.D.
Dale Bredahl	RR1 Box 126	Kensal N.D.
Curt Timm	8247 Hwy 9	Kensal
Kent Ableidinger	8746 4th St SE	Kensal, ND
Don Lipetzky	8810 4th St SE	Kensal, N.D.
Francis Harding	703. Chest.	Kensal N.D.

U.S. Wheat Board?

Canadian idea gains support at Carrington, Kensal meetings

By Julie Scheen

Carrington

1998 U.S. Farmers Wht Board Information Meeting

Screen	Carrington
Dennis Hanson	Sheyenne
Harold Klejs	New Rockford
Brad Weber	New Rockford
Paul Spitzer	Kensal ND
Frank Dami	Carrington ND
Frederick Allmaras	New Rockford
James Allmaras	New Rockford
Ron Schafer	New Rockford
Clay Deisinger	New Rockford
Philip Lura	Carrington
Kevin Lura	Carrington
Bob Henderson	Carrington
Donald Vig	Valley City
Lenida Drake	Sheyenne, N.D.

In the race to the bottom, winners are losers

By: Alan Guebert

—corn and wheat exports for 1998 are projected to be over one-third below the nearly 20-year old record levels established in the late-1970's and early-1980's, a time when farm programs contained "high" loan and target prices;

—cotton exports will be nearly one-half below their historic low level;

—the global marketshare for US corn exports has gone from 84% in 1979 to 60% in 1997;

—the "overall US marketshare for global grain exports is well on its way to being the lowest five year average during the 1996 Farm Bill than any of the previous five Farm Bills."

—despite the "market-driven 1996 Farm Bill, the US is the only major food producing nation in the world that's building stocks."

Indeed, in order to win this bloody marathon, it's quite likely prices will need to be cheapened even more—easily done through commodity or current market speculation—before the finish line comes into view.

When and if that occurs, even the winners will be losers.

1998 Marketing Pool meeting
Tolna

	Name	Town
1	Jeffrey Fahrney	Tolna
2	Dale Stevenson	Cooperstown
3	Bill Dentzi	Finley
4	Curt Lewis	McVille
5	Todd Jordi	Tolna
6	Gale Flohaug	Arena
7	Gail Flohaug	Arena
8	Clayton Black	Tolna
9	Joel Heck	Rekin
10	Kurt Flaagan	Pekin
11	Roger Gillett – Bonnie	Tolna 262-4508
12	Roger Johnson	Tolna
13	Tony Wipf	McVille
14	Scott Sand	Pekin
15	Doug Flaagan	Tolna
16	Orlin Bondy	Petersburg
17	David Flaagan	Tolna
18	STACY L4WD	TOLNA
19	Dave Lee	Tolna
20	Al Halvorson	Tolna
21	Lloyd Lee	Tolna
22	Tim Becker	Tolna
23	Mark Becker	McHenry
24	Brian Halvorson	Pekin
25	Rev. David Nichols	Town
26	Dave Flaagan	Tolna
27	[illegible]	Tolna
28	[illegible]	Tolna
29	[illegible]	Tolna

30 Stanley Haus
31 Lynda Halvorson
32 Myron Halvorson

Tolna
Tolna
Tolna 262-4791

Canadian grain firm opens Minot office

Bismarck, N.D. (AP)

A Canadian grain company has opened an office in Minot to look into possible expansion south of the border.

"Our plan for in the states is to test the waters and know the area," said Kent Magarrell, assistant vice president of James Richard International. "We're just getting into it."

The Winnipeg-based company has more than 110 locations throughout Canada and is known as the largest privately held Canadian grain company. Its sales total about $2 billion a year.

"While we are interested in all crops, the Minot (office) will focus on some of the crops that are relatively new to North Dakota, such as canola and feed peas, crops that JRI traditionally markets," company President Curt Vossen said.

If the venture works out, the company could buy or build a grain-handling facility, Magarrell said.

No simple answers to ag imports

Forum editorial

The U.S./Canada trade demonstrations at the border point to an unfixable dilemma:

▶ North Dakota farmers and politicians want volume limits on Canadian grain and livestock coming into the United States. Anything less than volume limits is unacceptable to them.

Prices are depressed, they say. The U.S. is awash in grain and livestock, why add Canadian grain to the pile?

▶ Canadians want free and unfettered access to U.S. markets, and the international trade agreements struck in recent years clearly allow it.

Anything approaching volume limits is unacceptable. Such limits run counter to international trade law.