

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
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ROLL NUMBER

DESCRIPTION

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2005 HOUSE AGRICULTURE

HB 1518

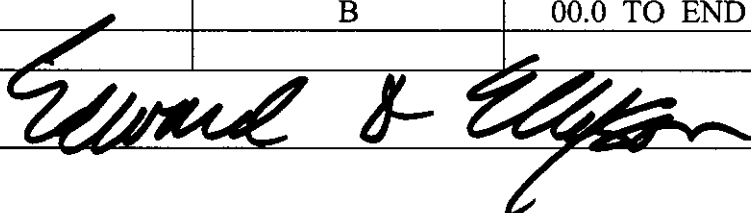
2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1518

House Agriculture Committee

☐ Conference Committee

Hearing Date 2---04---05

Tape Number	Side A	Side B	Meter #
ONE	A		00.0 TO END
ONE		B	00.0 TO END
Committee Clerk Signature 			

Minutes:

CHAIRMAN NICHOLAS: We are happy to see the fine turn out for the hearing of this bill.

I am the prime sponsor. I am going to offer a few comments.

I just want to offer a few brief comments. This is a bill that we did some work on last session and obviously as we got into this session it is obvious that we look at the no levy it is obvious that we need to look at the mill levy increase for the North Dakota wheat commission. When we took the reports from the wheat commission and the other commodity groups earlier in the session it was pointed out that number one, the trade case, which is an effort by the commission which had to put forth at the direction of the 1999 legislative session where we Provided two mill for trade cases. They had expended those resources and it has been brought to this commission that additional mills will be needed. To continue this work by the commission. At the time when we looked at the numbers it looked like the direct results to North Dakota Farmers are somewhere between fifty million and nearly one hundred and ninety

million dollars. That is a significant amount of money but what I think is even more significant is that we have seen the drop of wheat exports to the US and those are huge we have dropped from nearly forty million bushels of wheat to nearly zero and I think this is having a significant effect on price the last two years. When we looked at the numbers earlier it appears as though it has had a \$30.00 dollar per acre increase in revenue to the farmer. For the last Two years we have seen that increase on six million acres of wheat. I think we have an opportunity here to continue the work of the wheat commission but also we have put in this bill just like we did last session 2 mills which can be used for domestic policy. Currently the wheat commission provides a substantial money in the efforts of the National Wheat Organizations which is channeled through the groups that represent wheat in ND. The Grain Growers, Durum Growers. There has been an on going working relationship with the commission a contract Basis for many years. I think that has been successful but that has also been beneficial to ND farmers. As we look into the future for wheat we need to continue an aggressive posture. With the Canadians. The transparency in pricing by the Canadian wheat board is still there it has not changed. We have many other problems with Canada, on wheat and I think we will continue to have them. I attended a meeting the Chairman's Ag meeting in Tenn. We had a Canadian speaker to our group and he pointedly pointed out that they obviously did not like this trade action. He said be careful you might get what you wish for. I think this committee should move this legislation forward. The Farm Bureau and Farmers have taken a positive stance on this legislation.

REPRESENTATIVE BOUCHEE: DISTRICT 9.

Chairman Nicholas and I have been working on these issues for a number of years and I certainly concur with his efforts in what he has endeavored to do. Rep. Nicholas has out line this bill very well for you. There are two significant issues that this bill addresses. One is the issue of debt which we need the money to pay a debt that is outstanding. A significant amount of money. The second part is the funds that we need for representing the wheat growers. When we go to Washington we don't have to depend on a large company paying for our flight, hotel rooms etc. I support this bill.

CHAIRMAN NICHOLAS:

HARLIN KLEIN: [][[[] PLEASE SEE HARLIN KLEIN PRINTED TESTIMONY---IN A BOOKLET FORM]]] Some comments made by Harlin were. We need to secure funds. A penny to a penny and a half. We need to get trade case paid off. We need to go ahead and With an increase and get this trade case paid off and go defending for the producers in this state the markets that we have. HARLIN ASKED FOR SUPPORT OF 1518 . We have a strong wheat industry in ND that can become even stronger if we have support on this bill. Thank you for your time. One more thing we have a amendment that will clean up the language and combine some things together.

REPRESENTATIVE ONSTAD: We commend you and the wheat commission for taking on this dispute. It is to bad it ended up in litigation and also unknown what the cost is but it is quite evident that it helped our basic market. Dose the wheat commission feel the need is to contract with other organizations. If so and why.

HARLIN KLEIN: We need to be contracting with someone to handle some of these other things. Domestic policy is one of those things. It is an overwhelming The contracting system

seem to work quite well. We can assign things to do. Let them go ahead. We talk back and forth.

REPRESENTATIVE MEULLER: Along those lines having to do with the contracting issue.

If we look at the bill on page three Subsection A bottom of page. Contracting etc.

Then we go to part B to address domestic policy issues. Are we not going to given the language in here write contracts for the addressing of domestic policy issues.

KLEIN: That is where the amendment is coming in. The amendment will bring it all together under one paragraph. Domestic policy issues will also be contracted.

REPRESENTATIVE MUELLER: What form that contract ends up taking.

HARLIN KLEIN: We do the contracts one year at a time. Basically coming up with

Proposals on things that you can see ahead of you. The issues that will come up that will need to be addressed in domestic policy. We try to anticipate the issues that we can see coming up.

Also so that we can address emergencies that come up Use collective information. We have set up a committee with the different growers to see what are the issues. For example, what are issues that wheat commission can put its arms around collectively We have come up with for example crop insurance. Something we all deal with. There are neutral things we can talk about. Some people agree to disagree.

CHAIRMAN NICHOLAS: I think every farmer in ND wanted the disaster program. It is going to benefit them. The work that you put in is going to hopefully bring two hundred fifty million dollar back to our state. When we put this bill together we envisioned the direction it is going. There may be minor differences at times but by and large on the broader spectrum I think in almost all cases there is going to be an agreement as to what is best for the wheat industry.

The bigger we can grow that conusees the better it is for our state. From 1997 to 2001 approximately 47 million bushels of wheat was coming in. That dropped to 14 million In 2002. To 200,000 in 2004. That is the kind of impact this trade case has had. Huge benefit for ND farmers.

REPRESENTATIVE HEADLAND: You are asking for a substantial increase in funding. Currently you have a fairly substantial budget. You are asking for a substantial increase. Producers are going to have to pay that. I am curious have you looked in to any way you might be able to save money in your budget.

HARLIN KLEIN: We look at the budget every year. We go through the budgeting process And through out the year. If there are some areas where we can cut bacak and hold back thjose types things that are not extremely important. We have taken some of the budget down as sto research etc that really should not be taken down budget wise. Research is extremely important. We need to get the trade case paid off. Legal bills paid it will allow us to do a lot of things. We need to promote wheat it self. The legal fees are a extreme amount of money.. We try to cut cost at all times in the office.

CHAIRMAN NICHOLAS: Who would like to be next?

DON WOGSLAND: PRESIDENT OF NORTH DAKOTA GRAIN GROWERS

ASSOCIATION. I am here and I support HB 1518. [][[PLEASE SEE PRINTED TESTIMONY READ BY TERRY. THERE WAS AN AMENDMENT OFFERED FOR THE BILL. There was also a statement make as to getting all growers and groups together representing North Dakota in Washington the better off we will be. We need to be heard in Washington. Accountability is important. We asked to be accountable. Membership is the

life blood of our organization We are going to recruit members. We are going to go full steam ahead. It is in the best interest of our organizations.

This bill comes at a critical time for ND farmers. I request that we pass the clarifying amendment that the association supports as well as the wheat commission. I would ask that you give a DO PASS TO THE HB 1518.

CHAIRMAN NICHOLAS: Who would like to testify next?

TERRY WANZEK: PRESIDENT OF NORTH DAKOTA GRAIN GROWERS
ASSOCIATION. [[please see attached printed testimony.]]

REPRESENTATIVE MUELLER: First I would commend some of the excellent work that has been done between the North Dakota Grain Growers and Durum Growers on some of the excellent work that has been done. Contracting is going to be an issue. How do you see that process? What do you envision with contracting and setting agendas will be like. How is the agenda going to be driven?

TERRY WANZEK: As the president. I have to consider a much broader spectrum of representation for the wheat industry. We all have our own opinions and I recognize that all wheat growers do not agree with all of our views and opinions. My hope that any funds as a grain grower association president that would be targeted for domestic policy would be directed towards a broader scope of farm program issues, domestic policy issues. Where there issues that are more contentious where there are growers that are not in agreement. They would be handled in recognition of those issues. We would be willing to separate public dollars and show where they came from, How they are utilized in domestic policy issues. We will be

accountable and come before you. We will find ways to work through the issues. There will be a segregation of the funds.

CHAIRMAN NICHOLAS: Thank you Terry. Who is next to testify on 1518

DENNIS WUNDERLICH; President of the U.S. DURUM GROWERS ASSOCIATION. I AM HERE TO ASK FOR SUPPORT OF HB 1518 WITH THE CLARIFYING AMENDMENT.

CHAIRMAN NICHOLAS: Next testimony.

MARK BIRDSALL: I am a farmer from Berthold. I raise spring wheat and durum on my farm. We also have a certified seed business. I have been active in the Durum Growers association. I am here to speak in support of HB 1518 with amendments. HB 1518 would increase check off from the current rate of one cent a bushel to a cent and a half a bushel.

We need a healthy wheat industry. To accomplish this funding must be adequate for wheat research, foreign and domestic market development and trade policy. The legal actions that the wheat commission has been involved in against the Canadian Wheat Board and the Canadian Government have proved to be beneficial. If approved we will have funds to address the needs of the wheat commission. Last week the US DURUM GROWERS approached me to go to Washington DC with them to work on some provisions of the disaster bill. This was done by the groups working together. It is little known but there is a process going on in D.C. That would diminish the quality loss portion of the disaster bill to a small amount compared to previous disaster bills. We showed losses through elevators from the past and what will be with the new bill. I hope we made a difference. Markets are opening up because of the Wheat Commission. Asian countries are looking at our durum. WE SUPPORT THE BILL.

CHAIRMAN NICHOLAS: TESTIMONY

PAST PRESIDENT OF GRAIN GROWERS: We need to continue with trade case. We have coemption from Russia, Australia, Ukraine. I have seen top soil that is forty feet deep and it rents for six dollars a acre. We need to be able to compete against our compassion. Domestic policy and technology will allow us to compete against foreign exports We need to bring this together or we are going to get wiped off the wheat market. Wheat wants to grow on my farm.

THE ABOVE TESTIMONY WAS PRESENTED BY GREG.

CHAIRMAN NICHOLAS: I would like to point out that the quality adjustment formula That the group that went to D.C. To work on. Mr Dass, Rep. Boucher and myself along with other people from the grain growers and durum growers when that was put together in 2000 Mr. Birdsall and other helped put that formula together. It was esteemed the 2000 disaster bill that was put together that it had a eight million dollar impact on ND. I am sure if that formula was lost on this current bill it would probably impact our state that much. That is what we are talking about in quality adjustment formulas.

JODY HAUGE: CHAIR OF NORTH DAKOTA AG COALITION: [[[please see printed testimony]]]

JAY ELKIN: TAYLOR N.D. I support bill. I have hosted foreign growers at my farm. I don't have time etc. Top market. I need this bill.. Wheat is my most important crop.

PLEASE PASS THIS BILL..

CHAIRMAN NICHOLAS; NEXT

ED LORAAS: SELF AND USAGA Fairdale ND US DURUM GROWERS ASSOCIATION AND ALSO A GROWER. I support the HB 1518. WITH AMENDMENTS. We support the grain growers.

CHAIRMAN NICHOLAS: Can I see by the raising of your hand how many more we have in support of this bill.

TOM CLAYBOLL: I am a farmer that raises wheat and other crops near Cooperstown ND
I currently serve as the county representative for Steel County Wheat commission.

I AM HERE TO URGE A DO PASS.

BILL ONSTAD: Farmer from Harvey ND I have been involved with the Durum Growers since 1980. I have taken off 31 wheat crops Our net income comes from our domestic policy us resulting in more of our income We have evolved through the years and our Wheat Commission needs money to fund these trade cases. I SUPPORT HB 1518 AMENDED.

NICHOLAS: Did I get all the proponents. Thank you. Mr. Stregie

STEVE STAGE: Executive Vice President of the North Dakota Grain Dealers Association.

WE ARE ON RECORD IN SUPPORT OF TRADE CASE. We think the Commission should be given the authority to pay it's bills. I have a amendment Mr. Chairman. Bill would have better accuracy with the amendment. [[[PLEASE SEE PRINTED TESTIMONY]]]

RICHARD SCHLOSSER: NORTH DAKOTA FARMERS UNION : I am here to testify in opposition of this bill. [[[PLEASE SEE PRINTED TESTIMONY]]]

CHAIRMAN NICHOLAS: NEXT TESTIMONY.

MARCY SVENNINGSSEN: FARMS WEST OF VALLEY CITY. I am opposed to the bill. I do not believe that two mill should be given to the grower groups. We should pay off the legal fees as to our suit with Canada. The ND wheat commission is set up to decide where the tax dollars are spent. I was disappointed that the a wheat commission voted unanimously to support this bill. I OPPOSE THE BILL. I URGE THIS COMMITTEE TO EITHER AMEND

THIS BILL TO REMOVE THE MANDATED LANGUAGE OR IF THAT FAILS TO
HAPPEN VOTE NO ON HB 1518. THANK YOU.

CHAIRMAN NICHOLAS: OTHER TESTIMONY:

MARVIN SCHRAMM: [[[PLEASE SEE PRINTED TESTIMONY]]]

CHAIRMAN NICHOLAS: NEXT

JIM TEIGEN, RUGBY, N.D. [[[PLEASE SEE PRINTED TESTIMONY]]]

DAN SPIEKERMEIER: SHELDON N.D. I SPEAK IN OPPOSITION OF BILL

DANIEL WILTSE; LISBON. N.D. I served as the ND BARLEY COUNCILMEN I have
worked with grain growers and also served as a director in ND GRAIN DEALERS FOR A
TERM. I stand in opposition to HB 1518 as to stands. I do fully support the five mill
increase. I have some concerns as to how the two mills will be spent. I believe these funds
should be spent according to existing law in addition to paying off the future trade case
expenses. The proposed two mills would increase funding available to the two trade
organizations and over five hundred percent of the 2004 expenditures. It seem inappropriate
And an unwise use of funds with the debt of trade case before us. In conclusion I support the
five mill increase at this time but the five hundred percent increase in designated funds I resist.
Thank you.

CHAIRMAN NICHOLAS: Any other opposition to this bill.

CHAIRMAN NICHOLAS: We have good cross section of North Dakota Farmers here today
I in the last two disaster bills and the one coming up. How many of you received some kind of
payment? O.K. Probably half or more. Thank you very much.

WE WILL CLOSE ON HB 1518

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1518

House Agriculture Committee

☐ Conference Committee

Hearing Date 2---10---05

Tape Number	Side A	Side B	Meter #
ONE	A		11 TO END
Committee Clerk Signature <i>Edward D. Elphinstone</i>			

Minutes:

CHAIRMAN NICHOLAS: Opened on HB 1518

REPRESENTATIVE MUELLER: Wants the amendment See amendment as printed testimony. Deals with loan deficiencies payments. We need to get to Washington DC And midi gate. Durum Growers and Wheat Growers.

CHAIRMAN NICHOLAS: Amendment dose have merit. There is agreement between growers right now. Twenty million will impact ND. This year. These organization got 250 million for North Dakota. Wheat commission need to be commended for winning case in Canada.

REPRESENTATIVE MUELLER: They need more then two mills to get this done.

REPRESENTATIVE ONSTAD: Relationship is good, put three mills in there. Also use the word may.

CHAIRMAN NICHOLAS: Passed out amendments. Amendment number 1003.

Page 2
House Agriculture Committee
Bill/Resolution Number HB 1518
Hearing Date 2---10---05

HARLIN KLEIN: I am in favor of amendment.

DAN WAZLAND: DURUM GROWERS. We support amendment.

CHAIRMAN NICHOLAS: I would like to take action on this bill.

REPRESENTATIVE BELTER MADE A MOTION TO ADOPT THE AMENDMENT.

REPRESENTATIVE BRANDENBURG SECONDED THE MOTION.

CHAIRMAN NICHOLAS TOOK ACTION ON THE BILL.

**REPRESENTATIVE BRANDENBURG MADE A MOTION FOR A DO PASS WITH
THE AMENDMENTS.**

REPRESENTATIVE BOE SECONDED THE MOTION.

THE ROLL WAS TAKEN. THERE WERE 12 YES 1 NO 0 ABSENT

REPRESENTATIVE BRANDENBURG CARRIED THE BILL.

CHAIRMAN NICHOLAS CLOSED ON HB 1518

FISCAL NOTE

Requested by Legislative Council
03/09/2005

Amendment to: Reengrossed
HB 1518

1A. State fiscal effect: *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues				\$2,810,000		\$2,810,000
Expenditures				\$3,049,713		\$1,036,245
Appropriations						

1B. County, city, and school district fiscal effect: *Identify the fiscal effect on the appropriate political subdivision.*

2003-2005 Biennium			2005-2007 Biennium			2007-2009 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. Narrative: *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

This bill proposes to increase the current 10 mills per bushel levy of the North Dakota Wheat Commission (NDWC) to 15 mills per bushel on all wheat sold in the state. All funds are special funds and are non-appropriated, with continuing appropriation authority granted under NDCC 4-28-08. The NDWC mill levy, which is assessed at the first point of sale, is the Commission's only source of funding, and is used to support the NDWC mission, which is, in short, to aid in the orderly marketing of North Dakota wheat by expanding markets through promotion, education and research. Commonly known as the wheat checkoff, the program at the current assessment level has the potential to generate \$5,620,000 in gross revenues per biennium, based on a 5-year average North Dakota wheat crop of 290 million bushels, less on-farm seed and feed use. The proposed increase could raise potential gross revenues by an additional 50 percent or by \$2,810,000 per biennium, based on similar assumptions of average production. Deductions for existing and potential increases in producer refunds will be addressed in subsequent sections to provide a better assessment of potential net revenues available for Commission programs. Recent amendments to this bill do not impact the fiscal note.

3. State fiscal effect detail: *For information shown under state fiscal effect in 1A, please:*

A. Revenues: *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

The proposed five mill increase in the wheat checkoff could potentially generate an additional \$2,810,000 in gross revenues per biennium increasing potential existing gross revenue of \$5,620,000 to \$8,430,000. Proposed changes to the existing legislation also provide in subsection four of Section 4-28-07, that The commission shall expend an amount at least equal to that raised by two mills of the levy provided for in this section to contract for activities related to domestic wheat policy issues, wheat production, promotion, and sales, with no more than two trade associations that are incorporated in this state and which have as their primary purpose the representation of wheat producers. Under this proposed legislation the two mills amount to 13.3 percent (\$1,124,000) of the potential total gross revenue produced by the 15 mill checkoff. The NDWC has had ongoing contractual agreements with these associations since 1989. Under provisions of the proposal the North Dakota Wheat Commission would retain revenues generated by 13 mills or potential gross revenue of \$7,306,000 or 87 percent of the total gross revenue.

The impact of the measure on producer refunds which currently average slightly less than 7 percent is unknown.

However, past experience indicates previous increases in the checkoff have brought accompanying increases in the frequency and volume of refund requests, which over time typically moderate to some extent.

For example, at current levels (7 percent) the impact of producer refunds per biennium would reduce the total potential gross revenue of \$8,430,000 generated by the 15 mill checkoff to a net revenue estimate of \$7,839,900, a reduction of \$590,100. However, anticipated refund rates of 9 percent or possibly higher should not be ruled out. A producer refund rate of 9 percent would reduce the total potential gross revenue of \$8,430,000, by \$758,700, for net revenue estimate of \$7,671,300. Of that total revenue, the \$1,124,000 (2mills) gross revenue to be contracted with the associations would similarly be reduced by \$101,160, due to producer refunds, for a net revenue (generated by 2 mills) of \$1,022,840, available for contractual services and purposes.

An estimate of the projected revenue situation for the 2007-2009 biennium would be similar to the upcoming 2005-2007 biennium and can also be derived only from estimates of potential acreage, yield and production based on historic averages.

B. Expenditures: *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

Total projected expenditures associated with this proposal would increase to \$8,421,413 per biennium, an increase of \$3,049,713 over expenditures under current law and current assessment levels, to cover NDWC core program expenses including export marketing, research and customer service, domestic product promotion, trade and domestic policy issues and administration. This level of expenditure also assumes full payment of the outstanding trade case legal bills and provides for anticipated trade case maintenance costs of \$300,000 per year in the 2005-2007 biennium. This aggressive expenditure level with the inclusion of trade case maintenance costs during the upcoming 2005-2007 biennium would also deplete the Commission's budgeted ending balance. Other adjustments in program and contract commitments, an extension of a portion of trade case legal bill, or a reduction in trade case maintenance expenditures, would be required by the NDWC board to maintain a positive ending balance in the NDWC budget.

Prospective expenditures in the 2007-2009 biennium assume a more traditional balance of priorities and expenditures in the Commission's key program areas of the budget and include re-instatement and expansion of programs and contracts for services that were reduced to accommodate greater emphasis on trade and policy issues in the 2003-2005 and 2005-2007 bienniums. The current estimates also allow for the Commission to address other important issues and industry needs that to date have been relegated to lower priority under present budget demands.

C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

Name:	Neal Fisher	Agency:	ND Wheat Commission
Phone Number:	328-5111	Date Prepared:	03/10/2005

FISCAL NOTE

Requested by Legislative Council
02/23/2005

Amendment to: Engrossed
 HB 1518

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Name:	Neal Fisher	Agency:	ND Wheat Commission
Phone Number:	701-328-5111	Date Prepared:	02/23/2005

FISCAL NOTE

Requested by Legislative Council
02/15/2005

Amendment to: HB 1518

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Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. Narrative: *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

This bill proposes to increase the current 10 mills per bushel levy of the North Dakota Wheat Commission (NDWC) to 15 mills per bushel on all wheat sold in the state. All funds are special funds and are non-appropriated, with continuing appropriation authority granted under NDCC 4-28-08. The NDWC mill levy, which is assessed at the first point of sale, is the Commission's only source of funding, and is used to support the NDWC mission, which is, in short, to aid in the orderly marketing of North Dakota wheat by expanding markets through promotion, education and research. Commonly known as the wheat checkoff, the program at the current assessment level has the potential to generate \$5,620,000 in gross revenues per biennium, based on a 5-year average North Dakota wheat crop of 290 million bushels, less on-farm seed and feed use. The proposed increase could raise potential gross revenues by an additional 50 percent or by \$2,810,000 per biennium, based on similar assumptions of average production. Deductions for existing and potential increases in producer refunds will be addressed in subsequent sections to provide a better assessment of potential net revenues available for Commission programs. Recent changes in the language of this bill do not affect the impact of this fiscal note.

3. State fiscal effect detail: *For information shown under state fiscal effect in 1A, please:*

A. Revenues: *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

The proposed five mill increase in the wheat checkoff could potentially generate an additional \$2,810,000 in gross revenues per biennium increasing potential existing gross revenue of \$5,620,000 to \$8,430,000. Proposed changes to the existing legislation also provide in subsection four of Section 4-28-07, that The commission shall expend an amount at least equal to that raised by two mills of the levy provided for in this section to: a. Contract for market maintenance and development services, utilization research, transportation research, and education; b. To address domestic policy issues; and c. To engage in other related activities, with no more than two trade associations that are incorporated in this state and which have as their primary purpose the representation of wheat producers. Under this proposal two mills or 13.3 percent (\$1,124,000) of the potential total gross revenue produced by the 15 mill checkoff would be allocated to two wheat trade associations incorporated in North Dakota under contracts for specific services. The NDWC has had ongoing contractual agreements with these associations since 1989. Under provisions of the proposal the North Dakota Wheat Commission would retain revenues generated by 13 mills or potential gross revenue of \$7,306,000 or 87 percent of the total gross revenue.

The impact of the measure on producer refunds which currently average slightly less than 7 percent is unknown. However, past experience indicates previous increases in the checkoff have brought accompanying increases in the frequency and volume of refund requests, which over time typically moderate to some extent.

For example, at current levels (7 percent) the impact of producer refunds per biennium would reduce the total potential gross revenue of \$8,430,000 generated by the 15 mill checkoff to a net revenue estimate of \$7,839,900, a reduction of \$590,100. However, anticipated refund rates of 9 percent or possibly higher should not be ruled out. A producer refund rate of 9 percent would reduce the total potential gross revenue of \$8,430,000, by \$758,700, for net revenue estimate of \$7,671,300. Of that total revenue, the \$1,124,000 (2mills) gross revenue to be contracted with the associations would similarly be reduced by \$101,160, due to producer refunds, for a net revenue (generated by 2 mills) of \$1,022,840, available for contractual services and purposes.

An estimate of the projected revenue situation for the 2007-2009 biennium would be similar to the upcoming 2005-2007 biennium and can also be derived only from estimates of potential acreage, yield and production based on historic averages.

B. Expenditures: *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

Total projected expenditures associated with this proposal would increase to \$8,421,413 per biennium, an increase of \$3,049,713 over expenditures under current law and current assessment levels, to cover NDWC core program expenses including export marketing, research and customer service, domestic product promotion, trade and domestic policy issues and administration. This level of expenditure also assumes full payment of the outstanding trade case legal bills and provides for anticipated trade case maintenance costs of \$300,000 per year in the 2005-2007 biennium. This aggressive expenditure level with the inclusion of trade case maintenance costs during the upcoming 2005-2007 biennium would also deplete the Commission's budgeted ending balance. Other adjustments in program and contract commitments, an extension of a portion of trade case legal bill, or a reduction in trade case maintenance expenditures, would be required by the NDWC board to maintain a positive ending balance in the NDWC budget.

Prospective expenditures in the 2007-2009 biennium assume a more traditional balance of priorities and expenditures in the Commission's key program areas of the budget and include re-instatement and expansion of programs and contracts for services that were reduced to accommodate greater emphasis on trade and policy issues in the 2003-2005 and 2005-2007 bienniums. The current estimates also allow for the Commission to address other important issues and industry needs that to date have been relegated to lower priority under present budget demands.

C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

Name:	Neal Fisher	Agency:	ND Wheat Commission
Phone Number:	701-328-5111	Date Prepared:	02/16/2005

FISCAL NOTE

Requested by Legislative Council
01/27/2005

Bill/Resolution No.: HB 1518

1A. State fiscal effect: *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues				\$2,810,000		\$2,810,000
Expenditures				\$3,049,713		\$1,036,245
Appropriations						

1B. County, city, and school district fiscal effect: *Identify the fiscal effect on the appropriate political subdivision.*

2003-2005 Biennium			2005-2007 Biennium			2007-2009 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

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C. Appropriations: *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

Name:	Neal Fisher	Agency:	ND Wheat Commission
Phone Number:	328-5111	Date Prepared:	01/31/2005

Date:
Roll Call Vote #:

1518
2-10

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO.

House HOUSE AGRICULTURE COMMITTEE Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number move Amend

Action Taken DO PASS

Motion Made By BELTER Seconded By BRANDENBURG

Representatives	Yes	No	Representatives	Yes	No
REP. EUGENE NICHOLAS CHAIRMAN			REP. TRACY BOE		
REP. JOYCE KINGSBURY VICE CHAIRMAN			REP. ROD FROELICH		
REP. WESLEY BELTER			REP. PHILLIP MUELLER		
REP. M. BRANDENBURG			REP. KENTON ONSTAD		
REP. CHUCK DAMSCHEN					
REP. CHAIG HEADLAND					
REP. GARY KREIDT					
REP. GERALD UGLEM					
REP. JOHN WALL					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

HB 1518
2-10

Date:
Roll Call Vote #:

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO.

House HOUSE AGRICULTURE COMMITTEE Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

AS Amended

Action Taken

DO PASS

Motion Made By

BRANDENBURG

Seconded By

BOE

Representatives	Yes	No	Representatives	Yes	No
REP. EUGENE NICHOLAS CHAIRMAN	✓		REP. TRACY BOE	✓	
REP. JOYCE KINGSBURY VICE CHAIRMAN	✓		REP. ROD FROELICH	✓	
REP. WESLEY BELTER	✓		REP. PHILLIP MUELLER	✓	
REP. M. BRANDENBURG	✓		REP. KENTON ONSTAD	✓	✓
REP. CHUCK DAMSCHEN	✓				
REP. CHAIG HEADLAND	✓				
REP. GARY KREIDT	✓				
REP. GERALD UGLEM	✓				
REP. JOHN WALL	✓				

Total (Yes) 12 No 1

Absent 0

Floor Assignment BRANDENBURG

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

REPORT OF STANDING COMMITTEE

HB 1518: Agriculture Committee (Rep. Nicholas, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends **DO PASS** (12 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING). HB 1518 was placed on the Sixth order on the calendar.

Page 1, line 2, after the semicolon insert "to provide an effective date;"

Page 3, line 28, remove "to:"

Page 3, line 29, remove "a. Contract" and overstrike "for market maintenance and development services, utilization"

Page 3, line 30, overstrike "research, transportation research, and education;"

Page 3, line 31, remove "b. To address" and overstrike "domestic policy issues; and"

Page 4, line 1, remove "c. To engage" and overstrike "in other related activities," and insert immediately thereafter "to contract for activities related to domestic wheat policy issues, wheat production, promotion, and sales. The contracts may be"

Page 4, after line 8, insert:

"SECTION 3. EFFECTIVE DATE. The increase in the levy imposed by section 2 of this Act applies to all sales occurring from and after the day of the next calendar quarter occurring at least thirty days after the effective date of this Act."

Renumber accordingly

2005 SENATE AGRICULTURE

HB 1518

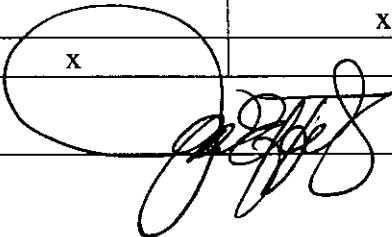
2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1518

Senate Agriculture Committee

☐ Conference Committee

Hearing Date February 25, 2005

Tape Number	Side A	Side B	Meter #
2	x		36 - end
2		x	0 - end
3	x		0 - 5009
Committee Clerk Signature 			

Minutes:

Chairman Flakoll said he knows there are some amendments, at least three, that will be received, that deal with a sunset, by himself and others, perhaps the sponsors.

An email has been provided by the clerk from someone (Mary Svenningsen) who wanted to weigh in on the bill and could not be here today. It is customary that legislators testify first so they can return to their committees. In order that everyone who wants to testify today has that opportunity, Chairman Flakoll took a head count of people who want to testify in favor of and against the bill. We will try to allow 45 minutes for each side. Please try not to be repetitively redundant.

Chairman Flakoll opened the hearing on HB 1518. (meter 281)

Representative Nicholas introduced the bill. (Note: Representative Nicholas can be heard on the tape beginning his testimony and asking if he is on, when he taps the microphone and apparently turns it off. (meter 291) He is not heard on the tape again until Senator Seymour turns on his

microphone for a question and it also picks up Representative Nicholas. (meter 715)) He provided background on the wheat checkoff and the trade case. Then Representative Dalrymple and Representative Nicholas were active in designating 2 mills to the trade case. The Wheat Commission has pursued the case aggressively and successfully but it has taken more money than originally planned which is the reason for the bill. Before the trade case, 45 - 50 million bushels of wheat per year were imported from Canada. Now, after the trade case, less than 200,000 bushels per year are imported. Of course, wheat prices are never high enough but they would be \$2.50 instead of \$3.50 were it not for the trade case. This has been extremely significant to North Dakota farmers. NDSU economists estimate a \$50 million impact from the trade case and it could be more. This is the tightest basis on price in the history of the state. It is forcing the domestic mills to purchase domestic wheat. The bill allocates 2 mills to the North Dakota Grain Growers and the Durum Growers. There are already contracts between these groups and the Wheat Commission. These groups have worked closely with the congressional delegation on the disaster bills and have helped to provide information on quality adjustments. The first bill brought \$80 million to North Dakota. Several recent trips have been made to Washington DC to deal with quality issues that could mean \$250 million to North Dakota farmers. We need cohesiveness, wheat is still the largest generator of dollars in North Dakota. **Senator Seymour** asked how much will 2 mills generate. (meter 704)

Representative Nicholas said about \$700,000 - \$800,000 per biennium, depending on the crop. Mr. Fisher might have more accurate information.

Senator Flakoll said Mr. Fisher has provided a fiscal note to that effect.

Senator Warner testified in favor of the bill with his proposed amendments. (written testimony)
(meter 773)

Senator Klein asked about the "may" and "shall". Does it say anywhere in the bill that the Wheat Commission shall use the money to pay their debt.

Senator Warner said there is probably a banker with a note somewhere that says they shall.

Senator Klein said he is working on some language that would require the funds be used to pay the debt.

Senator Flakoll asked if Senator Warner would support an amendment that would change the "may" disclose the information to "shall" disclose the information as a caveat to a contractual agreement to take the money.

Senator Warner said he assumes that would satisfy his request for some kind of an audit.

Senator Taylor asked if the Wheat Commission is more insulated from the malfeasance of the other groups with the "shall" language rather than the "may" language as to where the money goes and how its spent.

Senator Warner said that is a very interesting question. One of his concerns has been if the legislature mandates the transfer of these funds, the Wheat Commission could feel it has been immunized from the malfeasance of the organizations. If something goes south and there is a legislative investigation, the Wheat Commission could come back to the legislature and say this was mandated, we did not ask for it, we believe we are guilt free of any supervisory responsibility.

Representative Kingsbury testified in favor of the bill with her proposed amendment which is attached. The amendment sunsets the 5 mil increase on July 1, 2009, giving 4 years to settle the

debt. Section 4 repeals section 2, which is the increase from 10 to 15 mils, and replaces it with section 3 which is just like 4-28-07, except the levy is 10 mils.

Senator Erbele asked if she is proposing that it goes back to 10 mils in 2009.

Representative Kingsbury said it goes back to 10 mils, otherwise the bill stays the same.

Senator Klein asked if this amendment was brought forward at the house hearing.

Representative Kingsbury said no, most people were in favor of paying the debt but there has been a lot of interest expressed to her for adding a sunset.

Senator Taylor asked if the amount owed would be paid off in 2 1/2 or 3 years.

Representative Kingsbury said she understood it would take more than 2 years so she chose 4.

Harlan Klein, Chairman, North Dakota Wheat Commission, testified in favor of the bill. (meter 1578) (written testimony) Each success has meant more expense. South Dakota raised their wheat checkoff from 1 cent per bushel to 1 1/2 cents per bushel this week. The Wheat Commission is looking to the future. The crop situation will affect the checkoff dollars.

Senator Taylor asked in the 19 states with a wheat checkoff, Kansas is a big producer, do any mandate any of their checkoff dollars go to private trade organizations.

Mr. Klein said he has not asked them that question specifically. He knows they work with their grower associations and they provide them with some funds but he doesn't know the mechanics of it.

Senator Seymour asked how someone is elected to the Wheat Commission.

Mr. Klein said there are 6 districts, each with an elected commissioner and one commissioner is appointed by the governor. They are elected at the county level by producers. The districts are

set up based on production, there are 13 counties in Mr. Klein's district. Two districts elect a commissioner each year and they serve a 4 year term.

Senator Klein said producers have the option for refund of their checkoff. Will we see an increase in the refunds and are you budgeting for it. Does this bill change the refund option.

Mr. Klein said they expect to see an increase in refunds and they have budgeted for it. It has been their experience that as the Wheat Commission does what they said they were going to do with an increase in the wheat checkoff, the refunds start to drop. They normally run about 6 - 7% refunds. Mr. Klein looks at the checkoff on his farm as an advertising fund, and it is a small budget item when compared to his expenses. He could never accomplish it on his own, the collective makes it possible. It is an education process. A penny or penny and a half investment to gain 20 cents is a good rate of return.

Senator Flakoll said he has a list of the names of producers who have requested refunds over the past 3 years, do they ever pay a portion of the refund to the Wheat Commission for specific uses.

Mr. Klein said no, that has not happened.

Senator Seymour asked what the 15 mils will raise.

Mr. Klein said it will raise \$2.8 million in a biennium, in the fiscal note.

Senator Seymour asked if that seems correct when you talk about what a mil will generate.

Mr. Klein said they generally look at a mil generating net \$250,000 per year, the total 15 mils should generate \$7.6 million in 2 years.

Senator Flakoll said we will have Mr. Fisher walk us through the fiscal note at some point.

Chairman Flakoll said we were getting close to the end of testimony in favor, the floor session starts early today so we may have to reconvene after the session, tomorrow morning or Monday morning early if we don't get finished this morning.

Dan Wogsland, Executive Director North Dakota Grain Growers Assn. and US Durum Growers Assn. testified in favor of the bill. (written testimony) (meter 4641) Regarding the sunset, North Dakota is in a heavyweight title fight with Canada over trade policy. In such a fight you never telegraph your punches. If the Canadian government sees a weakness in North Dakota, they will wait us out and beat us. North Dakota farmers can't afford to be beat. This is very important legislation. (meter 5826)

Senator Flakoll asked if Mr. Wogsland would be opposed to an amendment that, as a caveat to receiving the funds, his organization would be required to appear before the legislature to present a report. (meter 5995)

Mr. Wogsland said they would welcome it, they welcome openness and transparency.

Chairman Flakoll switched the hearing to opposition testimony. Everyone who wants to speak will be allowed the opportunity, if we are not finished before the floor session, we will reconvene this afternoon.

Richard Schlosser, North Dakota Farmers Union, testified in opposition to the bill.. (written testimony) (meter tape 2, side B, 0) Regarding Senator Warner's amendment, they would support it, they also could support Representative Kingsbury's amendment.

Senator Klein said he would argue that all 35,000 members are not on board with this issue, someone opposed to funding these groups could ask for a refund. Senator Klein had the opportunity to travel with the Grain Growers Assn. in September and their joint efforts with the

Farmers Union and the Farm Bureau resulted in a lot of disaster assistance. We need to work together here. The Grain Growers Assn. seems to provide direction. They have asked to provide accountability. If they aren't getting the job done in two years they will be here along with every other group. Why can't we team together and make this work.. (meter 383)

Mr. Schlosser said regarding the refund, if you look at the code, it is a tax that is required to be collected, even if it can be refunded. On his own farm, he doesn't refund because he thinks of it as advertising and promotion. Regarding working together, this is a private trade association that is mandated to receive tax funds. They "may" be invited to appear on accountability issues.

Who do they represent? We have deviated on policy issues, for example Freedom to Farm.

Senator Taylor asked about scrutiny and accountability standards, are there audit type requirements that would satisfy the North Dakota Farmers Union.

Mr. Schlosser said they have rules for their lobbyists, always speak to the policy and their policy emphatically states they are opposed to these funds going to these groups. They are supporting the increase to settle the trade case.

Senator Klein asked if his organization is aware money has already gone to these groups over the years. (meter 836)

Mr. Schlosser said yes, they are still opposed to the mandate.

Senator Flakoll said he appreciates the efforts of the Farmers Union. When you were in Washington, did you get into the White House physically.

Mr. Schlosser said he doesn't recall getting into the White House but he did visit with key administration staff. He doesn't understand the question.

Senator Flakoll said decisions are made there and we are talking about decision makers. We pay a tax on our hotel bills in North Dakota and those funds go to the Lewis and Clark organization.

Mr. Schlosser said their policy does not oppose mandates in general so he can't speak to the Lewis and Clark tax.

Dan Wiltse, a farmer from Lisbon and representing Ransom County farmers, testified in opposition to the bill. (meter 1099) He could support the bill if the proposed amendment is adopted. He served on the North Dakota Grain Growers Assn. Board and on the North Dakota Barley Council. He has been the national president and vice president of the Barley Growers. He regrets he has to testify again this session in opposition to a bill that is so illy crafted. He supports the increase to reduce the debt. This bill carries too much baggage. The trade case was worth it. This bill has been crafted without regard for the wheat growers or any other commodity group. They agrees with Senator Warner on his concerns with the mandate. The 2 mil mandate would lead to misappropriation of funds because in a time of budget cuts, it would increase the combined budget of these two groups almost 10 times the amount expended by the Wheat Commission in 2004. He trusts the Wheat Commission has the discretion and flexibility to expend its funds to the Grain Growers and Durum Growers as their needs arise. A mandate will set a precedent that will jeopardize all other commodity check offs. There still remain many unanswered questions among those close to and within the North Dakota Grain Growers. Their personal agendas fall short of the interests of North Dakota wheat producers and their customers. We still wonder why they resisted turning over their records to the North Dakota attorney general. They do not want to diminish the mission of these two groups. The North Dakota Grain

Growers has value as an advocacy group and as an educational resource. Dan Wogsland brings a lot to the table. The Grain Growers have made great strides in recent months and even recent weeks to regain the respect of wheat and barley growers. They have faith the new leadership will make changes to create a better relationship with the Wheat Commission which may solve a lot of the anxiety and budget problems. Mandating the funds to the Grain Growers and Durum Growers will do nothing to bridge the gap. He took a poll at a pesticide certification meeting in Ransom county last week where about 50 farmers and livestock producers were present. 14 were in favor of the checkoff to pay the trade action debt, none were in favor of permanent increase, 15 were in favor of a sunset, none were in favor of 2 mils mandated to the two groups, everyone was in favor of a state supported renewable fuels project like ethanol, biodiesel or wind. He trusts the committee will weigh in on this. You have a great opportunity to regain the respect of North Dakota wheat producers. Preserve the integrity of the Wheat Commission by not allowing the funds to be raided by this misguided bill. He has been threatened, intimidated and told to keep quiet since his last testimony regarding this bill. He will continue to speak for the wheat growers, not the few that want to raid the funds. In their estimation it is inconceivable there will be an increase in the check off of \$2.5 million and then spend 40% of it or \$1 million to go to two private groups. He would like to speak to all of you later.

Todd Leake, Dakota Resource Council, testified in opposition to the bill. (written testimony)

(meter 1677)

Deb Lungren, farm wife from Kulm, testified in opposition to the bill. (written testimony)

(meter 2222)

Jim Slag, farmer from Wimbleton, testified in opposition to the bill. (written testimony) (meter 2625) The Grain Growers supported NAFTA, doesn't that show how they can be on two sides of an issue.

Jim Teigen, farmer from Rugby, testified in opposition to the bill. (written testimony) (meter 2877) If the two trade organizations got all their funds from voluntary or non tax sources as do the other lobbying groups in the state who go to Washington, there would be no need to be concerned about fiscal reviews and accountability.

Chairman Flakoll said we will close the hearing about 12:10 so the committee can get to the floor session.

Myron Blumhagen, farmer from Drake, testified in opposition to the bill. (written testimony) (meter 3413) The amendments could make it possible to support the bill. It seems everyone would be in favor of the amendments.

Richard Schlosser distributed written testimony from one of their directors, **Bob Finken**, who is attending a meeting with the rest of their board.

Chairman Flakoll said we will switch over to testimony in support of the bill for the next nine minutes.

Larry Neubauer, representing the Bottineau County Farmers Union, testified in favor of the bill. (meter 3593) Wheat is the number one agriculture commodity in North Dakota. Many very important results have come from the undertakings of the Grain Growers and the Durum Growers. Disaster payments and quality loss have already been mentioned. A separate loan rate, LDP rate especially for durum, reflecting the added cost and risk of growing the crop. The Grain Growers have a very good relationship with environmental agencies where they have been able to

seek and obtain special exemptions for fungicides for fighting scab. Bottineau County has suffered greatly in the disasters from 1999 to last year and greatly respects the legislative intent of the mandate in HB 1518 that mandates check off dollars go to lobby for domestic policy. It show them the legislature thinks wheat is important. This is very vital to North Dakota wheat producers.

Senator Flakoll asked for clarification as to what group he is representing.

Mr. Neubauer said the Bottineau County Farmers Union who unanimously supports the bill as it is written.

Senator Klein asked if he is one of the 35,000 members.

Mr. Neubauer said yes.

Terry Wanzek, president of the North Dakota Grain Growers, testified in favor of the bill. (written testimony) (meter 3950) There has been concern expressed about the mandate. It is important to remember the legislature created the Wheat Commission and they can dissolve it. Farmers Union also opposed the creation of the Wheat Commission. You can increase or decrease the funding of the Wheat Commission, you can tell them how to spend their funding. Lets remember who is in charge. There have also been references to past problems with the North Dakota Grain Growers . They have been told over 90% of boards faced with embezzlement don't get their money back. Their board acted very responsibly and not only got their funds back but got the audit paid for as well. They dealt with it as directly and as quickly as they possible could. The change in leadership is an indication of the direction the organization is going. It has always been a credible organization, it will remain an credible organization. They are not opposed to being accountable.

Senator Taylor said one handout shows there are 12,600 wheat producers in the state, how many are members of the Grain Growers and what are your dues.

Mr. Wanzek said their membership changes and he would have to get an office person up here to be accurate. Anyone who grows an acre of wheat is considered a wheat farmer. There is an argument that 80% of the payments go to 20% of the farmers and he would submit 20% of the recipients are growing 80% of the crop and the Grain Growers represent a large percentage of those farmers, the serious farmers, this is their livelihood. We have always received funds from the Wheat Commission. This language will allow more stability so they could be more proactive.

Senator Taylor said if he doesn't have the membership numbers, could he get them to the committee, or he could provide the number of acres of production of the members.

Mr. Wanzek said they have 800 - 900 members, they would like to break it down to bushels produced in the state. They sent a delegation to Washington in January to address the disaster aid issues and the quality change issuers and got the USDA to back off and allow states the flexibility to address those issues individually. Looking into the future, at the recent National Wheat Growers meeting, a number of states submitted names of people to serve on President Bush's round table on the 2007 farm bill and a North Dakota Grain Growers board member has been identified as a potential member. It takes dollars, stability and funding to be at the table. They will be accountable.

Former Representative Doug Lemieux, farmer and Rolette County Farmers Union Board Member, testified in favor of the bill. (written testimony) (meter 4853) He has a mandate from the Rollette County Farmers Union to testify that they support HB 1518 as passed by the house.

They support a dedicated amount going to the growers group. He has watched his friends in the Grain Growers and Durum Growers dig into their own pockets to go Washington to go to bat for North Dakota farmers. We got quality loss adjustments because they brought forth the technical data that was necessary for the people in DC to make good decisions. The Grain Growers and Durum Growers are the unsung heroes of the farmers in North Dakota. He has worked on dedicating tax dollars to the groups since 1999. If you don't like it, refund it. We as durum growers and wheat growers are willing to step up to the plate and we are asking the legislature to step up and mandate it.

Senator Urlacher said he recognizes the statement of 35,000 members of farmers union being represented, then he hears there are 12,000 wheat producers, then he hears from Farmers Union members who are opposed to the representation of Farmers Union. This bothers him because there are over two thirds of that membership that are not producers that are being represented as producers. We have to get back to real producers.

Mr. Lemieux said he would like to respond. We don't always agree and that is what is great about this country. Those on the northern borders have seen what happens when our markets are totally buried and it hurts. As a democrat he doesn't always agree with his party. There are only a few people that step up to the plate as the legislators have. We have an opportunity to grow North Dakota. There are some major battles coming up in Washington DC and the Grain Growers and Durum Growers are going to work to get a fair shake for North Dakota.

Chairman Flakoll recessed the meeting until after the floor session.

Chairman Flakoll reconvened the hearing on HB 1518 and continued with testimony in favor of the bill. (meter 5406)

Jay Elkin, wheat producer from Taylor, testified in favor of the bill. (written testimony) (meter 5450)

Dennis Wunderlich, President, US Durum Growers Association, testified in favor of the bill. (written testimony) (meter 5795) He submitted written testimony from **Shawn McComb**, Manager, Global AgServices Division, Deere and Company.

Senator Klein asked about sharing resources with the Grain Growers. (meter 64, tape 3 side A)

Mr. Wunderlich said they contract for services with the Grain Growers. Currently their dues cover office expenses. If they want to get something done, they go to the commission for funds.

Senator Klein asked if they have worked with the Wheat Commission in the past and have received funds from the Wheat Commission.

Mr. Wunderlich said yes.

Senator Taylor asked if their dues are \$75, how many members do they have, he appreciates if they represent about 80% of the durum industry.

Mr. Wunderlich said they have 300 - 325 members, dues are \$75.

Senator Taylor asked what funds they received in the last biennium from the Wheat Commission.

Mr. Wunderlich said special projects or straight out funding.

Senator Taylor said straight out funding.

Mr. Wunderlich said \$26,000.

Senator Flakoll said the statement from John Deere is not on letterhead and not signed and it would be better if it was.

Mr. Wunderlich said the John Deere representative was at a meeting in Mohall and did not have access to letterhead, he emailed the statement.

Paul Thomas, North Dakota Agriculture Coalition, testified in favor of the bill. (written testimony) (meter 226)

Mark Birdsall, small grain farmer in the Berthold area, raises certified seed, active in the US Durum Growers, member of North Dakota Farmers Union, testified in favor of the bill. (meter 319) He has always supported the work of the Wheat Commission and their efforts to promote the wheat industry. Wheat occupies the majority of his acres so it is important to him to see a healthy wheat industry. Funding must be adequate for research, foreign and domestic market development and trade policy. In today's farming environment, domestic policy has become increasingly important. The trade case was beneficial to wheat producers. This bill will allow them with resources to pay legal bills and funding for future needs. It has been mentioned the trade case resulted in an additional 20 cents per bushel, That is a very conservative estimate. In talking with elevator managers in his area, after the trade case, they started receiving calls from buyers they hadn't heard from in months or even years. It has reestablished important relationships. The Durum Growers were approached five months ago by a mill that had been purchasing a tremendous amount of grain from Canada and they are now looking to source IP within our borders. Last January, at the Durum Growers convention, they talked about markets that have opened up overseas, low value wheat markets where there is a potential for delivering some of our higher value, higher protein wheat. Through education and development it has been shown how the blending process can be used to open up new markets. This will have a lot of future benefits. He has been involved since 1999. It is almost overwhelming what the Grain

Growers and Durum Growers have done for farmers. The quality loss assistance program was developed in 1999, it had never been heard of before that. They gathered a tremendous amount of information. These are durum specific and wheat specific issues. No one else would do this job. The process and quality loss provision hasn't stayed there on its own. They were paid in 2002 again. It would have a tremendous detrimental effect on North Dakota farmers to lose it. There has been a lot of talk about shall and may. When the board members visit with Dan Wogsland in the upcoming year and set out their projects, you hate to have them say we may be able to make this work and we may be able to keep you on and we may be able to do these projects. That is when shall and may mean something. When a group of farmers come to the board and say they have a quality issue, they have a real problem, our crop insurance isn't covering this and we have an environmental concern, we need help. The board needs to be able to say we shall be able to help. The extra half cent is needed and will be fully utilized. We have the people in place to work together.

Senator Taylor asked when both the Durum Growers and Grain Growers go to the Wheat Commission for funds, what kind of presentation is made and what kind of assurances do you have about funds for the next year to augment the budget for the next year.

Mr. Birdsall said in a lot of ways we have been in a reactionary mode and we need to become more proactive. It is harder to change someone's mind after it has been set. We could get a lot more done.

Robert Ferebee, crop and cattle producer from Halliday, testified in favor of the bill. (written testimony) (meter 992)

Tom Borgen, farmer from Langdon, SBARE member, member of the Canola Growers

Association, testified in favor of the bill. (meter 1095) He left home at 2:00 AM today and drove 250 miles to support this bill. He went to Washington at the invitation of the Grain Growers and Durum Growers to help with the disaster program. With the environmental conditions we had in North Dakota it was imperative that someone address the quality loss issue. He went again to Washington with the Canola Growers. Their goal was to meet with USDA and clarify the difference between the 2LP chart, a crop loan, wheat loan discount schedule vs the disaster schedule that was implemented in the previous disaster years. There is a vast spread and monetary loss if they should use the 2LP table. They made great strides in getting the quality adjustment to use the quality adjustment and market loss. Right now, wheat under 300 falling numbers is taking anywhere from 35 cents to \$1 discount. When you talk about a \$3.40 product and take a \$1 discount, excluding a protein discount, this is big loss. Some of the testimony he took to the USDA was from local lenders in Langdon. One said of their \$35 million agricultural loans, 85% of the 2004 obligation would not be met and of that 85%, 15% would have to restructure or quit. That is huge. Thanks to the Grain Growers and the Durum Growers, North Dakota has an opportunity to recapture some of those funds. He doesn't know of any other group who would have taken this on. Regarding the security of the funds, in the Northern Canola Growers, where he was president for six years, they signed a contract with the North Dakota Oil Seeds. The attorney general drew the contracts and accountability is required. There had to be an audit. It can be done.

Mark Gage, Past-President, National Association of Wheat Growers and farmer near Paige, testified in favor of the bill. (written testimony) (meter 1477)

Senator Flakoll asked if the NAWG receives money from the Wheat Commission.

Mr. Gage said they have a contract with the Wheat Commission, this year \$119,000.

Senator Klein asked if they have any accountability requirements with the Wheat Commission as far as dollars spent.

Mr. Gage said they submit written reports, attend Wheat Commission meetings and do oral reports. They share their audit with the Wheat Commission.

Senator Klein asked if the Wheat Commission funds their organization and NAWG in turn reports back to the Wheat Commission.

Mr. Gage said that is correct.

Senator Taylor asked if NAWG dues would come out of the 2 mils that are mandated for policy activity. (meter 1965)

Mr Gage said they would come out of the 2 mils designated to the grower groups, as he understands it.

Senator Flakoll asked if it needs to be clarified.

Mr. Gage said that might not be a bad idea.

Jim Diepolder, Vice President of the US Durum Growers, testified in favor of the bill. (meter 2042) A lot has been said about what has been done in the past, a lot of questions about what will be done with the money. The intentions are to help pay the NAWG dues. The US Durum Growers hope to be able to see that durum, as a specific class of wheat, could get represented at NAWG. The reason they are not now represented is they don't have money. The Dakota Growers Pasta idea initiated with the US Durum Growers. Many others stepped in and made it happen, success always has lots of fathers. The entire farm bill is under scrutiny at the WTO.

We will need money to defend them it until 2007. We need something proactive, a green payment. Because the highest class of durum in the world is grown here, we may be able to keep a safety net to grow these products. To develop this idea, he went to Washington to and they were told its \$70,000 to \$100,000 to be on contingency. Where will wheat be when the 2007 farm bill comes if we don't have the money to be proactive with ideas and to make things happen. The cotton and rice boys will think we are weak and will take our money. The biggest enemy of the wheat growers are the cups of ignorance, cups in cafes and bars, where people ask what did you do to me this week. Every grower benefits, its hard to quantify. The members of the Grain Growers and the Durum Growers are the people who show up. The world is run by those who show up. Its the guy who doesn't know who the Grain Growers are and who the Durum Growers are who is against us. Last year the Durum Growers got zero from the Wheat Commission. There was an issue with crop insurance, if they had a lobbyist on retainer in Washington, they would not have lost some of the crop insurance. They were reactionary and by the time they jumped through all of the hoops, it was too late. He comes here to speak from the heart. Where he lives, you can't grow corn and beans, he has to make money from wheat.

Greg Daws, farmer from Michigan, North Dakota and Vice President of the North Dakota Grain Growers, he served as president when they took a broadside hit. testified in favor of the bill..

(written testimony) (meter 2946) He wants the committee to know all records from the Grain Growers, as soon as the audit was done, within 6 hours of receiving the results of the audit, all records were made available to the North Dakota Wheat Commission. Next Monday he will travel for two weeks and talk about high yielding wheat production in Canada. He has been very proactive on wheat production because that's what wants to grow on his farm.

Neal Fisher, Executive Director of the Wheat Commission, appeared to answer questions.

Senator Flakoll asked why there are three fiscal notes all with the same data. (meter 3385)

Mr. Fisher said the reason there are so many fiscal notes is because every time there was an amendment they received another request for a fiscal note. At the end of the day, the amendments did not affect the fiscal impact. There was some language that clarified the usage of the 2 mils to the grower group.

Senator Flakoll said there were some varying opinions with respect to the audit records from the Grain Growers. Did you have the records at your disposal.

Mr. Fisher said the records that were available were immediately made available to their chairman. After some more work was done. Mr. Hauck provided full accountancy for the funds provided in the contracts.

Senator Flakoll asked about NAWG dues, is that written by the Grain Growers

Mr. Fisher said the NAWG contract is very similar to those for the other grower groups. In the last few years, the check has been written by the Wheat Commission. The understanding he has is this will feed to the growers groups under this bill. (meter 3627)

Senator Flakoll said that is the legislative intent, it will be paid out of the 2 mils for the grower groups.

Mr. Fisher said that is his understanding.

Senator Taylor asked in the last biennium, how much has been put towards trade.

Mr. Fisher said it was closer to 1 mil.

Senator Taylor said it seems like the grower groups and the Wheat Commission are working together now. Could that continue and do a future budget and fully utilize the 2 mils that are currently in code.

Mr. Fisher said there has always been a working relationship between the two organizations, there has always been a contract at some level. Over the past summer when a new accounting process was being set up, there was a lapse in funding that was made up only in part through an effort to have a special projects fund so they could continue some of the work.

Senator Taylor asked what is the audit process, is it annual or biennial and could it be extended to the grower groups.

Mr. Fisher said the Wheat Commission has a biennial audit process, it has been farmed out to Brady Martz, they have not extended it to private organizations. He doesn't know what the ramifications of that are.

Senator Klein said we have talked about the shalls and the mays. There have been discussions about whether we know you will use the increases to pay the trade debt.

Mr. Fisher said in the budget they prepared for presentation to the Agriculture Committees they included it. They also included \$300,000 in maintenance for those cases. The available funds depend on the crop. They have based the budget on averages. The intention is to pay the debt.

Senator Klein asked if the rail rate case under the purview of the Wheat Commission and could they have a stake in that.

Mr. Fisher said the Wheat Commission has a stake in rail transportation, it is one of the single largest production costs. Right now, the fuel surcharge takes another dime out of the price of wheat. The Wheat Commission had a history when there was an interstate commerce

commission to try these cases before it. After 1980 there was no tribunal to go to. The plate of the Wheat Commission is full now and they have not made a firm commitment. They were a part of the \$250,000 effort in the last session.

Senator Klein said 2 - 3 years down the road , the debt gets paid and some crumbs fall to the floor, your organization could look at it.

Mr. Fisher the Wheat Commission would look long and hard before jumping into something head long again, very immediately but it has been suggested we consider it at some point.

Senator Seymour asked if there is \$2.9 million left on the debt for the trade case. (meter 4425)

Mr. Fisher said that is the outstanding balance at this point. Because they bumped into the 2 mil cap, they have ceased payments to the attorneys now as they wait for the results of this bill. The bill is still mounting, because of the appeals process, at a much more modest rate. They have an inability to pay right now, not because they don't have the funds but because they don't have the latitude with the cap in place.

Senator Seymour asked how much they have paid so far.

Mr. Fisher said roughly \$3.3 million. Most of the heavy lifting has been in the past two years.

Jim Diepolder said he forgot to make a point. Regarding accountability, it can't be legislated but it can be in the contract, they will appear and give an audit.

Senator Flakoll said it can be legislated. (meter 4797) He has some amendments to that effect.

Mr. Diepolder said Legislative Council said they couldn't do it, we are glad there is a way.

Senator Flakoll said it can be a caveat to receiving the money.

Chairman Flakoll said everyone who wanted to speak has had an opportunity. For the record Senator O'Connell has been with us for quite a while today.

Page 23

Senate Agriculture Committee

Bill/Resolution Number HB 1518

Hearing Date February 25, 2005

Senator Klein pointed out Representative Boe is here.

Chairman Flakoll closed the hearing on HB 1518. (meter 5009.)

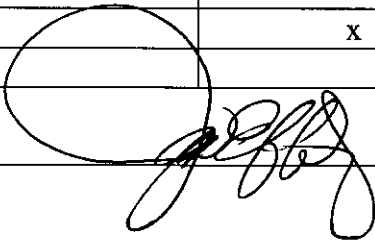
2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1518

Senate Agriculture Committee

☐ Conference Committee

Hearing Date March 3, 2005

Tape Number	Side A	Side B	Meter #
1	x		78 - 2255
1		x	4738 - 6217
Committee Clerk Signature 			

Minutes:

Chairman Flakoll opened the discussion on HB 1518.

Chairman Flakoll said if the bill comes out of committee with a do pass recommendation, it will need to be rereferred to appropriations.

Senator Flakoll distributed amendment .0304 and walked the committee through the amendment. It addresses a number of issues. This bill will never receive a 100% vote. The house won't like some of the changes we are making and vice versa. He predicts there will be a conference committee. It will be a process. On page one of the amendment, as a condition of receiving money from the Wheat Commission, the groups cannot lower their dues. In subsection 5, the Wheat Commission is required to expend at least 3 mils for the lawsuit. The amendment will address accountability by requiring the groups to report to the legislature like the Wheat Commission does. If they choose not to present, they don't have to get the money.

Senator Taylor asked if this would be a report along with the other commodity groups.

Senator Klein said in the next session or two, we may designate a separate day for reports from these groups.

Senator Flakoll said perhaps the beef commission, too.

Senator Erbele asked if it would be up to the growers group to have a contract with the Wheat Commission and when the Wheat Commission reports, the grower groups would be a part of that.

Senator Klein said after the Wheat Commission, the Grain Growers and the Durum Growers would give their separate reports, bringing forth what they have done.

Senator Erbele asked if the report is demanded through the contract.

Senator Flakoll said yes.

Senator Klein said if they would refuse to appear, there would be a change in their funding.

Senator Flakoll said we would probably give them zero. But by all reports they want to come.

It is a good opportunity to show what they have done. They want to earn support.

Senator Urlacher said they want to prove themselves.

Senator Flakoll said section 3 starts the sunset. It would roll the checkoff back to 12 mils, 10 for the Wheat Commission and 2 for the growers groups. The refund mechanism would stay the same. Subsection 4 requires the NAWG dues to be paid from the 2 mils for the grower groups, this is what has been done in practice. About 2/3 mil goes to NAWG, about \$130,000. With the sunset in July 1, 2009, there would be no restrictions on the 10 mils. Subsection 6 is the reporting requirement detailing all activities. The big one is the sunset, section 6, of July 1, 2009.

Senator Klein said with the current amount of bushels how much does 1 mil generate.

Senator Flakoll said about \$200,000.

Senator Flakoll said the amendment does not change shall to may on the 2 mils to the growers groups.

Senator Taylor asked about reporting, does it match the language pre and post sunset. (meter 999)

Senator Flakoll said yes.

Senator Seymour asked why the change from shall to may on the 2 mils for the grower groups is not included.

Senator Flakoll said because that is his intention. It won't get 47 votes no matter what we do.

Senator Klein said before the end of the session we may see an amendment that changes shall to may.

Senator Flakoll said there are people that do and don't like the sunset. Some say it will send a message to the Canadians that we will quit in four years. It seems like most people support the increase in the mils to pay the trade case debt.

Senator Taylor asked about the repealer.

Chris Friesz, legislative intern, clarified it.

Senator Taylor said Pandora's box is open. Going to 12 mils after the sunset will have controversy. We are legislating 4 years out.

Senator Klein said understanding the discussion we have been having over the past few years, we believe the Wheat Commission will be on firm ground in 4 years. Costs go up, they will no longer have to pay the NAWG dues, we still need research, we still need export work. It gives the Wheat Commission an opportunity. The bottom line is you can get a refund. In this case

there is enough flexibility for the producer. Undoubtedly, refunds will increase, because its in the news now. This is a compromise, we are not sending a bad message. There is still some money in those 10 mils if we need to do some mopping up on the trade case.

Senator Flakoll said the Wheat Commission will know what is has to work with as will the other groups. Are there any concerns the 2 mils are going to a bad causes.

Senator Taylor said yes, in some people's eyes, some policies they don't agree with. There is nothing that says they can't ask for a refund and send the funds back to the Wheat Commission for programs they agree with.

Senator Urlacher said there is a lot of flexibility here. Some growers request a refund for as little as \$25.

Senator Flakoll said he saw one for \$4.

Senator Klein moved the committee accept the amendment .0304.

Senator Erbele seconded the motion.

The motion passed on a roll call vote 5-1-0. (meter 2068)

Chairman Flakoll asked if anyone has any other amendments.

Senator Taylor said he may need a little further information regarding Senator Warner's amendments and how they fit into the amendments adopted by the committee.

Chairman Flakoll moved on to other committee business. (meter 2217)

Chairman Flakoll opened the discussion once again. (meter 4738, side B)

Senator Taylor said he has an amendment that was discussed by Senator Warner, changing shall to may on the 2 mils for the growers group.

Senator Taylor moved the committee accept the amendment that change shall to may for the 2 mils for the growers group.

Senator Seymour seconded the motion.

Senator Taylor said we obviously all know there is some controversy on this bill. Looking at it from a policy point of view, we will hear about the check off every two years. We have opened up the box where we are taking public money and distributing them to private groups. It has been done in the past. He can imagine if this happened in the beef check off, it could go to R calf or the NCBA. Not everyone would agree with that. Policy wise we have gotten into a pretty tough area. Taking the shall back to may might relieve some of the tension. It allows things to go back to a more democratic process where the elected members of the Wheat Commission decide what to do with their funds.

Senator Seymour said it might cause more confusion, shall is direct.

Senator Flakoll asked if Senator Taylor has any more sense of comparing the wheat checkoff to the beef checkoff, with the wheat checkoff being refundable, does that affect him at all.

Senator Taylor said it does, that is a difference. Likely, most of us know we have to vote for this bill because we need the additional funds for the trade case debt. There is more good in this bill than bad. The Wheat Commission will have to see what happens in terms of refunds. It takes a lot of initiative to request a refund so they may be all right.

Senator Flakoll said we will probably vote on this at least 6 more times.

Senator Urlacher said under the circumstances, it should be a shall. We have to demonstrate responsibility to the public.

Page 6

Senate Agriculture Committee

Bill/Resolution Number HB 1518

Hearing Date March 3, 2005

Senator Flakoll said one of the advantages of the shall is the groups have a better handle on what funding they have to work with.

The motion failed on a roll call vote 1 - 5 - 0.

Senator Erbele moved a do pass as amended and rerefer to appropriations on HB 1518.

Senator Urlacher seconded the motion.

Senator Taylor said there is more good than bad in the bill. He may have to vote one way on the motion to let folks know to read the bill with caution.

The motion passed on a roll call vote 5-1-0 .

PROPOSED AMENDMENTS TO REENGROSSED HOUSE BILL NO. 1518

Page 3, line 24, remove the overstrike over "~~may use the~~", remove "shall expend an", and
remove "at least equal to that"

Page 3, line 25, remove the overstrike over "~~up to~~"

Renumber accordingly

PROPOSED AMENDMENTS TO REENGROSSED HOUSE BILL NO. 1518

Page 1, line 1, after "to" insert "create and enact a new section to chapter 4-28 of the North Dakota Century Code, relating to the wheat tax levy; to"

Page 1, line 2, after the semicolon insert "to repeal section 4-28-07 of the North Dakota Century Code, relating to the wheat tax levy;"

Page 4, after line 8, insert:

"**SECTION 3.** A new section to chapter 4-28 of the North Dakota Century Code is created and enacted as follows:

Wheat tax levy.

1.
 - a. A tax of ten mills per bushel [35.24 liters] by weight must be levied and imposed upon all wheat grown in this state, delivered into this state, or sold through commercial channels to a first purchaser in this state.
 - b. The tax must be levied and assessed at the time of sale and deducted by the purchaser from the price paid, or in the case of a lien, pledge, or mortgage, deducted from the proceeds of the loan or claim secured, subject to adjustment at the time of settlement in the event the number of bushels [liters] is not accurately determined at the time of the lien, pledge, or mortgage.
 - c. At the time of sale, the first purchaser in this state shall issue and deliver to the producer or seller a record of the transaction in the manner prescribed by the commission.
2.
 - a. Any producer who sells wheat to a first purchaser in this state and who is subject to the deduction provided for in this chapter, within sixty days following the deduction or final settlement, may make application by personal letter to the wheat commission for a refund application blank.
 - b. Upon the return of the blank, properly executed by the producer, accompanied by a record of the deduction by the purchaser, the producer must be refunded the net amount of the deduction collected.
 - c. If no request for refund has been made within the period prescribed in this subsection, the producer is presumed to have agreed to the deduction. A producer that, for any reason, has paid the tax more than once on the same wheat, upon furnishing proof of that payment to the commission, is entitled to a refund of the overpayment.
3. To inform the producer, the commission shall develop and disseminate information and instructions relating to the purpose of the wheat tax and manner in which refunds may be claimed and to this extent shall cooperate with state and federal agencies and private businesses engaged in the purchase of wheat.

4. The commission shall expend an amount at least equal to that raised by two mills of the levy provided for in this section to contract for activities related to domestic wheat policy issues, wheat production, promotion, and sales. The contracts may be with no more than two trade associations that are incorporated in this state and which have as their primary purpose the representation of wheat producers.
5. When the wheat commission presents the report required by section 4-24-10, the commission shall present a separate report detailing the nature and extent of the commission's efforts to address trade and domestic policy issues. The commission may invite other entities with which it has contracted to assist in the presentations.

SECTION 4. REPEAL. Section 4-28-07 of the North Dakota Century Code is repealed."

Page 4, line 10, replace "from" with "on"

Page 4, after line 11, insert:

"SECTION 6. EFFECTIVE DATE. Sections 3 and 4 of this Act become effective on July 1, 2009."

Renumber accordingly

March 2, 2005

PROPOSED AMENDMENTS TO REENGROSSED HOUSE BILL NO. 1518

Page 1, line 1, after "to" insert "create and enact a new section to chapter 4-28 of the North Dakota Century Code, relating to the wheat tax levy; to"

Page 1, line 2, after the semicolon insert "to repeal section 4-28-07 of the North Dakota Century Code, relating to the wheat tax levy;"

Page 4, line 3, after the period insert "The contracts must require that any trade association receiving money under this section pay from that money all dues required as a condition of the trade association's membership in any national trade association. The contracts also must prohibit any trade association receiving money under this section from eliminating any dues required as a condition of membership in that trade association or from reducing such dues below the amount required for membership as of January 1, 2005."

5. The commission shall expend an amount at least equal to that raised by three mills of the levy provided for in this section to pay any debts for legal services incurred by the commission, until the debts for legal services are paid in full."

Page 4, line 4, remove the overstrike over "6." and remove "5."

Page 4, after line 8, insert:

- "7. At the time the wheat commission presents the report required by section 4-24-10, each trade association with which the wheat commission has contracted under subsection 4 of this section also shall present a report detailing all activities in which the trade association engaged under the provisions of the contract.

SECTION 3. A new section to chapter 4-28 of the North Dakota Century Code is created and enacted as follows:

Wheat tax levy.

1. a. A tax of twelve mills per bushel [35.24 liters] by weight must be levied and imposed upon all wheat grown in this state, delivered into this state, or sold through commercial channels to a first purchaser in this state.
- b. The tax must be levied and assessed at the time of sale and deducted by the purchaser from the price paid, or in the case of a lien, pledge, or mortgage, deducted from the proceeds of the loan or claim secured, subject to adjustment at the time of settlement in the event the number of bushels [liters] is not accurately determined at the time of the lien, pledge, or mortgage.
- c. At the time of sale, the first purchaser in this state shall issue and deliver to the producer or seller a record of the transaction in the manner prescribed by the commission.

2. a. Any producer who sells wheat to a first purchaser in this state and who is subject to the deduction provided for in this chapter, within sixty days following the deduction or final settlement, may make application by personal letter to the wheat commission for a refund application blank.
- b. Upon the return of the blank, properly executed by the producer, accompanied by a record of the deduction by the purchaser, the producer must be refunded the net amount of the deduction collected.
- c. If no request for refund has been made within the period prescribed in this subsection, the producer is presumed to have agreed to the deduction. A producer that, for any reason, has paid the tax more than once on the same wheat, upon furnishing proof of that payment to the commission, is entitled to a refund of the overpayment.
3. To inform the producer, the commission shall develop and disseminate information and instructions relating to the purpose of the wheat tax and manner in which refunds may be claimed and to this extent shall cooperate with state and federal agencies and private businesses engaged in the purchase of wheat.
4. The commission shall expend an amount at least equal to that raised by two mills of the levy provided for in this section to contract for activities related to domestic wheat policy issues, wheat production, promotion, and sales. The contracts may be with no more than two trade associations that are incorporated in this state and which have as their primary purpose the representation of wheat producers. The contracts must require that any trade association receiving money under this section pay from the money all dues required as a condition of the trade association's membership in any national trade association. The contracts also must prohibit any trade association receiving money under this section from eliminating any dues required as a condition of membership in that trade association or from reducing such dues below the amount required for membership as of January 1, 2005.
5. When the wheat commission presents the report required by section 4-24-10, the commission shall present a separate report detailing the nature and extent of the commission's efforts to address trade and domestic policy issues. The commission may invite other entities with which it has contracted to assist in the presentations.
6. At the time the wheat commission presents the report required by section 4-24-10, each trade association with which the wheat commission has contracted under subsection 4 of this section also shall present a report detailing all activities in which the trade association engaged under the provisions of the contract.

SECTION 4. REPEAL. Section 4-28-07 of the North Dakota Century Code is repealed."

Page 4, line 10, replace "from" with "on"

Page 4, after line 11, insert:

"SECTION 6. EFFECTIVE DATE. Sections 3 and 4 of this Act become effective on July 1, 2009."

Renumber accordingly

Date:

Roll Call Vote #

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO.

BILL/RESOLUTION NO. *Reengrossal HB 1518*

Senate Agriculture

Committee

Legislative Council Amendment Number

Action Taken

Motion Made By

Seconded By

[illegible]

Total

(Yes)

No

Absent

Floor Assignment

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

March 2, 2005

PROPOSED AMENDMENTS TO REENGROSSED HOUSE BILL NO. 1518

Page 1, line 1, after "to" insert "create and enact a new section to chapter 4-28 of the North Dakota Century Code, relating to the wheat tax levy; to"

Page 1, line 2, after the semicolon insert "to repeal section 4-28-07 of the North Dakota Century Code, relating to the wheat tax levy;"

Page 4, line 3, after the period insert "The contracts must require that any trade association receiving money under this section pay from that money all dues required as a condition of the trade association's membership in any national trade association. The contracts also must prohibit any trade association receiving money under this section from eliminating any dues required as a condition of membership in that trade association or from reducing such dues below the amount required for membership as of January 1, 2005.

5. The commission shall expend an amount at least equal to that raised by three mills of the levy provided for in this section to pay any debts for legal services incurred by the commission, until the debts for legal services are paid in full."

Page 4, line 4, remove the overstrike over "6." and remove "5."

Page 4, after line 8, insert:

- "7. At the time the wheat commission presents the report required by section 4-24-10, each trade association with which the wheat commission has contracted under subsection 4 of this section¹ also shall present a report detailing all activities in which the trade association engaged under the provisions of the contract.

SECTION 3. A new section to chapter 4-28 of the North Dakota Century Code is created and enacted as follows:

Wheat tax levy.

1. a. A tax of twelve mills per bushel [35.24 liters] by weight must be levied and imposed upon all wheat grown in this state, delivered into this state, or sold through commercial channels to a first purchaser in this state.
- b. The tax must be levied and assessed at the time of sale and deducted by the purchaser from the price paid, or in the case of a lien, pledge, or mortgage, deducted from the proceeds of the loan or claim secured, subject to adjustment at the time of settlement in the event the number of bushels [liters] is not accurately determined at the time of the lien, pledge, or mortgage.
- c. At the time of sale, the first purchaser in this state shall issue and deliver to the producer or seller a record of the transaction in the manner prescribed by the commission.

2. a. Any producer who sells wheat to a first purchaser in this state and who is subject to the deduction provided for in this chapter, within sixty days following the deduction or final settlement, may make application by personal letter to the wheat commission for a refund application blank.
- b. Upon the return of the blank, properly executed by the producer, accompanied by a record of the deduction by the purchaser, the producer must be refunded the net amount of the deduction collected.
- c. If no request for refund has been made within the period prescribed in this subsection, the producer is presumed to have agreed to the deduction. A producer that, for any reason, has paid the tax more than once on the same wheat, upon furnishing proof of that payment to the commission, is entitled to a refund of the overpayment.
3. To inform the producer, the commission shall develop and disseminate information and instructions relating to the purpose of the wheat tax and manner in which refunds may be claimed and to this extent shall cooperate with state and federal agencies and private businesses engaged in the purchase of wheat.
4. The commission shall expend an amount at least equal to that raised by two mills of the levy provided for in this section to contract for activities related to domestic wheat policy issues, wheat production, promotion, and sales. The contracts may be with no more than two trade associations that are incorporated in this state and which have as their primary purpose the representation of wheat producers. The contracts must require that any trade association receiving money under this section pay from the money all dues required as a condition of the trade association's membership in any national trade association. The contracts also must prohibit any trade association receiving money under this section from eliminating any dues required as a condition of membership in that trade association or from reducing such dues below the amount required for membership as of January 1, 2005.
5. When the wheat commission presents the report required by section 4-24-10, the commission shall present a separate report detailing the nature and extent of the commission's efforts to address trade and domestic policy issues. The commission may invite other entities with which it has contracted to assist in the presentations.
6. At the time the wheat commission presents the report required by section 4-24-10, each trade association with which the wheat commission has contracted under subsection 4 of this section also shall present a report detailing all activities in which the trade association engaged under the provisions of the contract.

SECTION 4. REPEAL. Section 4-28-07 of the North Dakota Century Code is repealed."

Page 4, line 10, replace "from" with "on"

Page 4, after line 11, insert:

"SECTION 6. EFFECTIVE DATE. Sections 3 and 4 of this Act become effective on July 1, 2009."

Renumber accordingly

March 3, 2005

A

Additional amendments to HB 1518 as already amended by the Senate Agriculture Committee

PROPOSED AMENDMENTS TO REENGROSSED HOUSE BILL NO. 1518

ON THE ORIGINAL REENGROSSED HOUSE BILL NO. 1518:

Page 3, line 24, remove the overstrike over "~~may use the~~", remove "shall expend an", and remove "at least equal to that"

Page 3, line 25, remove the overstrike over "~~up to~~"

ON THE AMENDMENTS TO HB 1518 NO. 50552.0304:

Page 2, in subsection "4." replace "shall expend an" with "may use the", remove "at least equal to that", and after "by" insert "up to"

Date: 3/3/05
Roll Call Vote # 2

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. Reengrossed HB 158

Senate Agriculture Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Pass amendment (change shell to may, 2nd)

Motion Made By Sen. Taylor Seconded By Sen. Seymour

Senators	Yes	No	Senators	Yes	No
Senator Flakoll		✓	Senator Seymour		✓
Senator Erbele		✓	Senator Taylor	✓	
Senator Klein		✓			
Senator Urlacher		✓			

Total (Yes) 1 No 5

Absent 0

Floor Assignment _____

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

Date: 3/3/05
Roll Call Vote # 3

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. Reengrossed HB 1518

Senate Agriculture Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do pass as amended & refer to appropriate

Motion Made By Sen Erbele Seconded By Sen. Urlacher

Senators	Yes	No	Senators	Yes	No
Senator Flakoll	✓		Senator Seymour	✓	
Senator Erbele	✓		Senator Taylor		✓
Senator Klein	✓				
Senator Urlacher	✓				

Total (Yes) 5 No 1

Absent 0

Floor Assignment _____

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

REPORT OF STANDING COMMITTEE

HB 1518, as reengrossed: Agriculture Committee (Sen. Flakoll, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** and **BE REREFERRED** to the Appropriations Committee (5 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING). Reengrossed HB 1518 was placed on the Sixth order on the calendar.

Page 1, line 1, after "to" insert "create and enact a new section to chapter 4-28 of the North Dakota Century Code, relating to the wheat tax levy; to"

Page 1, line 2, after the semicolon insert "to repeal section 4-28-07 of the North Dakota Century Code, relating to the wheat tax levy;"

Page 4, line 3, after the period insert "The contracts must require that any trade association receiving money under this section pay from that money all dues required as a condition of the trade association's membership in any national trade association. The contracts also must prohibit any trade association receiving money under this section from eliminating any dues required as a condition of membership in that trade association or from reducing such dues below the amount required for membership as of January 1, 2005."

5. The commission shall expend an amount at least equal to that raised by three mills of the levy provided for in this section to pay any debts for legal services incurred by the commission, until the debts for legal services are paid in full.

Page 4, line 4, remove the overstrike over "6-" and remove "5."

Page 4, after line 8, insert:

- "7. At the time the wheat commission presents the report required by section 4-24-10, each trade association with which the wheat commission has contracted under subsection 4 also shall present a report detailing all activities in which the trade association engaged under the provisions of the contract.

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 - a. A tax of twelve mills per bushel [35.24 liters] by weight must be levied and imposed upon all wheat grown in this state, delivered into this state, or sold through commercial channels to a first purchaser in this state.
 - b. The tax must be levied and assessed at the time of sale and deducted by the purchaser from the price paid, or in the case of a lien, pledge, or mortgage, deducted from the proceeds of the loan or claim secured, subject to adjustment at the time of settlement in the event the number of bushels [liters] is not accurately determined at the time of the lien, pledge, or mortgage.
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SECTION 4. REPEAL. Section 4-28-07 of the North Dakota Century Code is repealed."

Page 4, line 10, replace "from" with "on"

Page 4, after line 11, insert:

"SECTION 6. EFFECTIVE DATE. Sections 3 and 4 of this Act become effective on July 1, 2009."

REPORT OF STANDING COMMITTEE (410)
March 7, 2005 8:46 a.m.

Module No: SR-41-4243
Carrier: Klein
Insert LC: 50552.0305 Title: .0400

Renumber accordingly

2005 SENATE APPROPRIATIONS

HB 1518

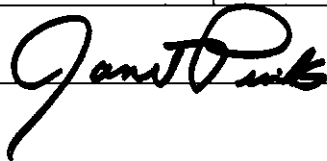
2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 1518

Senate Appropriations Committee

☐ Conference Committee

Hearing Date March 15, 2005

Tape Number	Side A	Side B	Meter #
1	a		0-end
		b	0
Committee Clerk Signature 			

Minutes:

Vice Chairman Bowman called the hearing to order on HB 1518 with roll call.

Representative Gene Nichols, District 15, Cando, testified in support of HB 1518 indicating the bill is an increase in the Wheat Tax and is in this committee primarily because of the trade case. He briefly indicated Wheat Mill Act was amended in 1999 to put 2 additional mills in so the trade case could be pursued. He stated that the amount of wheat stocked was higher then it is now and a study at NDSU in February shows that by keeping the Canadian imports out it amounts to 15 cents a bushel. The trading on wheat has increased from \$2.50 bushel to \$3.50 bushel. We need to send a message to the Canadian Wheat board is that we are here to stay. This bill will take us out four years and with the Senate amendments the Legislators at that time can determine what needs to be done. The bill is needed at this time to impact our state to fulfill the commitment to the Commission to continue to pursue this case. If the case is dropped, according to new rules, we can't pursue it at a later date.

Representative Mike Brandenburg, District 28, Edgeley, testified in support of HB 1518

indicating the 2 mill would go to the wheat commission and grain growers and we need their presence in the state to work together and with Washington.

Senator Andrist indicated most of the opposition he is getting in e-mail is that the Wheat Commission is using this money to form other groups more then to defeat the lawsuit. Has the funding of the Grain and Durum growers come out of the House. The response was it was supported in the House and the amendments added on by the Senate dealt with the sunset and dedicating mils to pay off the trade case.

Harlan Klein, Chairman, ND Wheat Commission, distributed testimony and testified in support of HB 1518. He discussed the trade case which began in 1999, indicating there was a lot of resistance from Canada because it reduced imports. He discussed the reasons the bill was higher then anticipated and the working relationship with the grower groups.

Senator Tallackson questioned where the money on the law case was spent. The response was that most was legal fees, economic analysis fees totaling \$6.3 million.

Senator Bowman asked when you started working this and had more bills then revenue; do you go to grain producers and talk to them or do you have the authority to do what you think is best and then go to the producers. How does it work with your organization. The response was that they had been in constant communication with representatives on the commission which includes producers from the state, each county elects a representative broken into 6 districts and one is their representative and one at large by the Governor. Last meeting was that we need to get this trade case taken care of.

Senator Bowman asked how much 2 mills generates. The response was \$500,000 - \$550,000 a year.

Senator Andrist asked what he would say to economists that state farm commodities are fluid and prices are based on perceived presence of commodities not on the movement. In response, using the Canadian situation, the more wheat coming to the market the more we had to market because we marketed our crops and the Canadian crop. By taking the Canadians away, we market primarily someone else's wheat.

Senator Andrist indicated if you deny the Canadian Wheat access, the wheat still exists and it will go someplace else so won't it still affect our market. The response was that in some information we previously supplied it shows what is happening to the wheat in Canada and it shows their supply is growing. Canada raises a much larger quantity of wheat than the US. There will be the competition because they will want to move their stockpiles.

Neil Fischer, Administrator, ND Wheat Commission distributed handouts and testified in support of HB 1518. The documents distributed are an Economic Study done by NDSU showing the contribution of the wheat industry to ND Economy; the ND Wheat Commission annual report to producers and the portion of the presentation made to House and Senate Ag committees by the ND Wheat Commission on opening days of the session. He discussed the budget which shows the prioritization of the five major program areas of the commission. The bill is a good way to accomplish goals.

asked if the money was designated so it wasn't used for something else.

Senator Andrist asked that his feelings be shared as to why it is important for the Wheat Commission to fund other groups.

Senator Krauter asked the difference that with current law that allows this with 2 mil vs.

Making it mandatory. When it is mandatory you have to give \$1.1 million vs. Having accountability to negotiate those types of projects.

In response, the potential amount of the increase is going to the trade case. Best reason to fund other groups is the budget cuts on ag programs in the future. At the current point this is mandatory and there has been considerable discussion about the need.

Dan Wogsland, (#3275) Executive Director, ND Grain Growers Association and US Durum Growers Association, distributed testimony and testified in support of HB 1518. He discussed why this is an important bill to give the ND Wheat Commission the ability to pay its legal obligations regarding anti dumping of wheat and durum into the US and the benefits that have resulted.

Senator Krauter asked several questions regarding the accountability issues and reporting the details, whether the organization requested any money or was denied any money during the process, minutes of a Wheat Commission was read where money was requested, the special project money, and the need to mandate money.

The response indicated they welcomed the accountability and the need to report to the legislature, the second question of the shall to may is the ND Wheat Commission has a fiduciary responsibility to take care of the Wheat Commission dollars, the ND Grain and Durum growers budget was zeroed out, special projects were done through the Wheat Commission, and the reason behind the mandate is to cement into law what they feel is important and what the ND legislature feels important.

Richard Schlosser, (#5275) ND Farmers Union Association, presented written testimony and testified in **opposition to HB 1518** on behalf of Farmers Union Members. He indicated they have no problem in supporting the portion of the bill to settle the debt but they do object to the mills referred to in Section 1, subsection 4 which mandates funding two private trade associations. On page 4 for the same subsection, the language says the contracts must prohibit any trade association receiving money under this section.

An additional handout was distributed from **John Fjeldahl, Citizen, Berthold, in opposition to HB 1518.**

Several questions were raised clarifying the testimony being in opposition, some members of farmers union are in opposition, whether you would support a bill because you get half a loaf or oppose it because you don't want the other half, whether you consider grain growers an organization that needs to go or a good organization that is trying to improve quantity, quality and prices or just disagree on a few issues, if members find a few policies out of many would you encourage them to not do business with them, are you suggesting amendments that effect the money part of the bill, what is the difference if you spend money to pay attorneys or pay organization to do lobbying, are you punishing the grain growers because of action of former director,

Response was did request the word shall changed to may; if the amendment were offered we would look at that, yes, some members are in opposition on behalf of county organizations, We can support 2/3 of the bill but have reservations about the rest, I did not imply the grain growers was a bad organization but in terms of some policies we do find objectionable, there is a difference that tax dollars are being used to lobby, our policy states we are opposed to the

Page 6

Senate Appropriations Committee

Bill/Resolution Number 1518

Hearing Date March 15, 2005

check-off dollars being used to fund private organizations, we agreed on the issues of the trade case and there was a definite benefit to all producers and in some instances benefit from lobbying and some did not benefit, we are speaking the policy of members as to their opposition

Senator Christmann requested information on the fiscal notes as to the difference in revenue and expenditures.

Neil Fischer responded.

Chairman Holmberg closed the hearing.

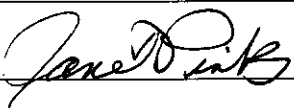
2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 1518

Senate Appropriations Committee

☐ Conference Committee

Hearing Date March 25, 2005

Tape Number	Side A	Side B	Meter #
1	a		1,810 - 2892
Committee Clerk Signature 			

Minutes:

Chairman Holmberg opened the discussion on HB 1518 relating to the Wheat Check off.

Senator Bowman discussion the check off dollars for the Wheat Commission indicating there is an increase in the amount of money levied to pay off debt and part goes to support groups involved in trade policies regarding the North Dakota Wheat Producers. It is a controversial bill as some do not support the money being used for this. The suggestion was made to bring amendments forward and have them heard on the floor

Discussion continued about the policy of this bill.

Senator Bowman moved a DO PASS, **Senator Thane** seconded. A roll call vote was taken resulting in 10 yes, 4 no and 1 absent. The motion carried and **Senator Klein** will carry the bill.

Chairman Holmberg closed the discussion on HB 1518.

Date 3/25/05
Roll Call Vote #: 1

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 1518

Senate SENATE APPROPRIATIONS

Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken DP

Motion Made By Bowman Seconded By Thane

Senators	Yes	No	Senators	Yes	No
CHAIRMAN HOLMBERG	/		SENATOR KRAUTER		/
VICE CHAIRMAN BOWMAN	/		SENATOR LINDAAS		/
VICE CHAIRMAN GRINDBERG	/		SENATOR MATHERN		/
SENATOR ANDRIST	/		SENATOR ROBINSON		/
SENATOR CHRISTMANN	/		SEN. TALLACKSON	/	
SENATOR FISCHER	/				
SENATOR KILZER	/				
SENATOR KRINGSTAD					
SENATOR SCHOBINGER	/				
SENATOR THANE	/				

Total (Yes) 10 No 4

Absent 1

Floor Assignment AG Klein

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

REPORT OF STANDING COMMITTEE (410)
March 25, 2005 11:00 a.m.

Module No: SR-55-6201
Carrier: Klein
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1518, as engrossed and amended: Appropriations Committee (Sen. Holmberg, Chairman) recommends **DO PASS** (10 YEAS, 4 NAYS, 1 ABSENT AND NOT VOTING). Engrossed HB 1518, as amended, was placed on the Fourteenth order on the calendar.

2005 TESTIMONY

HB 1518

Testimony on HB1518 presented to the HOUSE AGRICULTURE COMMITTEE

February 4, 2005

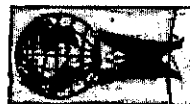
Harlan Klein, Chairman
Neal Fisher, Administrator

**NORTH DAKOTA
WHEAT COMMISSION**
Quality wheat for spring and durum

NORTH DAKOTA LEADS

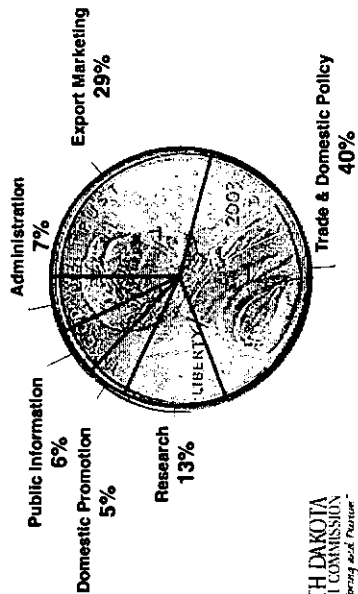
- ❑ Specific to Hard Red Spring and Durum wheat
- ❑ Criteria for "standing" in getting petition for investigations accepted by ITC and DOC
- ❑ Streamlined communication and decision-making
 - ❑ Could still be talking to other states about what attorney to hire, what type of case to initiate, etc.
- ❑ Some states face difficulty meeting assessments to national efforts
 - ❑ U.S. Wheat Associates
 - ❑ National Association of Wheat Growers
 - ❑ Wheat Foods Council

**NORTH DAKOTA
WHEAT COMMISSION**
Quality wheat for spring and durum



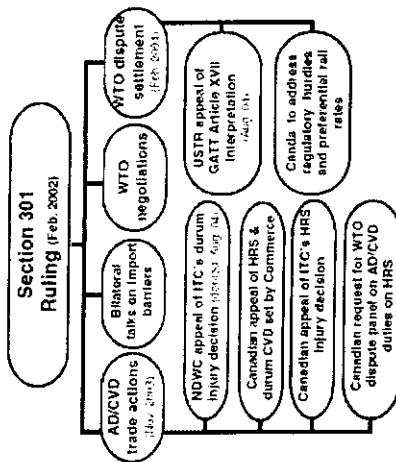
PROGRAMS IMPORTANT TO WHEAT PRODUCERS

Fiscal Year 2003-04 Expenditures



**NORTH DAKOTA
WHEAT COMMISSION**
Quality wheat for spring and durum

USTR'S SECTION 301 RULING IN 2002 LEADS TO 4-PRONG ACTION PLAN



**NORTH DAKOTA
WHEAT COMMISSION**
Quality wheat for spring and durum

AD/CVD NO SLAM DUNK

U.S. International Trade Commission
Final determinations in last 5 years

AFFIRMATIVE:

- Frozen Red Raspberries from Chile
- Honey from Argentina and China
- Concentrated Apple Juice from China
- Hard Red Spring Wheat from Canada
- Warmwater Shrimp from Brazil, Thailand
- Frozen Fish Fillets from Vietnam
- Ready to Cook Kosher Chicken from Canada
- Spring Table Grapes from Chile and Mexico

NEGATIVE:

- Greenhouse Tomatoes from Canada
- Live Cattle from Mexico and Canada
- Live Swine from Canada
 - new case filed in 2004
 - preliminary determination affirmative

NORTH DAKOTA WHEAT COMMISSION
Quality Matters! Red Spring and Durum

PROCEDURE GEARED TO INDUSTRIAL PRODUCTS, NOT AGRICULTURE

- Many ag trade cases not brought due to difficulty in proving injury to agricultural commodities
- Vast majority of successful cases involve manufacturing industries
 - few ag cases win affirmative determinations



NORTH DAKOTA WHEAT COMMISSION
Quality Matters! Red Spring and Durum

MANY DON'T REACH FIRST OR SECOND BASE

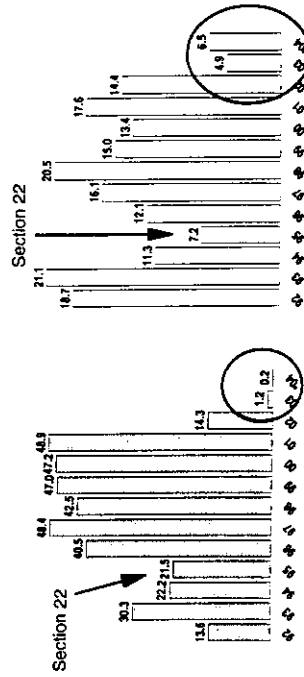
- 1989 to 2003
 - Withdrawn or not initiated by Department of Commerce or ITC
 - 6% of Dumping
 - 12% of CVD
 - Numerous cases terminated/ suspended after initiation of investigation
 - Fresh Tomatoes from Mexico
 - Cooked & Peeled Coldwater Pink Shrimp from Canada
 - Terminations after affirmative preliminary determination, before final determination
 - 14% of Dumping cases
 - 19% of Countervailing duty cases

NORTH DAKOTA WHEAT COMMISSION
Quality Matters! Red Spring and Durum

TRADE CASE HAS HELD IMPORTS OF CANADIAN WHEAT TO LOW LEVELS

HARD RED SPRING

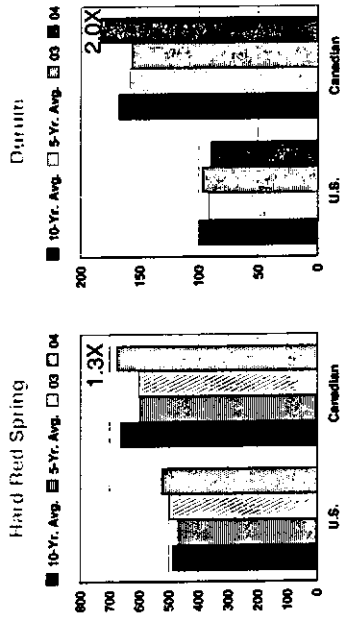
DURUM



Source: U.S. Department of Commerce, Census Bureau
*04 includes months of June-Oct

MYTH: Imports are down because Canada doesn't have anything to sell

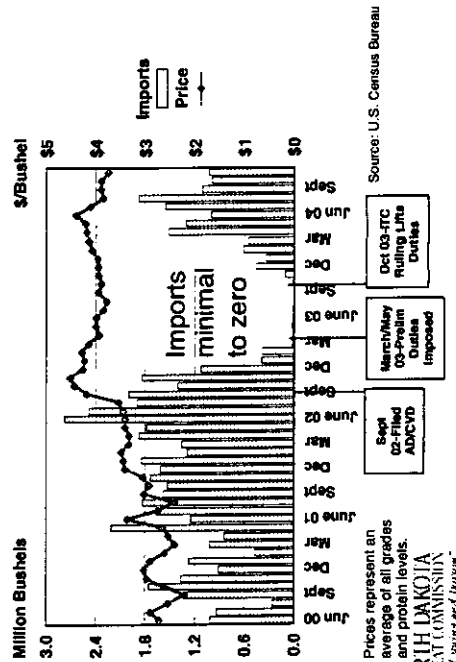
FACT: Imports are down because of import duties



Canada grows about 1.3 times more HRS, 1.7-2.0 times more durum and Canadian inventories are growing.

NORTH DAKOTA WHEAT COMMISSION
Quality Hard Red Spring and Durum

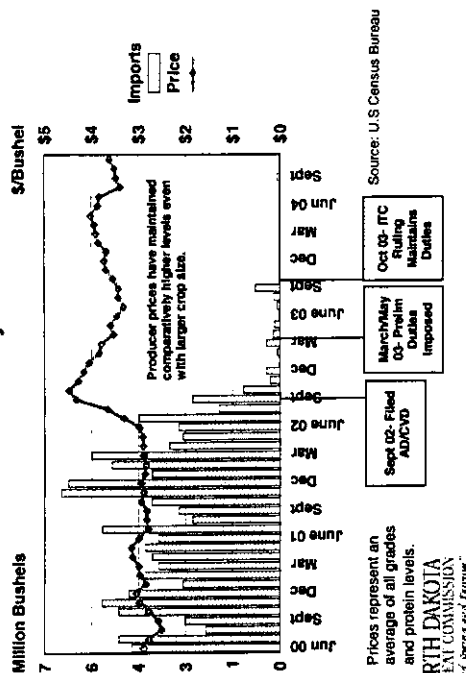
Correlation Between Canadian Durum Imports and Prices Received by U.S. Durum Producers



Prices represent an average of all grades and protein levels.

NORTH DAKOTA WHEAT COMMISSION
Quality Hard Red Spring and Durum

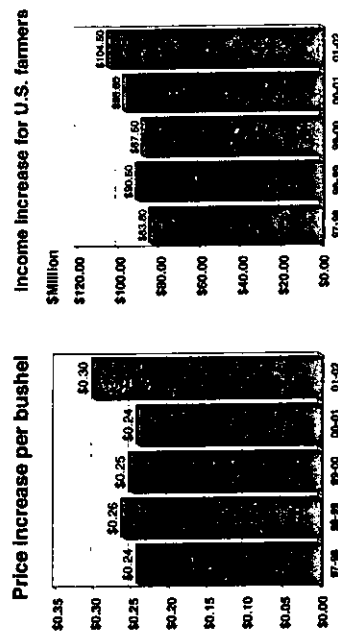
Correlation Between Canadian Hard Red Spring Wheat Imports and Prices Received by U.S. HRS Producers



Prices represent an average of all grades and protein levels.

NORTH DAKOTA WHEAT COMMISSION
Quality Hard Red Spring and Durum

ESTIMATED BENEFIT of import quota proposed in Section 301



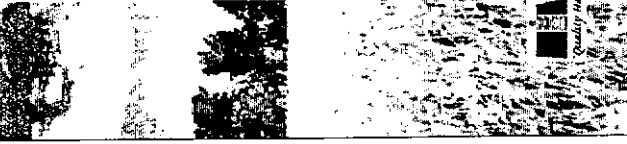
2003 NDSU analysis based on quota proposed that would have held hard red spring wheat imports to 18.4 million bushels. Imports levels are actually much lower as a result of countervailing and antidumping duties of 14%.

NORTH DAKOTA WHEAT COMMISSION
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20¢ PER BUSHEL

- ▣ \$50 million annually (with potential to stick 4 more years)
- ▣ Conservative estimate of positive impact
 - due to improved market access and pricing opportunities
- ▣ 2003 NDSU analysis
 - 24¢ to 30¢ per bushel and \$84 million to \$105 million in improved incomes, if quota had held spring wheat imports to 18.4 million bushels
- ▣ Reality: spring wheat imports of 1.2 million bushels in 2003-04 and 0.2 so far in 04-05

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MUCH IS AT STAKE

Canadian Wheat Board

appealing 14% combined duties on HRS

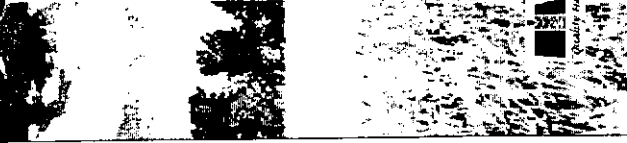
- ▣ Joining the CWB are the Government of Canada, two provinces and U.S. milling industry
- ▣ NAFTA bi-national dispute panels reviewing 2 separate appeals
- ▣ WTO appeal withdrawn
 - If Canada fails with NAFTA appeals, it will likely request a WTO dispute settlement

CAUTION

Canada's NAFTA appeals pending before bi-national dispute settlement panels

- ▣ 1) 5.29% countervailing duty to offset subsidies as determined by the U.S. Department of Commerce
 - CWB contends 3 government borrowing guarantees were improperly combined
 - Panel finding was due Jan. 27 but still hasn't been issued
 - Panel can't overturn decision, can only remand to DOC to review its finding
- ▣ 2) ITC finding of economic injury to U.S. hard red spring wheat producers from imports
 - crucial to maintaining both the 5.29% CVD and the 8.86% dumping duty
 - Oral hearing set for March 9

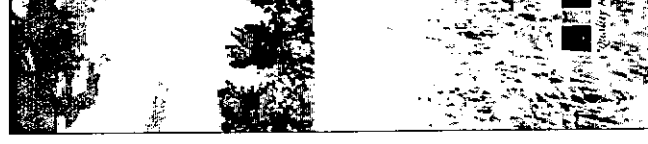
**NORTH DAKOTA
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What else remains?

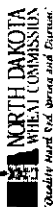
- ▣ Annual administrative reviews
 - No party requested administrative review of 8.86% dumping duty, so it will remain in place another year (unless overturned in appeal process)
 - Dept. of Commerce reviewing HRS countervailing duty determination for 2003
 - Questionnaires to CWB and Canadian government
 - Opportunity to review and respond
 - Preliminary results including any revised rate from current 5.29% duty
 - Any party can request hearing, briefs filed
 - Final results due no later than Oct. 31, 2005
 - Legal counsel potentially needed for these reviews for another five years

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Quality Hard Red Spring and Durum



What else remains?

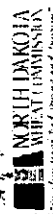
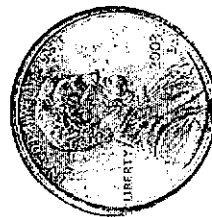
- Canada to comply with WTO ruling
 - By Aug. 1, 2005
 - Found to be violating "national treatment" rules by
 - discriminating against foreign grain
 - ✓ requires special Canadian Grain Commission authorization before it can be delivered to an elevator
 - ✓ imposing limits on revenues railroads from shipments of western Canadian grain while giving freedom to charge higher rates for imported grain
 - NDWC outlined major issues for U.S. Trade Representative to address
 - Compliance more matter of principle than market opportunity for U.S. growers
 - may spur transshipments for export via Pacific Northwest ports
 - Key: weakens links in CWB's web of control



Quality Wheat. Not Spring and Summer.

CHECKOFF INCREASE NEEDED

- To pay for today's trade victories
- To assure a strong future
 - A 1/2 penny increase would generate about \$1.2 million in additional funding per year.
 - Total funding would be about \$3.8 million annually or about \$7.6 million per biennium



Quality Wheat. Not Spring and Summer.

What else remains?

- Reforming CWB practices in international market to prevent spillover effect
- WTO agriculture negotiations
 - Gains made in framework for negotiations
 - ✓ on permanent solution to State Trading Enterprises (STEs) like Canadian and Australian wheat board
 - Pressure from U.S. wheat industry on U.S. Trade Representative
 - ✓ to remain firm in seeking permanent reform and disciplines on monopoly powers

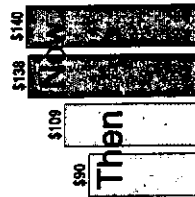


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WHAT'S DIFFERENT NOW THAN LAST TIME CHECKOFF INCREASE PROPOSED?

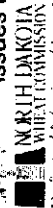
- Wheat situation going into 2003 legislative session
 - Drought reduced N.D. crop to 216 million bushels, smallest since 1988
- 4 mills of 5-mill increase was to go to grower associations for domestic farm policy
 - Likelihood of increased refunds leaving little or less for trade issues, research or marketing
- Now: 2 mills for farm policy with greater consensus on issues to be addressed

N.D. WHEAT PRODUCTION
Gross return per harvested acre
(market price X yield)



01 02 03 04

Source: N.D. Agricultural Statistics Service



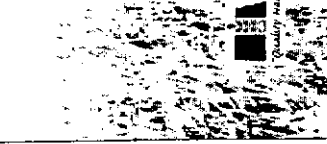
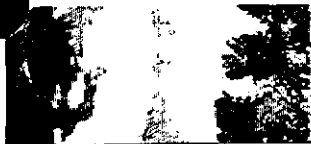
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SITUATION APPROACHING 2003 LEGISLATIVE SESSION

- December 2002
 - \$734,000 outstanding balance
 - \$370,000 remaining in FY02-03 budget for Legal Counsel
 - Report to 2003 Joint Hearing of House and Senate Ag Committees indicated payment not likely complete until FY04-05
- Antidumping and countervailing duty cases only filed in Sept. 2002
 - DOC's preliminary findings on subsidization not issued until March 2003
 - Preliminary findings on dumping came in May 2003
 - If unsuccessful in preliminaries, cases may have ended



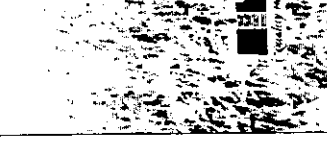
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What about the import duties collected?

- Little collected because little coming in
- From March 10, 2003 to Dec. 31, 2003
 - About \$175,000 in dumping duties
 - About \$100,000 in countervailing duties
 - Potentially liquidated late in FY2005
- Dependent upon future of Byrd Amendment ruled to be WTO violation

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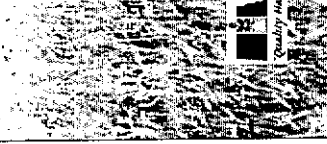


MAJORITY OF EXPENSE INCURRED AFTER 2003 LEGISLATIVE SESSION

- Outstanding balance as of Jan. 05 is \$2.9 million
 - Of the total \$6.3 million in billings, \$3.3 million occurred after the 2003 legislative session
 - numerous timeline extensions by U.S. government bodies
 - fact-finding, hearings, gaining final decisions
 - exacerbated by
 - CWB refusal to providing pricing
 - opposition by U.S. millers, pasta processors and bakers



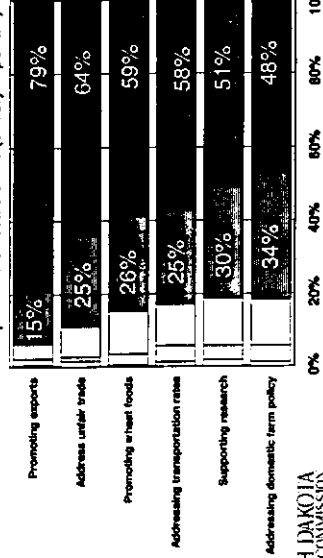
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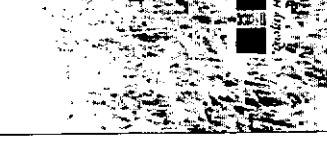
ASSESSING GRASSROOTS SUPPORT

- Survey of 388 randomly selected N.D. wheat producers
- Importance of activities funded with wheat checkoff
 - Addressing unfair trade second only to export marketing.

Importance on scale of 1-5 (5=very important)



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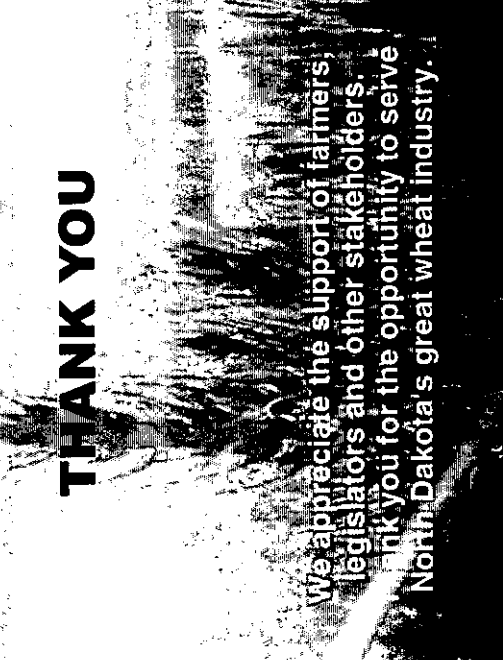


- 1-Not important
2
3
4
5-Very important

[illegible]

NORTH DAKOTA
WHEAT COMMISSION
"Quality Meets Red Spring and Harvest"

- NORTH DAKOTA
WHEAT COMMISSION**
Quality Starts With Spring and Summer



THANK YOU

We appreciate the support of farmers, legislators and other stakeholders. Thank you for the opportunity to serve North Dakota's great wheat industry.

We appreciate the support of farmers, legislators and other stakeholders. Thank you for the opportunity to serve North Dakota's great wheat industry.

COVER STORY

- WTO
- 301 compliant
- Market access
- Antidumping

10-year trade policy confrontation heads toward final battle. ■ By Lon Tonnerson

1989 — Canada-U.S. Free Trade Agreement implemented. One treaty provision states that neither the United States nor Canada can sell wheat "below the acquisition price of the goods plus any storage, handling or other costs."

1992 — A U.S. General Accounting study confirms that Canadian government paid the Canadian Wheat Board \$428 million in 1990 and \$575 million in 1991 due to insufficient money from wheat export sales to cover initial payments to producers. The North Dakota Wheat Commission requests dispute resolution panel as provided under the Canada-U.S. Free Trade Agreement.

1993-94 — Binational dispute panel defines acquisition price of Canadian wheat to include only CWB initial payment to producers. Not surprisingly, it then finds 102 of 105 sales examined to be above the cost of acquisition.

1994 — International Trade Commission investigation concludes that Canadian imports have been interfering with U.S. wheat market. Canada and United States negotiate a settlement that includes a 12-month tariff.

Shipments of Canadian wheat to the United States

Marketing Year	ALL WHEAT		DURUM		SPRING	
	000 MT	MT Bn.	000 MT	MT Bn.	000 MT	MT Bn.
82-83	126.9	4.7	0.0	0.0	126.9	4.7
83-84	62.5	2.3	2.6	0.1	59.9	2.2
84-85	235.4	8.6	0.0	0.0	235.4	8.6
85-86	317.5	11.7	0.0	0.0	317.5	11.7
86-87	477.2	17.5	58.8	2.2	418.4	15.4
87-88	293.4	10.8	158.4	5.8	135.0	5.0
88-89	365.2	13.5	209.0	7.6	156.2	5.8
89-90	301.7	11.1	163.3	6.0	138.4	5.1
90-91	605.6	22.2	303.6	11.3	299.0	11.0
91-92	839.0	30.8	375.2	13.8	463.8	17.0
92-93	1038.0	37.6	433.8	16.1	604.2	21.5
93-94	2242.5	82.4	479.6	17.6	1762.9	64.8
94-95	1607.2	70.1	253.8	9.5	1353.4	50.6
95-96	1105.1	40.6	201.1	7.4	905.0	33.2
96-97	1701.1	62.5	384.6	12.3	1316.5	50.2
97-98	1735.8	63.8	427.9	15.7	1307.9	48.1
98-99	1658.1	63.3	352.6	12.3	1305.5	48.0
99-00	1640.1	60.3	421.3	15.5	1218.6	44.8
00-01	1417.0	52.1	386.8	12.4	1030.2	39.7
01-02	1663.3	61.1	512.2	18.8	1151.1	42.3
Jun-Feb 02-03	635.4	23.3	332.7	12.2	302.6	11.2
Five-Yr. Avg.	1662.9	61.1	450.2	16.5	1212.7	44.6
Ten-Yr. Avg.	1670.3	61.4	386.3	14.6	1274.0	46.8

The U.S. wheat industry — led by the North Dakota Wheat Commission — is heading toward what many hope are the final battles over Canadian imports.

Later this summer or fall, U.S. trade and commerce agencies are scheduled to decide whether or not to add more tariffs on top of the preliminary 3.94% levy imposed in March.

What does this mean to you?

Possibly, an increase in wheat prices.

The 3.94% tariff makes a 15 to 20 cent per bushel difference in the price U.S. millers have to pay for Canadian durum and hard red spring wheat — enough to alter some sales, says Neal Fisher, administrator, North Dakota Wheat Commission.

The day after the tariff was imposed, the Minneapolis Grain Exchange spring wheat futures price increased 8 cents per bushel.

But what remains to be seen is whether or not the Canadian Wheat Board (CWB) — a state trading entity backed by the Canadian government — simply lowers its asking price or absorbs the extra cost to offset the tariffs.

Also, this fall, the United States is having the matter investigated by a World Trade Organization (WTO) dispute settlement panel and is seeking reform of state trading entities in the WTO agricultural negotiations.

"We're flanking them on four sides," Fisher says.

SEVEN SINS

The U.S. wheat industry complains that the CWB is committing seven trading sins in what is supposed to be a North American free trade zone. The CWB is:

1. Controlling all wheat grown in western Canada. The CWB faces no bidding competition in purchasing wheat from Canadian farmers or in making sales of Canadian wheat.

Continued on page 10

2000 — The North Dakota Wheat Commission petitions the U.S. Trade Representation to start a Section 301 investigation into wheat trading practices of the CWB.

2002 — USTR outlines "four-pronged" approach to fight for a level playing field. The strategy includes filing a WTO complaint, filing countervailing and antidumping petitions with the U.S. Department of Commerce and U.S. International Trade Commission, pursuing WTO negotiations and engaging in direct trade negotiations.

2003 — Department of Commerce imposes a preliminary 3.94% countervailing tariff on Canadian wheat imports, promises preliminary decision on antidumping tariff in May with final decisions on tariffs in the late summer.

Continued from page 9

2. Using the Canadian government to finance its operations. The result is that the CWB's interest rate is significantly lower than U.S. grain companies'. This enables the CWB to sell grain for less than U.S. companies.

3. Using the Canadian government to guarantee initial payments to producers. The CWB pays farmers approximately 70% of the expected final return when they deliver grain. This arrangement allows the CWB to discount prices in international markets because final payments are determined by how much money goes into the pool account. If the pool account exceeds total initial payment, farmers receive a final payment. When the account falls short, as it did in the early 1990s, the Canadian government makes up the difference.

4. Pooling money from all sales into one account. By depositing returns from spring wheat, durum wheat, feed barley and designated barley into one of four pools, the CWB can charge more in some markets to offset the losses in others. No matter when a Canadian farmer's grain is delivered or sold, he gets the same amount.

5. Hiding prices. The CWB keeps its sale prices secret while basing its prices on the U.S. market, which is established publicly. The lack of price transparency allows unfair practices to go unchallenged.

6. Capitalizing on preferential rail rates and regulations. The Canadian rail transport system makes CWB wheat at least 15 cents per bushel cheaper than U.S. wheat.

7. Barring imports. Canada has many nontariff trade barriers that prevent non-Canadian wheat from entering Canada in any significant amounts.

WHAT U.S. WHEAT WANTS

Here's what the U.S. wheat industry wants:

- Elimination of the CWB's export monopoly. The CWB should compete with other grain exporters.
- Elimination of the CWB's supply monopoly. The CWB should

compete with other exporters and processors to acquire grain.

- Full transparency of CWB operations and pricing.

- Elimination of Canadian rail transportation regulations that allow only wheat produced in western Canada to reach eastern and western ports at rates below comparable commercial rates.

- Elimination of government financial guarantees to the CWB. This backing gives the CWB more pricing flexibility than its competitors and insulates the CWB from the commercial risks faced by other exporters and U.S. producers.

- Complete accounting of the acquisition price of Canadian wheat.

- Expansion of the trade agreements' definition of acquisition price to include all payments to Canadian producers.

WHO'S AGAINST IT

Canadian government officials, the CWB and American milling companies continue to line up in defense of single desk selling of Canadian wheat.

Canada Agriculture and Agri-Food Minister Lyle Vancilief and CWB Chairman Ken Ritter contend that American wheat farmers have no right to complain about Canadian wheat being unfairly subsidized because of support they receive from the U.S. government.

The North American Millers Association has complained that U.S. wheat farmers have not been able to supply the quality and quantity millers require.

"If petitioners get what they want, which is elimination of the CWB, the irony is it will likely mean more imports rather than less," says Jim Bair, NAMA vice president.

With no wheat board and dozens of farmers to source grain from, Bair purports that much of the wheat going west for export to other countries will come straight south.

COUNTERARGUMENTS

"The facts are that the United States exports virtually no wheat to Canada and has not used export subsidies in

the sale of wheat since 1995," Fisher says.

He claims the U.S. domestic farm programs are not trade distorting and are within commitments made to the WTO.

The North Dakota Wheat Commission's analysis indicates that prices on both sides of the border should float higher if Canadian farmers are given the right to trade their wheat on a free, fair and open market.

"U.S. millers like limiting their price risk with the CWB's noncommercial ability to forward contract," he says. "Their fear of paying higher prices seems to cloud their judgment. By offering unconditional support for an open Canadian border, NAMA is condoning the operation of a foreign government monopoly in the U.S. wheat market."

WHAT'S AT STAKE

Nothing less than the U.S. durum and hard red spring wheat industry's future is at stake in the trade dispute with Canada, Fisher says.

He attributes a large part of the 20% decline in durum and hard red spring wheat acres in the northern plains since implementation of the Canadian-U.S. Free Trade Agreement to Canadian imports. They not only have displaced U.S. wheat, but also have held down prices. Because millers have long-term agreements with the CWB, they don't have to bid up prices to encourage U.S. farmers to plant wheat, or to bring it out of storage, even when supplies become tight.

Some economists estimate that the CWB is single-handedly depressing wheat prices in the United States and foreign markets by at least 8% annually.

"This translates into losses to U.S. wheat farmers of more than a half billion dollars in each of the last four years," Fisher says.

If the trade policy campaign is not successful, the U.S. durum and hard red spring wheat industries "could look like the oats industry in a few years," Fisher says, "with most of the U.S. supply being grown overseas." ♦

CRS Report for Congress

Received through the CRS Web

Argument and Detailed Chronology Included

U.S.-Canada Wheat Trade Dispute

Updated June 14, 2004

Randy Schnepf
Specialist in Agricultural Policy
Resources, Science, and Industry Division

Contents

Issue Definition	1
Background	1
Hard Wheats and Durum Introduced	1
HRS and Durum Wheat Trade	4
Marketing Methods Differ	6
U.S. Allegations and Canadian Counter-Arguments	7
First: CWB Trading Practices	7
Second: Treatment of Imported Grain	8
Third: Subsidies Aid Canadian Wheat Exports to the United States ...	8
Legal Actions	9
U.S. International Trade Commission (ITC) Case	9
Summary	12
WTO Dispute Settlement Case (DS276)	12
Summary	14
Role of Congress	14

List of Figures

Figure 1. Major Production Areas for Canadian Spring Wheat	2
Figure 2. Major Production Areas for Canadian Durum Wheat	2
Figure 3. Major Production Areas for U.S. Hard Red Spring (HRS) Wheat	3
Figure 4. Major Production Areas for U.S. Durum Wheat	3
Figure 5. U.S. Wheat Supply by Source	4
Figure 6. U.S. Wheat Imports Compared with the All-Wheat Season Average Farm Price (SAFP)	6

U.S.-Canada Wheat Trade Dispute

Summary

U.S. trade officials and northern-tier wheat producers have long expressed concerns that Canadian wheat trading practices — both import and export — are inconsistent with Canada's international trade obligations. The U.S. wheat industry has raised three general charges against the Canadian Wheat Board (CWB) and Canadian wheat trading practices. First, they contend that Canadian wheat trading practices, particularly the export practices of the CWB, are inconsistent with Canada's WTO obligations and disadvantage U.S. wheat exporters in Canadian and international markets. Second, U.S. trade officials contend that the Canadian government has certain rules and regulations in place that discriminate against imported grains at grain elevators and within Canada's rail transportation system. Third, U.S. northern-tier wheat producers have long argued that Canadian wheat entering the U.S. market was being supported by various subsidies and that these wheat imports have been harmful to U.S. producers.

Canadian officials claim that the CWB operates as a valid state trading enterprise (STE) under WTO rules. Canada maintains that its import practices and the CWB wheat export practices comply fully with international trade rules and its WTO obligations, and that Canada does not subsidize its wheat exports. In addition, U.S. wheat millers and pasta manufacturers have expressed a strong interest in maintaining their access to Canadian grain and oppose trade restrictions that might limit their access.

The allegations against Canadian wheat trading practices have led to a series of investigations by U.S. agriculture and trade authorities at various levels. First, the charge that Canadian wheat exports to the United States are aided by subsidies that disadvantage U.S. wheat producers has been investigated under countervailing duty and anti-dumping investigations by the U.S. International Trade Commission (ITC). The ITC, in its final ruling (October 3, 2003), imposed punitive duties on Canadian hard red spring (HRS) wheat imports, but not on Canadian durum imports. The ITC's positive ruling on Canadian HRS is being appealed under NAFTA provisions by the CWB and Canadian national and provincial governments. In addition, the Canadian government announced its intention to call for the formation of a WTO dispute settlement panel to review the ITC injury ruling. The North Dakota Wheat Commission has announced its intent to appeal the ITC's negative ruling on Canadian durum.

Second, charges concerning the trading practices of the CWB and the treatment of wheat imports by Canada are being pursued under a WTO Dispute Settlement Case (DS276). In its final ruling (April 4, 2004), a WTO Dispute Settlement Panel produced a mixed verdict that has left both parties dissatisfied. The United States has already announced (June 1, 2004) its intent to appeal the panel's decision. The U.S.-Canada wheat trade dispute remains contentious and both sides continue to pursue legal actions on both the ITC and WTO cases. This report will be updated as events warrant.

Canadian production of HRS and durum wheat occurs primarily in the prairie provinces of Manitoba, Saskatchewan, and Alberta (see Figures 1 and 2).

Figure 1. Major Production Areas for Canadian Spring Wheat

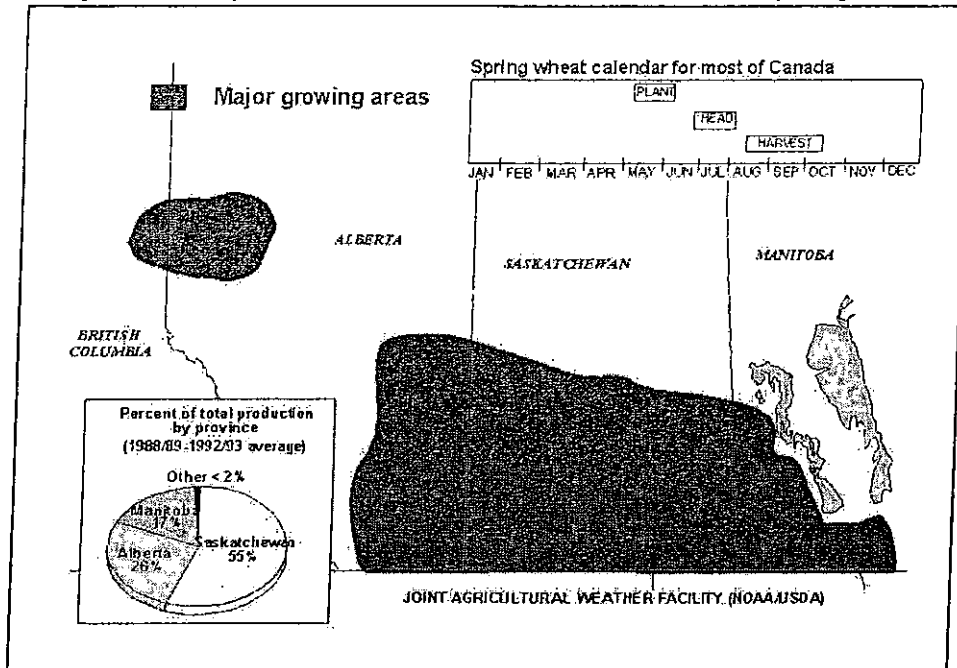
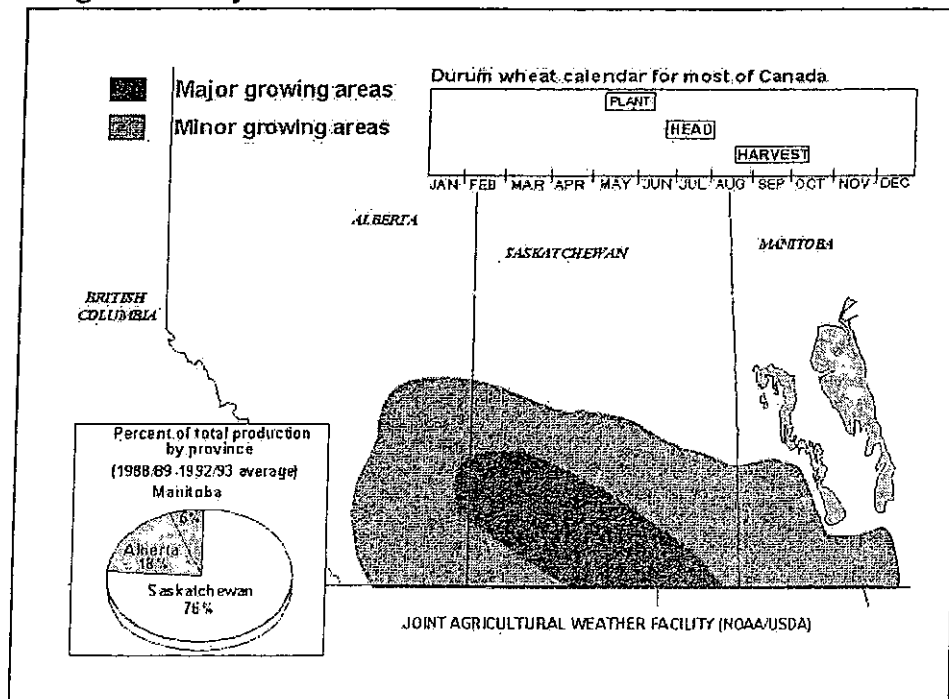


Figure 2. Major Production Areas for Canadian Durum Wheat



Most U.S. HRS and durum wheat production occurs in close proximity, just south of the Canadian border in the north central states of Minnesota, Montana, and North and South Dakota (see Figures 3 and 4).¹

Figure 3. Major Production Areas for U.S. Hard Red Spring (HRS) Wheat

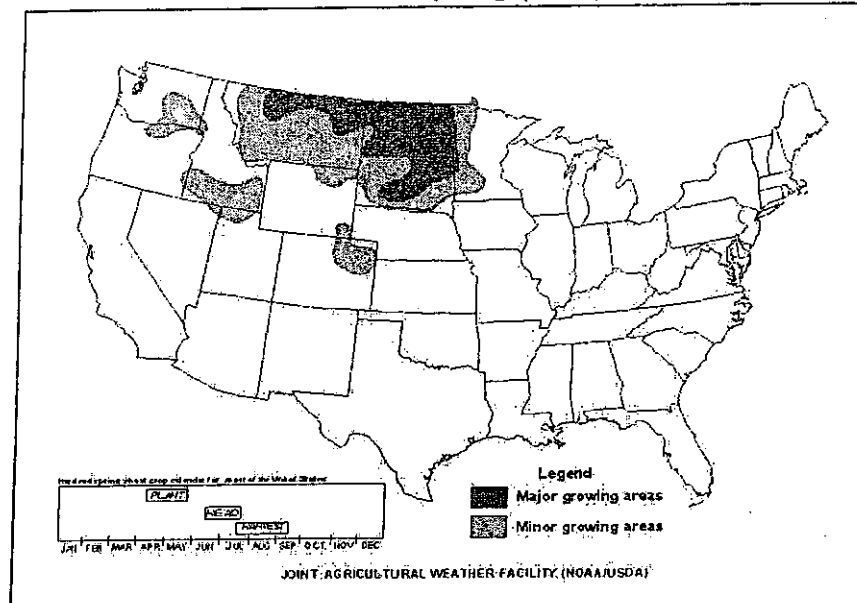
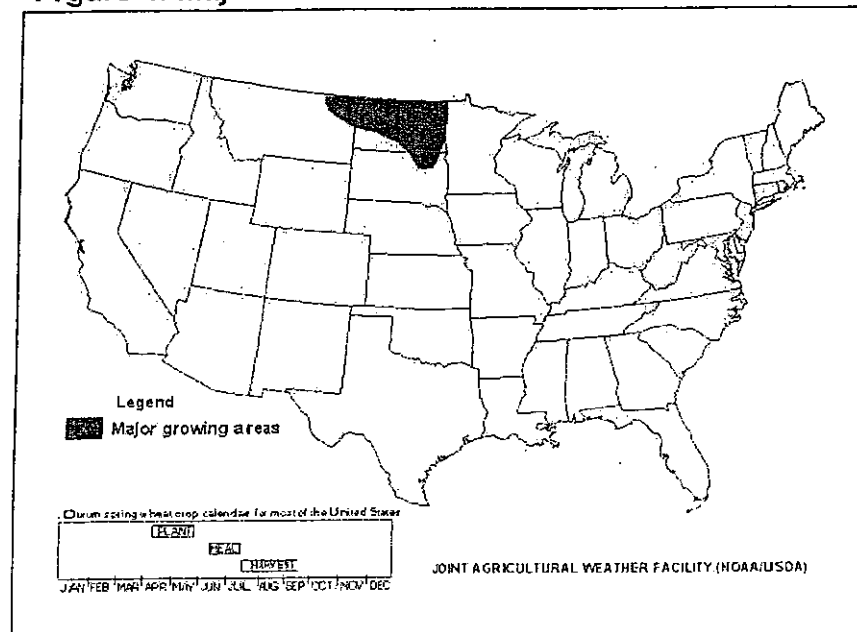


Figure 4. Major Production Areas for U.S. Durum Wheat

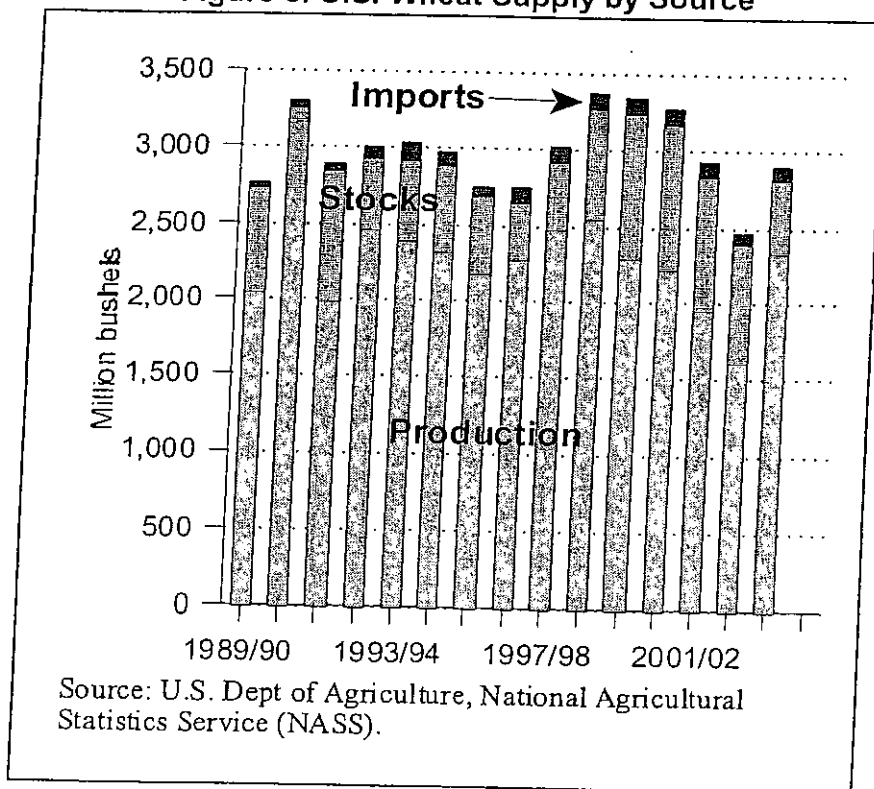


¹ USDA, WA.OB online maps for major U.S. and Canadian production regions for durum and HRS are available at [<http://www.usda.gov/oce/waob/jawf/profiles/mwcacp.htm>].

HRS and Durum Wheat Trade. The United States is the world's leading exporter of wheat (totaled across the major wheat classes). Canada is the world's leading exporter of HRS and durum wheat. However, these two classes of wheat are also important to the U.S. wheat sector. Since 1986, these two classes have accounted for nearly 30% of U.S. commercial wheat export volume (25% share for HRS and a 4% share for durum) and an even higher share of wheat producers' market returns (since they have significant price premiums over other wheat classes in most years).² U.S. and Canadian HRS exports are critically important to international wheat markets since together they represent the world's primary source of high-protein wheat — a key ingredient in the production of leavened bread.

U.S. imports of wheat and wheat flour are historically small, averaging about 3% of total U.S. supplies each year, and are generally related to specific end-use needs (see Figure 5). Most U.S. wheat imports are durum and HRS wheat from Canada.

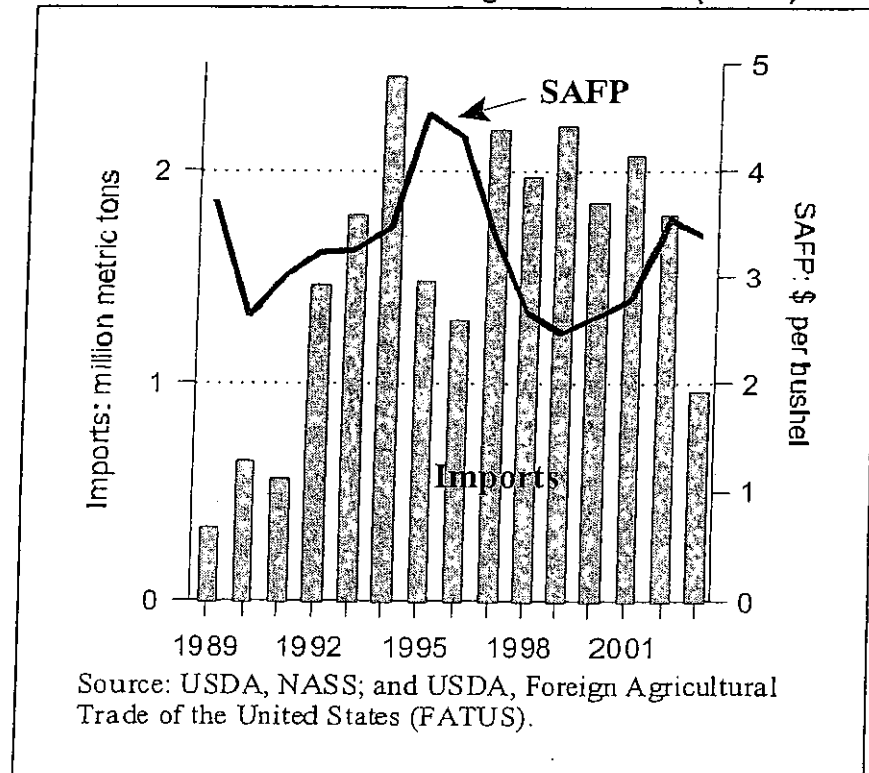
Figure 5. U.S. Wheat Supply by Source



² USDA, Economic Research Service, *Wheat Situation and Outlook Yearbook*, WHS-2003, March 2003.

Despite their small volume relative to total supply, unexpected growth in U.S. imports of spring and durum wheat from Canada in the early 1990s — with import growth from about 330,000 metric tons in 1989 to over 2.4 million metric tons (mmt) in 1994/95, and an average of over 1.8 mmt since — has been viewed as especially problematic by producers in U.S. border states, especially when U.S. prices are low as during the 1998-2001 period (see Figure 6). Trade liberalization following the 1989 Free Trade Agreement between the United States and Canada (subsequently incorporated into NAFTA) contributed to the expanded agricultural trade. However, not all of the change in U.S.-Canadian agricultural trade can be attributed to the FTA or to any other single factor. Weather, policy changes, and world supply and demand conditions are some of the influential factors. Exchange rates are also important. Prevailing exchange rates between the Canadian and U.S. dollars for most of the past decade have made Canadian imports cheaper for U.S. buyers and U.S. farm products more expensive for Canadian buyers.

Figure 6. U.S. Wheat Imports Compared with the All-Wheat Season Average Farm Price (SAFP)



Marketing Methods Differ. The main difference between the HRS and durum industries in the United States and Canada is the manner in which grain is marketed. In the United States, grain is marketed through a vast network of producer cooperatives and small and large trading companies. In contrast, the role of grain marketing in Canada is assumed entirely by the Canadian Wheat Board (CWB). In accordance with Canadian law, the CWB has the exclusive right to purchase and sell western Canadian wheat (durum and nondurum) and barley for domestic human consumption and for export. While Canadian farmers are free to choose the crops

that they grow each year, all Canadian producer sales of wheat and barley for food use or export must be to the CWB. However, the use or sale of wheat or barley as livestock feed is permitted without restriction in Canadian markets.

U.S. Allegations and Canadian Counter-Arguments

Despite the general success of the U.S.-Canada agricultural trading relationship, several points of friction exist. U.S. trade officials and wheat producer groups have raised three general charges against the CWB and Canadian wheat trading practices.

First: CWB Trading Practices. They contend that Canadian wheat trading practices, particularly the export practices of the CWB, are inconsistent with Canada's WTO obligations and disadvantage U.S. wheat exporters in Canadian and international markets. Canadian officials claim that the CWB operates as a valid state trading enterprise (STE) under WTO rules. Article XVII of the *General Agreement on Tariffs and Trade* (GATT) 1994 is the principal article dealing with STEs and their operations.³ It sets out that such enterprises — in their purchase or sales involving either imports or exports — are to act in accordance with the general principles of nondiscrimination, and that commercial considerations only are to guide their decisions on imports and exports.

The CWB claims that it is a marketing organization, not a government agency. Under a 1998 amendment to the Canadian Wheat Board Act, the CWB ceased to be a crown corporation and farmers became responsible for the election of members of the board of directors with members from both government and the private sector.⁴

However, in 2001 an ITC investigation found that the CWB operates in all significant respects as an arm of the Canadian government.⁵ The CWB retains its monopsony (single buyer) and monopoly (single seller) power in the marketing of western Canadian grains for food use or export. The CWB receives government approval and backing of its borrowing and other financing, which reduces its costs and insulates it from the commercial risks faced by U.S. grain traders. Further, the CWB's producer pool system (by which Canadian producers are remunerated) gives the CWB special marketing flexibility. Producers receive a government-approved and -guaranteed initial payment early in the crop year, with subsequent interim and final payments as the crop is harvested and sold on world markets. Subsequent payments are payable only to the extent that the CWB makes money on its sales. If final market returns fail to cover the cost of the initial payments, any losses are covered by the government, not the CWB. This occurred in the 2002/03 pool, when losses of \$65.8 million were covered by the Canadian government. U.S. producer groups claim that this equals a direct export subsidy of 20.4 cents per bushel on the

³ WTO, "The Regulation of State Trading Under the WTO System," visited Jan. 6, 2004, at [http://www.wto.org/english/tratop_e/statrad_e/statrad.htm].

⁴ Canadian Wheat Board, "CWB History," visited Dec. 29, 2003, at [http://www.cwb.ca/en/about/vision_mission/history.jsp].

⁵ ITC, *Wheat Trading Practices: Competitive Conditions Between U.S. and Canadian Wheat*, Publication 3465, Dec. 2001, p. xv.

320 million bushels of Canadian HRS export sales.⁶ The CWB dismissed this criticism, saying that this was the first deficit since the 1990/91 crop year and falls far short of the average \$740 million in annual subsidies provided to U.S. wheat producers.⁷

Critics of the CWB also argue that its monopsony power in Canada gives the CWB extraordinary market power, particularly in the North American markets for durum and hard spring wheat. Representatives of the U.S. wheat industry, as well as U.S. agriculture and trade officials, also complain that the CWB's "monopoly" control over Canada's wheat trade permits it to practice discriminatory pricing in international markets and thereby gain unfair competitive advantage over other wheat exporters. Because the CWB does not publicly report the terms and conditions of individual sales, these charges have been difficult to prove. The CWB responds to this alleged lack of transparency by saying that U.S.-based private companies such as Cargill or Archer Daniels Midland also do not report the contractual details of their commercial transactions.⁸

The Canadian government has shown no interest in negotiating a mutually acceptable resolution to the dispute. However, within Canada an important producer group, the Western Canadian Wheat Growers Association (WCWGA), has argued for ending the CWB's special monopoly powers and other special privileges.⁹ The WCWGA states that, "as long as the CWB continues to operate as a legislated monopoly, with government supports for its borrowings and bad debts, it will continue to be a subject of trade disputes."

Second: Treatment of Imported Grain. According to U.S. trade officials, the Canadian government has certain rules and regulations in place that discriminate against imported grains at grain elevators and within Canada's rail transportation system.¹⁰ Under the Canadian Grains Act and other Canadian regulations, imported wheat cannot be mixed with Canadian domestic grain being received into or discharged out of grain elevators. Also, Canadian law caps the maximum revenues that railroads may receive on the shipment of domestic grain but not revenue received on the shipment of imported grains. As a result, imported grain can be charged potentially higher shipping costs than domestic grain. Finally, Canada provides a preference for domestic grain over imported grain when allocating government-owned railcars.

Third: Subsidies Aid Canadian Wheat Exports to the United States. In addition to charges against the CWB, U.S. northern-tier wheat producers have long

⁶ North Dakota Wheat Commission, News Release, "NDWC Denounces Canadian Wheat Board's Latest Export Subsidy," Dec. 18, 2003, at [<http://www.ndwheat.com/>].

⁷ CWB, News Release, "NDWC charges completely hypocritical," Dec. 19, 2003, at [<http://www.cwb.ca/en/news/releases/2003/121903.jsp>].

⁸ Personal discussions with CWB personnel, Winnipeg, Canada, August 18, 2003.

⁹ *Sparks Policy Reports*, "Canadian Farmers Call for Changes in CWB Operations," March 26, 2003, p. 2.

¹⁰ The CWB does not engage in wheat imports.

argued that Canadian wheat entering the U.S. market is being supported by various subsidies and that these wheat imports have had a large negative impact on local grain prices (see Figure 6). As a result of these trade violations, U.S. industry groups have argued that some form of trade restriction such as a tariff-rate quota should be placed on Canadian wheat entering the United States and that the CWB should lose its monopsony and monopoly privileges over western Canadian grain.¹¹

Canada maintains that Canadian import practices and the CWB wheat export practices comply fully with international trade rules and its WTO obligations. In addition, the North American Millers' Association (NAMA)¹² has argued strongly against the imposition of any form of trade restraint on Canadian grain exports to the United States.¹³ They argue that continued open access to Canadian high-protein wheat and durum is important to maintain adequate milling supplies, particularly given the downward trend in U.S. wheat and durum acreage that has occurred since the passage of the 1996 U.S. Farm Act (P.L. 107-77).

Legal Actions. These allegations against Canadian wheat trading practices have led to a series of investigations by U.S. agriculture and trade authorities at various levels. First, the charge that Canadian wheat exports to the U.S. are aided by subsidies that disadvantage U.S. wheat producers has been investigated under countervailing duty and anti-dumping investigations by the U.S. International Trade Commission. Second, charges concerning the trading practices of the CWB and the treatment of wheat imports by Canada are being pursued under a WTO Dispute Settlement Case. The timeline of key activities under each of these two legal actions are detailed below.

U.S. International Trade Commission (ITC) Case

September 2000. The North Dakota Wheat Commission (NDWC) filed a petition with the U.S. Trade Representative (USTR) alleging that certain wheat trading practices of the government of Canada and the CWB are unreasonable, and that such practices burden or restrict U.S. commerce.

October 2000. In response to the NDWC petition, USTR initiated an investigation under Section 301 of the Trade Act of 1974 concerning the acts,

¹¹ North Dakota Wheat Commission, "N.D. Wheat Commission Proposes Remedies to U.S.-Canada Wheat Dispute," news release, Dec. 22, 2000, at [<http://www.ndwheat.com/>].

¹² NAMA is the trade association representing most of the wheat, corn, oat, and rye milling industry in North America. NAMA has 46 milling member companies that operate 169 mills in 38 U.S. states and Canada. Their aggregate production of more than 160 million pounds per day is approximately 90% of the total industry capacity. For more information, see NAMA's website at [<http://www.namamillers.org/>].

¹³ NAMA testimony given at ITC hearings pursuant to the investigations on imports of HRS and durum from Canada (Washington, D.C., Sept. 4, 2003).

policies, and practices of the CWB.¹⁴ Subsequently, USTR requested that ITC institute an investigation into Canadian wheat trading practices.

December 2000. The NDWC claims that CWB wheat exports to the United States are undercutting U.S. wheat prices by approximately 8% due to the Canadian practice of over-delivering protein content as well as rail transportation benefits. Higher protein content wheat generally sells at a premium to lower protein wheat. As a result, when the CWB delivers wheat with a higher protein content than specified in a sales contract while still accepting the original contract price, it is equivalent to accepting a below-market price or price undercutting.

April 2, 2001. USTR formally requests that ITC conduct an investigation into Canadian wheat pricing practices.

April 12, 2001. ITC instituted investigation No. 332-429, *Wheat Trading Practices: Competitive Conditions between U.S. and Canadian Wheat*, conducted under section 332(g) of the Tariff Act of 1930, in response to the USTR request.

December 18, 2001. ITC released its report *Wheat Trading Practices: Competitive Conditions between U.S. and Canadian Wheat*, Publication 3465. The report identified several features of the CWB that, as a state monopoly, afford it "unfair" market advantages over U.S. wheat exporters.¹⁵

January 11, 2002. Several Members of Congress followed up on the ITC report with a letter to USTR highlighting the key findings of the ITC report and recommending that the CWB be held accountable for its alleged unfair trade practices.¹⁶

September 13, 2002. The ITC initiated a countervailing duty and anti-dumping investigation on durum and HRS wheat imports from Canada. The ITC investigations Nos. 701-TA-430A and 430B, and 731-TA-1019A and 1019B, *Durum and Hard Red Spring Wheat from Canada*, were conducted under section 705(b) and 735(b) of the Tariff Act of 1930 (19 U.S.C. § 1671d(b) and 1673d(b)), in response to petitions filed by the NDWC, the Durum Growers Trade Action Committee, and the U.S. Durum Growers Association. (However, U.S. millers and pasta makers dispute the allegations of price discounts on Canadian wheat and have expressed concern over potential trade restrictions that might limit their access to high quality grain supplies.)

¹⁴ For information on Section 301 and other U.S. trade remedies, see *CRS Trade Briefing Book*, Trade Remedies section, page on "Section 301 of the Trade Act of 1974," available at [<http://www.congress.gov/brbk/html/ebtra86.html>].

¹⁵ ITC report on investigation no. 332-429 (under Section 332(g) of the Tariff Act of 1930 as amended), *Wheat Trading Practices: Competitive Conditions Between U.S. and Canadian Wheat*, Publication 3465, Dec. 2001, p. xiv. The report is available at <ftp://ftp.ITA.gov/pub/reports/studies/pub3465.pdf>.

¹⁶ Letter from the offices of Representatives Bob Schaffer, Scott McInnis, and Mark Udall, Jan. 11, 2002.

November 19, 2002. The ITC made an affirmative preliminary injury determination on wheat imports from Canada. An affirmative preliminary determination means that, in the view of the ITC, there are some indications that imports of Canadian wheat are causing or threatening to cause material injury to U.S. domestic wheat producers. In other words, the case has merit and should be pursued.

March 4, 2003. The U.S. Department of Commerce (DOC) issued a preliminary finding that two Canadian programs represented countervailable subsidies: the provision of government railcars to Canadian producers and the guarantee of CWB borrowing. A provisional punitive duty of 3.94% was imposed on both Canadian durum and HRS wheat imports.

May 2, 2003. The DOC issued a preliminary ruling against Canada in the antidumping investigation that durum and HRS wheat from Canada were being sold in the United States at prices lower than those prevailing in Canada or below full cost. The DOC assigned provisional dumping margins of 6.12% on HRS and 8.15% on durum wheat from Canada. These duties are in addition to the 3.94% preliminary countervailing duty.

May 23, 2003. ITC published notice of the final phase of the Commission's investigations and of a public hearing to be held in connection therewith in the Federal Register (68 FR 28253).

August 29, 2003. The DOC announced affirmative final determinations in its countervail and anti-dumping investigations. The final outcome was as follows: countervail rate of 5.29% for both durum and HRS; and final anti-dumping rates of 8.26% for durum and 8.87% for HRS. Together, these result in total punitive duties of 13.55% for durum and 14.16% for HRS.

September 4, 2003. ITC held a hearing pursuant to the durum and HRS investigation.

October 3, 2003. ITC released its final ruling, full report, and materials in support of its final ruling on the investigation: *Durum and Hard Red Spring Wheat From Canada*, Publication 3639. ITC found that only the HRS wheat and not durum imports were being subsidized by the government of Canada and sold in the United States at less than fair value thereby injuring the U.S. wheat sector.¹⁷ As a result, the punitive duties of 14.16% on Canadian HRS were left in place while the punitive duties on Canadian durum were removed.

October 3, 2003. The government of Canada (jointly with the provincial governments of Alberta and Saskatchewan) filed a formal request for a NAFTA panel review of the DOC final determinations in the countervail case against Canadian HRS wheat exports. Chapter 19 of NAFTA provides for a binding, bi-national panel review of final determinations in trade remedy cases. Panels consisting of five

¹⁷ ITC report on investigations nos. 701-TA-430A and 430B, and 731-TA-1019A and 1019B, *Durum and Hard Red Spring Wheat From Canada*, Publication 3639, Oct. 2003, p.1.

persons are established to review the determinations. These panels are required to ascertain whether or not the determinations are consistent with the trade laws of the country conducting the investigation (Canada in this case).

November 19, 2003. The NDWC filed notice of intent to challenge the ITC's negative injury determination with respect to Canadian durum before the U.S. Court of International Trade under NAFTA provisions.

November 24, 2003. The CWB filed a formal appeal under NAFTA of the U.S. ITC's October 3, 2003 injury ruling against Canadian HRS wheat exports, thereby joining the appeal filed earlier by the Canadian national and provincial governments.

December 2003. The CWB announced that it was considering the merits of a joint WTO appeal (with the Canadian government) of the ITC injury ruling as well as the DOC antidumping and countervail rulings.

June 2004. Canada announced that it will request the establishment of a WTO dispute settlement panel to adjudicate over the ITC final injury determination related to imports of HRS from Canada. The request will be made at the next Dispute Settlement Body meeting, set for June 22.

Summary. Presently, imports into the United States of Canadian HRS are subject to punitive duties of 14.16%, while imports of Canadian durum are not subject to punitive duties. The ITC's positive ruling on Canadian HRS is being appealed under NAFTA provisions by the CWB and Canadian national and provincial governments. In addition, the Canadian government has announced its intention to call for the formation of a WTO dispute settlement panel to review the ITC injury ruling. The NDWC has announced its intent to appeal the ITC's negative ruling on Canadian durum.

WTO Dispute Settlement Case (DS276)¹⁸

December 17, 2002. U.S. trade officials submitted a request for consultations with Canada via the Dispute Settlement Body of the WTO as regards matters concerning the export of wheat by the CWB and the treatment accorded by Canada to U.S. grain imported into Canada.

U.S. trade officials argue that the CWB's export practices are inconsistent with WTO trade provisions governing the trade behavior of STEs which require them to undertake trade in a manner consistent with the general principles of nondiscriminatory treatment as prescribed in the GATT 1994 (Article XVII).

Concerning the treatment of imported grains, U.S. trade officials argue that Canadian import practices are inconsistent with Canada's obligations under Article

¹⁸ For more information on the WTO Dispute Settlement Case (DS276), "Canada-Measures Relating to Exports of Wheat and Treatment of Imported Grain," see [http://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm].

III of GATT 1994 and violate the WTO's national treatment requirements (Article 2 of the *Agreement on Trade-Related Investment Measures*). More specifically, U.S. trade officials contested four distinct measures of Canadian import practices:

- first, the conditions surrounding the receipt of foreign grain into Canadian grain elevators under Section 57(c) of the *Canada Grain Act*;
- second, rules governing the mixing of certain grain in Canadian transfer elevators (rules which were used to exclude certain classes and grades of U.S. wheat from importation) under Section 56(1) of *Canada Grain Regulations*;
- third, the imposition of a revenue cap on certain railways for the transportation of Western Canadian grain but not for foreign imported grains under Sections 150(1) and 150(2) of the *Canada Transportation Act*; and
- fourth, Section 87 of the *Canada Grain Act* which, the United States charges, allows for domestic producers of grain to apply for a railway car to receive and carry the grain to a grain elevator for a consignee while precluding the same degree of access to producers of foreign grain.

January 31, 2003. Consultations on DS276 were held between the United States and Canada. During the consultations, Canada expressed no willingness to make any modifications to its wheat trading practices, arguing that they were already in full compliance.

March 6, 2003. USTR requested the establishment of a WTO dispute settlement panel to hear DS276.

July 21, 2003. The WTO dispute settlement panel issued its preliminary ruling in DS276 case, released privately to contestants.

April 4, 2004. The dispute settlement panel issued its final ruling publicly.¹⁹ The verdict was mixed. The panel concluded that, although the CWB acted as a "noncommercial" arbiter in setting sales of Western Canadian grain in the global market, this practice is not inconsistent with WTO provisions. In other words, the panel found that the CWB's trading practices do not violate WTO rules for state trading enterprises (STEs).

The panel agreed with the first three U.S. allegations concerning the treatment of imported U.S. grains by Canada, while the panel found that the United States failed to establish the charges made under the fourth import treatment measure concerning access to railway cars.

Both parties have claimed a ruling in their favor. A Canadian government spokesman claims that the ruling upholds the Canadian position that the CWB

¹⁹ WTO, *Canada — Measures Relating to Exports of Wheat and Treatment of Imported Grain*, "Reports of the Panel," WT/DS276/R, 6 April 2004.

operates as a valid STE under WTO rules. A U.S. trade official disagreed, saying that, although the panel did not find that the CWB is "in and of itself" illegal, it did rule that certain CWB practices are not consistent with international trade rules.²⁰ Further, the U.S. official says the panel found that the CWB should pay fair market value for transporting Canadian wheat and that Canada must stop discrimination against U.S. wheat.

June 1, 2004. USTR notified its decision to appeal to the WTO's Appellate Body (pursuant to Article 11 of the Dispute Settlement Understanding) the panel's DS276 final ruling. In particular, USTR is seeking review of the panel's ruling that the CWB export regime is consistent with Canada's obligations under Article XVII of GATT 1994.

Summary. The WTO ruling with respect to the treatment of imported grains, calls for removal of regulatory hurdles that have been imposed on imports of U.S. wheat. The result could be increased marketing opportunities for U.S. wheat into niche markets in Canada. The administrator of the NDWC also says that the ruling will be helpful to American farmers and elevators that may at times want to ship wheat west on the Canadian rail system since now Canadian railways will have to haul U.S. wheat for the same price as Canadian wheat.²¹ However, because the panel recognized Canada's right to maintain its grain quality assurance system, some market analysts suggest that subsequent revisions to Canada's grain marketing system may ultimately have little significant impact on the volume of Canada's imported grain.²²

U.S. wheat producer groups and the USTR remain very disappointed in the WTO panel's ruling with respect to the CWB and are likely to aggressively pursue the U.S. appeal to DS276 at the WTO, as well as the elaboration of greater disciplines on state trading enterprises like the CWB in ongoing and future WTO trade negotiations.

Role of Congress

Given the importance of wheat in the U.S. agricultural economy, Congress may be closely monitoring developments in both the WTO U.S.-Canada wheat dispute settlement case and the legal followup to the ITC rulings on durum and HRS wheat imports from Canada. Successful appeal and resolution of the WTO dispute in favor of the United States could result in greater competitiveness for U.S. wheat vis-a-vis Canadian wheat in international markets. It could also establish precedent under WTO dispute settlement procedures for regulating the activities of state trading enterprises.

²⁰ *International Trade Reporter*, "Canada Hints Interim WTO Ruling Upholds Wheat Board's Validity; U.S. Also Sees Win," ISSN 1523-2816, Vol. 21, No. 1, January 1, 2004. Note, these comments were made after the interim ruling which was upheld in the final ruling.

²¹ NDWC news release, April 7, 2004.

²² World Perspectives, Inc., "WTO Canada Grain Decision Dissected," April 7, 2004.

Effects of the Duties on Canadian Hard Red Spring Wheat

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Table of Contents

List of Tables	ii
List of Figures	ii
Abstract	iii
Highlights	iv
Introduction	1
U.S. Wheat Imports from Canada under CUSTA	1
USITC Investigation	4
Changes in Trade Since the Imposition of Duties	5
Increased Imports of Other Wheat	7
Previous Studies	9
Effects of Reduction in Imports on Price and Revenue	10
Farm Price Model	11
Farm Revenue Model	13
Empirical Results	13
Changes in Price	13
Changes in Farm Revenue	15
Conclusions	17
References	19

List of Tables

No.		Page
1	Marketing Year Canadian Wheat Exports to the United States, by Class	4
2	Monthly Canadian Wheat Exports to the United States, by Class	6
3	Results of Hard Red Spring Wheat Farm Price Estimation	14
4	Estimated Annual Effects of Reduced Hard Red Spring Wheat Imports on Price and Revenue	16

List of Figures

No.		Page
1	U.S. Imports of Non-durum and Durum Wheat from Canada	2
2	Wheat Imports as a Percentage of U.S. Production	3
3	Effect of Supply Shift on Price and Revenue	10
4	Hard Red Spring Wheat Farm Price	16

Abstract

Since the United States imposed antidumping and countervailing duties totaling 14.16 percent on imports of Canadian hard red spring (HRS) wheat, Canadian exports to the United States have nearly stopped. This study examines the changes in U.S. wheat imports from Canada. An econometric model is developed and estimated to determine the effects of the decline in HRS wheat imports on U.S. farm price and producer revenue. The substantial decline in HRS wheat imports from Canada from the 1997/98 - 2001/02 levels to the current levels is found to have increased the spring wheat price received by farmers by about \$0.15 per bushel. With the average yearly HRS wheat production totaling 481 million bushels, this price increase means an increase in annual income of \$74 million. The increase in price also leads to an increase in production, and domestic sales replace imports. This increase in production leads to an additional increase in revenue of \$27 million per year. The total increase in revenue for the U.S. HRS wheat industry is about \$101 million per year. Some of the decline in Canadian HRS wheat exports to the United States could be due to a weakening U.S. dollar and below average Canadian production, but most is likely due to the U.S. imposition of antidumping and countervailing duties.

Keywords: wheat, imports, Canada, farm price, countervailing duties, antidumping duties

Highlights

The U.S. Commerce Department determined that imports of durum and hard red spring (HRS) wheat from Canada were being unfairly subsidized, with a net subsidy rate of 5.29 percent, and sold at less than fair value, with dumping margins of 8.26 percent and 8.87 percent for durum and HRS wheat, respectively. The U.S. International Trade Commission then determined that the U.S. HRS wheat industry is materially injured by imports of Canadian HRS wheat, but that the durum industry is not materially injured, or threatened with material injury, by imports of durum wheat. Therefore, antidumping and countervailing duties totaling 14.16 percent were issued for imports of HRS wheat, but no duties were imposed on durum wheat.

Since these duties were imposed in October 2003, Canadian HRS wheat exports to the United States have nearly stopped. From January 1997 through July 2002, monthly HRS wheat exports from Canada to the United States averaged 113 thousand metric tons. Canadian HRS wheat exports to the United States declined to 6.8 thousand metric tons per month from November 2002 to August 2003 because of a poor Canadian crop. Imports from Canada dropped more substantially when the duties were imposed. From October 2003 to November 2004, U.S. HRS wheat imports from Canada averaged only 656 metric tons per month, which is a 97.5 percent reduction in imports compared to the 2002/03 crop year and a more than 99 percent reduction compared to the level of imports from the previous five crops years. This dramatic drop in HRS wheat imports from Canada seems to indicate that the duties have been highly successful in restricting imports.

The high sensitivity of U.S. HRS wheat users to price indicates that they would shift from Canadian to U.S. wheat if Canadian price increases. Canada is more likely to shift exports to overseas markets rather than absorb the duties and export to the United States at lower prices. While imports of HRS wheat from Canada have nearly stopped, imports of other classes of wheat have increased. U.S. durum imports from Canada are now returning to the levels of previous years after decreasing in 2003. Imports of other non-durum wheat, including white winter wheat, Canadian western red winter, and soft red winter wheat, have also increased.

To calculate changes in U.S. farm revenue resulting from the antidumping and countervailing duties, a price model is developed, based on supply and demand conditions of HRS wheat, and is estimated with time series data. The price flexibility coefficient estimated from the price model is used to calculate changes in farm price and revenue that have resulted due to the drop in imports.

HRS and hard red winter (HRW) wheat supply are found to be the most significant variables affecting HRS wheat farm price. A 1 percent increase (decrease) in HRS wheat supply is found to cause a 0.67 percent decrease (increase) in HRS wheat farm price, while a 1 percent increase (decrease) in HRW wheat supply is found to cause a 0.48 percent decrease (increase). The level of wheat stocks held by the Commodity Credit Corporation, the Food Security Wheat Reserve, and the Farmer-Owned Reserve has a positive effect on price, and the stock-to-use ratio for the rest of the world has a negative effect on U.S. price, although the effects of these factors are only marginally significant.

The substantial decline in HRS wheat imports from Canada from the 1997/98 - 2001/02 levels to the current levels since the duties were imposed has led to a 5.1 percent increase in U.S. HRS wheat farm price, according to the results of our model. With an average farm price of \$3.02 per bushel during 1997 to 2001 crop years, a 5.1 percent increase in price is equal to a \$0.15 per bushel price increase. Because of a rather large standard error in the model, though, the 90 percent confidence interval for the price increase ranges from about \$0.05 to \$0.26 per bushel.

With an average yearly HRS wheat production of 480.6 million bushels, this price increase results in an estimated annual income increase of \$74.2 million. This is revenue gained strictly due to the price effect. The 90 percent confidence interval for the price effect ranges from \$21.7 million to \$126.8 million. The increase in price also leads to an increase in domestic production, and domestic sales replace imports. This increase in production causes an additional increase in revenue of \$27.3 million per year, with a 90 percent confidence interval ranging from \$7.7 million to \$48.3 million per year. The total increase in revenue for the U.S. HRS wheat industry is estimated to be \$101.5 million per year, with a 90 percent confidence interval ranging from \$29.3 million to \$175.0 million per year.

This increase in revenue is attributable to a reduction in HRS wheat imports from Canada. Some of the decline in Canadian HRS wheat exports to the United States could be due to a weakening U.S. dollar and below average Canadian production. However, the sudden, dramatic drop in HRS wheat imports, as imports of other classes of wheat increased, suggest that the antidumping and countervailing duties are the main contributing factor to the decline in U.S. HRS wheat imports.

Effects of the Duties on Canadian Hard Red Spring Wheat

Jeremy W. Mattson, Won W. Koo, and Jungho Baek*

INTRODUCTION

Since the implementation of the Canada - United States Free Trade Agreement (CUSTA) in 1989, a number of trade disputes have arisen between the two countries, especially with respect to wheat. Canadian wheat exports to the United States increased substantially in the early 1990s. A recent investigation by the U.S. Trade Representative (USTR) and the U.S. International Trade Commission (USITC) revealed that the Canadian Wheat Board (CWB) has used special monopoly rights and privileges which disadvantage U.S. farmers and are unfair to trade. As a result of this investigation, the U.S. Department of Commerce examined the possibility of imposing antidumping or countervailing duties on Canadian wheat. They determined that certain durum wheat and hard red spring (HRS) wheat imports were sold at less than fair value and were unfairly subsidized (International Trade Administration Fact Sheet, August 2003). The subsequent investigation by the USITC concluded that U.S. industry is materially injured by imports from Canada of HRS wheat, but that U.S. industry is not materially injured or threatened with material injury by imports of durum wheat. Therefore, antidumping and countervailing duties were applied to imports of Canadian HRS wheat but not to durum wheat. The antidumping and countervailing duties were set at 8.87 percent and 5.29 percent, respectively.

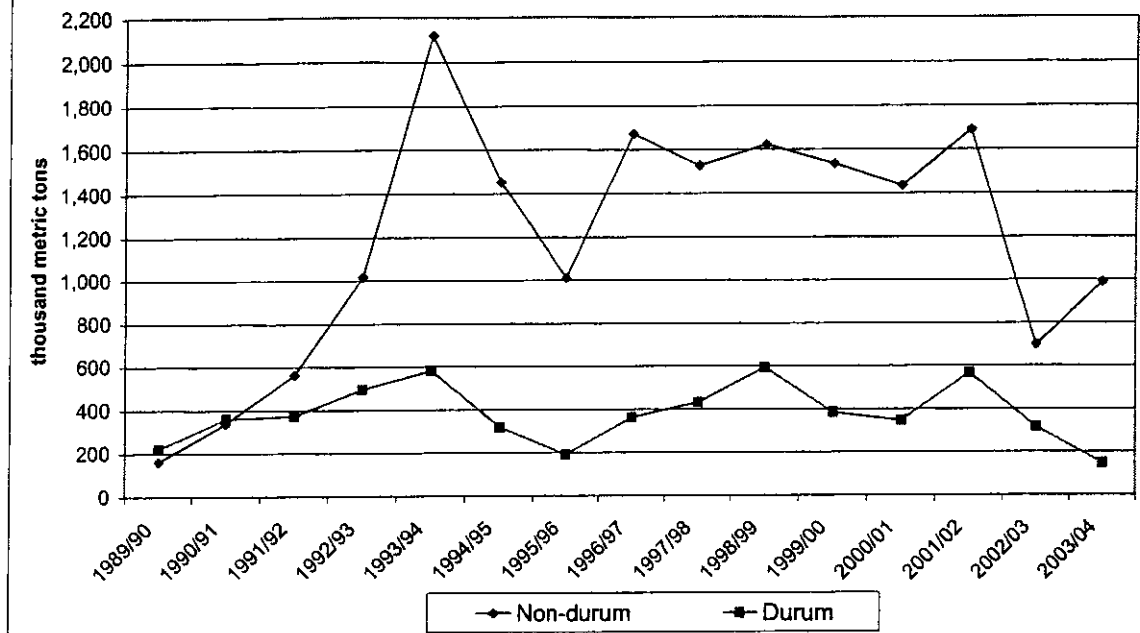
The objective of this study is to examine the effects of these duties on the U.S.- Canada wheat trade and on U.S. price and producer income. Analyzing data from the U.S. Department of Agriculture's Foreign Agricultural Service (FAS), the next section describes the changes in U.S. imports of wheat from Canada under CUSTA. The following section discusses the results from the USITC investigation on durum and HRS wheat imports from Canada. Changes in U.S. wheat imports since the imposition of the duties are discussed in the fourth section of the paper. Effects of the change in imports on U.S. price and producer revenue are presented in the fifth section of the paper, and a summary and conclusions are provided in the final section.

U.S. WHEAT IMPORTS FROM CANADA UNDER CUSTA

Wheat imports from Canada increased dramatically after CUSTA was implemented in 1989 (Figure 1). In 1989/90, non-durum and durum wheat imports from Canada totaled 160 thousand and 221 thousand metric tons, respectively. Some of the non-durum imports from Canada consist of winter wheat, but most non-durum imports are HRS wheat. Non-durum wheat imports rose substantially to 2.1 million metric tons in 1993/94, and durum wheat imports reached 582 thousand metric tons. After a dispute in 1994 and a negotiated settlement that restricted Canadian exports, imports from Canada declined, but then increased again after 1996.

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Figure 1. U.S. Imports of Non-durum and Durum Wheat from Canada



During the six years from 1996/97 to 2001/02, non-durum wheat imports from Canada were fairly stable, ranging from 1.4 million to 1.7 million metric tons per year. Meanwhile, durum imports increased to 594 thousand metric tons in 1998/99, decreased the next two years, and then increased to 567 thousand metric tons in 2001/02. Non-durum wheat imports from Canada were strong throughout 2001 and the first nine months of 2002. Beginning in October 2002, Canadian exports to the United States dropped due to a poor Canadian crop. The reduction in Canadian non-durum wheat exports to the United States continued in 2003, with the exception of large quantities shipped to the United States in August and September of 2003. Durum wheat imports from Canada remained strong throughout 2002 but declined substantially in 2003. Canadian non-durum and durum wheat exports to the United States dropped to 697 thousand and 316 thousand metric tons, respectively, in 2002/03. Durum wheat imports from Canada during calendar year 2003 equaled only 40 thousand metric tons. This drop is likely due to drought and production decreases in Canada. During most years under CUSTA, Canadian exports of non-durum and durum wheat to the United States range from 1.5 to 1.7 million and 350 to 590 thousand metric tons, respectively.

When compared to the volume of U.S. domestic production, imports of durum wheat are more substantial than imports of HRS wheat (Figure 2). In most years, imports of durum wheat have equaled 20 to 40 percent of U.S. production. HRS wheat imports from Canada were equal to about 12 percent of U.S. HRS wheat production in the late 1990s and early 2000s. HRS and hard red winter (HRW) wheat can be used as substitutes, and when comparing HRS wheat imports from Canada to total U.S. hard wheat production, the quantity of imports appears less

substantial. Hard wheat imports from Canada have equaled about 4 percent of U.S. HRS and HRW wheat production in recent years.

Most of the non-durum wheat import from Canada is classified as HRS wheat, but some is classified as white winter, HRW, or soft white spring, and some is unclassified (Table 1). Imports of unclassified wheat vary from year to year and could include feed wheat or soft red winter wheat (which is not classified under the 10-digit harmonized tariff schedule (HTS)), or possibly unidentified HRS wheat. This unclassified wheat is simply denoted as "other" wheat. Large quantities of "other" wheat were shipped to the United States in 1993/94 and 2003/04. The "other" wheat in 1993/94 is likely feed wheat, while the "other" wheat in 2003/04 could be soft red winter wheat.

Figure 2. Wheat Imports as a Percentage of U.S. Production

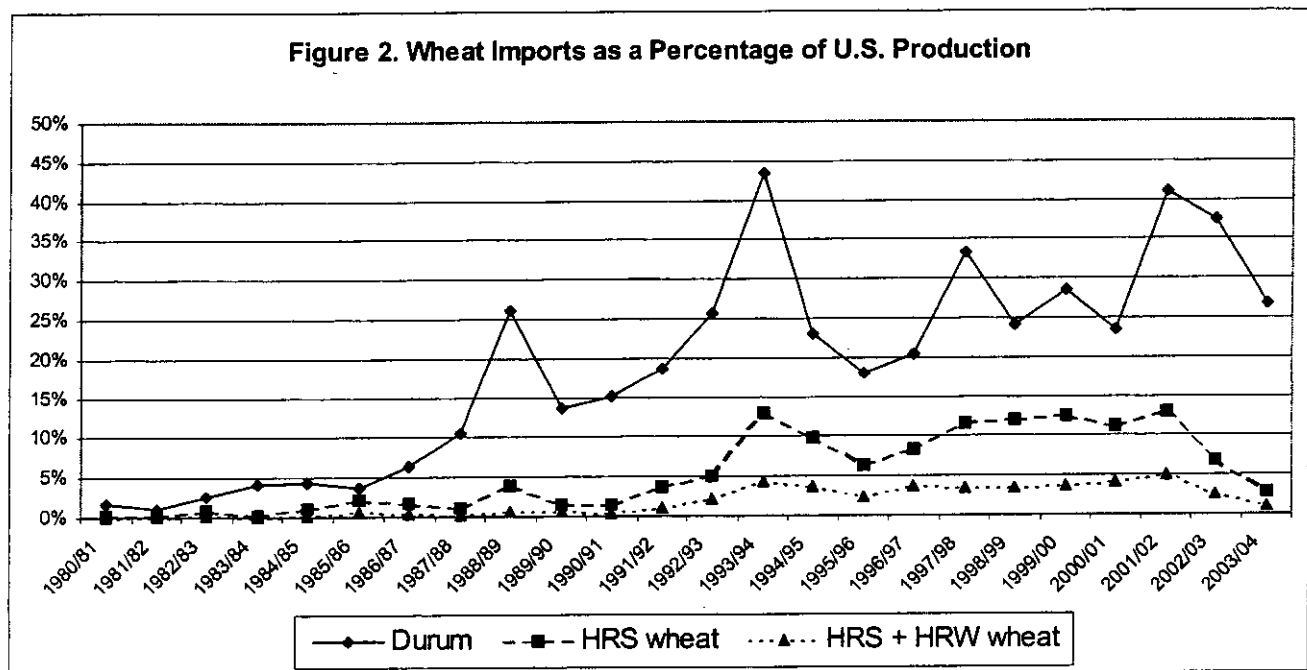


Table 1. Marketing Year Canadian Wheat Exports to the United States, by Class¹

	Durum	Hard Red Spring	White Winter	CWR Winter	Soft White Spring	Seed	Other	Total
	-----metric tons-----							
1991/92	369,139	275,689	90,511	478	178	10,015	191,561	937,571
1992/93	494,053	350,357	170,042	14,059	37,876	3,431	440,885	1,510,702
1993/94	570,975	878,671	117,328	96,753	52,030	43,127	942,516	2,701,399
1994/95	310,841	617,156	182,109	73,923	177,403	23,217	387,112	1,771,760
1995/96	186,291	557,615	276,960	2,621	120,754	25,571	31,253	1,201,065
1996/97	358,167	1,159,176	289,455	3,776	32,509	21,690	169,308	2,034,080
1997/98	426,263	1,284,298	118,889	13,320	8,936	17,392	89,634	1,958,732
1998/99	593,038	1,237,293	167,784	21,251	14,468	4,552	176,759	2,215,145
1999/00	383,470	1,361,589	66,490	2,397	1,868	3,020	101,116	1,919,951
2000/01	345,887	1,316,085	37,760	1,102	1,008	2,359	78,919	1,783,120
2001/02	565,495	1,436,345	130,576	21,406	657	3,111	98,407	2,255,997
2002/03	315,831	323,956	166,797	6,649	497	4,555	195,850	1,014,135
2003/04	172,521	33,125	190,753	10,038	3,476	3,239	749,733	1,162,885

¹Marketing year is July-June

Source: FAS/USDA

USITC INVESTIGATION

Following receipt of a petition filed by the North Dakota Wheat Commission, the Durum Growers Trade Action Committee, and the U.S. Durum Growers Association, the U.S. Commerce Department determined that imports of durum and HRS wheat from Canada were being unfairly subsidized, with a net subsidy rate of 5.29 percent, and sold at less than fair value, with dumping margins of 8.26 percent and 8.87 percent for durum and HRS wheat, respectively. The USITC then determined that the U.S. HRS wheat industry is materially injured by imports of Canadian HRS wheat, but that the durum industry is not materially injured, or threatened with material injury, by imports of durum wheat. Therefore, antidumping and countervailing duties were issued for imports of HRS wheat but not durum wheat.

In making their determination of material injury, the USITC considered the volume of imports, their effect on domestic prices, and their impact on domestic producers. They found that, unlike durum wheat imports, HRS wheat imports were significantly undersold. The USITC collected pricing data for HRS and durum wheat. They found that weighted-average delivered prices for Canadian No. 1 and 2 HRS wheat were lower than comparable U.S.-grown HRS wheat in 28 of 40 monthly comparisons from June 2000 to August 2002. They also made company-specific and place-specific comparisons which show Canadian underselling in a majority of months, albeit by a slim majority.

The USITC concluded that not only was Canada underselling HRS wheat, but that imports had a significant price depressing effect on domestic HRS wheat. They demonstrated this by showing that monthly prices received by farmers were among the lowest in 2001/02 when import volumes were the highest, and that with the filing of the petition in September 2002, HRS wheat prices rose dramatically as imports fell. Two of the USITC commissioners dissented, concluding that the impact of Canadian imports is not significant. They argued that the evidence of underselling was mixed and that pricing data do not show price depression or suppression.

The USITC could not find evidence of underselling by Canadian durum exporters, nor could they find significant price depression or suppression caused by imports of durum wheat. Their investigation found that demand for durum wheat is not price sensitive and that purchasers generally rank U.S. durum as inferior to Canadian durum in product consistency and dockage. Therefore, U.S. purchasers value the quality of Canadian durum and, unlike purchasers of spring wheat, their demand for Canadian wheat will not change significantly with changes in price.

As a result of the USITC investigation, an antidumping duty of 8.87 percent and a countervailing duty of 5.29 percent were imposed on Canadian HRS wheat.

CHANGES IN TRADE SINCE THE IMPOSITION OF DUTIES

Orders for antidumping and countervailing duties on Canadian HRS wheat were made by the USITC on October 23, 2003. Since these duties were imposed, Canadian HRS wheat exports to the United States have nearly stopped (Table 2). From January 1997 through July 2002, monthly HRS wheat exports from Canada to the United States averaged 113 thousand metric tons. Canadian HRS wheat exports to the United States started declining in August 2002 because of a poor Canadian crop. From November 2002 to August 2003, HRS wheat exports to the United States averaged just 6.8 thousand metric tons per month. Canadian HRS wheat exports to the United States jumped a little in September 2003 to 20 thousand metric tons, possibly in anticipation of the coming duties. From October 2003 to November 2004, U.S. HRS wheat imports from Canada averaged only 656 metric tons per month, which is a 97.5 percent reduction in imports compared to the 2002/03 crop year and a 99.4 percent reduction compared to the level of imports from 1997 to July 2002. This dramatic drop in HRS wheat imports from Canada seems to indicate that the duties have been highly successful in restricting imports.

Table 2. Monthly Canadian Wheat Exports to the United States, by Class

	Hard Red Spring	Durum	White Winter	CWR Winter	Soft White Spring	Other
	-----metric tons-----					
Jan-01	81,439	34,621	1,887	0	0	5,201
Feb-01	105,336	12,914	1,457	0	347	15,448
Mar-01	114,421	27,742	4,019	100	119	14,888
Apr-01	109,675	22,937	5,342	111	22	1,672
May-01	109,300	38,252	3,748	230	110	1,684
Jun-01	102,716	34,055	6,132	53	90	1,572
Jul-01	144,077	45,461	4,839	67	46	5,793
Aug-01	70,060	43,257	19,430	191	0	30,188
Sep-01	91,560	43,131	15,968	4,295	39	17,727
Oct-01	106,414	41,704	17,742	12,797	0	5,697
Nov-01	198,615	47,339	16,702	1,782	58	1,642
Dec-01	173,419	44,007	4,674	1,365	0	1,882
Jan-02	104,942	50,165	10,321	909	131	1,141
Feb-02	137,293	38,572	13,719	0	294	1,172
Mar-02	151,823	36,961	8,202	0	0	5,845
Apr-02	97,495	51,048	7,875	0	0	5,484
May-02	77,823	48,132	5,341	0	0	8,272
Jun-02	82,824	75,719	5,765	0	89	13,564
Jul-02	116,926	67,581	8,312	150	0	15,614
Aug-02	47,004	51,550	19,700	0	0	23,434
Sep-02	69,054	54,615	44,235	4,928	0	22,669
Oct-02	31,396	38,165	6,478	30	103	12,574
Nov-02	7,742	50,220	812	0	0	13,614
Dec-02	10,323	30,663	1,111	0	0	1,506
Jan-03	1,592	10,676	19,767	0	50	9,789
Feb-03	2,814	10,429	20,130	0	102	10,838
Mar-03	11,389	568	17,755	0	144	25,728
Apr-03	19,411	476	16,360	636	45	25,656
May-03	5,061	531	10,022	674	0	18,072
Jun-03	1,245	358	2,116	231	54	16,357
Jul-03	3,218	205	1,280	0	27	19,872
Aug-03	5,347	158	29,523	89	499	151,006
Sep-03	20,264	3	23,884	776	1,648	248,493
Oct-03	206	395	34,243	1,045	279	61,256
Nov-03	618	3,055	11,696	2,109	164	22,397
Dec-03	218	12,408	8,685	1,791	170	25,442
Jan-04	391	9,229	16,053	187	33	32,183
Feb-04	358	16,623	11,685	1,505	72	35,918
Mar-04	488	26,208	18,973	1,126	361	49,231
Apr-04	593	41,275	12,051	694	109	33,052
May-04	588	35,695	15,174	270	70	39,736
Jun-04	835	27,268	7,505	446	44	31,145
Jul-04	707	42,429	7,567	1,012	136	32,034
Aug-04	132	51,279	9,719	870	38	75,896
Sep-04	2,661	30,254	32,623	5,340	37	83,038
Oct-04	608	26,936	22,311	1,845	62	49,219
Nov-04	784	28,098	15,629	2,344	86	30,108

Source: FAS/USDA

The large decline in HRS wheat trade can be explained by examining both the demand side and the supply side. As the USITC concluded in its investigation, U.S. importers of HRS wheat are highly sensitive to price. The high sensitivity to price indicates that U.S. HRS wheat users would shift from Canadian to U.S. wheat if Canadian price increases. Canada, therefore, would have to lower its wheat price and absorb most of the duties if they wanted to continue exporting to the United States. Under this circumstance, Canada is more likely to shift exports to overseas markets rather than export to the United States at lower prices. Transportation costs from the Canadian wheat producing regions to the United States are lower than those to overseas export markets, providing an incentive to export to the United States. The 14.16 percent tariff, however, negates the transportation cost advantage and provides incentive to export to overseas markets instead of the United States. A report from the FAS (February 2004) notes that the U.S. antidumping and countervailing duties make the United States an uneconomical market for Canadian HRS wheat.

While imports of HRS wheat from Canada have nearly stopped, imports of other classes of wheat have increased. Unlike HRS wheat, imports of these classes of wheat are not hindered by duties. U.S. durum imports from Canada are now returning to the levels of previous years after decreasing in 2003. Imports of other non-durum wheat, including white winter wheat, Canadian western red winter, and soft red winter wheat, have also increased.

Increased Imports of Other Wheat

The 10-digit Harmonized Tariff Schedule of the United States (HTSUS) subheadings identify wheat imports by class. Wheat imports are classified into durum, HRS, white winter, Canadian western red winter, and soft white spring wheat; and separate subheadings exist for wheat seed. Any wheat imports that do not fall into these categories are classified as "other" wheat. The "other" tariff schedule number is listed under all HTSUS headings and is suppose to be used when goods fall outside of the specific headings and/or descriptions. "Other" wheat that the United States could import from Canada may include soft red winter wheat or feed wheat that is not classified.

In previous years, "other" wheat would account for about 5 percent of U.S. wheat imports from Canada, while HRS and durum wheat made up most of the imports (Tables 1 and 2). This situation changed dramatically in 2003 when the United States imposed antidumping and countervailing duties on HRS wheat. Canadian exports to the United States spiked in August and September of 2003, and most of those exports during this period were classified as "other" wheat (Table 2). Since then, imports of "other" wheat continue to account for a large portion of total imports, while imports classified as HRS wheat are almost nonexistent. During the first few months of 2004, close to half of total imports from Canada were "other" wheat, while only one half of one percent were classified as HRS. Imports of white winter wheat increased in 2003 and 2004 due to an increase in production of winter wheat in Ontario.

There are a few possible explanations for the substantial increase in imports of "other" wheat. One explanation for wheat classified as "other" is that brokers do not adequately check for the specific description and use the "other" classification, but this does not explain the large increase

in other wheat imports. A second explanation for classifying wheat as "other" is that it is a way to evade antidumping and countervailing duties. The "other" tariff schedule number is sometimes used by exporters of a number of different commodities to hide or evade duties. The countervailing and antidumping duties do not cover imports of wheat that enter under the subheading 1001.90.20.96 (the HTSUS subheading for "other" wheat) that are not classifiable as HRS wheat. If Canada is trying to evade duties by not identifying its wheat as being HRS, it may be selling this wheat in the United States at a discount. The trade data show that imports of wheat classified as "other" have a lower unit value than do imports of HRS wheat. The unit value of "other" wheat imports was 21 percent lower than the unit value of HRS wheat imports in 2003, and this price difference was even wider in early 2004. The price differences make it unlikely that Canada is evading duties by selling it as "other" wheat.

Alternatively, Canada could be exporting an increased quantity of wheat that does not fall under any other classification. The increase in imports of "other" wheat could be explained by the record 2003 wheat crop in Ontario. Ontario produces white winter and soft red winter wheat, and since there is no specific HTSUS number for soft red winter wheat, it could be classified as "other" wheat. Data from Statistics Canada indicate that Ontario's winter wheat production increased from 1.1 million metric tons per year in 2001 and 2002 to 2.06 million metric tons in 2003 (FAS, January 2004). About 60 percent of Ontario's winter wheat is red wheat, and 40 percent is white wheat. An FAS report (January 2004) states 1.2-1.3 million metric tons of Ontario's 2003 crop were available for export. The report cites data from Statistics Canada indicating that Ontario exported 536 thousand metric tons to the United States from August to October 2003, which is an increase from the 351 thousand metric tons exported to the United States during the entire 2002/03 crop year. Table 2 shows that U.S. imports of white winter wheat have increased since August 2003. However, there is no separate HTSUS number for soft red winter wheat to show how much of this wheat class the United States has imported from Canada. The large increase in imports of "other" wheat since August 2003 could be explained by an increase in soft red winter wheat imports from Ontario. The FAS report indicates that demand for Ontario winter wheat has increased among eastern U.S. mills because of quality problems in eastern U.S. growing regions. Furthermore, the Economic Research Service's (ERS) Wheat Yearbook (2004), published by the U.S. Department of Agriculture, indicates that U.S. imports of soft red winter increased substantially during the 2002 and 2003 crop years. The U.S. soft red winter crop has also been smaller the last two years.

Since the Ontario wheat is soft wheat, it is not a close substitute for HRS wheat, and the increase in U.S. imports of soft wheat is not likely to be influenced by the duties on HRS wheat. Even when the increase in other non-durum wheat imports is considered, however, total non-durum imports from Canada are still down by about 60 percent since the duties were imposed, compared to previous years. The U.S. dollar has declined in value relative to the Canadian dollar over the last year, which also contributes to a decrease in U.S. imports from the country. However, the sudden, dramatic drop in HRS wheat imports, as imports of other classes of wheat increased, suggest that the duties are the main contributing factor to the decline in U.S. HRS wheat imports.

PREVIOUS STUDIES

The North Dakota Wheat Commission announced in December 2004 that the tariffs on Canadian wheat resulted in a \$0.20 per bushel increase in North Dakota spring wheat prices (Zent 2004). This finding is consistent with the results from a study by Koo and Mattson (2002). Koo and Mattson found that a 1 percent change in imports from Canada causes a 0.086 percent change in the spring wheat price. Since the level of HRS wheat imports has dropped by about 99 percent, these results indicate that the decline in imports has caused the HRS wheat price to increase by 8.5 percent, about \$0.25 per bushel when compared to the 1997/98-2001/02 average farm price. One problem with this study is that, due to data limitations, it included imports of all non-durum wheat from Canada in the model rather than imports of just HRS wheat. It can be assumed that most non-durum wheat imports from Canada are HRS wheat, but in some years there could be a higher quantity of feed wheat imports or imports of other types of non-durum wheat, such as white wheat, as noted in the previous tables. These data limitations could influence the results in the 2002 study by Koo and Mattson.

A few studies were conducted in the mid-1990s, when the USITC investigated the impact of U.S. imports of Canadian wheat, wheat flour, and semolina on the U.S. farm program. These papers estimated the effect of imports on U.S. price. The results of the studies varied widely and were bounded by Alston et al. (1994) on the low end and the USDA on the high end. The USDA study, as described by Babula et al. (1996) and Alston et al. (1994), suggested that imposing a quota by which imports are restricted to half of the average levels over the 1987/88 to 1991/92 period would increase the average market price by 12 cents per bushel per year in 1993/94 and 1994/95 and by an average of 9 cents per bushel over the 1991/92 to 1994/95 period.

The study by Alston et al. (1994), which was conducted on behalf of the CWB, imposed on its model a restriction of Canadian exports to the United States equal to 50 percent of the 1993/94 level. Their results suggested that such a decrease in exports from Canada to the United States would increase the annual U.S. market price by 0.5 cents per bushel. Alston et al. noted that the USDA simulated restricting total imports to 22.4 percent of the base in 1993/94, rather than 50 percent. The authors simulated a reduction in imports to 22.4 percent of the base; the results of this simulation led to a 0.8 cent per bushel increase in the wheat price, which is still substantially different than that estimated by the USDA. The USITC staff suggested that annual declines in prices due to imports from Canada grew from 1.34 cents per bushel in 1989/90 to 4.41 cents per bushel in 1993/94 (Babula et al. 1996).

In each of these studies, though, the simulated reduction in imports is less than the actual reduction of imports that has occurred. In reality, the level of imports since the duties were imposed is equal to less than one percent of the 1993/94 level of imports. Furthermore, the price changes in these studies are for the average price of all U.S. wheat or all U.S. milling wheat and is not specific to HRS wheat.

EFFECTS OF REDUCTION IN IMPORTS ON PRICE AND REVENUE

Reductions in the price of HRS wheat and revenue for HRS wheat producers due to imports from Canada can be explained in Figure 3. This figure shows the demand and supply of wheat in the United States. S_1 is the supply of wheat in the United States before Canada exports to the United States. At this supply level, the equilibrium market price is P_1 , and the quantity supplied by U.S. producers is Q_1^{US} . When Canada exports to the United States, supply shifts out to S_2 . The increase in supply causes price to decrease to P_2 , and consumption increases to Q^d . When price decreases to P_2 , the quantity supplied by U.S. producers will decrease to Q_2^{US} . Domestic consumption (Q^d) is now made up of domestic supply (Q_2^{US}) and imports from Canada ($Q^d - Q_2^{US}$). The effect on U.S. farm revenue is due to both a decrease in wheat price (price effect) and an increase in imports displacing domestic sales (substitution effect). Prior to imports from Canada, total revenue for U.S. producers equals market price (P_1) times the quantity produced (Q_1^{US}). After supply shifts to S_2 , total revenue for U.S. producers equals the reduced market price (P_2) times quantity produced (Q_2^{US}). The reduction in revenue, represented by the shaded area in Figure 3, is divided into three parts: area $P_1 a b P_2$, area $b c Q_1^{US} Q_2^{US}$, and area $a e c b$. The first component is a reduction in income due to the decreased price (price effect), the second component represents a reduction in revenue due to an increase in imports substituting for domestically produced wheat (substitution effect), and the third component is a reduction in revenue due to both price and income effects.

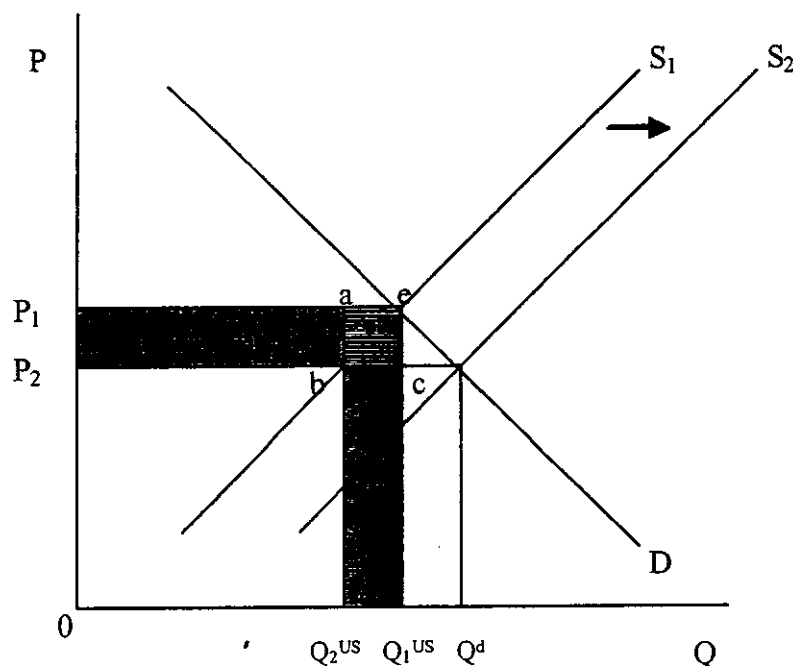


Figure 3. Effect of Supply Shift on Price and Revenue

Analysis from Koo and Mattson (2002) indicated that Canadian exports to the United States have not had a significant effect on U.S. exports to offshore markets; therefore, we did not consider third-market effects in this study.

Since the antidumping and countervailing duties were imposed on Canadian wheat, Canadian HRS wheat exports to the United States nearly stopped and supply shifted back to near S_1 in Figure 3, causing U.S. price to increase. This study estimates the effects of the near stoppage of HRS wheat imports from Canada on U.S. HRS wheat price and changes in total farm revenue in the United States in an average year, using the 5-year average of 1997/98 to 2001/02. The 2002/03 crop year is not a good year for comparison because the poor Canadian crop limited exports to the United States.

To calculate changes in U.S. farm revenue resulting from the antidumping and countervailing duties on Canadian HRS wheat, a price model is developed, based on supply and demand conditions of HRS wheat, and is estimated with time series data. The price flexibility coefficient estimated from the price model is used to calculate changes in farm revenue.

Farm Price Model

Based on basic microeconomic theory, equilibrium price is determined by demand (D) and supply (S). The quantity demanded must equal the quantity supplied at the equilibrium price:

$$D(p) = S(p) . \quad (1)$$

If supply is less than demand at a given price, then the price will increase. Conversely, if supply is greater than demand at a given price, then the price will decrease. With demand for wheat relatively stable, changes in the price of wheat can be estimated by changes in stocks:

$$P_t = f(SK_t) , \quad (2)$$

where P_t is the price of wheat in time period t and SK_t is wheat stocks in period t . SK_t is defined as

$$SK_t = TS_t - TU_t , \quad (3)$$

where TS_t is total supply and TU_t is total use in period t . More specifically, TS consists of beginning stocks (BS), production (PROD), and imports (M); and TU consists of exports (X) and domestic consumption (DC):

$$TS_t = BS_t + PROD_t + M_t , \quad (4)$$

$$TU_t = DC_t + X_t . \quad (5)$$

SK_t is commonly referred to as the ending stocks. Studies such as Westcott and Hoffman (1999) have used the stocks-to-use ratio to represent market conditions in explaining price movements. This ratio is defined as the ending stocks divided by total use. Our study separates TS from TU to estimate the effect of these different components on price. TS is expected to have a negative effect on price, while TU should positively affect price. Equation 2 can be re-written as follows:

$$P_t = f(TS_t, TU_t) . \quad (6)$$

This model is developed specifically for HRS wheat. Since HRW wheat is a close substitute for HRS wheat, the supply of HRW wheat is expected to negatively affect the HRS wheat price. Therefore, HRW wheat supply is included in the model.

Westcott and Hoffman (1999) also note that government programs and world market conditions shift the pricing relationship. Government programs must be considered because they have affected the level of stocks, especially in the mid-1980s when there was a large buildup of stocks. Many of these stocks were held by the Commodity Credit Corporation (CCC), the Food Security Wheat Reserve (FSWR), or the Farmer-Owned Reserve (FOR). The level of stocks in these programs is expected to have a positive effect on price because stocks held by the government have generally not been available to the marketplace.

Since U.S. wheat prices are affected by world market conditions, the stocks-to-use ratio for the rest of the world is added to the model. An increase in the supply or decrease in the use of wheat in the rest of the world (ROW) is expected to have a negative effect on U.S. prices, and the opposite is also true. The wheat price equation is re-written as follows:

$$P_t^s = f(TS_t^s, TS_t^w, TU_t^s, ROWSU_t, CCC_t) , \quad (7)$$

where ROWSU is the stocks-to-use ratio in the rest of the world; CCC includes stocks in the CCC, FSWR, and FOR; and superscripts s and w represent spring wheat and winter wheat.

Like the model estimated by Westcott and Hoffman, our model is estimated using a double-log form. The final equation to be estimated is as follows:

$$\ln(P_t^s) = \alpha_0 + \alpha_1 \ln(TS_t^s) + \alpha_2 \ln(TS_t^w) + \alpha_3 \ln(TU_t^s) + \alpha_4 \ln(ROWSU_t) + \alpha_5 \ln(CCC_t) + \varepsilon_t . \quad (8)$$

An autoregressive process of order 1, AR(1), is used to correct for serial correlation. One lag was chosen based on the Akaike information criterion (AIC).

Farm Revenue Model

In Figure 3, when imports from Canada stop, supply shifts back from S_2 to S_1 , price increases from P_2 to P_1 , quantity supplied by U.S. producers increases from Q_2^{US} to Q_1^{US} , and total farm revenue increases from $P_2 * Q_2^{US}$ to $P_1 * Q_1^{US}$. P_2 and Q_2^{US} are the given levels of U.S. HRS wheat price and production that occurred before imports from Canada dropped. P_1 and Q_1^{US} are the estimated levels of U.S. HRS wheat price and production that result when imports decline to the extent that they did after the duties were imposed, with all other factors remaining the same. $P_1 - P_2$ is the price increase caused by the drop in imports, and $Q_1^{US} - Q_2^{US}$ is the resulting U.S. production increase. From Equation 8, α_1 is the price flexibility coefficient that describes the effect of a change in HRS wheat supply on price, and an own-price supply elasticity (e^s) estimates the change in domestic production caused by the change in price.

The total change in farm revenue (ΔTR) is divided into three effects - the price effect, the substitution effect, and the dual effect:

$$\Delta TR = \Delta TR^p + \Delta TR^s + \Delta TR^d, \quad (9)$$

where superscripts p, s, and d represent price, substitution, and dual effects, respectively. The three components of the change in total revenue are calculated as follows:

$$\Delta TR^p = (P_1 - P_2) * Q_2^{US} = [(\alpha_1 * \% \Delta TS^s) * P_2] * Q_2^{US} \quad (10)$$

$$\Delta TR^s = (Q_1^{US} - Q_2^{US}) * P_2 = [e^s * (\alpha_1 * \% \Delta TS^s) * Q_2^{US}] * P_2 \quad (11)$$

$$\Delta TR^d = (P_1 - P_2) * (Q_1^{US} - Q_2^{US}) = [(\alpha_1 * \% \Delta TS^s) * P_2] * [e^s * (\alpha_1 * \% \Delta TS^s) * Q_2^{US}]. \quad (12)$$

EMPIRICAL RESULTS

The price used is the HRS wheat farm price. Annual data from crop years 1980/81 to 2003/04 are used. The HRS wheat farm price, HRS and HRW supply, HRS use, and CCC, FSWR, and FOR stocks were obtained from the ERS's Wheat Yearbook. The ROW stocks-to-use ratio was calculated using data from the FAS's Production, Supply and Distribution (PS&D) Database. The government-held stocks and ROW stock-to-use variables include all wheat because data specific to HRS wheat were not available.

Changes in Price

The results of the estimation of Equation 8 are shown in Table 3. The signs are all as expected. The supply of HRS and HRW wheat have significant negative effects on HRS wheat farm price. The level of wheat stocks in CCC, FSWR, and FOR has a positive effect on price, and the stock-

to-use ratio for the ROW has a negative effect on U.S. price, although the effects of these two variables are only marginally significant. HRS wheat use is found to positively affect farm price, but this result is not statistically significant. HRS and HRW wheat supply are found to be the most significant variables affecting HRS wheat farm price. The estimated coefficients are price flexibility coefficients. A 1 percent increase (decrease) in HRS wheat supply is found to cause a 0.67 percent decrease (increase) in HRS wheat farm price, while a 1 percent increase (decrease) in HRW wheat supply is found to cause a 0.48 percent decrease (increase).

From 1997/98 to 2001/02, imports from Canada in a given year averaged 7.7 percent of HRS wheat supply for that year (which consists of imports, production, and beginning stocks). A near stoppage of imports in a given year would result in a 7.7 percent reduction in supply for that year. According to the results in Table 3, this reduction in supply would result in a 5.1 percent increase in U.S. HRS wheat farm price. With an average farm price of \$3.02 per bushel during these five years, a 5.1 percent increase in price is equal to a \$0.15 per bushel price increase. Because of a rather large standard error, though, the 90 percent confidence interval for the price increase ranges from about \$0.05 to \$0.26 per bushel.

Table 3. Results of Hard Red Spring Wheat Farm Price Estimation

<u>Explanatory variable</u>	<u>Coefficient</u>
HRS wheat supply (TS')	-0.6705 (-2.46)**
HRW wheat supply (TS'')	-0.4838 (-2.94)**
HRS wheat use (TU')	0.0721 (0.34)
Rest of world stocks-to-use (ROWSU)	-0.2925 (-1.61)
Stocks in CCC, FSWR, and FOR (CCC)	0.0891 (1.73)*
Constant	1.4205 (6.47)**
R ²	0.75

Note: t-values in parentheses. * denotes significance at the 10% level, ** denotes significance at the 5 % level.

The total tariff on Canadian HRS wheat is 14.16 percent, and results show it had led to an increase in U.S. price of 5.1 percent. This suggests that Canada is absorbing some of the cost of the duties when exporting to the United States. Canada must decrease the price of exports to the United States, bearing a large percentage of the cost of duties, because of the high sensitivity of U.S. hard wheat users to price. As a result, Canada is now shipping most exports overseas instead of to the United States. The increase in U.S. price resulting from the duties is moderated somewhat because of the substitutability of HRS wheat with HRW wheat. As shown in Figure 2, Canadian HRS wheat exports to the United States have been equal to about 12 percent of U.S. HRS wheat production but just 4 percent of total HRS and HRW wheat production. There is a high degree of substitutability between HRS and HRW wheat, and as mixing technologies have improved, there may also be increased substitutability with other wheats. Despite this substitutability, imports from Canada have a significant impact on U.S. price.

Wheat stocks in the rest of the world could also have a moderating effect on U.S. price. If Canadian wheat that would have been exported to the United States is diverted to other parts of the world, wheat stocks overseas increase. This situation could negatively affect overseas demand for U.S. wheat, causing a decline in U.S. price. Results from our model, however, do not show that the wheat stocks-to-use ratio in the rest of the world has a very significant effect on U.S. HRS wheat farm price.

Figure 4 shows the actual U.S. HRS wheat farm price from July 1997 through October 2004. The average farm price from October 2003 to October 2004 was \$3.70, which is a \$0.68 increase above the 1997/98-2001/02 average of \$3.02. Our results show that part of this increase is due to the drop in imports from Canada, but a large part is also due to other factors. Prices rose during the latter half of 2002 because small crops in the United States and Canada led to a reduction in supplies. Ending stocks since 2002 have remained below average. Furthermore, U.S. HRS and HRW wheat exports both increased significantly during the 2003 marketing year, and domestic consumption of hard wheats has remained strong. The level of U.S. wheat exports in 2003/04 was the highest it has been since 1995/96. These factors have all contributed to the recent increase in prices.

Changes in Farm Revenue

Estimated mean revenue changes due to the reduction in Canadian wheat exports to the United States and a 90 percent confidence interval are presented in Table 4. With average yearly HRS wheat production of 480.6 million bushels, a 15.4 cent per bushel price increase results in an increase in annual income of \$74.2 million. This is income gained strictly due to the price effect. The 90 percent confidence interval for the price effect ranges from \$21.7 million to \$126.8 million.

Figure 4. Hard Red Spring Wheat Farm Price

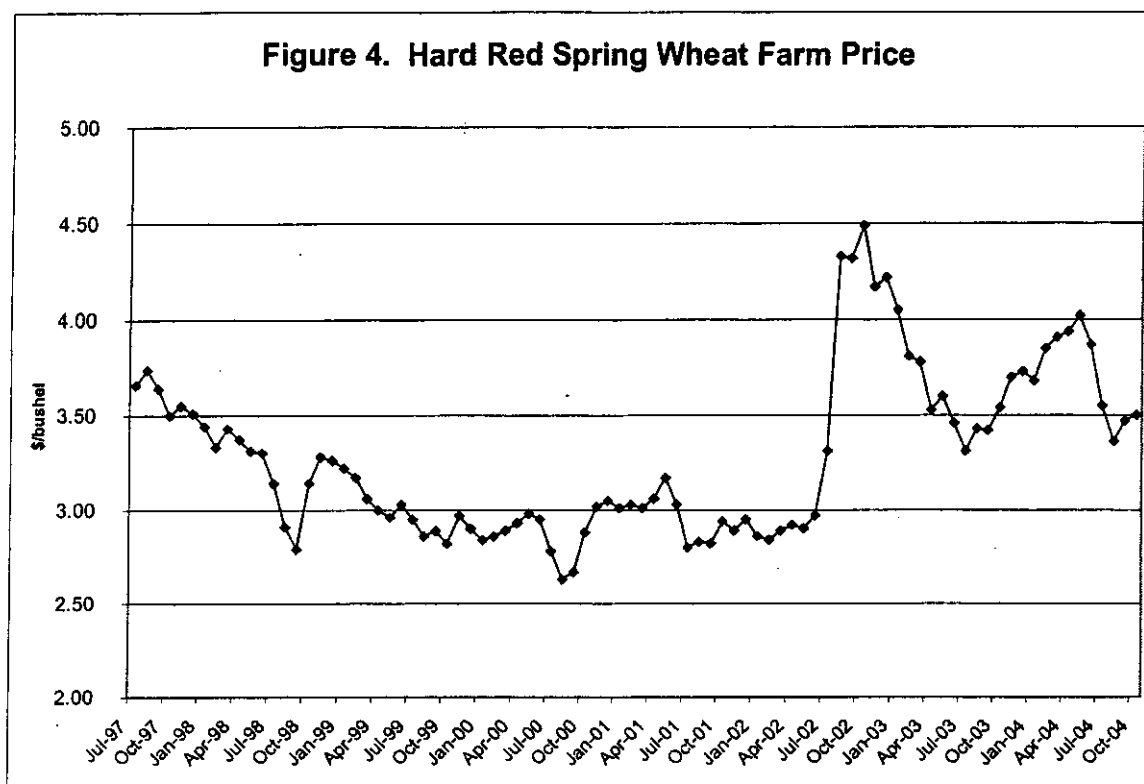


Table 4. Estimated Annual Effects of Reduced Hard Red Spring Wheat Imports on Price and Revenue

	90 % lower limit	Mean	90% upper limit
1997/98-2001/02 Average annual imports (million bushels)		48.76	
Annual imports since duties (million bushels)		0.286	
1997/98-2001/02 Average farm price (\$/bushel)		3.02	
Price increase from reduced imports (\$/bushel)	0.045	0.154	0.264
1997/98-2001/02 Average production (million bushels)		480.6	
Production increase from reduced imports (million bushels)	2.5	8.6	14.7
Price effect (million \$)	21.7	74.2	126.8
Substitution effect (million \$)	7.6	26.0	44.4
Dual effect (million \$)	0.1	1.3	3.9
Total effect (million \$)	29.3	101.5	175.0

The increase in price also leads to an increase in production, and domestic sales replace imports. As Figure 3 shows, a higher price results in an increase in production. To estimate the changes in production, we use information on U.S. supply elasticities for HRS wheat. Koo et al. (1999) estimate an own-price supply elasticity of 0.3 for spring wheat, while results from a model developed by Koo and Mattson (2002) indicate an elasticity of 0.4. An elasticity of 0.35 is assumed for this study. The 5.1 percent increase in price is found to cause an increase in HRS wheat production of 1.8 percent, or about 8.6 million bushels per year. This increase in production leads to an additional increase in revenue, from the substitution and dual effects, of \$27.3 million per year. The 90 percent confidence interval for these effects ranges from \$7.7 million to \$48.3 million per year.

The total increase in revenue for the U.S. HRS wheat industry is estimated to be \$101.5 million per year, with a 90 percent confidence interval ranging from \$29.3 million to \$175.0 million per year. This increase in revenue is attributable to a reduction in HRS wheat imports from Canada. Some of this drop in Canadian HRS wheat exports to the United States could be due to a declining U.S. dollar and lower than normal Canadian production. However, a substantial part is due to the duties.

CONCLUSIONS

Detailed analysis of U.S.-Canada wheat trade since the U.S. duties on imports of Canadian HRS wheat suggests that these duties have been highly successful in reducing Canadian wheat exports to the United States. U.S. imports of Canadian wheat classified as HRS wheat have declined significantly, nearly stopping, since duties were imposed by the U.S. government in October 2003. At the same time, Canadian exports of wheat classified as "other" wheat have increased noticeably. A substantial increase in production of wheat in Ontario in 2003, and a corresponding increase in Ontario wheat exports to the United States, indicates that much of the other wheat imported from Canada could be soft red winter wheat.

An HRS wheat farm price model is developed and estimated to determine the effects of the drop in imports on prices received by farmers. Results show that HRS wheat supply is an important determining factor for HRS wheat farm price, as expected, and that HRW wheat supply also has a significant effect since it is a close substitute. Wheat supplies in the rest of the world could also have some effect, but this factor is not found to be significant. The substantial decline in HRS wheat imports from Canada from the 1997/98 - 2001/02 levels to the current levels since the duties were imposed has led to a \$0.15 per bushel increase in the spring wheat price received by farmers, according to the results of our model. With an average yearly HRS wheat production of 480.6 million bushels, this price increase results in an annual income increase of \$74.2 million. This is revenue gained strictly due to the price effect. The increase in price also leads to an increase in production, and domestic sales replace imports. This increase in production leads to an additional increase in revenue of \$27.3 million per year. The total increase in revenue for the U.S. HRS wheat industry is \$101.5 million per year.

Some of the decline in Canadian HRS wheat exports to the United States could be due to a

weakening U.S. dollar and below average Canadian production. However, the sudden, dramatic drop in HRS wheat imports, as imports of other classes of wheat increased, suggest that the antidumping and countervailing duties are the main contributing factor to the decline in U.S. HRS wheat imports.

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CHARLES A. HUNNICUTT
(202) 736-2680

January 10, 2005

Via Certified Mail

The Honorable Wayne Stenehjem
Attorney General
State of North Dakota
600 E. Boulevard Ave.
Bismarck, North Dakota 58505-0040

RECEIVED

JAN 13 2005

ND WHEAT COMMISSION

Re: **North Dakota Wheat Commission -
Quarterly Report on Investigation of the Canadian Wheat Board**

Dear Mr. Stenehjem:

This letter serves as our quarterly report as Special Assistant Attorney General regarding my representation of the North Dakota Wheat Commission in matters pertaining to the ongoing trade investigations into Canadian Wheat Board ("CWB") exports of durum and hard red spring wheat.

I. Appeals of U.S. Countervailing Duty and Injury Determinations

The Canadian appeals before NAFTA binational dispute settlement panels remain pending. During this past quarter, the following activity occurred:

1. Department of Commerce Affirmative Countervailing Duty Determinations - This appeal has now been fully briefed and argued. Oral argument took place on October 29, 2004. The NAFTA panelists focused primarily on whether the Department improperly combined the three borrowing guarantees granted by the Government of Canada to the CWB into one comprehensive financial guarantee program. Technically, the panel's report is due January 27, 2005, although the panel chairman acknowledged that the report could be issued later.

2. ITC Hard Red Spring Final Affirmative Injury Decision - In December 2004, the CWB formally expressed concern that the panel had not yet heard argument in this case. A pre-hearing conference has been scheduled for today in order to discuss one procedural matter (the International

The Honorable Wayne Stenehjem

January 10, 2005

Page 2

Trade Commission's motion to strike the appearance of the Government of Canada), and to discuss the hearing agenda, issues for argument and time allocations. The hearing has yet to be scheduled, and given the Presidential Inauguration later in the month, the hearing will likely not take place until March.

II. First Administrative Review for the Hard Red Spring CVD case

On November 19, 2004, the Department of Commerce initiated the first administrative review of the Hard Red Spring wheat affirmative countervailing duty determination. The period of review will cover the period from March 10, 2003 (date of the affirmative preliminary determination) to December 31, 2003. The matter will proceed over the course of the next year in a manner fairly similar to the schedule in the original countervailing duty investigation. The Department will issue questionnaires to the CWB and Canadian government parties; we will have the opportunity to review the responses and submit comments; the Department will issue the preliminary results of the review, including any revised duty rate from the current rate of 5.29%; any interested party will have the right to request a hearing; briefs will be filed; and the Department will issue the final results of the review. Final results of the review are due no later than October 31, 2005.

Currently, and in addition to the Commission, the Government of Canada, Governments of Alberta and Saskatchewan, and the CWB have entered their appearances. No party requested an administrative review of the Hard Red Spring wheat affirmative dumping determination. Therefore, the dumping duty of 8.86% will remain in place for another year.

III. Expedited Review of Eastern Canadian Exporter

As previously reported, in December 2003, the Department of Commerce initiated an expedited review at the request of a Canadian exporter in Quebec. The exporter in question, Richelain Farms, was not selected by the Department for review in the original countervailing duty investigation and, thus, had the right to request this review seeking a reduced duty rate or outright exclusion. Richelain Farms acknowledged that it exports Hard Red Spring wheat from Canada into the United States. The Department reviewed the matter thoroughly and we participated throughout the review process. On October 21, 2004, the Department preliminarily determined that countervailable subsidies were not provided to Richelain Farms during the period from August 1, 2001 to July 31, 2002. Thus, it has recommended that Richelain Farms be excluded from the countervailing duty order. The records of Richelain Farms, which underwent two verifications by the Department, do confirm that none of the subsidies which were part of the original investigation were granted to this entity. Nevertheless, we have had conversations with the Department and U.S. Customs on the need to monitor imports from Richelain Farms, and that should there be a surge in its imports above historical averages, there may be a need to review such imports to determine

whether Richelain Farms has become a conduit for CWB Hard Red Spring wheat exports in an attempt to circumvent the duties.

IV. Canadian "Feed Wheat" Entering the United States

Additionally, we wanted to make you aware of our work to address growing concern over the possibility that some Canadian Hard Red Spring wheat could be classified in Canada as Feed Wheat under the subjective Canadian Grain Commission grading system, while under an objective and scientific-based grading system such wheat would still be of millable quality and available for human consumption. The reason for this concern is that true feed wheat from Canada is exempt from any of the countervailing duty/dumping duties now in place. Thus, we prepared a letter to U.S. Customs informing them of the potential for some circumvention of the duties that are in place for Canadian Hard Red Spring wheat if Customs agents do not closely monitor imports and the manner in which they have been classified. Customs has acknowledged our letter and informed us that they understand the importance of the issue and would look into it further. The matter was forwarded to Customs' Trade Enforcement Branch, and the Commission has continued to follow up with relevant Customs personnel.

V. Canada's Compliance with WTO Article III ruling

WTO rules provide an offending Member country "reasonable time" to come into compliance with a WTO ruling. Canada and the United States have agreed to an August 1, 2005 deadline for Canada to comply with the Article III aspects of the WTO ruling with regard to certain Canadian practices for handling imported wheat. This ruling held that Section 57(c) of the Canada Grain Act violated WTO "national treatment" rules by prohibiting receipt of foreign grain into Canadian elevators without special Canadian Grain Commission authorization. Also, the ruling held that Section 150(1) and (2) of the Canada Transportation Act violated national treatment rules by requiring Canadian railways to impose limits on the revenues they can earn from shipments of Western Canadian grain while giving them freedom to charge higher rates for imported grain.

We provided the U.S. Trade Representative a comprehensive submission on November 8, 2004, setting forth the major issues the U.S. wheat industry feels need to be addressed in order for the Government of Canada's policies to be deemed as in compliance with the WTO ruling and Canada's WTO obligations. In their reply of December 20, 2004, the Office of the U.S. Trade Representative indicated that they would consider industry input as they work with Canada towards compliance. We also took the opportunity in the November 8, 2004 letter to renew our concerns and arguments regarding Canada's and the CWB's monopolistic practices. In their December response, the Office of the U.S. Trade Representative reaffirmed its concern and commitment to resolving this issue through WTO negotiations.

The Honorable Wayne Stenehjem

January 10, 2005

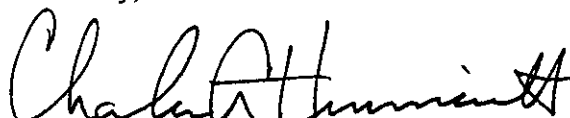
Page 4

VI. WTO DOHA Round Agriculture Negotiations

As you are aware, the United States and other WTO Member countries reached a breakthrough this past July/August in the ongoing WTO Doha agriculture negotiations. However, since that time the CWB has made several comments in the press that it would urge the Government of Canada to not sign onto any Agreement which jeopardized the financial interests of the CWB, and that if such an agreement went through the CWB would seek major financial compensation from the Government of Canada. Thus, in October 2004 we worked closely with other U.S. wheat interests in preparing a detailed, technical submission to the U.S. Trade Representative thanking them for progress on this matter, but also pressing upon them the importance of remaining firm in seeking permanent reform of WTO rules regarding State Trading Enterprises. In addition to the reforms agreed upon in the Doha August 2004 work program, we urged continued focus and efforts to discipline both the monopoly and monopsony powers granted to the CWB. Our letter also pressed upon the U.S. Trade Representative the need for any final WTO Agriculture Agreement to include effective and meaningful transparency provisions.

We understand that Mr. Germolus has left the Attorney General's office. At your convenience, please advise as to who has assumed his responsibilities with regard to North Dakota Wheat Commission matters. Until such time we will begin forwarding copies of formal submissions and filings to your attention. Should you have any questions regarding the status of this matter, please do not hesitate to call me.

Sincerely,



Charles A. Hunnicutt

cc: Neal Fisher, North Dakota Wheat Commission



Prairie strong, worldwide

Publications

Grain Matters

Customers support CWB in trade challenge

In September, the North Dakota Wheat Commission (NDWC) launched petitions with the U.S. Department of Commerce requesting steep duties, in an effort to halt Canadian imports of wheat and durum.

North Dakota farmers do not want Canadian grain in their market. However, American millers, bakers and pasta makers do not feel the same... and it's not because Canadian wheat is cheaper.

In October, six millers and pasta manufacturers — representing 90 per cent of the U.S. flour industry and 80 per cent of the durum milling industry — testified before the U.S. International Trade Commission (ITC). They said they rely on Canadian quality and supply, noting that the American crop has failed to meet their quality needs in 15 of the last 15 years. This means that if tariff barriers exclude Canadian wheat and durum from the U.S. market, those customers will have to source overseas supplies to meet their needs.

Each American customer at the hearing stated that, in their years of purchasing wheat from Canada, they had never bought from the CWB at less than market prices.

"When we work with the Canadian Wheat Board...these are professional sophisticated marketers of grain; they're not giving anything away," David Potter of American Italian Pasta testified. "And I've said before, if they're dumping into the U.S. market, I'm the worst pasta durum buyer in the country, because we've never seen values below Minneapolis values on a head-to-head comparison, never."

Intense detail required to defend challenge

The CWB is now participating in an exhaustive exercise that will provide detailed sales information to investigators (kept confidential under Administrative Protection Orders) to show that the petitioners' allegations of dumping and unfair subsidies are false. The

Trade challenge timeline

September 13, 2002: Petitions filed

October 4: ITC staff conference (hearing)

October 23: DOC accepts petitions

November 19: ITC preliminary determinations on injury

March 3, 2003: DOC preliminary determinations on CVD

March 10: DOC preliminary determinations on AD

April 30: DOC hearing on CVD

May 8: DOC hearing on AD

May 19: DOC final determinations on CVD

May 26: DOC final determinations on AD

May 29: ITC hearing on CVD injury

June 4: ITC hearing on AD injury

July 4: ITC final determinations on CVD injury

July 11: ITC final determinations on AD injury

Note: Schedule subject to change.

AD = anti-dump

CVD = countervailing duty

DOC = Department of Commerce

ITC = International Trade Commission

Government of Canada defends the portion of the case related to subsidies.

In addition to the intense detail, the case is also complicated by continuous changes to the claims and requests from the NDWC. For example, the petitioners have recently requested that "normal value" of Canadian wheat be defined as the price at which our wheat is sold to Japan. The CWB considers this an absurd suggestion, as Japan is well known as a premium quality market for all wheat exporters.

The NDWC originally requested duties of 26.7 per cent on wheat and 34.5 per cent on durum. Now, however, due to the requested comparison to Japan, the petitioners have listed "dumping margins" of zero to 86.6 per cent on wheat and 3.2 to 48.2 per cent on durum. If this comparison were accepted and the worst-case duties applied, it would mean western Canadian farmers would have to pay duties of about \$7 per bushel on wheat and \$4 per bushel on durum.

CWB cost estimates for defending this challenge are \$8 million to \$10 million because of the intensely detailed nature of the investigation. It is important to ensure that western Canadian farmers retain access to the premium U.S. market, worth \$400 million in a typical year (about 10 per cent of CWB sales revenue). Without access to the American market, this wheat would be sold elsewhere, but it is estimated that Prairie farmers' revenue would suffer by about \$47 million a year.

Canada has the right to sell wheat into the U.S. market under NAFTA and the CWB is fighting for the principle of unfettered access. The success of Prairie farmers in the U.S. market has attracted this challenge — just as the success of other Canadian imports, like softwood lumber, have attracted American protests.

In November, the ITC made preliminary determinations that allow the investigation to continue. In March, the U.S. Department of Commerce will make its preliminary determinations. Only after that point is there a possibility of interim tariffs. Final determinations are currently scheduled for the summer of 2003.

[Graphic version]

Questions? Comments? E-mail: questions@cwb.ca

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Newsroom

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October 25, 2002

Trade challenge will cost farmers millions

Winnipeg -- The latest U.S. trade challenge against imports of Canadian spring wheat and durum will cost western Canadian farmers \$8 million to \$10 million to defend, according to CWB estimates.

"It is outrageous that such a case has been launched, based on scant evidence and influenced by politics," said Larry Hill, a Saskatchewan farmer and elected CWB director. "It will cost Canadian farmers dearly during a very difficult time. Farmers are very frustrated."

The U.S. Department of Commerce announced yesterday that it will proceed with an investigation in response to anti-dumping, countervailing duty petitions filed by the North Dakota Wheat Commission (NDWC) on September 13.

The challenge will cost Prairie farmers almost twice as much to defend as all nine previous U.S. trade investigations combined. Costs are related to the intensely detailed nature of the investigation, which requires responses to hundreds of pages of questionnaires, written submissions, oral presentations and case preparation. This will take thousands of hours of work by CWB staff, external lawyers and experts.

But Hill said Canadian farmers refuse to be intimidated by this ongoing harassment, adding that access to the U.S. market is worth the fight. Sales of Canadian spring wheat and durum to the U.S. average about \$400 million a year, roughly 10 per cent of CWB sales revenue.

"The Americans are not just trying to get rid of the CWB, they are trying to obliterate anything that makes our grain marketing system successful," said Hill, who chairs the CWB directors' trade

committee. "Their own lawyer has publicly stated that they would still be pursuing this, even if the CWB did not exist. They simply want to block Canadian wheat imports -- it's pure protectionism."

Many American millers and pasta-makers are strongly opposed to the trade challenge, testifying before an October 4 hearing that the CWB does not "dump" into the U.S. market. Canadian wheat is preferred by American customers because of its consistently high quality and reliable supply.

The NDWC is demanding steep import duties on Canadian wheat and durum. The CWB flatly rejects their allegations of dumping and other unfair trade practices.

Controlled by western Canadian farmers, the CWB is the largest wheat and barley

marketer in the world. As one of Canada's biggest exporters, the Winnipeg-based organization sells grain to more than 70 countries and returns all sales revenue, less the cost of marketing, to Prairie farmers.

[Graphic version]

Questions? Comments? E-mail: questions@cwb.ca

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Dakota Resource Council

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Dakota Resource Council

Testimony on HB 1518 to the House Committee on Agriculture

February 4, 2005

Chairman Nicholas and Members of the Committee,

Dakota Resource Council would support this bill with one change. If the word "shall" in Section 2.4 is changed back to "may," at least with regard to c., DRC can support this bill.

The North Dakota Wheat Commission is a state agency. It was created by and is responsible to the people's representatives in the state legislature. Wheat farmers, who pay the tax that sustains the Wheat Commission's activities, have the opportunity to select, through their county representatives, the majority of the Wheat Commission's Board of Directors. In the event that wheat farmers find the Wheat Commission's activities objectionable, they have many rights to exercise in order to make their objections known, including voting in new county representatives, or running for those positions themselves. They can also take the step of requesting a refund of their wheat tax.

DRC does not object to the Wheat Commission having the discretion to direct some of its funds to the trade associations mentioned, but we believe it is bad public policy to require this expenditure of funds. Unlike the Wheat Commission, trade associations are private, membership-based entities. They are not directly accountable to the legislature, the general public or to the farmers who pay the wheat tax. The Wheat Commission should only direct funds to a private entity if the Commissioners are convinced that the funds will be used appropriately and in the public interest. Without the discretion to withhold funding from a private entity if necessary, the Commission becomes no more than a pass-through mechanism, and the public forfeits its ability to ensure that its funds are appropriately spent.

Therefore DRC urges the Committee to make the amendment to HB 1518 suggested above, in which case DRC would be in support of the bill.



2

North Dakota Grain Growers Association

Testimony in favor of

HB 1518

With Amendment

Dan Wogsland, Executive Director

North Dakota Grain Growers Association

U.S Durum Growers Association

February 4, 2005

Mr. Chairman, members of the House Agriculture Committee,

For the record, my name is Dan Wogsland, Executive Director of the North Dakota Grain Growers Association and U.S. Durum Growers Association. I come before you in support of HB 1518 with amendment. The amendment clarifies the intent of the North Dakota Wheat Commission, North Dakota Grain Growers Association and U.S. Durum Growers Association in the presentation of this legislation.

Mr. Chairman, members of the House Agriculture Committee, the bill before you does four very important things, first it raises the wheat checkoff to one and one-half cents per bushel, second, it allows the North Dakota Wheat Commission more latitude in the use of its one and one-half cent checkoff in trade matters, third, it provides in statute that the North Dakota Wheat Commission use two mills of that one and one-half cent per bushel for use in domestic policy issues, and fourth, it allows other entities, such as the North Dakota Grain Growers Association and the U.S. Durum Growers Association, to aid in presentations to the North Dakota Legislature at the Wheat Commission's request.

There is no question that the North Dakota Wheat Commission's trade case against Canada was a success. Canada was flooding U.S. markets with wheat and durum, to the detriment of U.S. farmers. Particularly hurt were North Dakota farmers, not only because of our geographic location in relationship to domestic markets, but because the major crops North Dakota specializes in, hard red spring wheat and durum, were the very crops Canada chose to dump into this country. The trade case stemmed the tide of unfair Canadian wheat and durum imports into the U.S., which allowed North Dakota farmers to regain domestic market share.

North Dakota took the lead in the trade case, and leadership has its price. No matter how you cut it, legal battles are expensive, and whether we agree or disagree with the amount of the legal bills, its time to pay the check. HB 1518 provides the North Dakota Wheat Commission the mechanism to get the job done.

I would also point out to you, Mr. Chairman, members of the House Agriculture Committee, that the job isn't just about trade, it is equally important that domestic policy issues be addressed as well. That is why the designation of two mills for the North Dakota Wheat Commission's use in contracting with the North Dakota Grain Growers Association and the U.S. Durum Growers Association regarding domestic policy issues is so critically important.

Whether the issue is disaster assistance, which our Associations have three times gone to Washington D.C. to lobby for in the last 7 months, with the help of the Wheat Commission, and in consort with other ag groups; federal budget reconciliation, which could cost agricultural programs \$15 billion over the next 5 years, or North Dakota legislative issues, being at the table when decisions are made is vitally important to the interests of North Dakota farmers. Domestic policy issues must be addressed if North Dakota farmers are to get a fair shake and the more interests pushing for North Dakota farmers, the better.

The North Dakota Wheat Commission, North Dakota Grain Growers Association, and the U.S. Durum Growers Association have a long standing working relationship. In this legislation, the funding level desired to address domestic policy, affirmed by a 6-0 vote by the North Dakota Wheat Commission in January 2005, and legislated by the 58th Legislative Assembly, is cemented into law.

In conclusion, I would like to address three issues surrounding this legislation.

First, is this a mandate? Absolutely. This legislation cements a policy that was passed by the last legislature stating that 2 mills should be used for contracting to address domestic policy issues. The need to use 2 mills for domestic policy was confirmed by the North Dakota Wheat Commission by a 6-0 vote in January 2005.

Second, accountability to the North Dakota Legislature for the use of contract dollars by the grower associations. This is taken care of on page 4 of the bill. Accountability for the use of these funds is paramount in importance. The North Dakota Grain Growers Association and the U.S. Durum Growers Association welcomes the opportunity to come before the legislature, tell our story, and account for the way contract dollars are spent. I would point out that no other private organization receiving state funds has this requirement and our Associations asked for this to be put in the legislation.

Finally, it has been rumored that if this funding is put in place, that membership recruitment by our Associations will come to a halt. NOTHING CAN BE FURTHER

Finally, it has been rumored that if this funding is put in place, that membership recruitment by our Associations will come to a halt. **NOTHING CAN BE FURTHER FROM THE TRUTH!** Membership is the lifeblood and strength of the North Dakota Grain Growers Association and the U.S. Durum Growers Association and it will continue to be so.

Mr. Chairman, members of the House Agriculture Committee, HB 1518 is critical legislation that comes at a critical time in North Dakota agriculture. I request that the committee pass the clarifying amendment that our Associations support for the legislation and give a do pass recommendation to the amended bill.

1518

The commission shall expend an amount at least equal to that raised by two mills of the levy provided for in this section to contract for activities related to wheat production, promotion, and sales, with no more than two trade associations that are incorporated in this state and which have as their primary purpose the representation of wheat producers.

Page 3, line 28, remove "to:"

Page 3, line 29, remove "a. Contract" and overstrike "for market maintenance and development services, utilization"

Page 3, line 30, overstrike "research, transportation research, and education;"

Page 3, line 31, remove "b. To address" and overstrike "domestic policy issues; and"

Page 4, line 1, remove "c. To engage", overstrike "in other related activities," and insert immediately thereafter "to contract for activities related to wheat production, promotion, and sales,"

Mr. Chairman and members of the House Agriculture Committee, my name is Terry Wanzek, president of the North Dakota Grain Growers Association. In representing the Growers organization, I am here in support of HB 1518 with the amendment. The amendment clarifies the intent of the North Dakota Wheat Commission, North Dakota Grain Growers Association and U.S Durum Growers Association in the presentation of this legislation.

As growers, we recognize the value of past efforts of the ND Wheat commission and the ND Grower organizations in advancing and improving our wheat industry in ND. We feel that the amounts invested in the past have returned to our growers many times over. ND wheat and durum growers have benefited in many different ways; mainly through improved marketing opportunities, positive trade results and favorable domestic policy positions.

While we appreciate these past accomplishments, we must not let our guard down. For our producers to continue to have positive results and representation in world markets, in domestic policy developments, and in research, it requires a great deal of continued support from the growers. The ND Grain Growers believe it is imperative that we show a willingness to make a major investment into our own business. Positive outcomes to policy developments and or trade developments do not happen by accident. It requires hard work, a lot of money and a presence at the table; when and wherever that may be.

We need to be actively engaged in the many fronts in the state, the nation and the world. We need to have our people there and our voices heard when major decisions are being made that impact our wheat industry.

In summary, as the president of the ND Grain Growers I have a passionate interest in seeking a united wheat industry, working together as one, to create a vibrant economic environment that fosters favorable opportunities for our ND grain producers, to not only survive, but to prosper. To do that, it takes not only a committed effort of time, but also a commitment of funding. The ND Grain Growers are here today in a show of willingness to fund our own industry by supporting HB 1518. Personally, on our farm, we grow, on average, approximately 100,000 bushels, which would result in an annual check off dollar amount of \$ 1500.00 if HB 1518 becomes law. I feel there is no way I could get the same results or bang for my buck by going it alone. Thank you for your time and the opportunity to testify in favor of HB 1518.

STREGIE
amend

PROPOSED AMENDMENT TO HOUSE BILL 1518

Page 4, after line 8, insert:

"SECTION 3. EFFECTIVE DATE. The increase in the levy imposed by Section 2 of this Act shall apply to all sales occurring from and after the first day of the next calendar quarter occurring at least thirty days after the effective date of this Act."

Renumber accordingly.

Submitted by ND Grain Dealers Association



U.S. Durum Growers Association

PROMOTING THE PRODUCTION AND MARKETING OF DURUM AND SEMOLINA

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Testimony

In Support of

HB 1518

Dennis Wunderlich
President
U.S. Durum Growers Association

February 3, 2005

Good morning, Mr. Chairman, members of the House Agriculture Committee.

For the record, my name is Dennis Wunderlich, President of the U.S. Durum Growers Association. I am here to ask for your support of HB 1518 with the clarifying amendments.

The U.S. Durum Growers Association supports this bill for three main reasons. First and foremost, there is an outstanding account due to the trade case. Even though the durum portion of the case did not turn out as expected, the durum growers of North Dakota were winners economically, due to lack of imports during the case.

Secondly, the USDGA urged the North Dakota Wheat Commission to continue with the spring wheat issue. This process took large sums of money that were used for the trade case instead of items like research for scab resistance, developing new varieties and domestic policy.

Third, we have no guarantee that this issue will not continue or reappear in the future.

The USDGA would like to commend the North Dakota Wheat Commission for their efforts. In this modern day, when we all have to do more with less, they have done what they could with what they had, but need more. That said, the USDGA urges you to do pass on HB 1518 as amended.

Thank you for your time.

5
North Dakota



Ag Coalition

Testimony of Jody Hauge
North Dakota Ag Coalition
Before the House Agriculture Committee
February 4th, 2005
Testimony on HB 1518

Chairman Nicholas, Members of the House Agriculture Committee, I am Jody Hauge, Chair of the North Dakota Ag Coalition. I farm and ranch with my husband and two sons in Southern Grant. We annually produce 2000 acres of spring and winter wheat.

The North Dakota Ag Coalition is in support of HB 1518. The North Dakota Ag Coalition represents forty agriculture organizations across North Dakota. For the Coalition to take a position on a bill, seventy-five percent of our voting members must agree upon the position.

Producers throughout North Dakota have been well represented by commodity groups and grower organizations in the past. The North Dakota Wheat Commission is no exception. Many producers view the North Dakota Wheat Commission simply as an extension of their wheat farms management team. The marketing, promotion, education, research and domestic policy work directed by the elected Commissioners who manage producer checkoff funds pays significant dividends each year.

The Wheat Commission was asked and carried out a long, costly battle against the Canadian Wheat Board. The case against unfair trade practices has produced meaningful and measurable results for North Dakota wheat producers by dramatically reducing the imports of Canadian wheat and durum in the past two years. The result of reduced

2718 Gateway Ave. Suite 301 • Bismarck, North Dakota 58503 • Phone (701) 355-4330 • Fax (701) 223-4130

A nonpartisan group of organizations involved in all aspects of agriculture. Organized in April 1982, the Coalition has been successful in providing a unified "voice" on behalf of North Dakota agricultural interests.

imports has directly led to increased wheat prices and farm incomes for North Dakota wheat producers. House Bill 1518 increases the wheat checkoff paid by producers from a cent to a cent and a half, allowing Commissioners the necessary funds to retire the remaining portion of the trade case debt.

The success of the trade case has garnered much of the attention in recent years. Members of the Ag Coalition feel it is also important to remember all of the other programs conducted by the Wheat Commission that aid producers in achieving profitable wheat production as well.

The marketing programs conducted by the North Dakota Wheat Commission staff and US Wheat Associates is North Dakota's wheat promotion and marketing arm. Wheat is a commodity. Although some niche markets exist for producers, the bulk of our wheat must be exported in large volumes to foreign customers. Our wheat must be promoted and buyers educated on the qualities of wheat produced in our state. Without an adequate pool of funding for market promotion our competitors will increase their market share.

Education and research benefits are seen daily. The NDSU wheat-breeding program that is supported in part by checkoff funds produces new and improved wheat varieties almost yearly. These varieties aid producers in controlling disease, provide an increase in yield or improved agronomic characteristics. Educational seminars paid in part by checkoff funds keep producers up to date on technological advances and production techniques.

Finally, the efforts made by Commission members and their Grower Association partners to provide a voice for the North Dakota wheat producer in Washington, DC is

irreplaceable. Their work in the areas of farm bill discussions, disaster aid and crop insurance programs keeps many producers in the farming game.

The elected officials of the ND Wheat Commission are faced with a very difficult task of improving the sphere in which North Dakota farmers compete. Their decisions in the areas of product promotion, education, research and farm policy are all extremely important to future existence of wheat farms. The history of sound decisions made by Commission members and staff should elude too the quality of future programs to come.

The members of the North Dakota Ag Coalition ask you to allow North Dakota wheat producers to further invest in their future. The members of the North Dakota Ag Coalition ask for your favorable support of House Bill 1518. I will be happy to stand for any questions.



NORTH DAKOTA GRAIN DEALERS ASSOCIATION

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CHERYAL WELLE, Executive Assistant
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118 Broadway, 606 Black Bldg., Fargo, ND 58102
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204 4th Avenue S., Buffalo, ND 58011

HOUSE AG COMMITTEE - REP. GENE NICHOLAS, CHMN TESTIMONY OF NORTH DAKOTA GRAIN DEALERS ASSOCIATION RE: HOUSE BILL 1518 -- FEBRUARY 4, 2005

Good morning Mr. Chairman and members of the House Ag Committee. I am Steve Strege, Executive Vice President of the North Dakota Grain Dealers Association. We are a 94-year-old voluntary membership trade association and over 90% of our state's grain elevators are members.

The Grain Dealers Association is on record supporting the Wheat Commission going ahead with the trade case. We felt the monopolistic trading practices of the Canadian Wheat Board were taking business away from U.S. wheat growers and handlers. Most of the elevator managers who've expressed to me an opinion about this think this paid off. Now the legal bills must be paid and we support the Commission being given the authority to collect the necessary funds to do that. We also support the Commission having the discretion to spend funds where it feels they are needed.

Grain elevators collect the many checkoffs that exist on grains they handle. The reporting and remittance form for the wheat checkoff is by calendar quarter. We believe there will be more accuracy, less confusion, and better implementation all around if the change in assessment level takes place at a quarterly break. That way we won't have part of the quarter at one rate and the rest at a different rate. Chairman and prime sponsor Nicholas and I had some correspondence earlier in the week and he is OK with that - thank you - and Commission staff thinks it will work better for them too.

We're therefore proposing an amendment that says the change will begin at the start of the calendar quarter at least 30 days beyond the effective date of the bill. That 30 days give the Commission time to put everyone on notice of the change and for grain elevators to get their computer or other record keeping systems changed to be taking the right amount when the time comes. We wouldn't want something like only a 10 or 20-day notice situation.

This amendment means that if the effective date is on or before March 1 the new checkoff rate begins April 1. If the effective date is after March 1 and through May 31 the new rate is effective July 1.

Thank you. I'll try to respond to any questions.

North Dakota Farmers Union

PO Box 2136 • 1415 12th Ave SE • Jamestown ND 58401

701-252-2340 • 800-366-NDFU

FAX: 701-252-6584

WEBSITE: www.ndfu.org

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HB 1518

House Agriculture Committee

Chairman Nicholas and Members of the House Agriculture committee,

My name is Richard Schlosser; I am here representing over 35,000 members of North Dakota Farmers Union. I am here to testify in opposition to HB 1518.

North Dakota Farmers Union would like to support HB 1518, but we cannot because there are two issues in this bill that cause our members great concern.

We oppose mandating wheat tax dollars to fund two wheat grower organizations and we believe that the 5 mill increase should sunset once the legal fees for the Canadian Trade case are paid in full.

We oppose House Bill 1518 because our members have specifically told us that they would favor an increase in the wheat levy only to pay the debt created by the lawsuit against Canada, and that our members want this additional tax to end after the trade lawsuit debt is paid off.

Farmers Union members believe that funds should not be donated or contracts provided to organizations for the use of political or lobbying activities. This bill as it is presently written, imposes a mandate in which the elected members of the Wheat Commission have to pay these designated funds to groups that represent some wheat growers in our state.

This mandate is not found in other commodity promotion efforts such as those for corn, soybeans, barley, oilseeds, dry peas and lentils, dairy, and beef. Why is wheat different? Our research shows that in all other commodity check-offs, the governing council is responsible and accountable for the use of the tax dollars.

If eligible wheat growers are elected to the Wheat Commission in free and fair elections, is it not their right and duty to decide how these wheat tax funds are to be used? Members of the Wheat Commission are accountable for the funds that are collected from North Dakota wheat growers, yet these private groups are not subject to the same accountability. This is a major concern of Farmers Union members.

Are we setting a new precedent with this language in Subsection 4 of Section 1 which states, "shall expend an amount at least equal to that raised by two mills of the levy provided for in this section"? If these grower groups specifically are representing the best interests of wheat farmers, shouldn't the Commission be able to decide the appropriate level of support to be paid?

If the Wheat Commission is mandated by this Legislature to provide funds to grower groups, who will be held accountable for these tax dollars? Is it the elected Wheat Commission members or is it the board and officers of the private wheat groups?

Since the grower groups would be using mandated state tax revenues, should they be subject to public disclosure?

We further believe this is a free speech issue. Our members have no problem with wheat tax dollars being used for commodity research, market development, trade promotion, and other uses to enhance grower profitability. North Dakota Farmers Union supported increases in the levy from a half-cent to 8 mills, and the increase to the current 10-mill levy.

Wheat producers have the right to join organizations that advocate for specific policies. They also have the right to distance themselves from organizations that do not advocate for their beliefs. If HB 1518 is passed as presented, this measure will provide hundreds of thousands of dollars of wheat tax funds to those very groups that many wheat farmers say do not represent their views on policies that relate to their concerns.

It is very clear that the legislative priorities of actual producers and various agribusiness corporations are totally different at times, yet the mandated wheat tax funds could be co-mingled with funds from other agribusiness companies. If a member of these trade

associations is lobbying an elected official, is that member representing North Dakota wheat farmers?

North Dakota Farmers Union and many other farm organizations also represent North Dakota wheat producers. In fact, it was a coalition effort that is responsible for getting disaster legislation passed in 2004. This effort of some 50 or more producer organizations collectively got the job done.

Many groups from North Dakota and throughout the nation, including North Dakota Farmers Union have expressed concerns about quality loss determinations, crop insurance adjustment concerns, and other disaster-related issues. Once again, this demonstrates the importance of a coalition effort in addressing producer concerns.

Another concern North Dakota Farmers Union members have is that the legal fees of the Canadian trade case represent a huge cost overrun from what was originally planned. On balance, when the increased wheat prices are factored in due to the tariffs imposed, North Dakota producers likely benefited by millions of dollars. Our members think it is reasonable for those legal costs to be paid in a timely manner, and are willing to tax themselves and other wheat producers until that debt is paid. However, our members still feel that the extra one half cent tax should end as soon as that debt is paid off, and then if there are other issues and priorities that need to be addressed, those arguments can be made at that time. We feel it is unfair to automatically increase the wheat tax levy on all producers for an indefinite amount of time. Any future wheat tax increase needs to be justified to the North Dakota Legislature.

To close, North Dakota Farmers Union members oppose the mandate included in HB 1518 that requires the North Dakota Wheat Commission to dedicate funding to wheat grower groups. This bill requires no accountability for wheat producer dollars. It is difficult to justify giving these groups a blank check; they may not always act in the best interest of North Dakota wheat producers. We hope our concerns can be addressed with a few simple amendments, such as changing "shall" to "may" and requiring a sunset clause on the proposed bill.

Thank you Chairman Nicholas and members of the committee, I will answer any questions at this time.

8
Chairman and members of the House Ag Committee:

My name is Melvin Schramm, I am a farmer from eastern Wells county.

I wish to speak against HB1518 for several reasons.

First, The North Dakota Wheat Commission was given authority, by the legislative branch, to spend up to approximately \$1.2 million for legal fees to file a complaint against Canada for dumping wheat on our markets. They went ahead and spent \$6.4 million, or \$5.2 million more than they were authorized to spend. The Attorney General issued an opinion that the Wheat Commission violated state statutes, but instead of pressing charges, he suggested they ask for an additional half cent check-off to pay off their legal debt. Do you know of anyone who committed a crime and then was given a 50% pay hike as a reward?

I believe each of the Commissioners should be fined and the top employees take substantial cuts in pay until the legal fees are paid. I have yet to hear anyone from the Wheat Commission talk about making any cuts in spending to get their expenses back in line.

The argument the Wheat Commission uses to justify their actions is also bogus.

They say this legal action added 20 cents a bushel to the price of wheat in North Dakota. This is pure conjecture. In fact, I have here a graph of the wheat market every week for the years 2002, 2003, 2004 at Central City Grain in Carrington, ND. This market price is given every Thursday to be published in the Foster County Independent. The price of 14% protein wheat was much lower in all of 2003 and 2004 than it was from August to December of 2002. While the market bounced up and down for all of 2003 and 2004, it really hit the skids at harvest time of 2004.

Not only did the market fall to below \$3 per bushel in August for 14 protein wheat but the discounts for lower 13 protein were 30 to 40 cents a bushel. There was a lot of low protein wheat sold in the \$2.50 to \$2.70 price range. When that happens it is hard to convince farmers they are getting 20 cents more for their wheat.

The purpose of the Wheat Commission is to promote the usage of wheat products and to educate potential buyers and consumers of wheat products, and I'm all for that. It is not proper for them to lobby Washington on issues that wheat producers don't agree on, or to spend money on high priced lawyers to fight international laws.

We need a new formula to set the amount of the check-off that will reward performance instead of mediocrity. With the current 1 cent check-off there is no incentive for the Wheat Commission and its employees to do a better job.

As an example, if I as a farmer, have 50,000 bushels of wheat and I have to generate \$150,000 to pay my bills, at \$3 per bushel, I would need to sell all 50,000 bushels and the check-off would be \$500; if wheat was \$4 per bushel, I would need to sell 37,500 bushels and the check-off would be \$375; if wheat was \$5 per bushel, I would only have to sell 30,000 bushels and the check-off would be \$300. If you were the Executive Director and needed more money, which market price would you prefer?

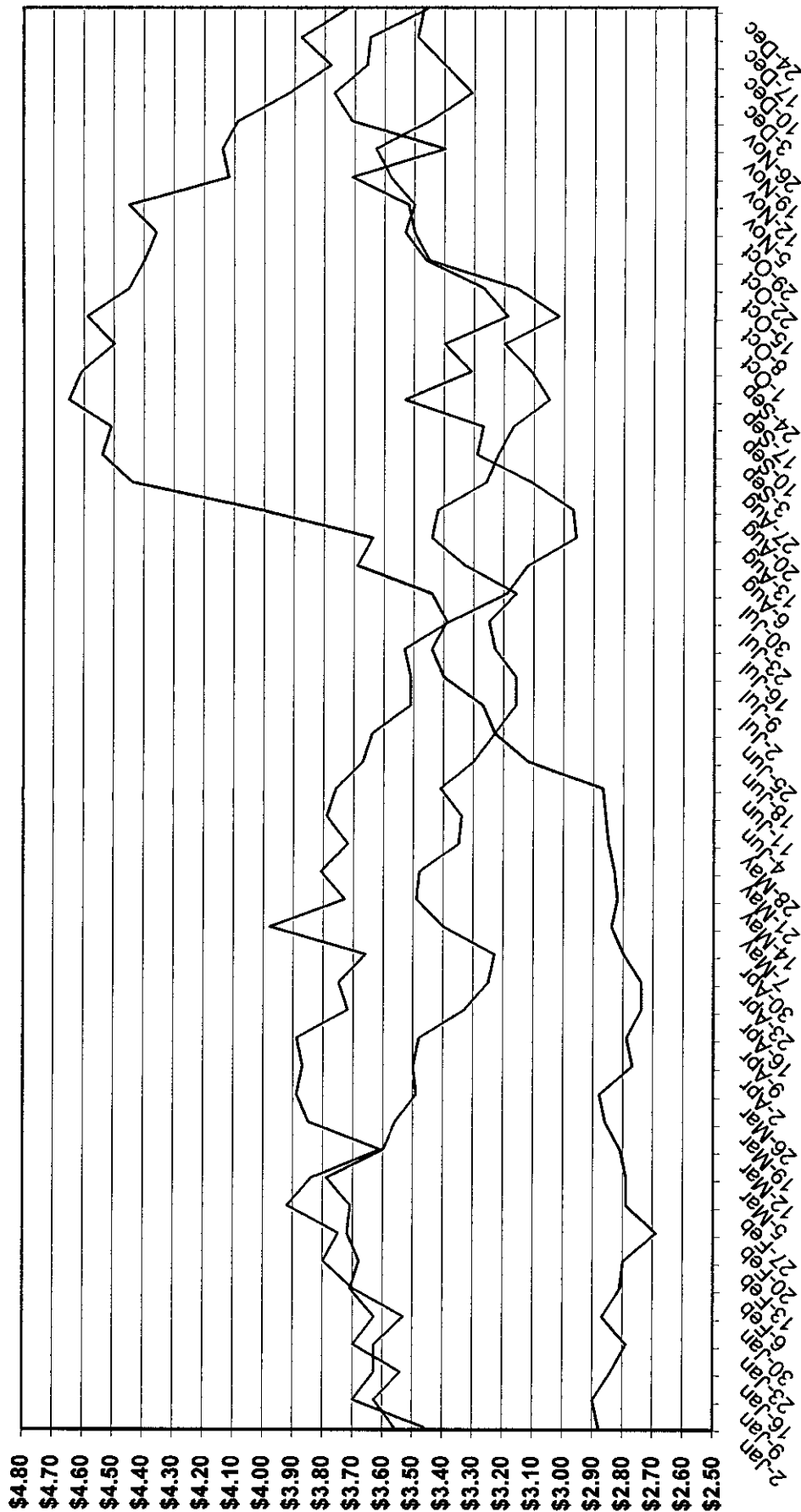
If the check-off was 1 cent for wheat under \$4 per bushel and one and a half cent for wheat over \$4 per bushel there would be more incentive to promote to receive higher prices. While the Executive Director has been saying that wheat really dollars up at \$3.60 per bushel, most wheat farmers say at that price they look at wheat as a rotational crop only, because they can't make any money on wheat unless they have a bumper crop every year.

In closing, again I must say we can't raise the check-off by 50% to reward someone who has violated state statues. If the head of any other State department over spent its budget the way the Wheat Commission did, I'm sure his or her head would roll.

Thank you.

Melvin Schramm
5662 8th St. NE
Cathay, ND. 58422
701-984-2362

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Note: Premium above 13% protein was minimal prior to July 1, 2004 but \$.20-.30/bu. after that date.

—2002 —2003 —2004

**PROPOSED BUDGET CUTS
and REVENUE**

FINE DIRECTORS \$50,000 each 7X50,000	\$350,000
CUT PROJECTED WAGES by 20%	86,946
DROP CONSULTANT	10,000
CUT LEGAL FEES by 50%	391,500
CUT GENERAL OPERATING by 20%	20,000
CUT ND VARIETY SURVEY	3,750
CUT PRINTING AND POSTAGE by 50%	34,500
CUT DOMESTIC POLICY	39,950
CUT SBARE MATCHING FUNDS by 50%	20,000

TOTAL	\$956,646

Jim Teigen

Mr. Chairman and Members of the House Agriculture Committee:

Thank you for this opportunity to address House Bill 1518.

As a farmer raising wheat, barley, and oil crops in Pierce County, I would characterize myself as being generally supportive of the goals and activities of the North Dakota Wheat Commission, particularly those dealing with domestic and export market development, education programs, research, and quality improvement.

While I am in favor of keeping our taxes at an affordable level, I do support this 5 mill increase in the wheat tax levy. However, I am not in agreement with other provisions of House Bill 1518.

I would support the 5 mill increase as long as it is used to retire the debt associated with the legal bills incurred from the Canadian trade dispute, but would ask that the increase last only as long as necessary to pay that bill. Since the Wheat Commission has said that bill can be "pretty well cleaned up" in two years, the 2007 Legislature can revisit the issue and determine if an extension is necessary.

I am also extremely concerned with the mandate in House Bill 1518 that a minimum of 2 mills be used to contract with two trade associations and for domestic policy issues. I have two main reasons for opposing this language. First, I believe that use of the wheat tax should be limited to the purposes I mentioned earlier – market development, education, and research. I don't support the use of wheat tax funds for lobbying and political purposes. Secondly, in my opinion it is wrong to take public monies, such as the wheat tax, and give it to private organizations. Those of us producers who have made the decision not to join those private organizations should not have to fund their activities, especially since we don't have a voice in the development of their policies or in the decision as to how those monies will be spent. While I do not object to their right to engage in those activities, I do object to having to provide financial resources from my tax dollars to help them advance their agenda. Let the wheat producers of North Dakota decide who they want to support for lobbying, and for promoting domestic policy issues.

In summary, I ask you to amend House Bill 1518 so that the legal bills can be paid and then the increased levy will sunset, and that the Wheat Commission will still have the latitude to use the proceeds of the levy as the situation changes.

Mr. Chairman, Members of the Agriculture Committee, thank you for the opportunity to testify.

Jim Teigen
Rugby, North Dakota

11
Dan Spiekermeier
5805 140th Av SE
Sheldon, ND58068
701-882-3498
HB1518

I speak in opposition to HB1518. I live and farm by Sheldon which is in the south east part of North Dakota. Last year I took over the complete farming operation which once included my father my brother and I. My father retired in 1998 and my brother had to quit in 2003 due to health complications with Farmers Lung.

Last year, I broke tradition and went with a corn and soybean crop program. It seemed like a good idea at the time. Now I'm pretty sure the old wheat, corn, soybean, and sunflower would have been better and that is going to be the program for 2005.

I would support a 5 mill increase in the wheat tax check off if the 5 mills were to go to retiring the debt of the wheat commissions trade dispute with Canada, and if the bill has a sunset clause that would eliminate the increase when the lawsuit bills are paid.

I do not want the Wheat Commission check off increases to go to the two wheat grower groups that have lobby and abilities and are too often on the opposite philosophical side as I.

You people that make up the Legislature of this great state have a huge responsibility. You sometimes have to go against the wishes of many people to do what is right and what is good. I don't think in this case that the provisions of this bill are so clearly right and good that you need to go against the wishes of the people. The plain fact is that we just don't want it.

 "Flakoll, Tim"
<tflakoll@state.nd.us
>

To: "NDLA, S Agr" <sagr@state.nd.us>
cc: <Marcysven@hotmail.com>
Subject: FW: Wheat Tax Testimony

02/21/2005 04:15 PM

Jan can you please have hard copies of this made up for each Senator on the committee?

From: Marcy Svenningsen [mailto:marcysven@hotmail.com]
Sent: Monday, February 21, 2005 11:47 AM
To: Flakoll, Tim
Subject: Wheat Tax Testimony

Dear Chairman Flakoll,

I will be unable to attend the hearing on Friday because I will be out of town at a convention. I feel very strongly about this bill and I urge you to vote no on HB 1518 unless the mandated language is removed. I have attached the testimony that would have given if I had been able to attend the hearing.

Thank you,

Marcy Svenningsen
3546 109 Ave. SE
Valley City, ND 58072

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My name is Marcy Svenningsen and my husband and I farm and ranch about 10 miles west of Valley City. As HB 1518 stands now – I am opposed. I do believe that there is a need for an increase in the wheat tax to help pay off the lawsuit with Canada. But I do not believe that 2 mils should be given to the grower groups. The North Dakota Wheat Commission is set up to decide where our wheat tax dollars are spent. Wheat producers have a voice in that process. If we are not happy with the decisions our district person makes, there's always an election in four years. I have to admit that I was very disappointed that the Wheat Commission unanimously voted to support this bill. I feel that they are abdicating some of their responsibility by agreeing that 2 mils would be given directly to the grower groups. They should have been fighting to maintain control of all of the funds – obviously they need them.

Regarding the grower groups – I have no problem with them making application for funds from the Wheat Commission. If the Wheat Commission has the opportunity to review the request, decide if the money is being used in the best interest of all producers such as lobbying for disaster relief – it would be appropriate to fund such requests. However, the grower groups have also used those wheat tax dollars in the past to promote farm policies that many farmers don't agree with, myself included, whether it was on a state level or through their national organization. And obviously by all the press the previous executive director of these groups has received – their fiscal house wasn't very well in order either. How do we as producers have any control over what happens to our wheat tax dollars once it is turned over to the grower groups? Who holds them accountable? There needs to be a process in place to review and approve what they will spend our tax dollars on. I believe that is a responsibility of the Wheat Commission.

In the testimony that the Grain Growers and the Wheat Commission gave at the House hearing – both groups said that they have a good working relationship – why then is there a need for a mandate? I understand that there may still be a contract process, but how well will the contract proposals be reviewed if there is a mandate in place to

spend the money? In Terry Wanzek's testimony at the House Ag hearing, he was asked how he intended to keep the funds separate when the Grain Growers were working on issues not supported by all wheat growers. His response was "My wife and I don't always agree on everything but the money goes in the same checkbook." I have no confidence that the Grain Growers will not use my wheat tax dollars to lobby against things I believe in.

I urge this committee to either amend this bill to remove the mandated language or if that fails to happen, please vote no on HB 1518.

Thank you for reading my testimony.

Marcy Svenningsen, 3546 109 Ave. SE, Valley City, ND 58072
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HOUSE BILL 1518
SENATOR JOHN WARNER
SENATE AGRICULTURE COMMITTEE
25 FEBRUARY 2005

Senator Flakoll, Members of the Committee,

My name is John Warner. I represent the Fourth Legislative District in the Senate and I am the sole Senate sponsor of this legislation. I am not going to explain the bill nor advocate for it except to say that I support the work of the wheat commission and the advocacy work of the organizations mentioned in the bill and that I believe the additional money is needed to cover expenses that were well spent and fruitful. I do have a concerns about one part of the bill and I would like to visit with you about that.

I am concerned about the lack of a chain of accountability in the transfer of funds from the wheat commission to the contracting organizations and have brought an amendment that I would ask you to consider that would make the transfer discretionary on the part of the wheat commission rather than a mandate.

The wheat commission is made up of elected representatives, elected by the wheat producers of North Dakota and as accountable to that constituency as you and I as elected state officials are to our constituencies. If we fail to perform, if we fail in our fiduciary duty to the stakeholders and taxpayers we face recall through a routine electoral process. I don't know about you but the idea of facing that electoral process periodically brings remarkable clarity to my thinking process.

The language of my amendment simply changes the word "shall" on page 3, line 24 to "may". It makes the transfer discretionary. It allows some oversight and some accountability by an electoral body over a contracted service.

This bill as written would require the wheat commission to collect the tax then mandates its transfer to the other two organizations. Current law allows for a refund process by disgruntled producers but does not allow that refund to be partitioned. An increase in refunds triggered either by the increased tax or disagreement with policy of any of the three organizations would severely impact the core work of the commission in market development, promotion and research.

Finally, the legislature has a great deal more oversight over the wheat commission than it will ever have over private organizations. Their compliance with reporting requirements is strictly voluntary. I do not for one moment believe that they would refuse to appear before a legislative committee but the difference between a friendly visit and full disclosure can be vast. As this bill currently stands it makes no provision for a formal investigation by the State Auditor or an appearance before Audit and Fiscal Review. A short pro forma visit with a biennial legislative committee would have done nothing to prevent or detect the recent problems that one of these organizations has had.

Mr. Chairman, members of the committee. I urge passage of the amendment that I have presented today and then passage of the bill. This is an important piece of legislation for the wheat growers of North Dakota and the organizations that do such good work on their behalf.

Testimony on HB1518 presented to the SENATE AGRICULTURE COMMITTEE

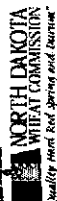
February 25, 2005

Harlan Klein, Chairman
Neal Fisher, Administrator



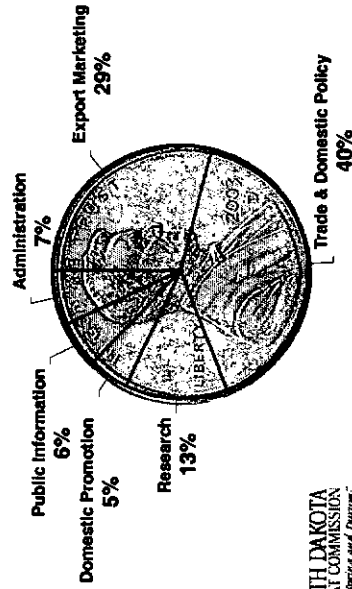
NORTH DAKOTA LEADS

- Specific to Hard Red Spring and Durum wheat
- Criteria for "standing" in getting petition for investigations accepted by ITC and DOC
- Streamlined communication and decision-making
 - Could still be talking to other states about what attorney to hire, what type of case to initiate, etc.
- Some states face difficulty meeting assessments to national efforts
 - U.S. Wheat Associates
 - National Association of Wheat Growers
 - Wheat Foods Council

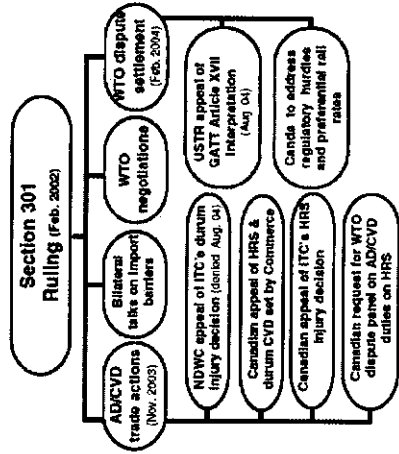


PROGRAMS IMPORTANT TO WHEAT PRODUCERS

Fiscal Year 2003-04 Expenditures



USTR'S SECTION 301 RULING IN 2002 LED TO 4-PRONG ACTION PLAN



AD/CVD NO SLAM DUNK

- Procedure is geared to industrial products
 - not agriculture
- Many ag trade cases not brought due to difficulty proving injury to cyclical commodities
- Vast majority of successful cases involve manufacturing industries
 - few ag cases win affirmative determinations

NORTH DAKOTA WHEAT COMMISSION
Quality Hard Red Spring and Durum



MANY DON'T REACH FIRST OR SECOND BASE

- 1989 to 2003
 - Withdrawn or not initiated by Department of Commerce or ITC
 - ✓ 6% of Dumping cases
 - ✓ 12% of CVD cases
- Numerous cases terminated/ suspended after initiation of investigation
 - ✓ Fresh Tomatoes from Mexico
 - ✓ Cooked & Peeled Coldwater Pink Shrimp from Canada
- Terminations after affirmative preliminary determination, before final determination
 - ✓ 14% of Dumping cases
 - ✓ 19% of Countervailing duty cases

NORTH DAKOTA WHEAT COMMISSION
Quality Hard Red Spring and Durum

U.S. INTERNATIONAL TRADE COMMISSION

Final determinations in agricultural cases
in last 5 years

AFFIRMATIVE:

- Frozen Red Raspberries from Chile
- Honey from Argentina and China
- Concentrated Apple Juice from China
- Hard Red Spring Wheat from Canada
- Warmwater Shrimp from Brazil, Thailand
- Frozen Fish Fillets from Vietnam

NEGATIVE:

- Greenhouse Tomatoes from Canada
- Live Cattle from Mexico and Canada
- Live Swine from Canada
 - preliminary determination affirmative
 - new case filed in 2004
- Durum Wheat from Canada
- Ready to Cook Kasher Chicken from Canada
- Spring Table Grapes from Chile and Mexico

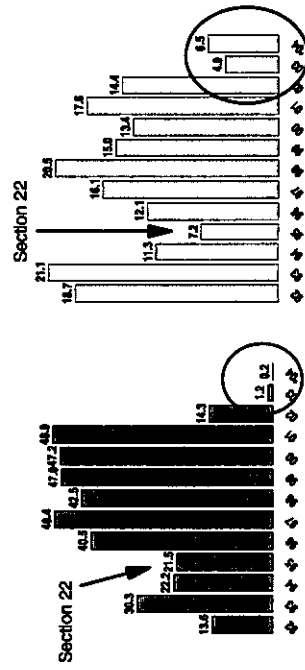
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Quality Hard Red Spring and Durum



TRADE CASE HAS HELD IMPORTS OF CANADIAN WHEAT TO LOW LEVELS

HARD RED SPRING

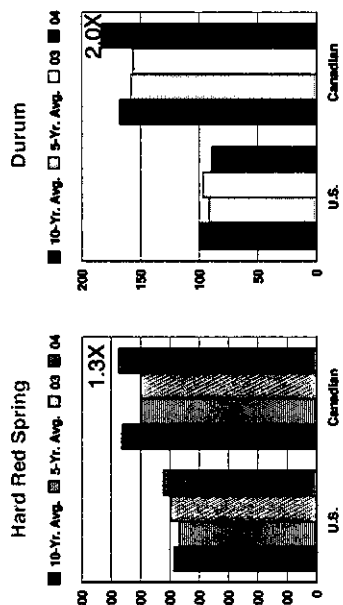
DURUM



NORTH DAKOTA WHEAT COMMISSION
Quality Hard Red Spring and Durum

Source: U.S. Department of Commerce, Census Bureau
*04 includes months of June-Oct

MYTH: Imports are down because Canada doesn't have much to sell
FACT: Imports are down
because of import duties

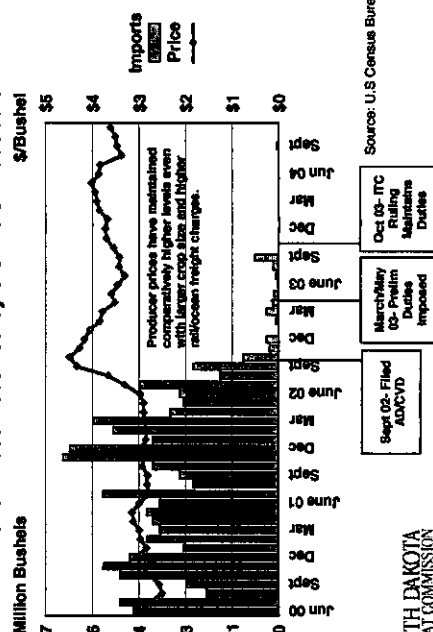


Canada grows about 1.3 times more HRS,
1.7-2.0 times more durum and Canadian
inventories are growing.

**NORTH DAKOTA
WHEAT COMMISSION**
Quality feed Red Spring and Durum

TANGIBLE RESULTS

Canadian Hard Red Spring Wheat Imports
and Prices Received by U.S. HRS Producers

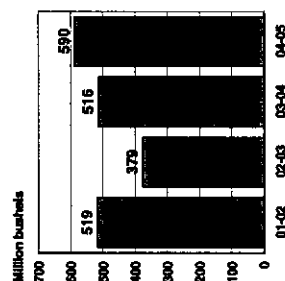


Prices represent an average of all grades and protein levels.

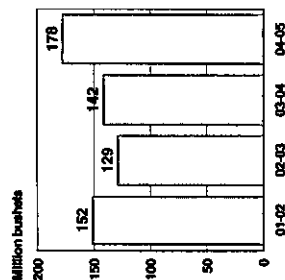
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CANADIAN STOCKS PILE UP

Non-Durum Wheat Stocks
As of December 31



Durum Wheat Stocks
As of December 31

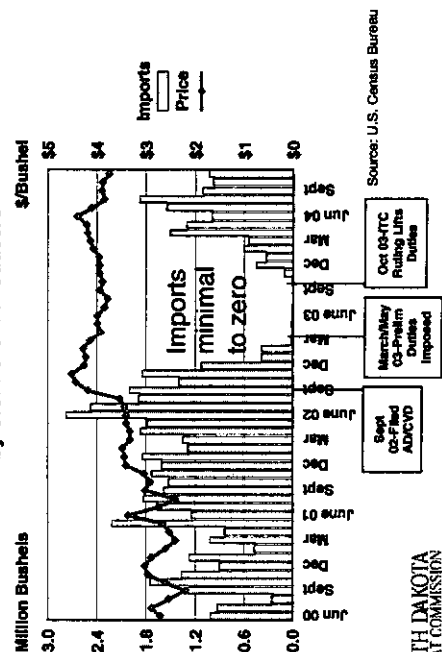


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Source: Statistics Canada, February 2005

TANGIBLE RESULTS

Canadian Durum Imports and Prices Received
by U.S. Durum Producers



Prices represent an average of all grades and protein levels.

**NORTH DAKOTA
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Source: U.S. Census Bureau

IMPROVED ACCESS TO OUR OWN DOMESTIC MARKET

"Last year we figured the trade case brought our producers at least 50 cents a bushel because **it gave us access** to markets all over the country."

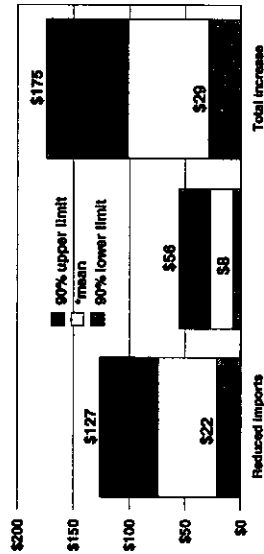


Jim Bobb
Merchandiser/Southwest Grain
Gladstone, N.D.
Speaking at Crop Outlook, November 2004

**NORTH DAKOTA
WHEAT COMMISSION**
"Quality hard red spring and durum"

ESTIMATED ANNUAL BENEFIT from reduced imports of Canadian HRS

\$Million Increase in revenue to U.S. HRS farmers

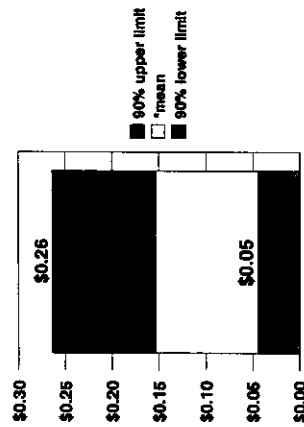


"90% confidence level"
Source: Effects of Duties on Canadian Hard Red Spring Wheat
(Manson, Koo, Beck), NDSU Department of Agribusiness and
Applied Economics, February 2005

**NORTH DAKOTA
WHEAT COMMISSION**
"Quality hard red spring and durum"

ESTIMATED BENEFIT from reduced imports of Canadian hard red spring wheat

Price increase per bushel



"90% confidence level"
Source: Effects of Duties on Canadian Hard Red Spring Wheat
(Manson, Koo, Beck), NDSU Department of Agribusiness and
Applied Economics, February 2005

**NORTH DAKOTA
WHEAT COMMISSION**
"Quality hard red spring and durum"

MUCH IS AT STAKE

- 15¢ per bushel
- \$50 million annually to North Dakota hard red spring wheat growers
- With potential to stick for 4 more years
 - As long as we are successful in fending off a multitude of appeals

**NORTH DAKOTA
WHEAT COMMISSION**
"Quality hard red spring and durum"

IT'S NOT A DONE DEAL

Canadian Wheat Board appealing 14% duties on HRS

- Joining the CWB are
 - Government of Canada
 - two provinces
 - U.S. milling industry



- NAFTA bi-national dispute panels reviewing 2 separate appeals

- WTO appeal withdrawn
 - If Canada fails with NAFTA appeals, it will likely request a WTO dispute settlement



NORTH DAKOTA
WHEAT COMMISSION
Quality Hard Red Spring and Durum

What else remains? BUMP

- Annual administrative reviews
 - No party requested review of 8.86% dumping duty
 - so it will remain in place another year (unless overturned in appeal process)
 - Dept. of Commerce reviewing HRS countervailing duty determination for 2003
 - Questionnaires to CWB and Canadian government
 - Opportunity to review and respond
 - Preliminary results including any revised rate from current 5.29% duty
 - Any party can request hearing, briefs filed
 - Final results due no later than Oct. 31, 2005
 - Legal counsel potentially needed for these reviews for another five years
 - expected fees of about \$300,000 per year



NORTH DAKOTA
WHEAT COMMISSION
Quality Hard Red Spring and Durum

NAFTA APPEALS PENDING

before bi-national dispute settlement panels

- 1) 5.29% countervailing duty to offset subsidies as determined by the U.S. Department of Commerce
 - CWB contends 3 government borrowing guarantees were improperly combined
 - Panel finding due Jan. 27, still not issued
 - Panel can't overturn decision, can only remand to DOC to review finding
- 2) ITC finding of economic injury to U.S. hard red spring wheat producers from imports
 - crucial to maintaining both the 5.29% CVD and the 8.86% dumping duty
 - Oral hearing set for March 9



NORTH DAKOTA
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Quality Hard Red Spring and Durum

CANADA TO COMPLY with WTO ruling

- By Aug. 1, 2005
- Found to be violating "national treatment" rules by
 - discriminating against foreign grain
 - ✓ requires special Canadian Grain Commission authorization before it can be delivered to an elevator
 - ✓ imposing limits on revenues railroads from shipments of western Canadian grain while giving freedom to charge higher rates for imported grain
- NDWC outlined major issues for U.S. Trade Representative to address
 - Compliance a matter of principle
 - may spur transshipments for export via Pacific Northwest ports
- Key: weakens links in CWB web of control
- Will ultimately improve U.S. position worldwide for HRS and durum sales



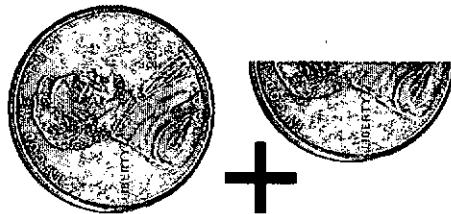
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WHEAT COMMISSION
Quality Hard Red Spring and Durum

REFORMING CWB PRACTICES in International Markets

- To increase U.S. exports and prices
 - WTO agriculture negotiations
 - Gains made in framework for negotiations
 - ✓ on permanent solution to State Trading Enterprises (STEs) like Canadian and Australian wheat boards
 - Pressure from U.S. wheat industry on U.S. Trade Representative
 - ✓ to remain firm in seeking permanent reform and disciplines on market disruptive monopoly powers



CHECKOFF INCREASE NEEDED



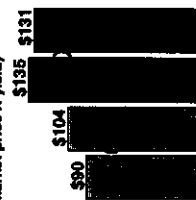
- To pay for today's trade victories
- To assure a strong future
 - A 1/2 penny increase would generate about \$1.2 million in additional funding per year.
 - Total funding would be about \$3.8 million annually or about \$7.6 million per biennium



WHAT'S DIFFERENT NOW than last time checkoff increase proposed?

- Wheat situation going into 2003 legislative session
 - ▶ Drought reduced N.D. crop harvested fall of 2002 to 216 million bushels, smallest since 1988
- Then: 4 mills of 5-mill increase was to go to grower associations for domestic farm policy
 - ▶ Likelihood of increased refunds leaving little or less for trade issues, research or marketing
- Now: 2 mills for farm policy with greater consensus on issues to be addressed

N.D. WHEAT PRODUCTION
Gross return per harvested acre
(market price X yield)

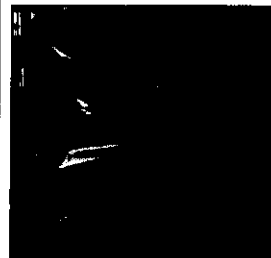


Source: ND Agricultural Statistics Service
Farm Reporter, Feb. 18, 2005



DOMESTIC POLICY

- \$200 in million disaster aid expected for N.D.
 - ▶ NDWC funded two Grower delegations to D.C.
- ▶ Recently helped attain quality loss payments
- Crop insurance reform
- Pesticide harmonization
- Producer education: best production and marketing practices
- Rail rates and service
 - ▶ support federal complaint
- Support more adequate federal and state funding for wheat research



SITUATION APPROACHING 2003 LEGISLATIVE SESSION

- \$734,000 outstanding balance in invoices received as of February 2003
- \$336,000 remained in FY02-03 budget for Legal Counsel
- Report to 2003 Joint Hearing of House and Senate Ag Committees indicated payment not likely complete until FY04-05
- Antidumping and countervailing duty cases only filed in Sept. 2002
- DOC's preliminary findings on subsidization not issued until March 2003
- DOC's preliminary findings on dumping not issued until May 2003
- If unsuccessful in preliminaries, cases may have ended



WHAT ABOUT the import duties collected?

- Little collected because little coming in
- From March 10, 2003 to Dec. 31, 2003
 - About \$175,000 in dumping duties
 - About \$100,000 in countervailing duties
- Potentially liquidated late in FY2005
- Dependent upon future of Byrd Amendment ruled to be WTO violation
- May need to be applied toward educational and research programs



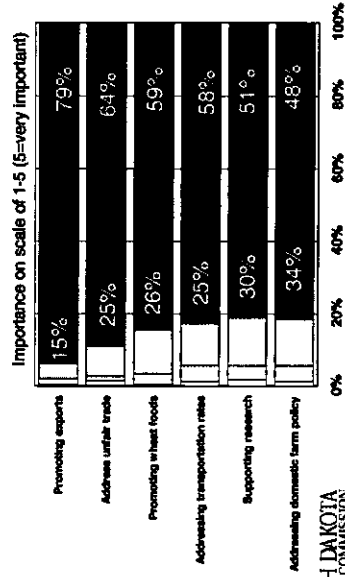
MAJORITY OF EXPENSE INCURRED AFTER 2003 LEGISLATIVE SESSION

- Outstanding balance as of Jan. 05 is \$2.9 million
 - Of the total \$6.3 million in billings
 - \$3.3 million occurred after the 2003 legislative session
 - numerous timeline extensions by U.S. government bodies
 - fact-finding, hearings, gaining final decisions
 - exacerbated by
 - ✓ CWB refusal to providing pricing
 - ✓ opposition by U.S. millers, pasta processors and bakers



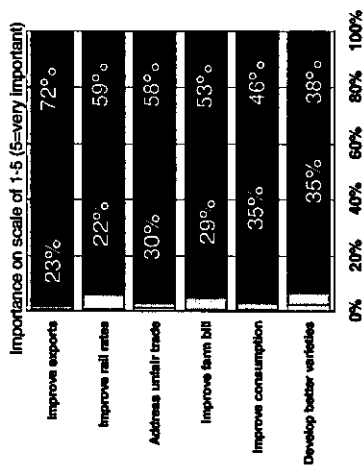
ADDRESSING TRADE Second only to export marketing

- Survey of 388 randomly selected N.D. wheat producers
- Importance of activities funded with wheat checkoff



IMPORTANCE OF REASONS FOR SUPPORTING INCREASE

- Opportunity to broaden support through education and communication.
- Direct correlation between those informed and those supportive.



☐ 1-Not important
☐ 2
☐ 3
☐ 4
☐ 5-Very important

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Quality starts here. Spring and summer.

WHEAT IS STILL KING IN NORTH DAKOTA

- \$3.56 billion annual economic impact
 - \$1.35 billion direct
 - 2.21 billion secondary
- Each acre generates \$393 in total economic activity plus \$13.86 in tax revenue annually
- 20% of all farm/ranch marketings

Source: NDSU 2004

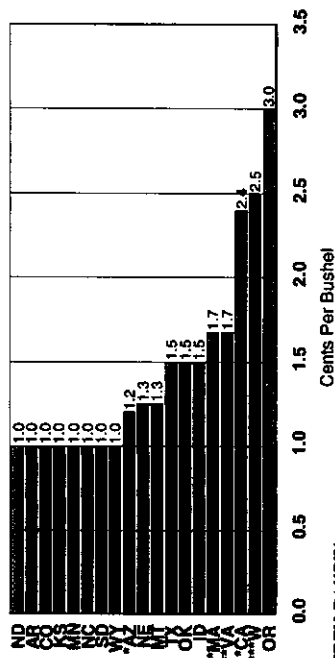
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WHOLE DUM



19 STATES HAVE WHEAT CHECKOFF PROGRAMS

North Dakota & 7 other states remain at 1 penny per bushel



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* Assessed per cwt.
 ** Assessed at 0.5% of value
 *** Assessed at 0.75% of value

LOOKING BEYOND Paying off the trade case



- Other priority needs
- Greater investment in research

NORTH DAKOTA WHEAT COMMISSION
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Why an Increase to the Wheat Checkoff?



The North Dakota Wheat Commission is seeking to increase the wheat checkoff from the present 1 penny per bushel (10 mills) to 1.5 cents (15 mills) per bushel.

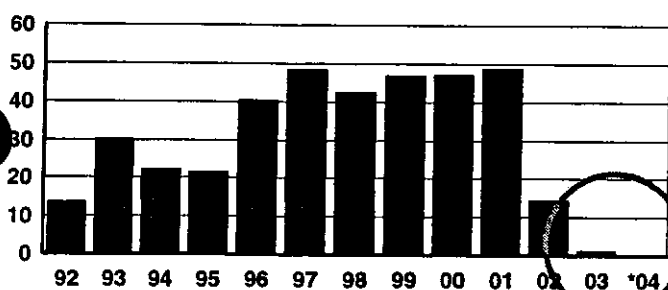
If approved, the increase would initially be used to retire debt accumulated in legal challenges against unfair Canadian wheat trade, but would eventually make additional dollars available for other priority programs.

STANDING UP AGAINST UNFAIR CANADIAN TRADE

The North Dakota Wheat Commission went to battle on behalf of hard red spring and durum wheat producers against unfair Canadian wheat trade through legal challenges under U.S. and international trade law.

Imports of Canadian Hard Red Spring Wheat

Million Bushels



Source: U.S. Department of Commerce, Census Bureau
*04 includes the months of June - August

IMPORTS OF SPRING WHEAT PRACTICALLY SHUT OFF

Checkoff-funded trade actions brought forth by the Wheat Commission have held imports of Canadian hard red spring wheat to levels not seen since implementation of the North American Free Trade Agreement.

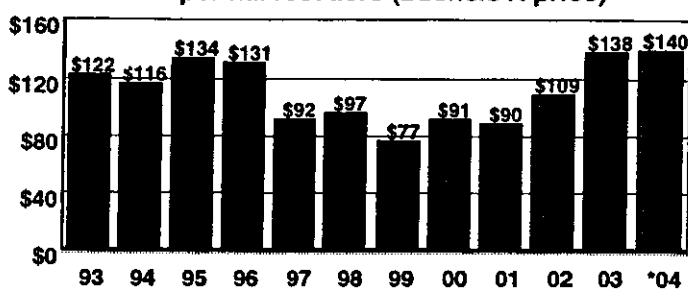
Disciplines on Canada's dumping and subsidization in the form of a 14 percent duty (about \$.50 per bushel) have limited imports to 1.2 million bushels in marketing year 2003-04, which ended in May. Imports have been minimal so far in MY04-05.

BASE YIELDS 6 TO 1 RETURN IN BETTER PRICES

Import duties on Canadian hard red spring wheat are credited with adding at least \$.20 to the price of hard red spring wheat, providing North Dakota producers with an additional

Value of N.D. Wheat Production

Gross return per harvest acre (bushels X price)



*04 projected

Source: N.D. Agricultural Statistics Service

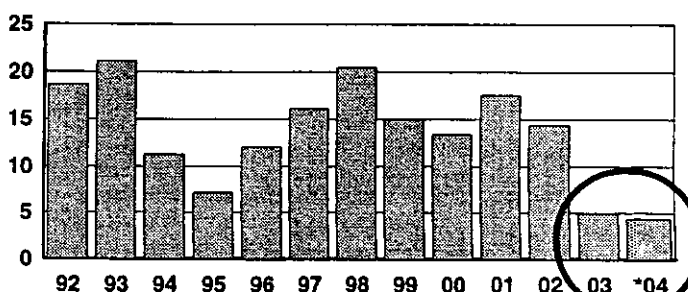
\$50 million for the 2003 crop. Provided the duties withstand appeals under NAFTA by Canada and annual reviews, hard red spring wheat producers should continue to accrue similar benefits for another four years.

TRADE ACTIONS ALSO HELD DOWN DURUM IMPORTS

From the time preliminary rulings imposed a temporary bonding requirement on Canadian durum in March 2003 through the appeals process, imports have remained low. Producers have experienced a positive price response.

Imports of Canadian Durum Wheat

Million Bushels



Source: U.S. Department of Commerce, Census Bureau
*04 includes the months of June - August

PROGRESS ON MORE PERMANENT SOLUTIONS IN WTO

Efforts by the North Dakota Wheat Commission, in concert with national wheat and farm organizations, have further resulted in a framework document for World Trade Organization negotiation that calls for:

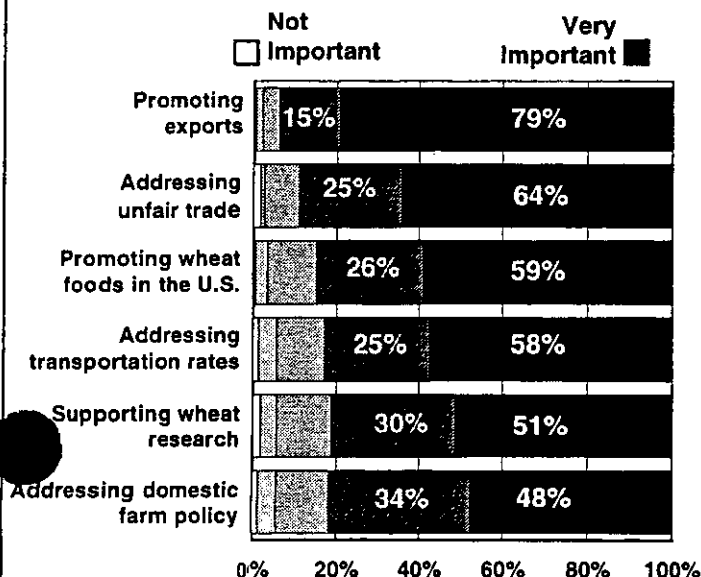
- the elimination of subsidies to and by state trading enterprises,
- the end of government financing and loss underwriting on STEs, and
- puts monopoly powers on the table.

TRADE ISSUES IMPORTANT TO N.D. PRODUCERS

Commissioners decided to seek a checkoff increase after conducting a random survey of a statistically reliable sample of North Dakota producers and consulting with major farm organizations. "There's general agreement that the trade challenges were needed, are beneficial and that the results need to be aggressively defended in the face of Canadian Wheat Board appeals," says Harlan Klein, NDWC chairman and Elgin-area farmer.

- 64% of respondents to the survey consider addressing unfair trade practices to be "very important" and,
- another 25% of respondents say this activity is "somewhat important."

Importance of Activities Funded by Wheat Growers



Source: AdFarm Survey 2004

COMMISSION NEEDS TO MAINTAIN AGGRESSIVE STANCE ON TRADE ISSUES TO RETAIN BENEFITS WON

While the bulk of the legal work is complete, the North Dakota Wheat Commission must defend the import duty on Canadian hard red spring wheat in appeals filed by the Canadian government.

Legal representation is also needed in connection with the WTO dispute settlement to assure Canada takes necessary steps to comply with findings of violations with regard to regulatory hurdles preventing the import of U.S. grain and higher rail transportation rates for imported grain.

CHECKOFF INCREASE WOULD RETIRE LEGAL DEBT

Expenses for legal work to address unfair Canadian trade practices will continue to mount, though at a much more modest rate. Billings for legal counsel and economic analysis for components of the trade challenge total \$6.2 million as of October 2004. The Wheat Commission has paid \$3.3 million to date with \$2.9 million outstanding.

A half-penny checkoff increase would generate an estimated \$1.2 million in additional funding annually, based on an average North Dakota wheat crop (less wheat used for seed and refund requests). If approved, the increase would take effect July 1, 2005.

The Wheat Commission would accelerate payments (already at an interest-free rate). By the end of the next legislative biennium, June 30, 2007, the debt should be retired, freeing funds for other trade issues or programs of importance to North Dakota wheat producers.

Wheat producers are encouraged to call their District Wheat Commissioner or the office with questions, suggestions or comments.



**NORTH DAKOTA
WHEAT COMMISSION**

Linking Farmers with Customers Worldwide

4023 State Street • Bismarck, ND 58503-0690

Phone (701) 328-5111 • Fax (701) 328-5115

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NORTH DAKOTA



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the producer!*

North Dakota Grain Growers Association
U.S. Durum Growers Association

Testimony in favor of
HB 1518

Dan Wogsland, Executive Director
North Dakota Grain Growers Association
U.S Durum Growers Association

February 25, 2005

Mr. Chairman, members of the Senate Agriculture Committee,

For the record, my name is Dan Wogsland, Executive Director of the North Dakota Grain Growers Association and U.S. Durum Growers Association. I come before you in support of HB 1518.

Mr. Chairman, members of the Senate Agriculture Committee, the bill before you does five very important things, first it raises the wheat checkoff to one and one-half cents per bushel, second, it allows the North Dakota Wheat Commission more latitude in the use of its one and one-half cent checkoff in trade matters, third, it provides in statute that the North Dakota Wheat Commission use two mills of that one and one-half cent per bushel for use in domestic policy issues, fourth, it allows the North Dakota Grain Growers Association and the U.S. Durum Growers Association to aid in presentations to the North Dakota Legislature at the Wheat Commission's request on how checkoff dollars are spent, and fifth, the bill provides that the assessment begin at the next quarterly reporting period. These are the provisions of the legislation.

There is no question that the North Dakota Wheat Commission's trade case against Canada was a success. Canada was flooding U.S. markets with wheat and durum, to the detriment of U.S. farmers. Particularly hurt were North Dakota farmers, not only because of our geographic location in relationship to domestic markets, but because the major crops North Dakota specializes in, hard red spring wheat and durum, were the very crops Canada chose to dump into this country. The trade case stemmed the tide of unfair Canadian wheat and durum imports into the U.S., which allowed North Dakota farmers to regain domestic market share.

The results have been a real price increase of up to \$.20 per bushel to North Dakota farmers, which translates into a \$50 million increase in net farm income.

North Dakota took the lead in the trade case, and leadership has its price. No matter how you cut it, legal battles are expensive, and whether we agree or disagree with the amount of the legal bills, its time to pay the check. HB 1518 provides the North Dakota Wheat Commission the mechanism to get the job done and to continue the fight.

I would also point out to you, Mr. Chairman, members of the Senate Agriculture Committee, that the job isn't just about trade, it is equally important that domestic policy issues be addressed. That is why the designation of two mills for the North Dakota Wheat Commission's use in contracting with the North Dakota Grain Growers Association and the U.S. Durum Growers Association regarding domestic policy issues is so critically important.

Questions have arisen in this Assembly as to what the NDGGA and USDGA intend to use these checkoff dollars for. Lets take a look.

As we speak, meetings are taking place with durum producers, spearheaded by the USDGA in conjunction with John Deere Corporation and the pasta industry, to provide a milling durum insurance supplement for crop insurance.

This morning, before this hearing, on behalf of the NDGGA and USDGA, I was in contact with the Governor's staff as well as Congressional staff, trying to correct inadequacies in the upcoming disaster aid implementation. Those inadequacies, if not addressed, with cost North Dakota farmers millions in lost quality loss payments.

This past week, members of the NDGGA and USDGA spent 3 days at the National Association of Wheat Growers annual meeting being heavily involved in shaping policy decisions for this nation's leading wheat advocacy organizations.

In the beginning of February, NDGGA combined with the Minnesota Association of Wheat Growers as well as researchers from North Dakota State University and the University of Minnesota to bring about 4 wheat production meetings that were attended by over 650 farmers. The goal was to bring the "Best of the Best" in wheat research directly to North Dakota farmers.

Three times in the last eight months NDGGA and the USDGA, in consort with the North Dakota Wheat Commission, the North Dakota Farmers Union, North Dakota Farm Bureau, have trekked to Washington D.C. to fight for \$250 million dollars in disaster relief for North Dakota farmers. As Deputy Secretary of Agriculture Moseley said, "you are doing the right thing, you are seeing the right people and you are at the table."

The job doesn't just stop there. During the week of March 14th, the budget committees in the Congress will be marking up a budget resolution that will have serious ramifications to North Dakota farmers. If realized, the cuts contemplated now in Congress could cut LDP payments by 32 percent to wheat farmers and will have an overall impact of a 40 percent reduction in LDP payments to all crops. Additionally, direct farm program payments are scheduled to be reduced by 5 percent. These immediate cuts, coupled with opening discussions on the upcoming farm bill, makes it critically important that as many agricultural groups as possible be at the table to represent the interests of North Dakota wheat, durum and barley producers. I can tell you from experience, more is better, especially in Washington, D.C.

The North Dakota Wheat Commission, North Dakota Grain Growers Association, and the U.S. Durum Growers Association have a long standing working relationship. Funding for our Associations through checkoff dollars has existed since the mid 1980's. This legislation cements into law a domestic policy funding level designated by the North Dakota legislature and affirmed by a 6-0 vote of the North Dakota Wheat Commission.

In conclusion, I would like to address three issues surrounding this legislation.

First, is this a mandate? Absolutely. This legislation cements a policy that was passed by the last legislature stating that 2 mills should be used for contracting to address domestic policy issues. The need to use 2 mills for domestic policy was confirmed by the North Dakota Wheat Commission by a 6-0 vote in January 2005.

Second, accountability to the North Dakota Legislature for the use of contract dollars by the grower associations. This is taken care of on page 4 of the bill. Accountability for the use of these funds is paramount in importance. The North Dakota Grain Growers Association and the U.S. Durum Growers Association welcomes the opportunity to come before the legislature, tell our story, and account for the way contract dollars are spent. I would point out that no other private organization receiving state funds has this requirement and our Associations asked for this to be put in the legislation. I would further point out, that according to the legislative council, this is the strongest language that can be used in law as the state cannot mandate a private organization come before the legislature.

Third, why should this money only include NDGGA and USDGA? Remember, these are wheat checkoff dollars. There are only 2 wheat specific farm organizations in this state, thus the directive in the legislation.

Finally, it has been rumored that if this funding is put in place, that membership recruitment by our Associations will come to a halt. **NOTHING CAN BE FURTHER FROM THE TRUTH!** Membership is the lifeblood and strength of the North Dakota Grain Growers Association and the U.S. Durum Growers Association and it will continue to be so.

Mr. Chairman, members of the House Agriculture Committee, HB 1518 is critical legislation that comes at a critical time in North Dakota agriculture. I request that the committee pass the clarifying amendment that our Associations support for the legislation and give a do pass recommendation to the amended bill.

North Dakota Farmers Union

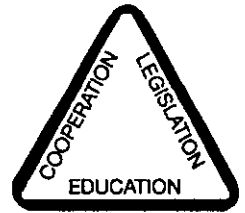
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HB 1518

Senate Agriculture Committee

Chairman Flakoll and Members of the Senate Agriculture committee,

My name is Richard Schlosser; I farm near Edgeley where I raise wheat, corn and soybeans. Today, I am appearing before you on behalf of the more than 35,000 members of North Dakota Farmers Union. I am here to testify in opposition to HB 1518.

Our members oppose this bill because it mandates the use of wheat tax dollars to fund two wheat grower associations. We also believe that the 5 mill increase should sunset once the legal fees for the Canadian Trade case are paid in full.

Farmers Union members are opposed to funding the lobbying and political activities of private trade associations with legislatively authorized check off dollars. As this bill is presently written, it imposes a mandate whereby the elected members of the Wheat Commission must transfer a specified minimum of check off funds to groups that represent some of the wheat growers in our state. NDFU members find the language very troubling in subsection 4 of section 1; "... shall expend an amount at least equal to that raised by two mills of the levy ...with no more than two trade associations that are incorporated in this state..."

Similar mandates are not found in other commodity check offs authorized in the North Dakota Century Code such as those for corn, soybeans, barley, oilseeds, dry peas and lentils, dairy, and beef. Our research found that in all other commodity check-offs, the governing council is responsible and accountable for the use of the tax dollars.

HB1518 is establishing an unusual precedent whereby state law requires wheat be taxed at the point of sale, and it further mandates that a portion of that tax be given to two private trade associations.

If eligible wheat growers are elected to the Wheat Commission in free and fair elections, is it not their right and duty to decide how these wheat tax funds are to be used? Members of the Wheat Commission are accountable for the funds that are collected from North Dakota wheat growers. This begs the question - will these private groups be subject to the same scrutiny and accountability standards as the Commission from whom these funds were transferred by state mandate?

We further believe this is a free speech issue. Our members have no problem with wheat tax dollars being used for commodity research, market development, trade promotion, and other uses to enhance grower profitability. North Dakota Farmers Union supported increases in the levy from a half-cent to 8 mills, and the increase to the current 10-mill levy. But when grower check off dollars (a tax authorized in this section of the code) are used for lobbying purposes, what policy positions do those grower dollars support? Are they the policies of wheat producers who paid those check offs represented?

Wheat producers have the right to voluntarily join private associations that advocate for specific policies. They also have the right to distance themselves from those same associations that take policy positions that are not in their best interests as wheat producers. If HB 1518 is passed as presented, this measure will provide hundreds of thousands of dollars of wheat tax funds to those very groups that many wheat farmers feel do not represent their views on various domestic farm policies.

Those in support of the mandated funds argue that if a producer is not satisfied with how their wheat tax dollars are being spent, they can apply for a refund. Yes, one can receive a refund, but a refund would penalize the entire Wheat Commission when it may be just the Grower Groups that the producer disagrees with.

The legislative priorities of certain agribusiness concerns are often in direct conflict with those positions that best serve the interests of producers, yet the mandated wheat tax funds could conceivably be co-mingled with funds from agribusiness contributions to these grower associations. If a member of these trade associations is lobbying an elected official, is that member representing North Dakota wheat farmers or agribusiness interests?

North Dakota Farmers Union like other farm organizations also represents North Dakota wheat producers. In fact, it was a broad based coalition effort that was successful in securing disaster assistance through legislation passed by Congress in 2004. This effort of some 50 or more producer organizations collectively got the job done.

Another concern North Dakota Farmers Union members have is that the unpaid legal fees of the Canadian trade case represent a cost overrun that no one anticipated when the trade case was initiated. It is true that when the increased wheat prices are factored in due to the tariffs imposed, North Dakota producers likely benefited by millions of dollars. Our members believe that it is reasonable for those legal costs to be paid in a timely manner, and are willing to tax themselves and other wheat producers until that debt is paid. However, our members still feel that the extra one half cent tax should end as soon as that debt is paid. In this case, we feel that it is not in the best interest of wheat producers to increase the wheat tax levy and allow it to continue indefinitely. If the Wheat Commission finds that there is sufficient need to raise or maintain the 15 mill tax, they should present their argument to producers, then with producer support, make their case before the North Dakota Legislature.

To close, North Dakota Farmers Union members oppose the mandate included in HB 1518 that requires the North Dakota Wheat Commission to dedicate funding to wheat grower groups. In that respect, this bill requires no accountability for wheat producer dollars. It is difficult to justify giving these groups a blank check; they may not always act in the best interest of North Dakota wheat producers. We hope our concerns can be addressed with a few simple amendments, such as changing "shall" to "may" and requiring a sunset clause on the proposed increase.

Thank you for the opportunity to appear before you today and I would attempt to answer any questions you may have for me at this time.

Dakota Resource Council

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Testimony on HB 1518

Senate Committee on Agriculture

February 25, 2005

Submitted by Dakota Resource Council

Dakota Resource Council would support this bill with one change. If the word "shall" in Section 2.4 is changed back to "may," at least with regard to c., DRC can support this bill.

DRC certainly agrees with the necessity of paying the legal fees generated by the trade case against the dumping of Canadian wheat into our markets. DRC worked hard in support of the original 1999 legislation that led to the filing of that trade case. It is true that we had strong differences with the Wheat Commission over strategic issues in the early going. We believed strongly that the Commission should have immediately filed an anti-dumping complaint rather than start by filing a Section 301 complaint. If the Commission had done so, we believe better results could have been accomplished, especially for durum producers, with far less expenditure. However, what is done is done. The anti-dumping case has been of significant benefit to wheat farmers in North Dakota. It has increased the price of wheat, which we believe is the foremost measure of the success of any checkoff program. Now it's time to pay the legal fees, and we should not fail to do so.

However, DRC cannot support the bill in its current form. It is reckless policy to mandate that a state agency transfer a set amount of funds to a private, independent organization with no opportunity to shut off the spigot, even if the organization should engage in illegal activity or advocate policies or programs that are directly at odds with the best interests of those who pay the bill—in this case, the wheat farmers of North Dakota.

The North Dakota Wheat Commission is a state agency. It was created by and is responsible to the people's representatives in the state legislature. Wheat farmers, who pay the tax that sustains the Wheat Commission's activities, have the opportunity to select, through their county representatives, the majority of the Wheat Commission's Board of Directors. In the event that wheat farmers find the Wheat Commission's activities objectionable, they have many rights to exercise in order to make their objections known, including voting in new county representatives, or running for those positions themselves. They can also take the step of requesting a refund of their wheat tax.

DRC does not object to the Wheat Commission having the discretion to direct some of its funds to the trade associations mentioned, but we believe it is bad public policy to require this expenditure of funds. Unlike the Wheat Commission, trade associations are private, membership-based entities. They are not directly accountable to the legislature, the general public or to the farmers who pay the wheat tax. The Wheat Commission should only direct funds to a private entity if the Commissioners are convinced that the funds will be used appropriately and in the public interest. Without the discretion to withhold funding from a private entity if necessary, the Commission becomes no more

than a pass-through mechanism, and the public forfeits its ability to ensure that its funds are appropriately spent.

The state legislature is playing with fire here. Across the country, agricultural producers have been rising up against their own checkoff programs. Their argument is that when those checkoff dollars are spent to send messages that producers do not believe are in their interests, then they are being deprived of their right to free speech under the Bill of Rights of the United States Constitution. In the case of the mushroom checkoff, the U.S. Supreme Court has ruled in favor of mushroom producers on the basis of that very argument. That same court now holds under consideration the fate of a much larger checkoff program—the one for beef. It is widely surmised that if the beef checkoff is ruled unconstitutional, pork and other non-refundable checkoff programs will also collapse.

We understand that many believe the North Dakota wheat checkoff is not vulnerable to the free speech challenge because it is a refundable checkoff. But no court has yet ruled on whether a mandatory but refundable checkoff is any more constitutional than a mandatory non-refundable checkoff. The question is whether the temporary loss of free speech is any different, from a constitutional point of view, from a permanent loss of free speech. If the beef checkoff goes down, we can expect lawyers all over the country to be shopping for checkoff challenge cases. Do we want to paint a huge target on our own wheat checkoff by forcing it to fund a group that has alienated so many North Dakota wheat producers?

Let's face it. The North Dakota Grain Growers Association has a tough job on its hands to regain its stature after the embezzlement scandal it faces last year. Not only that, the NDGGA has outraged a large number of producers who must pay the wheat tax—although they can obtain a refund—by serving as a lock-step mouthpiece for Monsanto. They keep trumpeting the need for GM wheat even at the cost of permanent contamination of our wheat crop, widespread loss of markets, and an annual revenue loss to farmers predicted by Dr. Robert Wisner of Iowa State University at \$177 million per year. Does the state legislature really want to saddle the Wheat Commission with the burden of having to explain to thousands of farmers who question the value of GM wheat why a portion of their checkoff must go to an organization working actively against their interests—and with a history of irresponsible management to boot?

The wheat checkoff served us well in the trade case. Don't jeopardize it by tying the albatross of the North Dakota Grain Growers Association around its neck.

Therefore, DRC urges the Committee to make the amendment to HB 1518 suggested above, in which case DRC would be in support of the bill.

Senate Agriculture Committee Hearing
February 25, 2005
HB 1518

Testimony of Deb Lundgren, Kulm, ND

Mr. Chairman, Members of the Committee:

My name is Deb Lundgren. I am a farmwife from Kulm, ND. I am here today in opposition to HB1518 as it currently stands. The bill before you is an interesting piece of legislation. It taxes North Dakota grain producers to pay for a lawsuit brought against Canada for illegal dumping activities that violate international trade agreements. The lawsuit was successful and has benefited every wheat producer in our state.

Those of you who know me, know that I believe in holding violating nations accountable for their actions. As a legislator, I introduced a similar piece of legislation to participate in a lawsuit against Canada for illegal dumping activities in the cattle market. So you must wonder why I stand opposed to HB 1518. There are two provisions in this bill that make it unacceptable:

1) The proposed tax increase to be assessed on every bushel of wheat to fund the lawsuit ***DOES NOT END AFTER THE LAWSUIT IS PAID FOR!!*** As a producer, I am not only willing but delighted to help fund the lawsuit which directly benefits me and my fellow producers. However, once the obligation is fulfilled, I strongly object to continued collection of an increased tax on our commodities. I would therefore request an amendment to HB 1518 that provides for a return to the pre-lawsuit level of taxation once the financial obligation for the lawsuit is met.

2) HB 1518 mandates that two mills of the tax, projected in the fiscal note to be over \$1 million, must be given to two trade associations within the state. Current law says that funds ***MAY*** be given to these associations, which allows the Wheat Commission the

OPTION of funding the trade associations as they see fit **UP TO** the amount specified.

HB 1518 changes **MAY** to **SHALL**. It would no longer be an option – it would be a **MANDATE**. This is dangerous language! Our tax dollars must be guarded, and those receiving them must be made accountable for their use. Mandating the dispersal of funds without established accountability is a **DANGEROUS PRECEDENT**. I am not against either of the groups that would receive funds under HB 1518, but they are private organizations and these are public dollars. The constitutionality of such practices – tax dollars collected to fund the Wheat Commission that are then mandated by law to be funneled to two trade associations without any standards of accountability – must be a matter of concern.

So today, I am asking you to do the right thing. Amend HB 1518 to address these concerns. Make organizations that want to represent our growers **ASK FOR** and **JUSTIFY** their eligibility to receive our tax dollars. Insist that those dollars be used in an open, transparent manner. Then, send a message to nations that would challenge our markets illegally, that we, both as producers and as a state, are not afraid to step to the plate and fund legal action against them. It's up to you. Do the right thing!

Thank you.

Good Morning Chairman Flakoll and Senate Ag Committee members.

My Name is Jim Slag from Wimbledon ND. My wife Doris and I run a 2000 acre farm 4 miles east of Wimbledon. I stand here today opposed to HB 1518 as presented. While I agree that I have benefited by the action of the ND Wheat Commission and their successful lawsuit, I don't believe that we should continue the increased mill levy after the lawsuit debt has been paid. This Bill would also mandate that 2 mills go to the ND Grain Growers and/or the ND Durum Growers. These groups often support legislation that I am opposed to but yet my tax dollars are to pay for their position. In fact these groups supported both the Freedom to Farm act and NAFTA. They also support GMO wheat, which if introduced could be one of the most detrimental things to affect wheat prices. I cannot and will not support this bill with 2 mills going to these groups. Should this bill pass, I will apply for a refund and encourage others to do the same. Not only will I apply for the 2 mills that would go to these groups, but the whole 15 mills. Please make this a better bill by amending it to include a sunset clause, and eliminate the mandatory two mills to the grower groups. If these amendments are not added I urge you to defeat this bill.

I hold before me a copy of the latest Dakota Gold publication and I will read a quote; "A hearing on the bill (1518) held Feb.4 drew about 100 farmers and representatives of various agricultural organizations with mostly positive testimony."

While oral testimony did include more testimony from those in favor, this quote is grossly misleading. Having attended that hearing I know that the large majority of that group (in my opinion 80%) opposed the bill. Having said this maybe everyone here today should get up and speak their position so that Dakota Gold can get it right this time.

Mr. Chairman and Members of the Senate Agriculture Committee:

Thank you for this opportunity to address House Bill 1518.

As a farmer raising wheat, barley, and oil crops in Pierce County, I would characterize myself as being generally supportive of the goals and activities of the North Dakota Wheat Commission, particularly those dealing with domestic and export market development, education programs, research, and quality improvement.

While I would like to keep tax increases to levels less than 50%, I do support this 5-mill increase in the wheat tax levy. However, I am not in agreement with other provisions of House Bill 1518.

I would support the 5-mill increase as long as it is used to retire the debt associated with the legal bills incurred from the Canadian trade dispute. Most of the farmers I visit with agree that this is a bill that should be prioritized, and paid quickly.

I am extremely concerned with the mandate in House Bill 1518 that a minimum of 2 mills be used to contract with two trade associations, and for domestic policy issues. I have two main reasons for opposing this language. First, I believe that use of the wheat tax should be limited to the purposes I mentioned earlier-market development, education, and research. I don't support the use of wheat tax funds for lobbying and political purposes. Secondly, in my opinion it is wrong to take public monies, such as the wheat tax, and give it to private organizations. Those of us producers who have made the decision not to join those private organizations should not have to fund their activities, especially since we don't have a voice in the development of their policies or in the decision as to how those monies will be spent. While I do not object to their right to engage in those activities, I do object to having to provide financial resources from my tax dollars to help them advance their agenda. Let the wheat producers of North Dakota decide who they want to support for lobbying and for promoting domestic policy issues.

In summary, I ask you to amend House Bill 1518 so that the legal bills can be paid, and when they are, the Wheat Commission will have the latitude to either seek a reduction in the levy or use the proceeds of the levy as the situation changes.

Mr. Chairman, Members of the Agriculture Committee, thank you for the opportunity to testify.

Jim Teigen
Rugby, North Dakota

HB 1518

Senate Agriculture Committee

Chairman Flakoll and Members of the Senate Agriculture committee,

My name is Myron Blumhagen; I am a farmer from Drake, ND. I am here to oppose HB 1518 for two reasons.

The first and most important reason is because I do not believe that state law should mandate that 2 mills of the total dollars received from the wheat tax go directly to two private lobbying groups. In this case, the North Dakota Grain Growers and North Dakota Durum growers.

The wheat commission is an elected body, which is perfectly capable of deciding where and how to best spend its money. They are also accountable to the legislature and the taxpayers.

I know that those in favor of this bill have presented the argument that the Wheat Check off is refundable—which is true. If someone doesn't like how the money is being managed the can apply to the **Wheat Commission** to get their refund, but two mills of the total dollars received from the wheat tax are still going to go to the Grain Growers and the Durum Growers.

What if I like what the Wheat Commission is doing, but don't agree with what the Grain Growers and the Durum Growers are doing? Can I get a refund for the two mills that are mandated to those two organizations? The answer is no.

We have no way to hold these two private organizations accountable for those tax dollars. They have the freedom to spend these tax dollars however they want to, and they are only accountable to their members. They don't have to worry about losing their contract with the Wheat Commission because two mills are mandated to them by law.

No other commodity in North Dakota has a mandate of funds to a designated organization. In a time when check offs are being challenged in the courts, do we want to jeopardize the future of the wheat check off by moving in this direction?

The second reason I am opposed to this bill is because of not having a "sunset clause" on the five mills. The purpose of the increase was to pay off the legal fees of the Canadian trade case. I believe that debt needs to be paid off, but this increase should "sunset" once the debt is retired.

I ask you to oppose HB 1518 unless 2 amendments are made. In Section 2, Number 4, line 24, change "shall" to "may" and also add a "sunset clause" to the extra 5 mills.

Passed out by R. Schlossa

TESTIMONY ON HB 1518

Members of the Senate Agriculture Committee. I am Bob Finken of Douglas, a lifelong ND resident and farmer. I have serious concerns about the proposed increase in the wheat checkoff tax. I am unable to attend the Feb. 25th hearing but would like my testimony to be read and submitted on my behalf. I have been involved in a wide variety of agricultural organizations including US Durum Grower, ND Farmers Union and ND Crop Improvement and Seed Association. It is through this longtime involvement and advocating for family farmers that I draw upon to offer my opinion and ask that you oppose HB 1518 unless amended to change "shall" to "may" and add a sunset clause because of the following concerns.

MANDATES: This bill mandates that 2 mills be taken from the wheat checkoff tax and be given to two private commodity groups for lobbying. This is terribly wrong. It is bad policy to use public tax money to fund private lobbying groups, without exception. The bill needs to be amended back to the present Century Code language of "may" instead of "shall".

ACCOUNTABILITY: Who is being held accountable to the wheat producers of North Dakota for these 2 mills? The NDWC (Wheat Commission) is charged with the responsibility of collecting and administering the wheat checkoff tax. This bill bypasses that and forces the NDWC to transfer an amount not less than 2 mills to two private commodity groups, regardless of their actions. Who has to answer for this money? Once the commodity groups have the money, they only have to answer to their relatively small membership base. To say that they will have to report back to the next Legislature is totally inadequate and too late. By then the money has already been spent (or maybe even misused as evident by the recent history of the executive director of these two commodity groups!).

REPRESENTATION: Who do these commodity groups represent? While they claim to represent the estimated 19,000 wheat producers of ND, their combined membership is reported to be only around 800. At the recent annual business meeting of

one of the commodity groups, I counted no more than 25 producers in the room. This means that as little as 13 people decide the policy and direction of an organization that will be receiving part of an estimated \$500,000 per biennium.

GRASSROOTS: The NDWC is the entity that has been developed to represent the entire cross section of the wheat producers of North Dakota through its commissioner election process. Each and every producer has the right, responsibility, and opportunity to elect the representative from their county. This county representative will then represent them in the process that elects the NDWC district commissioner as well as sets the policies and priorities of the NDWC. The average wheat producer in North Dakota is better represented and served by the NDWC than it is by the commodity groups. Leave the responsibility and decision making for the **entire** wheat tax checkoff with the NDWC.

REFUNDING: The only recourse a wheat producer will have if this bill goes through, without the appropriate amendments, is to request a refund of their entire wheat tax money, not just the 2 mills going to the private commodity groups. There is no way for a producer who objects to the public funding of these private commodity groups to request for a refund of only that part of the wheat tax. This will increase the rate of refund requests and hamper the efforts of the NDWC to concentrate on their core competencies of market development, promotion and research.

SUNSET CLAUSE: I support the wheat tax increase since its primary objective is to pay off the legal bills for the widely supported and mostly successful trade case against the flood of Canadian wheat and durum imports. Once these bills have been paid up, the increase in the wheat tax should end. It is wrong for this tax increase to be implemented permanently to correct a short term funding shortage. This goes against the common mindset of North Dakotans to hold down taxes. It would be more prudent for the NDWC and ND Legislature to discuss the merits of continuing the increase in the wheat tax only after the trade case legal bills are caught up. This 5 mill increase is a 50% increase at one time and an almost doubling of the tax rate since the past increase.

**Senate Agriculture Testimony – HB 1518
ND Grain Growers Assn President
Terry Wanzek**

Chairman Flakoll and members of the Senate Agriculture Committee, my name is Terry Wanzek, president of the North Dakota Grain Growers Association. We support HB 1518 and its favorable passage.

As growers, we recognize the value of past efforts of the ND Wheat commission and the ND Grower organizations. We feel that the amounts invested in the past have been returned to our growers many times over. ND wheat and durum growers have benefited through improved marketing opportunities, positive trade results and favorable federal domestic policy positions achieved with checkoff dollars.

While we appreciate these past accomplishments, we must not let our guard down. For our producers to continue to have positive results and representation in world markets, in domestic policy developments, and in research, it requires a great deal of continued support from the growers.

The ND Grain Growers believe it is imperative that we show a willingness to make major investment into our own business. Positive outcomes to policy

developments and trade developments do not happen by accident. It requires hard work, a lot of money and a presence at the table wherever that may be.

We need to be actively engaged in the many fronts in the state, the nation and the world. We need to have our people there and our voices heard when major decisions are being made that impact our wheat industry.

In summary, as the president of the ND Grain Growers I have a passionate interest in seeking a united wheat industry, working together, to create a vibrant economic environment that fosters favorable opportunities for our ND grain producers to prosper. To do that, it takes not only a committed effort of time, but also a commitment of funding. The ND Grain Growers are here today in a show of support to fund our own wheat industry by supporting HB 1518.

Personally, on our farm, we grow, on average, approximately 100,000 bushels, which would result in an annual check off dollar amount of \$ 1500.00 if HB 1518 becomes law. I feel there is no way I could get the same results or bang for my buck by going it alone.

The very future of the ND wheat industry depends heavily on the approval of this bill. We urge you to consider a yes vote on HB 1518. Thank you for your time and the opportunity to offer favorable testimony for HB 1518.

House Bill 1518

Testimony in support of HBI518 2-25-05 by Doug Lemieux Rolette, ND

Farmer, Board of Directors of RCFU

Thank you Chairman Flackel and Member of the Senate Ag Committee.

I am here in support of the languages in HB 1518 that dedicates 2 mills of the ND Wheat Tax to be used for Domestic Policy Issues, wheat productions, promotion ad sales.

The USDG and NDGG have represented ND well in Washington DC. Bringing the technical data forward that was essential in garnering the disaster Relief Packages that have helped many ND Producers weather the storms of 1999-2004.

The work of Crop Insurance Reform has been an ongoing task for the grower group. Good crop insurance policies producers and their financial partners in growing a strong North Dakota. In 2004 the USDG went to bat for Durum producers when Risk Management Agency, RMA, was attempting to mess with Yields on ND durum farms.

The dedications of the members of USDG by spending their personal money to accomplish things for the growers of ND. This is going above and beyond the Call of Duty.

The 2 mill dedication for Domestic Policy is a step in the right directions. When US domestic policy is on the table in DC the Canadians, Australians, Brazilians and the EU are working hard to suppress US domestic supports.

Some may ask where is the accountability. The answer is with the NDWC and the ND Legislature. But also with the members of the Growers Groups. If you want accountability of the Growers Group, membership is \$75 for USDG and \$ 95 for NDGG, the members will hold the groups responsible.

Thank you for your time and support on this critical issue.

Testimony of Jay Elkin
Before the Senate Agriculture Committee
February 25, 2005
Testimony on HB 1518

Chairman Flakoll, Committee members; I am Jay Elkin a wheat producer from Taylor, North Dakota, and I am here today in support of HB 1518.

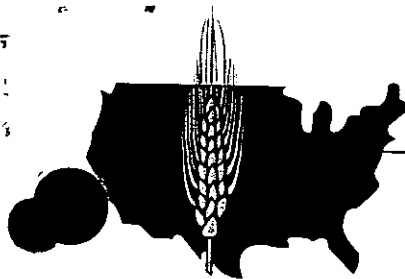
I derive the majority of my farm income from wheat and cattle. I produce winter, spring, and durum wheat. My farm operation is in southwest North Dakota where cropping options are limited.

In the past two years I've had the opportunity, through the North Dakota Wheat Commission, to host foreign wheat buyers and trade delegations at my farm. During these visits I have learned the importance our trade associations have in ensuring that markets are available for my wheat production. I've come to the realization that the North Dakota Wheat Commission and associated trade organizations are the link from my farm to the end-user, be it in the United States, Asia, and Europe or wherever demand appears. As an individual producer I do not have the time and expertise to develop and maintain end use markets. With the voluntary check-off, all wheat producers in the state of North Dakota can collectively pool together financial resources to ensure we have access to all markets for our products.

The state average yield for wheat for the 2004 crop year was 39 bushels per acre according to the North Dakota ag statistics. This translates into a 39 cent per acre investment cost to producers to ensure an end use market. That cost happens to be the cheapest investment I make in inputs on a per acre basis within my farming operation.

HB 1518 would increase the wheat check-off from the current rate of 1 cent per bushel to 1.5 cents per bushel. This is a small investment to make on my part to support the future of the state's wheat industry. Wheat is my most important crop and is also very important to my region.

As a farmer I feel my investment through check-off dollars used to support the North Dakota Wheat Commission is money well spent. I ask that you pass this bill. Thank you.



U.S. Durum Growers Association

PROMOTING THE PRODUCTION AND MARKETING OF DURUM AND SEMOLINA

4023 State Street • Bismarck, ND 58503 • (701) 222-2204 • (877) 463-8786 • www.durumgrowers.com

Testimony

In Support of

HB 1518

Dennis Wunderlich

President

U.S. Durum Growers Association

February 25, 2005

Good morning, Mr. Chairman, members of the Senate Agriculture Committee.

For the record, my name is Dennis Wunderlich, President of the U.S. Durum Growers Association. I am here to ask for your support of HB 1518.

The U.S. Durum Growers Association supports this bill for three main reasons. First and foremost, there is an outstanding account due to the trade case. Even though the durum portion of the case did not turn out as expected, the durum growers of North Dakota were winners economically, due to lack of imports during the case.

Secondly, the USDGA urged the North Dakota Wheat Commission to continue with the spring wheat issue. This process took large sums of money that were used for the trade case instead of items like research for scab resistance, developing new varieties and domestic policy.

Third, we have no guarantee that this issue will not continue or reappear in the future.

USDGA has been instrumental in securing a separate loan rate for durum. With data collected from local elevators, proved that bid prices were not reflective of what producers were receiving.

USDGA under the leadership of Mark Birdsall and Bruce Lewallen established quality loss tables that reflect discounting to farmers that was not covered by crop insurance. The same tables that were used in the 2000 and 2002 disaster programs.

USDGA has recently initiated a project to establish an IP type program for durum with the largest durum miller in the world for North Dakota durum. Currently this company has not sourced any of their durum from North Dakota.

USDGA has in place a milling durum attribute that will provide crop protection for producers against environmental conditions that are currently not covered by crop insurance. Mr. Chairman I would like to introduce to the record a statement from John Deere Company and their involvement in this project that needs funding to further advance in farming sector. This is an example of how the durum growers have joined together with the North Dakota Wheat Commission, the pasta industry and John Deere to form a public sector private sector partnership for the benefit of North Dakota durum farmers.

The USDGA would like to commend the North Dakota Wheat Commission for their efforts. In this modern day, when we all have to do more with less, they have done what they could with what they had, but need more. That said, the USDGA urges you to do pass on HB 1518 as amended.

Thank you for your time.

Testimony Statement on behalf of John Deere.

John Deere is committed to sustaining and enhancing a value-added grains industry in North Dakota. As an example, during the past two years, John Deere has invested a considerable sum of money into the development of a private crop insurance offering specifically aimed at indemnifying crop quality-related losses that durum wheat growers may encounter. During this exercise, we have worked very closely with the U.S. Durum Growers Association and other industry members in the State of North Dakota. Although John Deere has invested considerably into this exercise, it is also important that the U.S. Durum Growers Association, and others who will benefit from check-off funds, have the ability to make supporting contributions toward the implementation of this important program.

We at John Deere are committed to helping sustaining and enhancing the North Dakota grains industry. We are excited about continuing to work with the grain associations in implementing programs that benefit the growers of North Dakota. Therefore, we support and endorse passage of Bill 1518.

Shawn J. McComb
Manager,
Global AgServices Division
Deere and Company



Testimony of Paul Thomas
North Dakota Ag Coalition
Before the Senate Agriculture Committee
February 25th, 2005
Testimony on HB 1518

Chairman Flakoll, Members of the Senate Agriculture Committee, I am Paul Thomas, Administrator of the North Dakota Ag Coalition. Besides representing the ND Ag Coalition, I also own and operate Thomas Grain Farms in McHenry and Oliver County. We annually produce 1200 acres of spring wheat among other crops.

The North Dakota Ag Coalition is in support of HB 1518. The North Dakota Ag Coalition represents forty agriculture organizations across North Dakota. For the Coalition to take a position on a bill, seventy-five percent of our voting members must agree upon the position.

Producers throughout North Dakota have been well represented by commodity groups and grower organizations in the past. The North Dakota Wheat Commission is no exception. Many producers view the North Dakota Wheat Commission simply as an extension of their wheat farms management team. The marketing, promotion, education, research and domestic policy work directed by the elected Commissioners who manage producer checkoff funds pays significant dividends each year.

The Wheat Commission was asked and carried out a long, costly battle against the Canadian Wheat Board. The case against unfair trade practices has produced meaningful and measurable results for North Dakota wheat producers by dramatically reducing the

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A nonpartisan group of organizations involved in all aspects of agriculture. Organized in April 1982, the Coalition has been successful in providing a unified "voice" on behalf of North Dakota agricultural interests.

imports of Canadian wheat and durum in the past two years. The result of reduced imports has directly led to increased wheat prices and farm incomes for North Dakota wheat producers. House Bill 1518 increases the wheat checkoff paid by producers from a cent to a cent and a half, allowing Commissioners the necessary funds to retire the remaining portion of the trade case debt.

The success of the trade case has garnered much of the attention in recent years. Members of the Ag Coalition feel it is also important to remember all of the other programs conducted by the Wheat Commission that aid producers in achieving profitable wheat production as well.

The marketing programs conducted by the North Dakota Wheat Commission staff and US Wheat Associates is North Dakota's wheat promotion and marketing arm. Wheat is a commodity. Although some niche markets exist for producers, the bulk of our wheat must be exported in large volumes to foreign customers. Our wheat must be promoted and buyers educated on the qualities of wheat produced in our state. Without an adequate pool of funding for market promotion our competitors will increase their market share.

Education and research benefits are seen daily. The NDSU wheat-breeding program that is supported in part by checkoff funds produces new and improved wheat varieties almost yearly. These varieties aid producers in controlling disease, provide an increase in yield or improved agronomic characteristics. Educational seminars paid in part by checkoff funds keep producers up to date on technological advances and production techniques.

Finally, the efforts made by Commission members and their Grower Association partners to provide a voice for the North Dakota wheat producer in Washington, DC is

irreplaceable. Their work in the areas of farm bill discussions, disaster aid and crop insurance programs keeps many producers in the farming game.

The elected officials of the ND Wheat Commission are faced with a very difficult task of improving the sphere in which North Dakota farmers compete. Their decisions in the areas of product promotion, education, research and farm policy are all extremely important to future existence of wheat farms. The history of sound decisions made by Commission members and staff should elude too the quality of future programs to come.

The members of the North Dakota Ag Coalition ask you to allow North Dakota wheat producers to further invest in their future. The members of the North Dakota Ag Coalition ask for your favorable support of House Bill 1518. I will be happy to stand for any questions.

Mr. Chairman and the members of the Senate Ag committee,
My name is Robert Ferebee and I am a Crops and Cattle producer from Halliday, ND.
Thank you for the opportunity to come before you and express the views that my
neighbors and I have on HB 1518. We are in favor of letting the Wheat Commission get
a raise so that outstanding bills can be met because as a North Dakotan that is what we
do, pay our bills.

The entire bill is important for the wheat industry in North Dakota. We need not only to
have the major farm organizations to represent us on a wide spectrum of issues but all of
the smaller organizations to help in each of their specific areas. The general farm
organizations, of which I personally belong to two of, do a great job and although we
need to agree to disagree we don't need to put what each organization does down as we
are becoming the minority of the people in North Dakota and the rest of the Great USA.
As we strip language from this bill and its amendments we undermine each other and
weaken us slowly but surely to defeat in being the strong farm community that our
fathers have built for us.

I am also proud to be a board member of the North Dakota Dry Pea and Lentil Council
and have never heard from any major or minor farm group as to where we have spent pea
and lentil check off funds. As a member of the Association that was able to bring back so
many dollars to the state of North Dakota and specific commodities I would appreciate
your support on HB 1518 with its amendments.

Thank you,
Robert Ferebee
8447 2nd St. SW
Halliday, ND 58636

Testimony

In Favor of

HB 1518

Mark Gage
Past-President
National Association of Wheat Growers

Mr. Chairman, members of the Senate Agriculture Committee, for the record my name is Mark Gage, and I am Past-President of the National Association of Wheat Growers and I farm near Page, North Dakota. I come before you today in support of HB 1518 as it came to the committee from the House.

Domestic policy is of critical importance to North Dakota farmers. That said, North Dakota participation in the National Association of Wheat Growers and U.S. Wheat is vitally important.

All of us are aware of the importance of market development. Market development with funding sources such as the Market Access Program (MAP) and Foreign Market Development (FMD) funds, which have been instrumental in the opening up of foreign markets to U.S. farm products, come from the 2002 Farm Bill. Without a strong voice that advocates for North Dakota interests in domestic policy, North Dakota farm products would be at a disadvantage in the marketplace. That is just one of many reasons that strong domestic policy groups, such as the North Dakota Grain Growers and the U.S. Durum Growers, is so vitally important. These monies are used by groups such as the U.S. Wheat Associates and the North Dakota Wheat Commission for the promotion of our products. This is but one example of how the grower groups and the Commission work together for the betterment of North Dakota producers.

Another example of how the groups work together is in the area of trade policy. Recently at the annual meetings of NAWG and U.S. Wheat, the commissions groups voted to contract with NAWG do trade policy issues for U.S. Wheat.

In the area of biotechnology, both U.S. Wheat and NAWG have a joint committee working on the development of good biotech public policy.

As the committee is aware, all of this participation takes a stable source of funding in order to be effective. To sunset this funding, in the face of critical needs in

areas such as research, would be shortsighted and could shortchange long-term critical needs that must be met.

Thus the importance of HB 1518. HB 1518 allows for a stable source of funding for the grower groups, as well as the Commission, to engage in market related activities for the benefit of North Dakota wheat farmers. Without this stable source of funding, North Dakota's place at the table will be jeopardized, leaving the nation's leading wheat state without a voice.

As we tackle the critical issues both on the national and state level, having a say in how policy is formulated and enacted is of the highest importance. You can't have participation if you don't have the dollars available to participate, and if you don't participate you have no voice.

HB 1518 gives all of the wheat and durum farmers in North Dakota a chance to affect the policy decisions facing them today. I would urge the committee to give HB 1518 a Do Pass recommendation.

Testimony for HB 1518
Feb.25, 2005

Senate Ag Committee

Mr. Chairman and fellow Committee members:

I am Greg Daws of Michigan, ND.

I am past president of the NDGGA.

I am testifying in favor of HB 1518. I have been involved in wheat production since 1980 on our family farm, and am the fourth generation.

I have been fortunate enough to have gotten travel to various parts of the world through an ag exchange group, which I am still involved with.

It is my experiences from these travels that have me so convinced that we as producers need to fund the wheat commission to a higher level. The wheat commission in turn needs to fund domestic policy efforts to a greater level as well as research projects and trade efforts.

Through my association with NDGGA I have gotten to witness first hand how much impact the NDGGA has been able to have in domestic policy, which includes crop insurance issues. Lots of people are asking "Why help fund commodity groups with this bill" Because we have been very effective with wheat specific domestic policy issues and will continue to do our best. Increased funding will allow us to be even more effective.

South Dakota just raised the wheat check-off to 1.5 cents, which is a much smaller wheat producing state than North Dakota. Montana is at a higher level also. It is important for the number one spring wheat state to step up and take the lead.

Wheat wants to grow on my farm and I want to grow it. I am currently planting all privately developed wheat variety because public wheat research is lagging behind and is not being funded to the levels that it needs to be. It is time for the producers to step up and support their industry to the level that is needed.

IF not we are going to continue to lose ground to other crops, other countries and other industries.

I strongly urge a yes vote on HB1518 as written.

Greg Daws

Testimony HB 1518
Senate Ag Committee
February 25, 2005

Bill Ongstad
4135 25th St NE
Harvey, ND 58341
701-341-2937
bongstad@starband.net

I support HB 1518

Mr. Chairman and member of the Senate Ag Committee:

Today we have an opportunity to invest in North Dakota's future. I have been involved with the Durum Growers since 1980. We have been fighting the fight to protect North Dakota's Durum and Wheat industry. The NDWC took the leadership role in proceeding with the Trade Cases. While it cost some money the state made money on the outcomes.

When you look at the Sugar Industry and Cotton and Rice you see a very favorable farm program upholding those states economies. Those industries invest far more money than our wheat and durum industries.

Today the corn and soybean loan rates are closer to the cost of production than the wheat loan rate. Corn and soybeans spend more money on domestic policy than the wheat and durum industries.

It is obvious to me in today's climate that HB 1518 is a good idea and a good investment for North Dakota's future. With bipartisan leadership in the House supporting this bill confirms that HB 1518 is a good idea for North Dakota.

I urge the Senate to vote YES on HB1518.

North Dakota Farmers Union

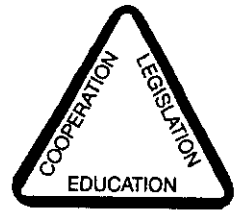
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HB1518

Senate Appropriations Committee

Chairman Holmberg and members of the Senate Appropriations Committee,

My name is Richard Schlosser, and I am appearing before you today on behalf of the members of North Dakota Farmers Union. Established in 1927, NDFU has a present day membership of over 35,000 members. Guided by the principles of cooperation, legislation and education, North Dakota Farmers Union members are committed to the prosperity of family farms, ranches and rural communities.

Let me begin by saying that North Dakota Farmers Union supports the proposed 5 mill increase as long as those funds are used to pay for the trade case against Canada, and that the tax increase end when the debt is paid. However, we are opposed to the provision in HB1518 contained in Section 1; subsection 4, which would **MANDATE** the North Dakota Wheat Commission to fund two private trade associations with at least two mills of the funds collected from the legislatively authorized wheat tax.

This new section also mandates that this money be used to pay all dues required as a condition of the trade association's membership in any national trade association. According to the fiscal note attached to this bill this new language entitles these two trade associations to \$1.124 million per biennium or about 13.3 % of the potential total gross revenues generated by the 15 mill check off. Given this windfall, will these two organizations continue to build and develop their membership?

We at North Dakota Farmers Union believe that a membership organization's greatest asset in terms of policy and resource development is its membership. Over a period of nearly eighty years, the members developed policies and resources that identify us as North Dakota Farmers Union. In addition to our state organization, Farmers Union members started cooperatives and a mutual insurance company that provided them with goods, services and organizational resources. If it were not for the vision and hard work of members in the past, we at NDFU would not have those resources today to serve our members.

The question we need to ask of HB1518 is: should private membership organizations come before the legislature to secure funding for their membership activities? Should those resources not come from a membership that can develop policies and resources to be used in their lobbying efforts?

If the mandate of two mills is approved, it is likely that other private organizations will expect similar legislation in future sessions. Similar mandates are not found in other commodity check offs authorized in the North Dakota Century Code such as those for corn, soybeans, barley, oilseeds, dry peas and lentils, dairy, and beef. Our research found that in other commodity check-offs, the governing council is responsible and accountable for the use of the tax dollars. HB1518 is establishing an unusual precedent whereby state law requires wheat be taxed at the point of sale, and it further mandates that a portion of that tax be given to two private trade associations.

If eligible wheat growers are elected to the Wheat Commission in free and fair elections, is it not their right and duty to decide how these wheat tax funds are to be used? Furthermore, should the legislature direct wheat tax dollars to be given to private membership organizations whose policy positions may differ significantly from the policy views of those non members who also pay the tax?

North Dakota Farmers Union policy on commodity promotion and check-offs states, " No funds should be donated or contracts provided to organizations for the use of political or lobbying activities." We feel that it is bad public policy to route legislatively authorized tax dollars to private associations that engage in lobbying activities.

Despite the refund provision in this section of the code, we believe that this may be a freedom of speech issue since this same section mandates the collection of the wheat tax at the point of sale. With this new provision a producer who does not agree with one of these trade association's policies, will be forced to choose whether to refund or not even though he may agree with the work that the Wheat Commission does in other areas. In my case, I have supported the work of the Wheat Commission in terms of research, promotion and market development, and have not refunded. But I am placed in a compromising position of making a difficult choice of whether or not to refund because I do not always agree with the farm policy positions of these two trade associations.

To summarize, we have gone on record supporting the 5 mill increase to pay for the legal costs incurred during the trade case with the Canadian Wheat Board, but they believe that the 5 mill increase should end when the trade case debt is settled. We oppose the mandate of expending at least two mills for lobbying activities of the two trade associations as described in this bill. We, therefore, urge you to amend HB1518 to remove the mandate contained in subsection 4.

Thank you for the opportunity to appear before you today and I would attempt to answer questions that you may have at this time.

Good Morning Senators:

I would like to thank this committee for allowing me to address you this morning.

I am opposed to increasing the wheat tax or mills. I am not alone in this position, many wheat growers feel the same way. There are many reasons for this opposition. I will speak to the reasons I am opposed to this increase.

First I am sure it has been brought to your attention as to whether it is constitutional that some of this tax be allocated to Wheat grower organizations either present or future. This I question as well. Hopefully organizations will not be founded to also be part of the receiving end of this tax.

Part of the purpose of the Wheat Commission is to deal with domestic policy. A lot has been said about wheat associations lobbying efforts for disaster aid. There have been efforts undertaken to lobby for Federal dollars for disaster aid. I personally have been a recipient of these federal dollars. Some years it has been more beneficial to not raise a crop than raise one because of discounts applied to grain not covered by crop insurance or disaster aid. I don't wish anybody misfortunes but there are crop failures every year in some part of this country. We as producers should be able to insure for such problems. Yet year after year we seem to be looking for our disaster relief. I would think that with the monies received by our wheat organizations as well as other farm organizations we could have addressed these problems. It doesn't appear that increasing these organizations revenue will bring about the needed changes for reform in marketplace, either in insurance or fair pricing of our commodities at the point of sale where this tax is collected.

Many of you committee members are farmers. Most all of you have ties to farmers. You could do yourselves and your friends a big favor by not passing this bill and putting together meaningful legislation that would address the real domestic issue of fair pricing in our markets and put in motion true crop insurance reform that will cover legitimate crop failures such as drought and other weather related failures. Grain grading issues are literally taking money out of the producer's pockets which are not covered by insurance and have not been legitimized in the marketplace either. We as taxpayers are already funding institutions which can do the research to validate these issues. Some of this information is already available to the public.

You people have it in your authority to accomplish this. You just have to get started. It doesn't require more funding to accomplish this. It will take a little different focus and yes more volunteered effort to accomplish this.

Many organizations do not favor this bill. Many of those organizations are for the most part made up of volunteers.

I recommend you **do not pass** HB 1518.

I would be happy to answer any questions. Thank you.

John Fjeldahl
Berthold, N. Dak.



Testimony

In Support of

HB 1518

Dan Wogsland

Executive Director

North Dakota Grain Growers Association

U.S. Durum Growers Association

March 15, 2005

Mr. Chairman, members of the Senate Appropriations Committee,

For the record, my name is Dan Wogsland, Executive Director of the North Dakota Grain Growers Association and the U.S. Durum Growers Association. I come before you this morning in support of HB 1518 as it comes to you from the Senate Agriculture Committee.

Mr. Chairman, members of the Committee, the principle focus of this legislation is to give the North Dakota Wheat Commission the ability to pay its legal obligations regarding the anti-dumping of wheat and durum from Canada into U.S. markets.

There is no question that the trade case was worthwhile to North Dakota farmers. U.S. farmers, primarily farmers in North Dakota, suffered severely from the dumping of Canadian wheat and durum into U.S. markets. Someone had to step to the plate and stem this unfair tide of competition in the marketplace, and that someone was the North Dakota Wheat Commission. The resulting gain to North Dakota farmers has been significant; at least a 20-cent per bushel increase in the price of wheat, \$50 million to North Dakota farmers alone, can be attributed to the success of the trade case, along with some of the highest basis levels in recent times.

Thanks to the leadership of the North Dakota Wheat Commission, the flood of Canadian grain into the U.S. was halted, resulting in U.S. farmers regaining their fair

share of the domestic wheat market. Whether you agree or disagree with the amount of the legal bills incurred, the fact is the bills are a result of a successful action by state entity entrusted by the people to represent the North Dakota wheat industry in the best manner possible, and now its time to pay the check.

I would also point out to you, Mr. Chairman, members of the Senate Agriculture Committee, that the job isn't just about trade, it is equally important that domestic policy issues be addressed. That is why the designation of two mills for the North Dakota Wheat Commission's use in contracting with the North Dakota Grain Growers Association and the U.S. Durum Growers Association regarding producer education and domestic policy issues is so critically important.

The issues revolving around domestic policy are endless, and are becoming increasingly important. Deputy Secretary of Agriculture Moseley said it best, "you've got to be at the table" if you are going to have any effect on agricultural policy in this country. It takes dollars to be at the table, it takes a stable budget to be at the table, and it takes commitment to be at the table. That is why the dollars contained in this bill are so important.

The question has been asked, what will these dollars be used for?

Mr. Chairman, committee members, NDGGA specializes in wheat and barley. USDGA specializes in durum. Together, we work to coordinate efforts with farm organizations, bringing needed voices to the table in domestic policy.

In the recent fight for disaster assistance, NDGGA and USDGA, in conjunction with North Dakota Farmers Union, North Dakota Farm Bureau, the North Dakota Wheat Commission, the U.S. Canola Association, among others, joined the Governor's office and the North Dakota Congressional delegation in fighting for \$250 million in disaster assistance for North Dakota farmers and ranchers. Twice our Associations coordinated efforts to meet with Congress and USDA on this important topic.

When USDA in Washington, D.C. threatened to implement disaster assistance in a different manner than what Congress envisioned, NDGGA and USDGA helped to spearhead the effort to get the rules changed, first by going to Washington to meet directly with rule makers in USDA, then working closely with the state FSA office to ensure that rules that the state FSA office could affect reflected prevailing market conditions.

The battle has only begun. As we speak, Congress is debating whether or not to cut between \$2.8 billion to \$5.6 billion from agricultural programs in the next 5 years. These are real cuts, which will cause real hurt in the heartland. It is essential that the wide variety of interests actively represent North Dakota farmers as these federal decisions are being made.

In April, the National Association of Wheat Growers is holding a seminar on the upcoming farm bill debate. Congress this year is scheduling hearings on the issue. Without a presence, spring wheat, durum and barley interests, three crops that North Dakota leads the nation in, could be compromised by southern and western interests whose agendas may conflict with what's good for North Dakota producers.

The work doesn't stop with domestic policy; it also includes education. That is why NDGGA teamed up with the Minnesota Association of Wheat Growers to bring experts in wheat production from NDSU and the U of M out to growers. The "Best of the Best" wheat workshops held in Minot, Jamestown, Moorhead and Grand Forks brought the experts to the producers, helping to improve the wheat management, and corresponding bottom line, of North Dakota farmers.

Crop insurance is a very important aspect of North Dakota agriculture, especially in the arena of specialty crops like durum. That is why the USDGA has taken a lead in piloting a milling durum insurance that will benefit growers and industry in durum production. This is a partnership between growers and industry aimed at better risk management in the durum industry.

Ag in the classroom is important, that is why NDGGA promotes and continues to push for upper level high school courses in international trade studies in North Dakota schools. No state in the Union is more dependent on international trade than North Dakota, and giving North Dakota high school students a background in the area of international trade is in the best interests of North Dakota agriculture.

These are some of the areas which NDGGA and USDGA work to make a positive effect for North Dakota agriculture.

Mr. Chairman, members of the Committee, I would like to answer specific questions regarding the bill.

First, is this a mandate? Absolutely! This cements into statute a policy passed by the 58th legislative assembly, and affirmed by a 6-0 vote of the North Dakota Wheat Commission, that domestic policy is a high priority for the North Dakota wheat and durum industries.

Second, is there accountability? NDGGA and USDGA welcome the opportunity to come before the legislature and present our accomplishments. I will point out that, according to legislative council, no other private organizations receiving state funds have this mandate, and we welcome it.

Third, why should this money go to NDGGA and USDGA? I will remind the committee that these are wheat checkoff dollars and no other organizations in North Dakota are wheat and durum specific.

Fourth, what will NDGGA and USDGA do with all the money? Funding between the NDWC and the grower Associations has existed since the mid 80s. The budget presented to the NDWC this year for NDGGA was \$322,000; for USDGA, the budget was \$140,000. Additionally, the NAWG dues, which the Associations will assume from the NDWC upon implementation of this bill, are \$119,000 this year and are slated to be between \$113,000 and \$128,000 for 2005. As you can see, the Associations will still need a membership base as well as other outside income sources in order to meet its current intended level of operations.

Finally, is this funding mechanism unique to North Dakota? There are varying degrees of funding between the wheat checkoff organizations and the grower organizations in all of the major wheat states. As an example, over 70 percent of the wheat checkoff dollars in Minnesota goes to the grower Association/

In the arena of domestic policy, North Dakota farmers need as many voices at the table as possible to protect the interests of North Dakota farmers. I look forward to continuing the fine working relationship that the NDGGA and USDGA have with the North Dakota Wheat Commission and I welcome the opportunity to work with all of the farm organizations in North Dakota in order to help North Dakota agriculture thrive and prosper.



Paying for Victories Today

to make sure North Dakota wheat growers remain

Strong Tomorrow

Trade case holds imports to low levels

Trade actions brought forth by the North Dakota Wheat Commission are holding imports of Canadian hard red spring wheat to pre-NAFTA levels. Disciplines on Canada's dumping and subsidization in the form of a 14 percent duty (about 50¢ per bushel) limited imports to 1.2 million bushels in marketing year 2003-04 (ended in May). Imports of spring wheat have been minimal so far in MY04-05.

Even durum imports were held down by the process of the case and an appeal that ended in August.

Price response a tangible benefit for producers

The scrutiny on the Canadian Wheat Board and formal import restrictions have helped to push prices upward. This overall improvement in prices is especially notable since:

- 1) both the 2003 and 2004 crop sizes were well above average with near record yields in much of the state, and
- 2) higher ocean and rail freight costs have combined to take an extra 35¢ to 50¢ per bushel out of the net prices to producers beyond the norm.

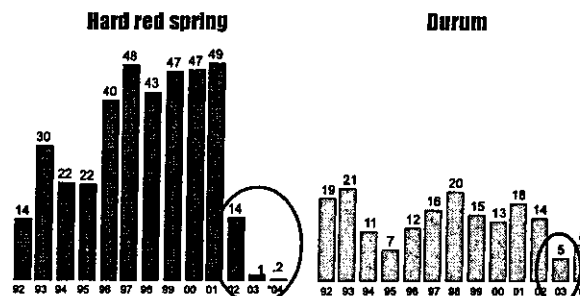
Durum producers see price increase from trade case

Although the U.S. International Trade Commission ultimately ruled against duties on imports of durum, the very filing of antidumping and countervailing duty cases and preliminary bonding requirements imposed in March and May 2003 effectively limited durum imports for a period of 12 to 18 months.

This process and the market uncertainty created for processors about future access to Canadian wheat prompted an overall uptick in prices. Duties on durum are no longer in place, but the returns to growers far exceeded the investment in legal fees.

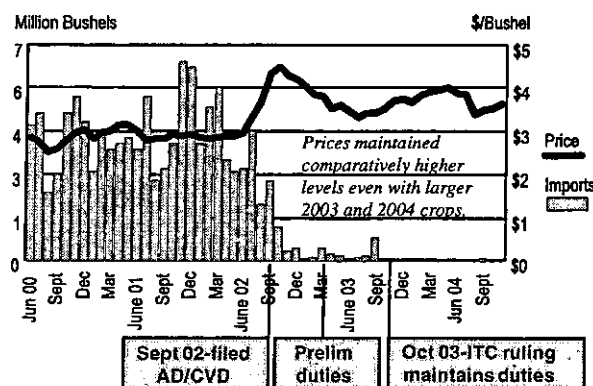
The North Dakota Wheat Commission is seeking to increase the wheat checkoff from the present 1¢ per bushel (10 mills) to 1.5¢ (15 mills) per bushel. If approved by the state legislature, the increase would primarily be used to retire debt accumulated in legal challenges against unfair Canadian wheat trade, but would also make additional dollars available to address important domestic farm policy issues.

IMPORTS OF CANADIAN WHEAT MILLION BUSHEL



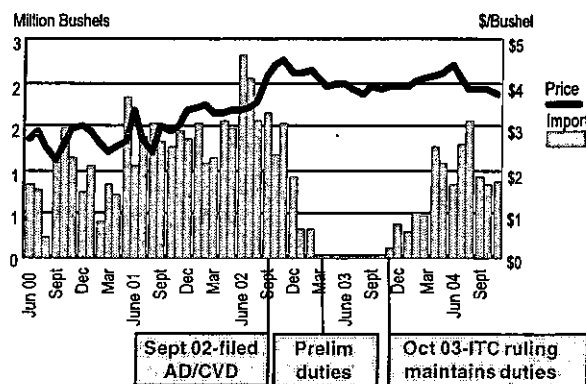
Source: U.S. Department of Commerce, Census Bureau
*MY04-05 includes months of June to Dec only

MONTHLY CANADIAN HARD RED SPRING IMPORTS AND PRICES RECEIVED BY U.S. HRS PRODUCERS



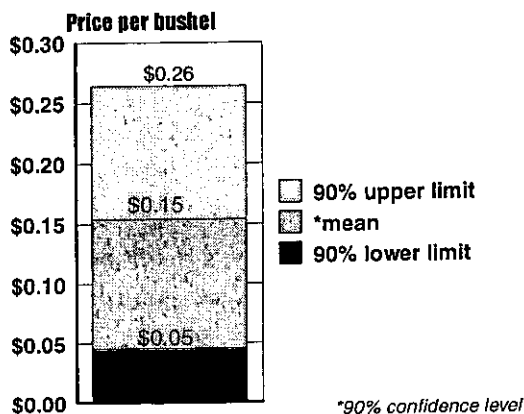
Sources: U.S. Census Bureau and National Agricultural Statistics Service

MONTHLY CANADIAN DURUM IMPORTS AND PRICES RECEIVED BY U.S. DURUM PRODUCERS



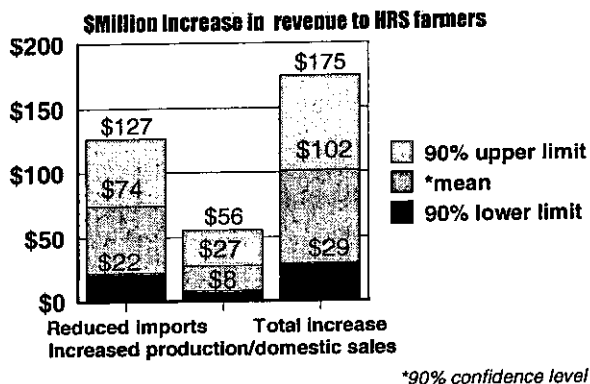
Sources: U.S. Census Bureau and National Agricultural Statistics Service

ESTIMATED PRICE INCREASE FROM REDUCED IMPORTS OF CANADIAN HARD RED SPRING WHEAT



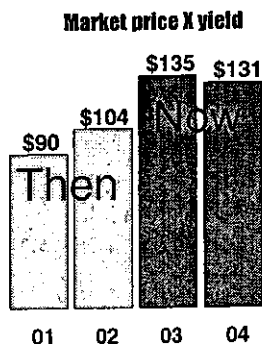
Source: Effects of Duties on Canadian Hard Red Spring Wheat (Mattson, Koo, Back), NDSU Department of Agribusiness and Applied Economics, February 2005

ESTIMATED ANNUAL REVENUE INCREASE FROM REDUCED IMPORTS OF CANADIAN HRS



Source: Effects of Duties on Canadian Hard Red Spring Wheat (Mattson, Koo, Back), NDSU Department of Agribusiness and Applied Economics, February 2005

NORTH DAKOTA WHEAT PRODUCTION GROSS RETURN PER HARVESTED ACRE



Source: North Dakota Agricultural Statistics Service
Farm Reporter, Feb. 18, 2005

New study pegs price impact at 15¢ per bushel

North Dakota State University issued a February 2005 study estimating that the substantial decline in imports of Canadian red spring wheat increased the spring wheat price received by farmers by 15¢ per bushel, with lower and upper ranges of 5¢ to 26¢ per bushel.

This new study only looked at the impact from October 2003 forward. The study's authors did not examine the market impact of the case filing in September 2002, nor the benefit of preliminary duties in place from March 2003 to October 2003, nor any of the positive impact for durum producers.

A similar study conducted by NDSU in 2003 estimated a price increase ranging from 8¢ per bushel to 45¢ per bushel from a lesser import restriction.

Annual revenue increase estimated at \$102 million

NDSU ag economists estimate the price increase from reduced imports generates a \$74 million annual income increase (based on average yearly U.S. hard red spring wheat production of 481 million bushels). The price increase also leads to increased production and increased domestic sales of U.S. hard red spring wheat to replace imports, resulting in an additional \$27 million per year. The total estimated revenue increase is \$101.5 million per year.

North Dakota grows half the U.S. spring wheat crop, so it is safe to estimate \$50 million annually is going to this state's farmers. North Dakota can retain these benefits through 2008 if successful in fending off Canada's appeals under NAFTA of the duties imposed.

Much is at stake, the time is now

There are many differences in the wheat situation now and the checkoff increase proposed in 2005 compared to a bill considered in 2003. First, going into the 2003 legislative session, farmers had harvested a drought-reduced crop of 216 million bushels, the smallest since 1988. Second, the 2003 legislation as proposed required 4 mills of a 5-mill increase be transferred to grower associations for domestic farm policy. Given these factors, there was likelihood of increased refunds, which may have left even less net revenue for trade issues, research or marketing. In 2005, the proposed legislation (HB1518) requires only 2 mills for farm policy and there is greater consensus on issues to be addressed.

REPORT TO THE 2005 NORTH DAKOTA LEGISLATIVE ASSEMBLY SENATE AND HOUSE AGRICULTURE COMMITTEES

BACKGROUND

ECONOMIC IMPORTANCE OF WHEAT INDUSTRY

- **Wheat remains king in North Dakota.** With an annual economic impact of \$3.56 billion, it is one of the most important economic activities in the state, agricultural or otherwise, according to a new study by North Dakota State University agricultural economists.

Average impact was assessed from 2001 to 2003 when plantings ranged from 8.6 million to 9.5 million acres and production ranged from 216 million to 317 million bushels.

- **Main street benefits.** Direct annual impacts from all wheat activities in North Dakota are estimated at \$1.35 billion. These direct impacts generated an additional \$2.21 billion in secondary impacts including 35,000 full-time jobs.
- **Every acre counts.** Each acre of wheat planted generates about \$393 in total economic activity annually plus about \$13.88 in state tax revenue. The wheat industry is responsible for an annual average of \$1.2 billion in retail trade activity and \$1.1 billion in economy-wide personal income.
- **Leading all commodities.** North Dakota Agricultural Statistics Service data indicates that wheat leads the state in cash receipts from farm marketings, accounting for an average 20 percent during the study period.
- **Production is widespread.** Wheat production impacts every person and every community in North Dakota because wheat is produced in all areas of the state. Only 6 of 53 counties fell below the 1 million bushel mark for production in any of the last three years. Production is most concentrated in the Red River Valley and northern third of the state.

CREATION OF CHECKOFF

Average annual wheat production in North Dakota was only 113 million bushels (38 percent of the current average) and average yields were only 15 bushels per acre (half the current average) in 1959 when farmers in North Dakota decided they needed a self-help program to fuel their durum and hard red spring wheat industry. A motivating factor was the passage in 1954 of Public Law 480, which authorized federal money for overseas market development if matched in part with producer dollars. Legislative action established the North Dakota Wheat Commission for this primary purpose.

Wheat producers finance the effort entirely themselves with a per bushel checkoff assessed at time of sale. The checkoff initially was set at 2/10 of a cent for each bushel of wheat sold. The checkoff was increased in 1979 to 3/10 of a cent, in 1983 to 5/10 of a cent, and in 1997 to 8/10 of a cent per bushel after considerable consultation with producers. In 1999, the checkoff was again increased to the current level of 1 cent per bushel, giving the commission greater authority and resources to address trade issues throughout the world. In 2003, the legislature granted the NDWC additional authority address domestic policy issues with existing funding.

ORGANIZATION

Wheat producers direct the North Dakota Wheat Commission through a grassroots approach. Producers meet at the county level to elect representatives, who in turn elect six district commissioners. The governor appoints a seventh commissioner from a list of nominees submitted by major farm and grower organizations. These seven producers make up the board of commissioners. They develop policy and programs, oversee their implementation and approve budget expenditures. Commissioners can serve no more than three four-year terms. Six full-time, permanent employees administer wheat checkoff programs and activities.

PURPOSE

The NDWC's mission as outlined in its enabling legislation is to stabilize and improve the agricultural economy of the state by promoting, aiding and developing the orderly marketing and processing of North Dakota wheat. In summary, specific objectives include:

1. To foster and promote programs aimed at increasing the sale, utilization, and development of wheat, both at home and abroad,
2. To publish and disseminate reliable information on the value of wheat and wheat products for any purpose for which they are valuable and useful to both the processor and consumer,
3. To carry on programs of research, education and publicity,
4. To promote North Dakota opportunities as afforded by development of the St. Lawrence Seaway, and
5. To seek improvement in the export quality of wheat.

Much has improved and changed since this legislation was drafted in 1959, but the need to continue expanding worldwide use of hard red spring, durum and any other wheat produced in the state remains just as important. To achieve its many objectives, the NDWC carries out programs in five main areas:

- export marketing,
- domestic promotion and education,
- research and customer service,
- policy and issues, and
- public information.

To leverage funds contributed by North Dakota wheat producers, the NDWC frequently partners with other state wheat organizations in regional and national efforts to expand markets for U.S. wheat.

PROGRAM OVERVIEWS AND HIGHLIGHTS

EXPORT MARKET DEVELOPMENT

The biggest and best ripples in the market have historically been motivated by strong export sales. About 30 percent of the NDWC budget is devoted to export marketing conducted in cooperation with U.S. Wheat Associates. USW is a partnership between 20 state wheat commissions. USW secures a match of about \$2.75 from USDA market programs for each producer dollar invested.

In marketing year 2003-04 (which ended May 31), U.S. market share gained as export sales reached 1.16 billion bushels, the highest level since 1995 and up sharply from 849 million bushels in 2002. Hard red spring wheat exports were the highest since 1996 at 272 million bushels. Good demand came from all major regions with the best gains in Europe.

Robust demand for durum, up 38 percent from the previous season, came from all three major export regions—Europe, North Africa and Latin America—despite a record world crop. Sales to North Africa and Venezuela, in particular, were larger than expected, pushing total exports for the year to 44 million bushels, up from 32 million in 2002.

Halfway through the 2004-05 marketing year, spring wheat exports are up 25 percent, continuing the growth pattern of the past two seasons. Buyer willingness to pay for high protein points to a bright future for wheat produced in North Dakota and the surrounding region. Durum exports are expected to decline in 2004-05 due to a record world durum crop and back-to-back good harvests in North Africa, a key traditional demand center.

Here's a sampling of some of the marketing efforts supporting the numbers.

IN ASIA

- **China emerges as prominent spring wheat customer.** China imported 18 million bushels of U.S. hard red spring wheat in marketing year 2003-04, up from 2 million the previous year and enough to advance the country to the fourth ranking export destination for this premium class of wheat. Exports to China have already far surpassed that impressive level in 2004-05 at 33 million bushels to date.

Persistence by U.S. Wheat Associates and U.S. government officials on trade issues over the last decade helped open the door to the China market. Quality samples for private buyers, technical milling assistance, promotional seminars, and trade team visits subsequently convinced government and private buyers that HRS brings value in end-use quality and performance.

Faced with urbanization and other pressures on wheat acreage, China will likely continue to require imports in the future to feed its 1.3 billion people, says Matt Weimar, USW regional vice president. Weimar also predicts that China's preference for quality wheat imports is here to stay.

- **Japanese durum team sees strengths in U.S. durum.** A visit to North Dakota in 2004 coordinated by USW and the NDWC exposed this technical team to new varieties of U.S. durum. This visit will be helpful in swaying Japan's durum business, about 7 million bushels annually, away from Canada.
- **Philippine mill changes to U.S. origin after "Contracting for Quality" workshop.** Managers from a flour mill in the Philippines saw the advantages of using U.S. hard red spring wheat in making Asian style products during baking comparisons at a USW-sponsored course at the Wheat Marketing Center in Portland, Ore. Grain procurement managers and quality specialists from mills in Malaysia, Thailand and Vietnam were also in attendance and may possibly increase their purchases as well.

IN EUROPE

- **Italy and Spain purchase record amount of hard red spring wheat.** Exports to Italy reached 25 million bushels in 2003-04, compared to 16 and 17 million bushels in years previous, and exports to Spain totaled 15 million bushels, almost double the prior high. The sales to Italy were enough to rank it second behind Japan as an export destination for spring wheat. The sales were achieved in part because USW took advantage of some favorable market factors (including a European drought in the 2003 growing season and more favorable European exchange rates) by ratcheting up its service calls in these key countries.

IN LATIN AMERICA

- **Spring wheat sales to Mexico double, ranking it 9th among export markets.** Mexico imported 6 million bushels of U.S. hard red spring wheat in the 2002-03 marketing year and 7 million bushels in 2003-04, double sales there in any previous season. The increase is fueled by joint USW-NDWC efforts to facilitate direct rail shipments from elevators in the region to large mills in Mexico.
- **Cuba buys durum for first time in 40-plus years.** Cuba has purchased 380,000 bushels of U.S. durum so far in 2004-05, bringing producers a step closer to a nearby and prospective durum market twice that size. The durum sale follows the first commercial sale of spring wheat (202,000 bushels) in May 2003 which has been followed up with additional sales of 584,000 bushels in 2003-04 and 191,000 bushels so far in 2004-05. USW and the NDWC worked to improve trade relations with Cuba in recent years and provided assistance on optimum contract specifications. NDWC Administrator Neal Fisher went there twice in 2002 to re-instill demand and Berthold farmer Alan Lee, who served as USW Chairman at the time, was there in 2003 to again ask for their business. USW has been promoting combined cargoes of U.S. hard red spring, durum and soft red winter wheat.
- **Restoring Venezuelan durum business.** Venezuela purchased 6 million bushels of U.S. durum in 2003-04, up from levels ranging from 260,000 bushels to 1.3 million bushels in recent years. Sales of spring wheat were also up to 14 million bushels, compared to a range of 5 million to 11 million bushels over the last five years. USW and NDWC marketing experts made personal plant visits to make sure processors were aware of new, high quality varieties of spring wheat and durum as well as steps that have been taken to prevent quality losses due to crop disease.

IN THE MID-EAST AND AFRICA

- **South Africa back in U.S. durum market after two-year absence.** After helping to address concerns related to karnal bunt, USW was successful in getting 500,000 bushels of U.S. durum into South Africa in 2003-04. About 350,000 bushels have also been exported there in marketing year 2004-05. Quality conscious flour millers in the country have also been importing increased amounts of U.S. hard red spring wheat, up to 4.7 million bushels so far in 2004-05, compared to levels of 1 million to 3 million bushels in the previous five years.

POLICY AND ISSUES

Cooperation is essential to educating elected officials about how trade policies and issues affect a wheat producer's ability to compete for domestic and export market share. It takes a united front. The North Dakota Wheat Commission works with U.S. Wheat Associates, the National Association of Wheat Growers, the Wheat Export Trade Education Committee, and state grower and farm organizations to help lawmakers craft solutions to problems and to explain potential impacts of future decisions.

Here is a snapshot of activities, progress and results attained:

U.S.-CANADA TRADE DISPUTE

- **Trade case delivers 20¢ per bushel.** That's a conservative estimate of return to North Dakota farmers from a 14 percent import duty on Canadian hard red spring wheat. The duty, which forces U.S. buyers to pay about 50 cents per bushel more to access Canadian wheat, has held imports to a minimum in 2003 and 2004. The result is improved market and pricing opportunities for U.S. farmers. The duty is credited with generating an additional \$50 million from North Dakota's spring wheat crop in each year imports are held down. It was imposed as a result of countervailing duty and antidumping challenges brought forth by the North Dakota Wheat Commission.

The estimate of benefit from the trade challenge is based in part on a study that indicates prices for U.S. hard red spring wheat would have increased by 24¢ to 30¢ per bushel and incomes would have improved by \$84 million to \$105 million annually between 1997 and 2002 had a tariff-rate quota been in place that could have limited annual imports from Canada to 18.4 million bushels of non-durum (spring) wheat. The analysis was published in January 2003 by North Dakota State University agricultural economists Dr. Won Koo and Jeremy Mattson in a Center for Agricultural Policy and Trade Studies newsletter.

In reality, spring wheat imports from Canada have been held to far lower levels (14.3, 1.2 and only 0.2 million bushels respectively) in each of the last three marketing years. Jim Bobb, merchandiser with Southwest Grain, Gladstone, N.D., said at the November 2004 Crop Outlook and Issues Forum that "... the trade case brought our producers at least 50 cents a bushel because it gave us access to markets all over the country where they (buyers) couldn't go into Canada and get the same."

- **Aggressive legal defense required to retain duty for four more years.** Provided the two-part duty withstands Canada's appeals under the North American Free Trade Agreement and an annual review process, producers will accrue similar benefits for another four years. The North Dakota Wheat Commission continues to retain legal counsel to aggressively defend the Department of Commerce and International Trade Commission rulings that led to the duty. One bi-national NAFTA dispute panel is now examining the countervailing duty imposed to offset subsidization while another panel studies the connection between Canadian imports and injury to U.S. hard red spring wheat growers. Both are important components to keeping the current duty. The panels will each issue decisions in 2005.
- **Durum prices respond to legal scrutiny of Canadian trade practices and temporary duties.** From the time preliminary DOC and ITC rulings imposed temporary bonding on Canadian durum in March 2003 through the appeal process initiated by the NDWC and denied by the U.S. Court of International Trade in August 2004, imports remained the lowest they'd been since a Section 22 trade investigation in the mid-1990s. Producers experienced a positive price response. The NDWC is now closely monitoring sales of Canadian durum to the U.S. market. If the Canadian Wheat Board again abuses its access to the U.S. market and import levels climb dramatically at unfairly low prices, and if the financial backing is available, the NDWC would consider another anti-dumping or countervailing duty case, or even an anti-trust suit.

- **Canada's barriers begin to crumble.** Meanwhile, trade investigations launched by the NDWC prompted the U.S. government to file a World Trade Organization complaint. The WTO ruled in 2004 that Canada is in violation of the agreement with its regulatory hurdles that prevent the import of U.S. grain and higher rail transportation rates for imported grain. The NDWC's attorney is monitoring the situation to assure Canada complies.
- **Gains made on permanent solution to unfair Canadian wheat trade via WTO negotiations.** Further efforts by the NDWC, in concert with national organizations, have resulted in a framework document for WTO negotiations that calls for:
 - elimination of subsidies to and by state trading enterprises,
 - an end to government financing and loss underwriting of STEs, and
 - it puts monopoly powers on the table.

OTHER TRADE ISSUES

- **Moroccan agreement improves access for U.S. durum.** U.S. farmers now have an advantage in competing for durum business in Morocco, typically Canada's second largest export market. An expanded import quota and reduced tariffs are among gains made by the U.S. government in committing to a Free Trade Agreement with Morocco in 2004. National wheat organizations supported the agreement ratified by Congress in July.
- **Australian FTA a missed opportunity to reform government monopoly.** Wheat groups opposed the Free Trade Agreement with Australia after negotiators failed to require disciplines of the Australian Wheat Board monopoly. Australia did, however, commit to negotiations on state trading enterprises in WTO talks. Congress approved the agreement in July.

DOMESTIC POLICY

The 2003 Legislative Assembly broadened objectives to be addressed with the wheat checkoff to include domestic policy issues. The NDWC established an advisory committee to develop consensus about issues upon which to focus. The committee consists of representatives of major constituencies and stakeholders including the North Dakota Farm Bureau, North Dakota Farmers Union, North Dakota Grain Growers, U.S. Durum Growers and North Dakota Grain Dealers. Issues identified for the NDWC to address are:

- crop insurance,
- chemical harmonization,
- rail rates and service, and
- adequacy of funding for wheat research.

Key initiatives for which the NDWC provided financial and/or moral support are:

- **securing an expected \$200 million in aid** for producers of wheat, corn, soybeans, oilseeds and other crops who suffered weather-related losses in 2004,
- **achieving Environmental Protection Agency registration** of pesticides,
- **gaining restoration of \$2.5 million in federal funding for crop research** at USDA's Agricultural Research Service center on the campus of NDSU, Fargo, and
- **assisting with an investigation of grain rail shipping rates** that has led to a recommendation of a state challenge before federal regulators that could result in rate reductions.

The NDWC has contracted with and provided grants to the National Association of Wheat Growers, the North Dakota Grain Growers and U.S. Durum Growers Associations for assistance on these and related issues. Contracts and special project grants totaled \$184,000 in fiscal year 2003-04 and \$158,950 is budgeted in fiscal year 2004-05. For complete reports of all services performed, please see the three separate grower association reports provided with this submission. Examples of services provided and results achieved by each organization are provided below.

National Association of Wheat Growers

Like other national wheat organizations, state affiliate dues to NAWG are based on five-year production history. The North Dakota Grain Growers Association assessment for 2003-04 and 2004-05 was \$109,000 each year. NDGGA committed an additional \$10,000 in 2004-05 to help offset other states' shortfalls in meeting the overall budget. The NDWC approved \$50,000 toward this commitment in its budget established in July 2004 and in January 2005 voted to cover the remaining \$69,000, bringing the total commitment for fiscal year 2004-05 to \$119,000. In turn, NAWG provides the NDWC with national representation on issues pertaining to trade, research, crop protection and the environment, plus producer communications and public education services.

- **Disaster assistance secured for 2003 and 2004 crops.** Working with a larger agriculture coalition, NAWG was instrumental in getting disaster provisions attached to a hurricane relief bill. While NAWG opposed offsets in farm program spending, Congress decided to reduce the budget for the Conservation Security Program. Crop producers will be eligible for assistance if crop losses due to natural disaster were in excess of 35 percent in either 2003 or 2004.
- **"Home Grown" program educates reporters about need for solid agricultural policy.** NAWG has met with reporters of prominent newspapers and magazines to explain benefits and realities of the 2002 Farm Bill. A strong base of support will be essential to successfully defending the 2002 bill from budget reconciliation.
- **Fixing crop insurance.** NAWG supported NDGGA, USDGA and N.D. Farm Bureau among others in an effort to secure changes in Risk Management Agency crop insurance rules regarding durum and spring wheat yields. New rules caused durum growers to lose crop insurance coverage in 2004, which was a factor in the reduction in planted durum acres. At the same time, NAWG is seeking enhancements to crop insurance including:
 - higher available coverage levels,
 - prevention of losses in Actual Production History (APH) from successive droughts or disasters,
 - use of risk management accounts to cover large uninsured deductibles, and
 - not requiring producers to harvest a crop where harvest costs exceed the crop value to qualify for insurance indemnities.
- **Pesticide harmonization.** NAWG continues to seek a joint registration system between the United States and Canada system for pesticides.
- **Involvement in Alliance for Rail Competition builds support for Congressional action in 2005.** HR2924 is a bill that would restore balance needed to allow competition.

North Dakota Grain Growers Association

- **Explaining need for disaster aid in Washington, D.C.** NDGGA representatives along with State Senator Jerry Klein and State Representative Phil Mueller met with lawmakers and their aides in September 2004 to explain the need for help with quantity and quality losses. The NDWC provided information in support of the effort and covered the delegation's travel expenses.
- **E-tour educates Environmental Protection Agency officials.** Annual tours have addressed topics such as seed treatments, minimization of spray drift, and advantages of experimental fungicides as compared to products currently registered for application on wheat.
- **Addressing crop insurance inadequacies through representation in Washington, D.C.** In March 2004, NDGGA members urged members of Congress to make improvements.
- **Addressed problems with prevent plant rules.** The NDGGA worked with USDA's Risk Management Agency to expand rules pertaining to prevent plant coverage.
- **Educating producers about best production and marketing practices.** The NDWC provided financial support for information opportunities coordinated by NDGGA including its annual Small Grains Conference, a marketing seminar and booth at the Big Iron farm show, and a series of marketing seminars in three locations in the spring of 2004. Checkoff dollars have also provided support for the NDGGA's *Gleanings* newsletter, *ndmarketmanager.org* website, and distribution of *Prairie Grains* magazine to more than 11,000 producers in North Dakota. The NDGGA and USDGA also recently received a joint special project grant from the NDWC to hold a series of four "Best of the Best" Wheat Production meetings in North Dakota during February 2005. The meetings will showcase research from North Dakota State University and Minnesota State University.
- **Conveying N.D. concerns in national discussions.** Checkoff dollars help offset costs of NDGGA representatives' participation in NAWG/USW meetings where priorities are determined and policies set.

U.S. Durum Growers Association

- **Washington, D.C. briefings on impacts of wet/dry conditions lay groundwork for disaster aid.** A delegation from North Dakota met with White House and USDA advisers and key House and Senate staffers in July 2004. Three USDGA board members as well as crop insurance specialists and agricultural bankers accompanied Gov. John Hoeven in the briefing sessions to explain the need for disaster assistance due to extremes in weather patterns. The NDWC covered the USDGA representatives' travel expenses.
- **Developing durum milling insurance policy.** The intent is to help provide a more reliable supply of high quality durum by providing producers with some assured return on investment in crop inputs such as fungicide that are important in producing quality grain, especially in areas prone to crop disease. USDGA selected five producers from some of the seven pilot counties (Hardy MT, McLean, Renville, Towner, Divide, Burke and Benson) to run trials in 2004 to determine if the insurance is feasible for the underwriter (John Deere, Inc.) and the producer. Contracts for delivery are initially with Dakota Growers Pasta Company.
- **Changes needed in crop insurance to secure durum acres.** New rules imposed by USDA's Risk Management Agency inadvertently caused durum growers to lose crop insurance coverage in 2004, which was a factor in reduced durum acres. Remedies sought included reinstating the use of simple average yields for farmers who have grown both spring and durum wheat and establishing an advisory board in each region to look at the effect of any proposed changes to crop insurance history.

- **USDGA learns about customer's end-use needs through visit to Barilla plant.** USDGA received special project funding from the NDWC to send a delegation of board members, staff and a local elevator manager to Barilla's pasta plant in Iowa. Information they gleaned reinforces the importance of meeting customer needs through the NDWC's ongoing efforts to develop and promote the production of durum varieties with strong gluten properties.

RESEARCH AND CUSTOMER SERVICE

RESEARCH

North Dakota farmers achieved strong returns from 2003 and 2004 wheat crops, thanks in part to research programs that have improved productivity and quality while at the same time preventing losses from diseases and insects. Because economic benefits of wheat production are so widespread, the majority of funding for vital research comes from the public sector via federal and state tax dollars. The NDWC supplements this foundation of support with checkoff dollars for additional needed research, 26 projects in fiscal years 2003-04 and 2004-05 amounting to \$222,313 and \$230,566, respectively. For a full listing of the projects, please see the two reports to producers included with this submission.

Here are some highlights:

- **'Steele ND' offers yield, quality, disease resistance.** NDSU released a new hard red spring wheat variety in 2004 named Steele ND with a secondary or alternate type of scab resistance than the already hugely popular Alsen, which incorporates the Chinese or Sumai-3 type of resistance. This breakthrough, along with Steele ND's overall disease resistance package, gives North Dakota wheat producers another important tool in the fight against economic losses caused by fusarium head blight (scab). Along with excellent yield and quality potential, Steele ND provides one of the strongest defenses against other foliar diseases of any variety available in the region. NDSU's breeding pipeline contains potential spring wheat and durum varieties with even better agronomic and quality traits that are undergoing additional performance testing for release in the very near future.
- **Durum breeders clean house to rid scab resistant experimental lines of undesirable traits.** It has to look like durum and behave like durum to be durum. To get to that point, NDSU researchers are crossing scab resistant durum lines with varieties adapted to North Dakota to eliminate numerous bad traits that came in the original transfer of disease resistance from a wild wheat relative. The durum breeding team is now advancing experimental lines with the best agronomic, yield and quality traits. Meanwhile a new variety for western North Dakota may be considered for release in 2005.
- **Some white varieties have comparable yields to red varieties.** Three hard white spring varieties (AC Vista, MTHW9420, and Lolo) produced yields similar to hard red spring varieties Parshall and Keene in 90 percent, 67 percent and 57 percent of 21 North Dakota and Montana locations over a three-year study period.
- **Hard red spring variety with sawfly resistance increased for possible release.** NDSU's specialty wheat breeding program is developing solid-stemmed varieties to resist sawfly infestations under production conditions in western North Dakota. Midge resistance is another area where progress is being made.
- **Alien genes provide source of wheat improvements.** Screening wild wheat relatives and alien species has identified lines with resistance to harmful pests and diseases such as Hessian fly, tan spot, stem rust and scab. Researchers have even developed a wheat line with a "stay green" gene reported to be associated with drought tolerance.

- **Disease forecasting system helps farmers make and/or save money.** More bushels of higher quality wheat are being harvested by North Dakota farmers thanks to always improving scientific guidance from NDSU on if and when they need to apply fungicide to prevent disease damage. Based on 500 acres of wheat, a \$3.50 per bushel market price for wheat, and fungicide costs of \$14 per acre, researchers estimate the system:
 - boosts net revenue by \$8,400 on a crop under disease pressure by preventing average yield losses of 10 bushels per acre, or
 - saves \$7,000 in input costs on a crop if fungicide application is not needed.
- **Glutograph will help researchers develop stronger gluten durum to better compete with Desert varieties.** Equipped with a new instrument for testing gluten strength in durum, researchers can now better select for the strong gluten trait in upcoming durum lines. The glutograph better differentiates between durum varieties that might otherwise appear to have identical dough properties using a more conventional mixograph test.

CUSTOMER SERVICE

- **Quality reports are chief sales tool.** The NDWC, Montana Wheat and Barley Committee, Minnesota Wheat Council, South Dakota Wheat Commission and U.S. Wheat Associates partner in the funding of an annual crop survey. Samples are collected during harvest directly from growers, farm bins and local elevators with assistance from the N.D. Agricultural Statistics Service and are analyzed by NDSU cereal science technicians for grade and other kernel characteristics plus milling, dough mixing and baking characteristics in the case of hard red spring and milling and pasta processing traits for durum. The results are published in report form and distributed directly to domestic and international customers as well as posted on the web site www.ndwheat.com.
- NDWC Marketing Director Jim Peterson and Northern Crops Institute Technical Director Brian Sorenson shared highlights with customers in Latin American and Asia during USW-sponsored seminars in the fall of 2004.
- **Buhler mill donated by Nestle will help in research and product development.** A durum milling expert hired as a consultant by U.S. Wheat Associates and the NDWC visiting the Northern Crops Institute in the spring of 2004 with a Japanese durum team examined a pilot scale mill donated to North Dakota State University by Nestle. Counter to previous advice, he determined that the mill is intact and sufficiently modern to be very useful in both durum and spring wheat applications. His input has spurred a flurry of activity that will lead to installation of the mill in the coming biennium, pending legislative approval of NCI authority to raise the necessary funds.
 - **Courses provide buyers in private industry with knowledge to successfully buy spring wheat and durum.** To help increase exports and customer satisfaction through sales and procurement strategies that lead to enhanced quality and better value in shipments, the NDWC annually provides a grant to NDSU agricultural economist Dr. Bill Wilson for studies of pertinent marketing topics. Wilson shared insights with participants in Northern Crops Institute short courses in 2004 on traceability and strategies for end-use quality assurance such as purchasing by variety. This constant stream of new information is a main attraction for buyers identified and often sponsored by U.S. Wheat Associates for enrollment in NCI's basic and advanced grain procurement courses. Other NCI courses conducted in 2004 with partial sponsorship from the NDWC and surrounding wheat states addressed pasta processing, wheat and flour quality, and blending issues.

DOMESTIC PROMOTION AND EDUCATION

"You're in pretty good shape for the shape you are in," wrote Dr. Seuss. Today, all too many Americans are not in good shape. Estimates indicate 60 to 65 percent of us are obese and overweight. Obesity captured considerable attention in 2003-04 from reporters and policymakers alike. Looking for a scapegoat, diet book authors and media villainized bread and pasta, proclaiming carbs the problem.

Science tells us calories are the problem and that grain foods contain essential nutrients. Cutting through the onslaught of misinformation to communicate factual, positive messages about bread, pasta and other wheat foods is a challenge. Armed with only a \$1.2 million budget from state wheat commissions (including North Dakota's) and industry partners, the Wheat Foods Council makes up in credibility what it lacks in funding. Credibility earned from 32 years of providing sound nutrition information to dietitians, physicians, fitness leaders and other health leaders. "Influencing the Influencers" is what the Council does best.

Partly due to WFC efforts in assisting the nutrition community with getting the word out on the need for wheat foods, 2004 has brought a reduction in carb counting. According to the NPD Group, American adults on a low-carb diet peaked at nearly 10 percent in February 2004. By November, that number had dipped below 5 percent with few following the diet's recommendations.

Following is a sample of recent projects and endeavors that multiply positive messages:

- **Speaking up for grains in Dietary Guidelines review.** The shape illustrating eating advice to consumers since 1991 is the Food Guide Pyramid. The graphic communicates Dietary Guidelines for Americans, which have been under review in 2003-04. New guidelines will be issued in 2005. Much is at stake for the category including the six to 11 recommended daily servings.

The Wheat Foods Council has been vigilant in explaining why both whole grain and enriched grain foods are essential to good health by:

- submitting comments on three separate occasions, plus 14 scientific studies, to the Dietary Guidelines Advisory Committee,
 - responding to a Federal Register notification regarding the Food Guide Pyramid, and
 - meeting with public policy leaders from USDA's Center for Nutrition Policy and Promotion, the National Institutes of Health, and staff of key U.S. Senators and Congressman.
- **Folic acid white paper explains need for white bread, pasta and other enriched grains.** This summary of existing research supports messages on the risk of diminishing enriched grains in the Dietary Guidelines by emphasizing to media, government and health leaders that white bread and traditional pasta have twice the folic acid content of whole grains. In addition to preventing birth defects, folic acid is linked with reducing the incidence of chronic diseases. A recent study by General Mills, Inc. reports that 62 percent of the folic acid/folate in the American diet comes from grain foods.
 - **Book debunks myths, provides solutions.** While meat is wonderfully nutritious and delicious, eating a whole cow — and no bread — is not healthy. In a new book commissioned by the Wheat Foods Council, authors Glenn Gaesser, Ph.D., and Karin Kratina, Ph.D., R.D., use scientific research to explain the pitfalls of fad diets. Titled "It's the Calories, Not the Carbs," the book has been endorsed by leaders within the health community. National media outreach to key health, nutrition, and science reporters is raising awareness about this new resource. A radio tour featuring Gaesser recently reached more than 3 million consumers.

- **"What You're Missing" media kit tells what carb-bashers lack.** Fact sheets and news releases distributed to key media contacts nationwide explain the health benefits of eating wheat foods and the health problems that can result if they are eliminated and/or reduced in our diets.
- **Newspaper feature reaches 18 million consumers.** The Wheat Foods Council and American Bakers Association have teamed up to annually develop full-page newspaper features. The page released in 2004 under the theme "BREAD FOR SUCCESS: Foundation of a Healthy Diet," quoted Karin Kratina, Ph.D, R.D., explaining how families need the energy and nutrients of grain foods more than ever before.

IN-STATE ACTIVITIES

While the NDWC focuses most of its product promotion budget where the people are—nationally—we also conduct activities to make sure our citizens are aware of the role bread and pasta play in a nutritionally sound diet, to provide them with new recipe and serving ideas, and to make sure they know where these foods come from. These activities include:

- Exhibits at conferences of N.D. Dietetic Association and N.D. Nutrition Council and sponsorship of the conference for NDSU Extension Service food and nutrition specialists.
- Reaching roughly 3,000 fourth graders with the story of wheat through Living Ag Classrooms in Minot, Bismarck and Fargo.
- Generating awareness among media and consumers about the role of North Dakota farmers in putting pasta on our plates and the benefits of pasta through "Use Your Noodle" crossword and trivia contests for 38 newspapers and 13 radio stations.
- Annual pasta recipe contests culminating in a "20 Years of Pasta" cookbook that has been very popular with 550 "Use Your Noodle" contest winners as well as numerous consumers who order them directly.
- Coordination of "Bake and Take Day," a service project for 4-H, homemakers and other civic groups whereby the NDWC provides recipe brochures and stickers for them to place on packages of freshly baked wheat foods to be delivered the fourth Saturday in March.

PUBLIC INFORMATION

The NDWC has used several means to update producers and other stakeholders about progress and activities conducted with the wheat checkoff:

- regular statewide news releases
- presentations at producer meetings including district elections and Extension functions
- hosting of annual Crop Outlook and Issues Forum in Minot
- Dakota Gold newsletter (6 times per year to 21,000 producers, other stakeholders and industry allies)
- Annual Report to Producers
- web site: www.ndwheat.com (monthly average of 8,000 user sessions by 4,000 unique users making 226,000 hits)
- weekly e-mail bulletins

Survey shows potential for increased producer support through better communication. A survey of 388 randomly selected wheat producers from across the state underscores that producers cannot be expected to fund and support a program, especially a request for increased funding, unless they are informed about activities and results.

The survey conducted in the late winter/early spring of 2004 by AdFarm, Fargo, found that only 25 percent were "somewhat informed" or "very informed" about the North Dakota wheat checkoff program. This was down from 69 percent being "somewhat" to "well-informed" in a similar survey in 2001. The difference may be due partly to a reduction in the scope and frequency of NDWC communication. Informational ads on the radio have been eliminated and newsletters have been cut back under budget constraints resulting from a shift in resource allocation to respond to needs in the policy arena.

Asked if satisfied with work being conducted with the wheat checkoff, the majority of respondents (54 percent) provided "neutral" or "do not know" responses, indicating they did not feel informed enough to give a firm response. "Most informed" respondents tended to be "most satisfied" with the wheat checkoff.

Likewise, asked if they would support an increase in the wheat checkoff from 1 cent a bushel to 1.5 cents per bushel, the share of respondents who indicated they "would definitely support the increase" or "would probably support the increase" improved from 31 percent among those "not well informed" to 52 percent among those "very informed." Of the total, 35 percent indicated some level of support for the increase. AdFarm pointed out an opportunity to move another 28 percent from a "probably not support" stance into the "probably support" category through education and communications.

Asked about reasons for supporting an increase, the share of respondents rating potential initiatives as "very important" is as follows:

- improving exports, 72 percent
- improving rail rates and service, 59 percent
- addressing unfair trade practice, 58 percent
- retaining and improving the farm bill, 53 percent
- improving wheat-based foods consumption, 46 percent, and
- developing better wheat varieties, 38 percent.

The NDWC is using the survey results and a subsequent evaluation by AdFarm of its communication program to better tell the story of what is being accomplished on producers' behalf. A slight increase in funding for public information and producer outreach is included in the 2004-05 budget to help build producer awareness and satisfaction.

ADMINISTRATION

Revenue collection. The Commission collects the checkoff from first purchasers on a quarterly basis. Revenue collections basically match production estimates after allowances for seed and other farm use.

Refunds. Growers who do not agree with the checkoff or programs directed by the NDWC may request a refund within 60 days after they sell wheat. In fiscal year 2003-04, the Commission granted 1,533 refunds (up from 1,263 in 2002-03) accounting for 6.9 percent of revenue (up from 5.9 percent in 2002-03) or \$206,480 (up from \$159,758 in 2002-03). Of the producers who requested refunds, 97 had not done so previously. The smallest refund was \$0.44, the largest \$2,250.00 and the average was \$134.69.

Financial overview. Revenues in the 2003-05 biennium, currently estimated at \$5.949 million, have been aided by two years of near-record yields at 37 bushels per acre in 2003 and 39 bushels in 2004. The higher yields produced larger-than-average crops of 317 million bushels and 309 million bushels, respectively, despite reductions in planted and harvested acres.

Total expenditures are projected to be \$5.5 million for the biennium, which closes June 30, 2005. In addition, there will remain an outstanding trade case balance (interest free based on a gentlemen's agreement with the legal firm) projected to be \$2.850 million, based on the NDWC's plan to pay \$783,000 toward legal expenses in 2004-05. If the NDWC is forced to limit this expenditure in 2004-05, in light of a recent Attorney General's opinion, to the two mills (roughly \$1.190 million for the biennium) raised for this particular cause, then the account payable will likely rise to about \$3.2 million.

PROJECTIONS FOR 2005-07 BIENNIUM

Outlook is bright. North Dakota wheat producers can look forward to expanding opportunities and a bright future for the high quality, premium wheats grown in this state and region. Events of the past two seasons and general improvements in the local wheat economy are expected to instill renewed interest in wheat production. There's a strong prospect for significantly increased plantings in 2005. The wheat industry will continue to be one of the most important activities in the state of North Dakota, agricultural or otherwise.

Continued services of trade attorney needed to retain import duties. In the area of trade policy, the Commission continues to retain services of a legal firm with expertise in trade law to defend duties on imports of Canadian hard red spring wheat in two separate appeal processes initiated by the Canadian Government. Canada filed the appeals under provisions in the North American Free Trade Agreement. Two separate bi-national dispute panels are now reviewing two separate aspects of decisions that put the duties in place: 1) the countervailing duty (5.29 percent) to offset subsidization as determined by the U.S. Department of Commerce, and 2) the decision linking imports from Canada with economic injury to U.S. hard red spring wheat producers as determined by the U.S. International Trade Commission. The latter ruling will be most critical to keeping in place both the countervailing duty of 5.29 percent and the antidumping duty of 8.86 percent as economic injury must be linked to imports. The link between imports and economic injury to U.S. farmers ultimately became the pitfall in the case on imports of durum wheat.

Assuming the DOC and ITC decisions stand and that the duties remain, legal counsel will also be needed for an annual review process in each of the next four years. The NDWC will also likely need to continue to retain legal counsel to provide assistance to the Office of the U.S. Trade Representative in assuring that Canada institutes appropriate fixes to its trade barriers as identified in the WTO dispute settlement process and in gaining reform of its government monopoly marketing system in future trade talks. While not as costly as the actual case itself, the NDWC anticipates that about \$300,000 may be needed to cover these services in each of the next two years.

Present funding insufficient to meet obligations. The revenue projection for the next biennium (included with this submission on page 37) is based on averages. It assumes planted acres of all wheat at 8.9 million, harvested acreage at 8.7 million and a five-year average yield of 34 bushels per acre for total production of 296 million bushels annually. Roughly 15 million bushels is subtracted for seed and feed use with 281 million bushels remaining to be sold and collected upon. Less the typical amount returned to producers who request refunds, net revenue is thus projected to be \$2.6 million in each fiscal year at the assessment of 1 penny per bushel (10 mills).

At the current level—or in other words without a checkoff increase—the Commission would strive to meet national assessments for export and domestic marketing programs as well as fulfill legislative intent with regard to domestic policy issues and research funding while at the same time continuing payments on outstanding trade case expenses, yet not in an amount sufficient to retire the entire debt on a timely basis.

If the debt must be retired in the 2005-07 biennium, the Commission would have to cut core marketing and research programs. Ramifications would likely be felt by producers in years to come in the form of customer frustration with a lack of service leading to stagnant or reduced demand for their wheat in combination with stagnant or reduced productivity and end-product innovation within the state's wheat industry.

Checkoff increase needed to pay for today's victories and assure a strong future. Based on the producer survey conducted in 2004 and after consulting with major farm organizations, the NDWC is seeking an increase in the checkoff from 1 penny per bushel (10 mills) to 1.5 cents per bushel (15 mills). The primary purpose is to retire debt accumulated through legal challenges of unfair Canadian trade practices. NDWC elected county representatives in five of six districts expressed support for this proposal at their annual meeting in December 2004. The southwest district, while supportive of the purpose, was concerned about the level of the increase and producer willingness to pay (without spurring sharp increases in producers requesting refunds).

At an assessment level of 1.5 cents per bushel (15 mills), net revenue would increase by an estimated \$1.2 million, reaching a projected \$3.8 million in each fiscal year. The funding would enable the Commission to retain its focus on core export marketing, product promotion and research programs, while increasing funding for domestic policy issues and at the same time retiring the lion's share of the trade case debt in the 2005-07 biennium.

If approved by the 2005 Legislative Assembly and if the two mill "cap" on trade issue expenditures is lifted, the increase would take effect on July 1, 2005. Such legislation would allow the NDWC to accelerate payments. The budget projection on page 37 of this report under the proposed assessment level of 1.5 cents per bushel, or 15 mills, depicts a payoff of existing and estimated future trade case maintenance costs. Since the illustration results in a depletion of the NDWC fund balance and results in a negative ending balance, the trade case cannot be paid off entirely in the 2005-07 biennium without other budget adjustments.

An emergency clause provision in the checkoff increase legislation could potentially increase gross revenues by \$220,000 in the current biennium (2003-05). This feature and the lifting of the 2-mill cap would reduce the level of debt carried into the 2005-07 biennium.

Ultimate retirement of the trade case debt will free funds for the NDWC to address other issues and programs of importance to North Dakota wheat producers and will lay a strong foundation for the future.

If you have questions or concerns about the wheat checkoff program, please contact the North Dakota Wheat Commission, 4023 State Street, Bismarck, ND 58503-0690, phone 701-328-5111, e-mail: ndwheat@ndwheat.com. For additional information, please refer to the printed reports to producers for fiscal years 2002-03 and 2003-04, included with this submission.

NORTH DAKOTA WHEAT COMMISSION
Bismarck, ND

STATEMENT OF PROJECTED REVENUE AND EXPENDITURES
For the Bienniums Ended June 30
UNAUDITED

Prepared by the North Dakota Wheat Commission

	Actual Budget 2003-2005 Biennium <u>(w/10 mills)</u>	Projected Budget 2005-2007 Biennium <u>(w/10 mills)</u>	Projected Budget 2005-2007 Biennium <u>(w/15 mills)</u>
BEGINNING BALANCE	\$656,308	\$678,479	\$678,479
REVENUES:			
Assessment Revenue Collected from 1st Purchasers	\$5,948,512	\$5,620,000	\$8,430,000
Less:			
Refunds Paid to Producers	<u>(412,280)</u>	<u>(387,780)</u>	<u>(758,700)</u>
Net Assessment Revenue	5,536,232	5,232,220	7,671,300
Interest Income	9,247	18,456	18,456
Promotional Sales/Miscellaneous	<u>3,172</u>	<u>2,750</u>	<u>2,750</u>
Total Revenue	<u>\$5,548,651</u>	<u>\$5,253,426</u>	<u>\$7,692,506</u>
EXPENDITURES:			
Administration	\$430,368	\$436,708	\$436,708
Domestic Product Promotion	282,869	289,284	289,284
Export Marketing	1,658,309	1,848,162	1,848,162
Policy & Issues			
Trade	1,742,437	1,279,753	3,697,799
Domestic	342,950	394,000	1,025,667
Research/Customer Service	709,120	717,120	717,120
Public Information	<u>360,427</u>	<u>406,673</u>	<u>406,673</u>
Total Expenses	<u>\$5,526,480</u>	<u>\$5,371,700</u>	<u>\$8,421,413</u>
Revenues Over (Under) Expenditures	<u>\$22,171</u>	<u>(\$118,274)</u>	<u>(\$728,907)</u>
ENDING BALANCE	<u>\$678,479</u>	<u>\$560,205</u>	<u>(\$50,428)</u>
Outstanding Trade Case Legal Expenses (Including Est. future costs of \$300,000/yr)	<u>\$2,850,747</u>	<u>\$2,385,166</u>	
ADJUSTED ENDING BALANCE	<u>(\$2,172,268)</u>	<u>(\$1,824,961)</u>	

Economic Contribution of the Wheat Industry to North Dakota

Dean A. Bangsund and F. Larry Leistritz*

North Dakota, like other Great Plains states, relies heavily upon agriculture for much of its economic activity. The importance of agriculture can be measured by examining the amount of money that the activity brings into the state, sometimes called the economic base or basic income. From 1998 through 2002, agriculture accounted for 26 percent of North Dakota's economic base (Coon and Leistritz 2004). Agriculture's importance in the North Dakota economy also can be demonstrated by examining the state's gross state product. Gross state product is the value of all goods and services attributable to labor and property located within the state. In 2000, agriculture accounted for 8 percent of the state's gross state product, making North Dakota the second most agriculturally dependent state in the nation (Leistritz et al. 2002).

Agriculture does play a major role in North Dakota's economy and most people familiar with the state realize the importance of agriculture to the state's economy. However, the economic significance of the various activities within the agriculture industry are less understood. North Dakota

has been dependent upon cash crop receipts (excluding government program payments) for nearly 76 percent of the state's total farm receipts since 2000. If cash crop receipts and government program payments are included over the same period, crop activities account for nearly 81 percent of all farm receipts (North Dakota Agricultural Statistics Service). Wheat production (excluding government payments) has accounted for 34 percent of all crop receipts from 2001 through 2003 (North Dakota Agricultural Statistics Service). Since farm receipts are an important measure of agricultural impacts on local economies, wheat arguably is the single most important enterprise for farmers and agriculturally-based rural economies in North Dakota.

OBJECTIVE

The purpose of this study was to estimate the economic contribution (direct and secondary effects) of the wheat industry to the North Dakota economy. Specifically, economic impacts from the wheat industry were estimated for crop production, grain handling, transportation, and processing activities.

*Bangsund is research scientist and Leistritz is professor, Department of Agribusiness and Applied Economics, North Dakota State University, Fargo.

DISCUSSION

A general discussion of the procedures and methods used in the study is divided into (1) wheat production, (2) grain handling, (3) transportation, (4) processing, and (5) input-output analysis.

Wheat Production

North Dakota has a well-earned reputation as being a major producer of wheat in the United States. Over the last 15 years, North Dakota has led the nation in total wheat production 4 times and been second to Kansas 11 times. Wheat production in Kansas is dominated by winter wheat, whereas, in North Dakota, durum and spring wheat dominate production. Historically, North Dakota has been the

nation's top producer of durum and spring wheat, averaging 73 and 43 percent of all U.S. production the last 15 years, respectively. From 2001 through 2003, North Dakota produced 62 percent of U.S. durum production and 45 percent of the country's spring wheat production. North Dakota has accounted for 14 percent of all wheat produced in the U.S. since 1989.

Wheat is produced in all areas of the state; however, production is concentrated in the Red River Valley and in the northern third of the state (Figure 1). Spring wheat and durum have historically dominated North Dakota wheat production, accounting for about 78 and 21 percent of all wheat production, respectively.

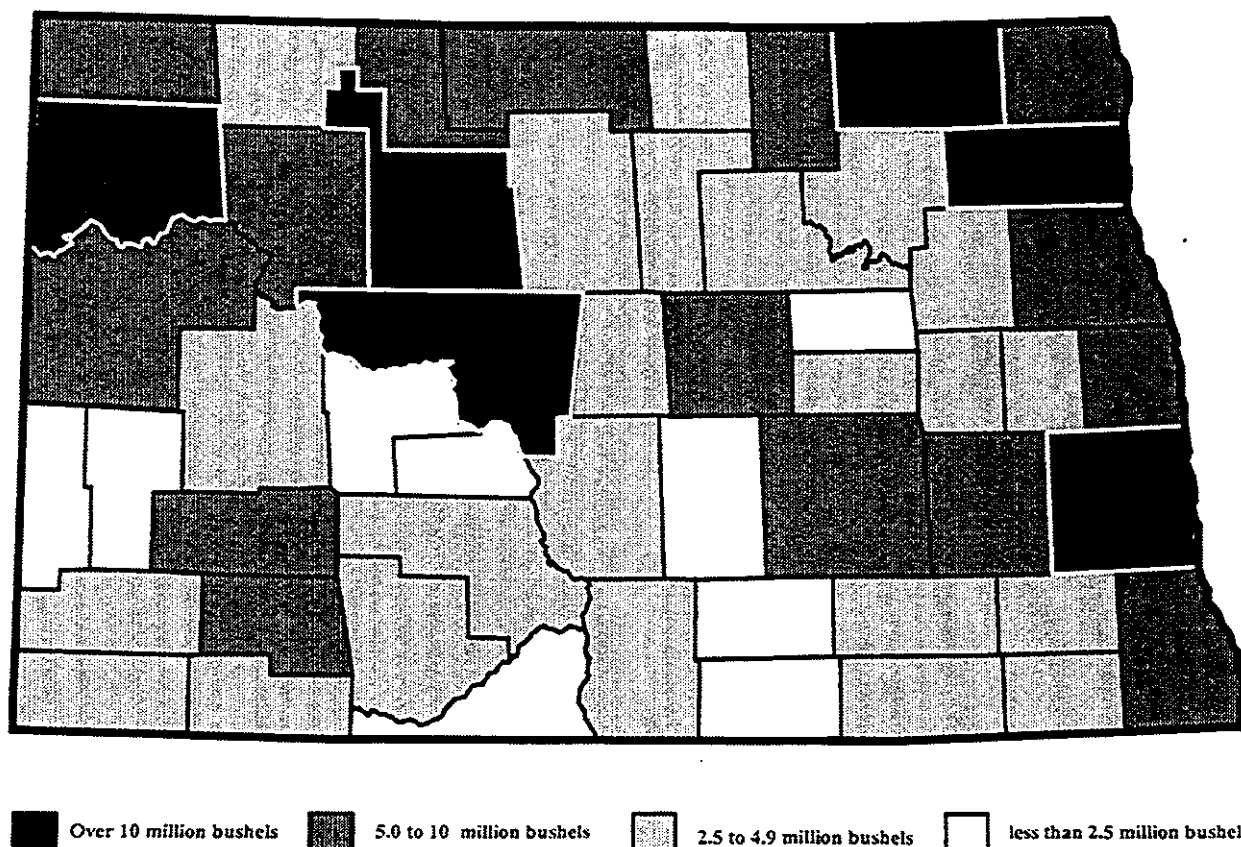


Figure 1. Average Wheat Production in North Dakota, by County, 2001 to 2003

Wheat production in North Dakota averaged about 9.1 million planted acres and 275 million bushels from 2001 through 2003 (North Dakota Agricultural Statistics Service). County wheat yields from 2001 through 2003 varied from 16 to 46 bushels per planted acre, with an overall state average of 30.4 bushels. Wheat yields are generally highest in the eastern third of the state.

Enterprise budgets were developed for spring wheat, durum, and winter wheat production in North Dakota. Estimates of wheat production costs were obtained from the North Dakota Farm and Ranch Business Management Education Program. Wheat revenues were a combination of yields and prices, government payments, disaster payments, and insurance indemnities, all averaged from 2001 through 2003.

Grain Handling

The economic activity from grain handling (i.e., cleaning, mixing, storing, loading, and unloading) was estimated for local (country) elevators. A grain handling budget, combined with a gross handling margin, was used to estimate returns and expenses from wheat handling activities. Country elevators handled approximately 264 million bushels of North Dakota wheat annually from 2001 through 2003.

Transportation

Grain flow is usually complex, involving several modes of transportation (e.g., truck, railroad, barge, vessel) and several possible destinations and handlers. For this study, grain movements were limited to shipments from (1) farms to country elevators and in-state processors, (2) country elevators to out-

of-state destinations (i.e., river port, terminal elevator, subterminal elevator, another country elevator, processor) and (3) country elevators to in-state processors or final destinations.

Estimates of grain flow from various regions in North Dakota to in-state and out-of-state destinations were obtained from Vachal and VanWechel (2003a, 2003b) and Vachal (2002). Grain flow, including the amount shipped by truck and railroad, was estimated for various production regions to six general destinations. Destinations in Minnesota received about half of all North Dakota wheat shipments, followed by destinations in the pacific northwest (14 percent) and southwest/midland destinations (11 percent). About 84 percent of all North Dakota wheat shipped from local elevators to market destinations was moved by rail.

Transportation costs of shipping wheat from local elevators to market destinations were estimated from 1) the amount of wheat transported from counties to market destinations by mode of transport, 2) per unit expenses for truck and rail transportation, and (3) hauling distances from county locations to market destinations.

Trucking rates were obtained from the Upper Great Plains Transportation Institute (2004). A truck operating budget was developed to estimate hauling expenses. Railroad companies' expenses incurred in rail transport were estimated using a model developed by the Interstate Commerce Commission. A railroad budget was developed to allocate the costs obtained from the model to various economic sectors.

Shipping rates (tariffs) charged elevators for rail shipments were obtained from Burlington Northern-Santa Fe Corporation (2004) and used to estimate returns from rail shipments.

Processing

Economic impacts associated with the processing of North Dakota wheat were limited to in-state milling activities. Economic activity from wheat milling was estimated from industry contacts and a survey of in-state processors, and based on the amount of wheat milled from North Dakota sources. Only expenditures made to North Dakota entities by in-state processors were obtained from the survey.

Input-Output Analysis

Economic activity from a project, program, policy, or activity can be categorized into direct and secondary impacts. Direct impacts are those changes in output, employment, or income that represent the initial or first-round effects of the project, program, or activity. Secondary impacts (sometimes further categorized into indirect and induced effects) result from subsequent rounds of spending and respending within the economy. Input-output (I-O) analysis traces linkages (i.e., the amount of spending and respending) among sectors of an economy and calculates the total business activity resulting from a direct impact in a basic sector (Coon et al. 1985).

This process of spending and respending can be explained by using an example. A single dollar from a North Dakota wheat producer (*Households* sector) may be spent for a loaf of bread at the local store (*Retail Trade* sector); the store uses part of that

dollar to pay for the next shipment of bread (*Transportation* and *Agricultural Processing* sectors) and part to pay the store employee (*Households* sector) who shelved or sold the bread; the bread supplier uses part of that dollar to pay for the grain used to make the bread (*Agriculture-Crops* sector) ... and so on.

RESULTS

The economic contribution from the wheat industry was estimated from production, grain handling, transportation, and processing activities. Expenditures and returns from these activities represent the direct economic impacts from the wheat industry. Subsequently, the direct impacts were used with an input-output model to estimate the secondary impacts.

Direct Economic Impacts

The direct impacts from the wheat industry on the economy of North Dakota include (1) expenditures and returns from the production of wheat, (2) expenditures and returns from handling wheat at local elevators, (3) expenses and returns from entities transporting wheat from local collection points to in-state and out-of-state destinations, and (4) expenses and returns from wheat milling activities.

The 9.1 million acres of wheat generated about \$1 billion in production expenditures and \$134 million in returns to unpaid labor, management, and equity annually from 2001 through 2003. Direct impacts (expenditures and returns) from wheat production averaged about \$126.50 per acre or \$1.145 billion annually (Table 1).

Local elevators in North Dakota handled approximately 264 million bushels (96 percent of production) of wheat annually from 2001 through 2003. With a gross margin of about \$0.12 per bushel (Wilson 2004), grain handling at local elevators generated about \$32 million in annual direct impacts (Table 1).

Direct economic impacts from shipping activities were estimated for truck and rail transportation by developing budgets for each mode and estimating quantities and distances of wheat shipped by each mode. Total direct economic impacts from truck transportation were \$17.2 million annually. Country elevators spent about \$199 million

on rail transportation to ship North Dakota wheat to market destinations. About 28 percent or \$55.4 million of the total amount spent on rail transportation remained as direct economic impacts.

Expenditures and returns from wheat processing were obtained from a survey of in-state milling firms. Milling firms in the state processed about 46 million bushels of wheat in 2003. About 40.5 million bushels were obtained from North Dakota sources. In-state expenditures and returns from processing North Dakota wheat were estimated at \$100 million annually (Table 1).

Table 1. Direct Impacts From the Wheat Industry to the North Dakota Economy, by Economic Sector and Industry Activity, 2001 Through 2003

Economic Sector	Total Direct Impacts by Industry Activity				Total Direct
	Wheat Production	Transportation	Grain Handling	Processing	
	000s \$				
Agriculture-Livestock	0	0	0	0	0
Agriculture-Crops	0	0	0	0	0
Nonmetal Mining	0	0	0	0	0
Construction	0	0	0	2,564	2,564
Transportation	0	11,896	0	27,324	39,220
Comm and Pub Util	11,813	49	1,777	5,485	19,124
Ag Proc and Misc Mfg	0	0	2,639	30,945	33,583
Retail Trade	503,597	34,466	8,589	5,397	552,050
Fin, Ins, and R Estate	123,586	1,069	5,628	3,226	133,509
Bus and Pers Service	133,566	0	1,185	2,623	137,373
Prof and Social Service	0	0	0	512	512
Households	322,625	23,599	10,367	21,405	377,995
Government	49,810	1,499	1,481	545	53,336
Total Direct Impacts	1,144,998	72,579	31,665	100,025	1,349,267

Total annual direct impacts from wheat production expenditures and returns in North Dakota were estimated at \$1.14 billion. Grain handling, transportation, and processing activities generated an additional \$204 million in annual direct impacts. All wheat industry activities generated about \$1.35 billion annually in direct impacts from 2001 through 2003. Business activity was greatest in the *Retail Trade* (\$552 million), *Households* (\$378 million in economy-wide personal income), *Business and Personal Services* (\$137 million), and *Finance, Insurance, and Real Estate* (\$134 million) sectors (Table 1).

Secondary Economic Impacts

Secondary economic impacts were estimated separately for wheat production, grain handling, transportation, and processing. The direct impacts from each industry activity were allocated to various economic sectors of the North Dakota Input-Output Model. Total direct impacts of \$1.14 billion from wheat production in North Dakota generated about \$1.8 billion in secondary impacts. Total direct impacts of \$32 million from grain handling generated about \$60 million in secondary impacts. Total direct impacts of \$73 million from wheat transportation generated about \$114 million in secondary impacts. Total direct impacts of \$100 million from wheat processing activities generated about \$241 million in secondary impacts. Total secondary impacts from all activities were estimated at \$2.2 billion annually.

Secondary impacts were highest in the *Households* (\$765 million in economy-wide personal income), *Retail Trade* (\$637 million), *Finance, Insurance, and Real Estate* (\$141 million), *Communication and*

Public Utilities (\$110 million), and *Government* (\$102 million) sectors. Overall, each dollar of direct impacts from the wheat industry generated about \$1.64 in secondary impacts.

Total Economic Impacts

Total (direct and secondary effects) impacts from wheat production in North Dakota were estimated at \$2.9 billion annually. Grain handling, transportation, and processing activities generated an additional \$620 million annually in total impacts. The wheat industry generated a gross business volume of \$3.6 billion annually from 2001 through 2003 (Table 2).

The economic sectors with the greatest *total* (direct and secondary) impacts included *Retail Trade* (\$1.19 billion), *Households* (\$1.14 billion in economy-wide personal income), *Finance, Insurance, and Real Estate* (\$274 million), *Business and Personal Services* (\$192 million), *Government* (\$156 million), and *Communication and Public Utilities* (\$129 million).

Employment

Approximately 12,900 farms raised wheat in North Dakota in 2002 (U.S. Department of Agriculture 2004); however, direct employment (full-time equivalent jobs) in wheat production is difficult to quantify. Direct employment in the grain handling and transportation industries is also extremely difficult to quantify. Direct employment in wheat processing activities was estimated at 471 full-time equivalent jobs. Many of the positions (employment) affiliated with wheat activities (i.e., those outside of production) generally exist in other industries. Employment at local

elevators is part of the grain handling business and jobs in shipping and hauling wheat are part of the transportation industry. Most of the jobs outside of wheat production are within industries that are supported only in part by the wheat industry, making employment estimates difficult to generate. The wheat industry does directly affect jobs in grain handling and transportation; however, actual quantification of those jobs was not estimated.

Secondary employment was estimated for wheat production, grain handling,

transportation, and processing activities. Secondary employment estimates represent the number of full-time jobs generated based on the volume of business activity created by the industry. Wheat production indirectly supported about 27,519 full-time equivalent jobs. Transportation activities indirectly supported 2,171 full-time equivalent jobs. Wheat handling and processing activities combined indirectly supported another 5,351 full-time equivalent jobs. The wheat industry indirectly supported about 35,041 full-time equivalent jobs annually in North Dakota.

Table 2. Gross Business Volume (Direct and Secondary Impacts) from the Wheat Industry to the North Dakota Economy, by Economic Sector and Industry Activity, 2001 Through 2003

Economic Sector	Total Economic Impacts by Industry Activity				Total Impacts
	Wheat Production	Transportation	Grain Handling	Processing	
	000s \$				
Agriculture-Livestock	79,717	5,264	2,427	9,704	97,112
Agriculture-Crops	31,302	1,972	2,512	21,591	57,377
Nonmetal Mining	4,278	332	137	712	5,459
Construction	63,785	3,997	1,993	8,859	78,634
Transportation	11,456	12,581	325	28,367	52,729
Comm and Pub Util	104,750	5,506	4,580	14,175	129,011
Ag Proc and Misc Mfg	48,364	2,948	5,879	56,233	113,424
Retail Trade	1,030,671	68,720	25,381	63,819	1,188,591
Fin, Ins, and R Estate	240,287	8,615	9,345	16,165	274,412
Bus and Pers Service	179,530	2,728	2,668	7,541	192,467
Prof and Social Service	62,925	3,976	2,007	6,659	75,567
Households	957,546	61,232	30,658	93,458	1,142,894
Government	129,249	8,598	4,021	13,865	155,733
Total Economic Impacts	2,943,860	186,469	91,933	341,148	3,563,410
Secondary Employment	27,519	2,171	824	4,527	35,041

Tax Collections

Direct economic impacts from production, handling, transportation, and processing were used with I-O analysis to estimate personal income, retail trade, and other business activity, which was then used to estimate tax revenues. Annual tax revenues generated by the wheat industry in North Dakota included \$55 million in sales and use taxes, \$14.8 million in personal income taxes, and \$6.5 million in corporate income taxes. Total annual collections from sales and use, personal income, and corporate income taxes were about \$76.4 million. Wheat production also was estimated to be directly responsible for about \$49.8 million in property taxes.

Previous Industry Estimates

The economic size of the wheat industry was compared to a previous study completed in 1995 (Bangsund and Leistritz 1995). Wheat acreage from 2001 through 2003 decreased by over 2 million acres or 18 percent when compared to production levels from 1991 through 1993. Average production between the two periods decreased by 93 million bushels or by 25 percent. The gross business volume associated with wheat production from 1991 through 1993 was \$4.7 billion (2003 dollars) versus \$2.9 billion from 2001 through 2003. The economic impact from wheat production decreased by about \$1.76 billion in real terms (i.e., effects of inflation removed) between the two periods. Since wheat prices in North Dakota over the two periods were similar and since per-acre government payments were also similar in magnitude, most of the change in the value of wheat production between the periods

was attributable to changes in production levels.

Total annual impacts from wheat transportation were estimated at \$333 million (2003 dollars) from 1991 through 1993, compared to \$186 million from 2001 through 2003. The economic impact from wheat transportation decreased by \$147 million in real terms between the two periods. Total annual impacts from grain handling were estimated at \$171 million (2003 dollars) from 1991 through 1993, compared to \$92 million from 2001 through 2003. The economic impact from grain handling decreased by nearly \$80 million in real terms between the two periods. Since transportation and grain handling impacts are predominantly influenced by grain volume, most of the change in economic activity between the two periods also was due to a reduction in wheat production.

Economic impacts from wheat processing are not directly tied to production levels. In 1993, in-state processing of North Dakota wheat was estimated at 17.9 million bushels. By comparison, in-state processing of North Dakota wheat in 2003 was estimated at 40.5 million bushels. The total economic effect of wheat processing was estimated at \$154.4 million (2003 dollars) in 1993, compared to \$341.1 million in 2003. The processing sector of the wheat industry exhibited real growth of \$186.7 million between the two periods.

The combined economic activity from wheat production, transportation, handling, and processing was estimated at \$5.4 billion (2003 dollars) annually from 1991 through 1993. The gross business volume from the

wheat industry was estimated at \$3.6 billion annually from 2001 through 2003. Overall, the wheat industry, in real terms, decreased by nearly \$1.8 billion or by 33 percent between the two periods.

SUMMARY AND CONCLUSIONS

North Dakota has traditionally been a national leader in the production of several crops; however, the most important, in terms of acreage and farm sales, is wheat. Wheat is arguably the single most important agricultural activity in the state, accounting for over 20 percent of all farm receipts (crop and livestock sales) and generating over \$1 billion in farm revenues annually. The importance of wheat to the state's economy becomes clear when the magnitude of wheat sales is combined with the state's dependence upon agricultural activities.

Economic impacts from the wheat industry were limited to wheat produced in North Dakota and included in-state expenditures and returns from wheat transportation, handling, and processing. Wheat acreage and yields, combined with crop prices, government payments, production expenses, and net returns were used to estimate the economic activity from wheat production. Grain flow statistics were used to determine the amount of wheat shipped to various market destinations. The volume of wheat moved was combined with truck and rail transportation costs and returns to estimate the economic impacts from wheat shipments. Grain handling costs and returns were estimated to determine the economic activity from wheat handling. Economic impacts from wheat processing were limited to in-state flour milling and

were based on a survey of wheat processors in the state.

Total annual direct impacts from wheat production in North Dakota were estimated at \$1.14 billion. Grain handling, transportation, and processing activities generated an additional \$204 million in annual direct impacts. Collectively, wheat activities generated about \$1.35 billion in annual direct impacts from 2001 through 2003. The \$1.35 billion in direct impacts were estimated to generate about \$2.2 billion in annual secondary impacts. Gross business volume (direct and secondary impacts) of the wheat industry was estimated at \$3.6 billion annually from 2001 through 2003. The economic sectors with the greatest total (direct and secondary) impacts included *Retail Trade* (\$1.19 billion), *Households* (\$1.14 billion in economy-wide personal income), *Finance, Insurance, and Real Estate* (\$274 million), *Business and Personal Services* (\$192 million), *Government* (\$156 million), and *Communication and Public Utilities* (\$129 million).

Each acre of wheat planted in North Dakota (2001 through 2003) averaged about \$394 in gross business volume (direct and secondary economic impacts) or, expressed alternatively, each bushel of wheat produced resulted in \$12.95 in total business activity. For every 258 acres of wheat planted or 7,854 bushels of wheat harvested, one secondary FTE job in North Dakota was supported. On average, each acre of wheat planted in North Dakota generated about \$13.94 in tax revenue (\$5.50 in property tax and \$8.44 in combined sales and use,

personal income, and corporate income taxes).

The economic size of the wheat industry was compared to a previous study completed in 1995. The combined economic activity from wheat production, transportation, handling, and processing was estimated at \$5.4 billion (2003 dollars) annually from 1991 through 1993. The gross business volume from the wheat industry was estimated at \$3.6 billion annually from 2001 through 2003. Overall, the wheat industry, in real terms, decreased by nearly \$1.8 billion or by 33 percent between the two periods. Since wheat prices over the two periods were similar and since per-acre government payments also were similar in magnitude, most of the change in the value of wheat production between the periods was attributable to changes in production levels. Since transportation and grain handling impacts are predominantly influenced by grain volume, most of the change in economic activity in those activities also was due to a reduction in wheat production. The processing sector of the wheat industry exhibited real (i.e., effects of inflation removed) growth over the two periods primarily due to the addition of new processing plants in the state and expansion of processing capacities at existing plants.

Wheat production is undoubtedly the most important agricultural activity in North Dakota. The importance of wheat to the North Dakota economy is not a recent phenomenon; historical acreage and production suggest this crop has been the single most important agricultural activity in the state for many decades. The importance

of wheat not only comes from the magnitude of the crop's impacts, but from the distribution of those impacts as well. Wheat is produced abundantly throughout North Dakota, which correspondingly implies the impacts are geographically distributed throughout the state. Also, much of the impacts from wheat production are generated in local and rural economies through the purchase of production inputs, which are not concentrated in any particular region or city.

The enormous influence of wheat production on North Dakota's economy also makes the economy sensitive to factors affecting overall crop value. Because of the magnitude of wheat production, small changes in wheat acreage, yields, or prices can have dramatic effects on the state's economy. Examples of the effects of these changes have been recently felt with yield reductions from adverse growing conditions and the effects of wheat diseases on crop values. For example, a \$0.10 to \$0.15 per bushel drop in the average yearly market value for wheat, based on production figures from 2001 through 2003, would cost the state \$28 to \$41 million in lost revenues, not including secondary economic effects. Alternatively, if crop prices remain unchanged but yield drops by 10 percent statewide, the state could experience a reduction in farm revenues of nearly \$92 million. Decreases in crop quantities also affect transportation and grain handling impacts, further adding to the economic losses associated with reduced crop quantities.

North Dakota has experienced a decrease in wheat acreage over the last decade due to

a host of factors. Decreases in wheat acreage have reduced the economic importance of wheat to the state economy. However, substantial gains in wheat processing are an encouraging trend within the industry. Despite a reduction in wheat production, which has translated into reduced levels of economic activity associated with wheat handling and transportation, wheat is still a multi-billion dollar industry in the state. When measured in terms of secondary employment, economy-wide personal income, retail sales, tax revenues, and overall economic activity, the wheat industry in North Dakota remains one of the most important economic activities in the state, agricultural or otherwise.

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This document is a summary of a more comprehensive report, which contains supplemental information and additional documentation of study results. Copies of this report and a single copy of the main report, *Economic Contribution of the Wheat Industry to North Dakota*, are available free of charge. Please address your inquiry to Carol Jensen, Department of Agribusiness and Applied Economics, North Dakota State University, P.O. Box 5636, Fargo, ND 58105-5636, phone 701-231-7441, fax 701-231-7400, e-mail: cjensen@ndsuxext.nodak.edu or these publications can be found on the internet at: <http://agecon.lib.umn.edu/>.

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