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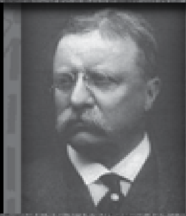
OCM NEWS | OCTOBER 2010



Continue the March; no time for a unilateral truce!

BY FRED STOKES, EXECUTIVE DIRECTOR

Over the past 30 or so years, there has developed a meek acquiescence to agricultural market concentration and anticompetitive practices and the resultant harm to family farms and ranches, rural America and our national food security.

Government has seemingly been indifferent. The U. S. Department of Agriculture (USDA) has been captive to those it was supposed to regulate and the U. S. Department of Justice (USDOJ) rubber stamped every merger that came down the pike. Both departments share complicity in setting in motion a trend that if not reversed, will take American agriculture over the cliff.

However, there is hope. A little over a year ago USDA and USDOJ signaled change with the following announcement:

"WASHINGTON, August 5, 2009 - Agriculture Secretary Tom Vilsack and Attorney General Eric Holder announced today that the U.S. Department of Agriculture (USDA) and the Department of Justice will hold joint public workshops to explore competition issues affecting the agriculture industry in the 21st century and the appropriate role for antitrust and regulatory enforcement in that industry."

Must the market reform effort now stand-down until after the November elections while the opposition launches their all-out attack?

At our 2009 OCM Conference in St. Louis, Phil Weiser, Deputy Assistant Attorney General for Antitrust, announced an initiative by U. S. Department of Justice to address the impact of antitrust violations and anticompetitive practices in agricultural markets. At the same meeting J. Dudley Butler, newly appointed Administrator of the Grain Inspection and Packers and Stockyards Administration (GIPSA), declared his commitment to enforce the long neglected Packers and Stockyards Act of 1921. He also announced the pending publication of rules that would clarify and more fully promulgate the act, enhancing its enforceability.

Earlier, Christine Varney, Assistant Attorney General for Antitrust came on the scene with all the earmarks of a female Teddy Roosevelt. She summarily repudiated

Please see STOKES on page 2

What's INSIDE...

STOKES (continued from page 1)

the absurd merger guidelines of the Bush administration (Section Two of the Sherman Act), and promptly initiated investigations into anticompetitive practices in the dairy and transgenic seed industries.

At the Poultry Workshop in Alabama, when a contract producer testified that he would likely loose his contract as a reprisal for his participation, she gave him her card and told him to call her if that happened. The audience responded with laud applause.

At this writing, four of the five workshops have been held with the last one scheduled for December. They have been informative and positive. The one on livestock markets in Fort Collins was especially well attended and a highly significant event. It was largely a referendum on the Proposed GIPSA Rules. About two thirds or more of those attending saw the rules as a significant and positive first step, while the packers, integrators, their political minions and the organizations they control, denounced the rules as the looming ruination of the industry.

At the workshops, Secretary Vilsack, Attorney General Holder and Assistant Attorney General Varney were convincing in their empathy and resolved to address the longstanding wrongs in agricultural markets. They gave renewed hope to farmers and ranchers, at least temporarily.

But now things seem to have slowed down. Fixing the broken marketplace appears to have taken a back seat to politics. This has allowed opponents of market reform to steal the march. The Fort Collins workshop caused them to panic and put them on the run, but now their lobbyists and captives on Capitol Hill are in a frenzied full court press. **It is having an effect!**

It is understandable that the midterm congressional elections would be a distraction, but there currently seems to be reluctance to do anything that might become controversial.

There was the appeasing expansion of the normal sixty-day comment period for the GIPSA rules to six month. The malefactors were not placated, they just became energized and this gave them additional time to create their mischief.

Must the market reform effort now stand-down until after the November elections while the opposition launches their all-out attack?

Farmers and ranchers who are systematically and increasingly shortchanged by the broken market system were heartened by the historic joint effort of USDA and USDOJ to do something about their plight. They are truly appreciative and supportive. But they see this as their last opportunity to remain independent and viable. They ask that USDA and USDOJ not let up; continue the march![FS]

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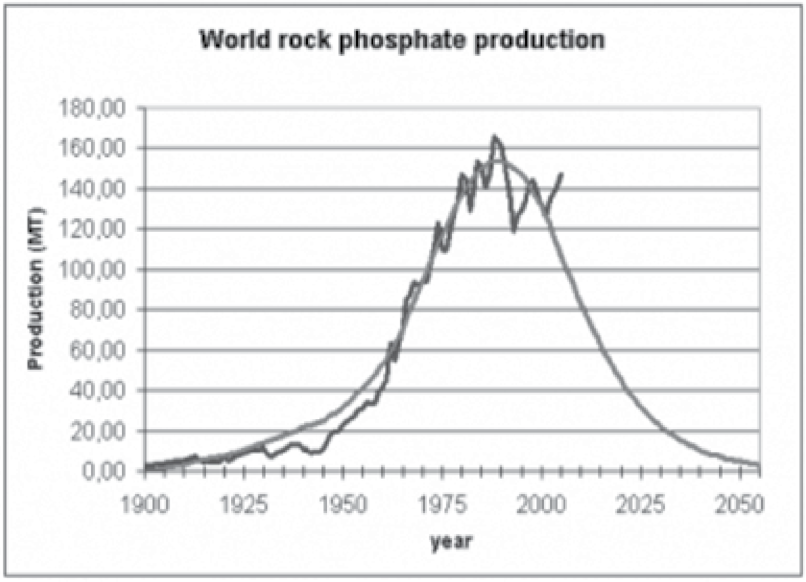
"The follow was authored by C. Robert Taylor, Alfa Eminent Scholar and Professor of Agricultural Economics at Auburn University and OCM Senior Economic Fellow and published in the Daily Yonder."

Forget Oil, Worry About Phosphorus

The world's agriculture depends on a mineral that is declining in production and is controlled by a cartel of companies. **Troubling, ain't it?**



The Oil Drum [5] Modern agriculture depends on phosphorus. But phosphorus supplies will soon be receding. Forget about the problems of peak oil. We should be worrying more about peak phosphorus.

Morocco is the Saudi Arabia of phosphorus.

Modern farming methods depend increasingly on fossil fuels and major plant nutrients: nitrogen, phosphorus, and potassium.

We know that peak oil is fast approaching, if it has not already arrived. This isn't the only shortage that should concern us. We are seeing the same coming shortages in nitrogen, phosphorus and potassium.

Peak phosphorus is occurring along with peak oil. The earth's supply of these critical resources is dwindling rapidly.

A *New York Times* writer recently said [6] that phosphorus availability is "the gravest natural resource shortage you've never heard of." The fact is, corporate and political control of essential plant nutrients may be the gravest long run competition issue you've never heard of.

And control of these resources may also be the greatest strategic issue facing the United States that you never heard of.

The country has an ambitious plan to replace imported oil with biofuels produced from plant matter. But dwindling U.S. reserves of the nutrients needed to produce biofuel feedstocks and political instability in countries where most phosphate rock reserves are held suggest that this plan may be replacing energy dependence with phosphorus dependence.

This is an issue for the world. The potential severity of phosphorus shortage has led Swedish researchers to proclaim that the global economy could flip from one that revolves around ownership of oil reserves to one based on who owns — and controls — phosphorus reserves.

The change could happen within ten to 20 years.

Where do we get our fertilizer?

The United States is increasingly

Please see TAYLOR on page 4

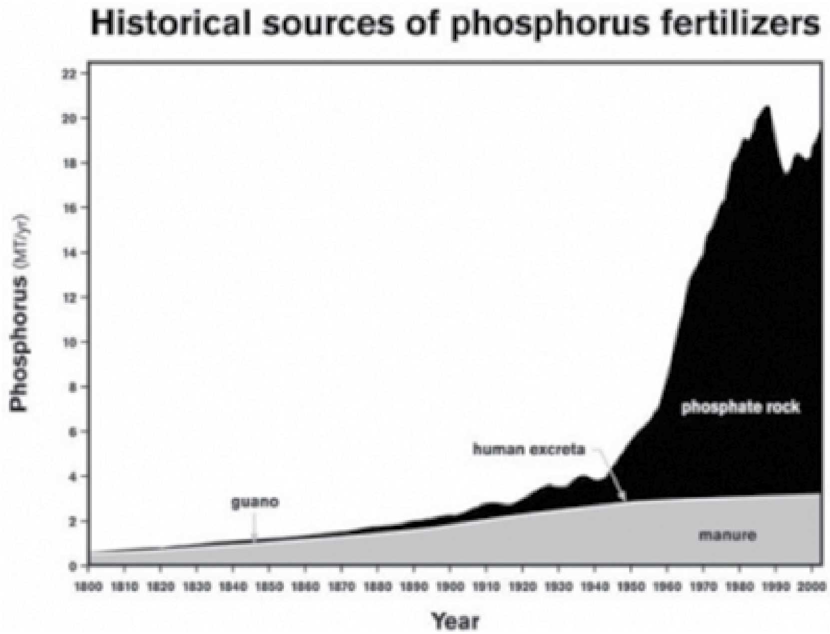
TAYLOR (continued from page 3)

dependent on other countries for critical plant nutrients. Imports account for 57% of nitrogen and 86% of potassium fertilizers used in the U.S.

At present, our phosphorus fertilizer needs are met from domestically mined rock phosphate. About one-half of this country's production of phosphorus is exported, primarily to China, Australia, Canada, Brazil, and Mexico.

Morocco is the Saudi Arabia of phosphorus.

Nitrogen is made from natural gas. So nitrogen imports come from Trinidad, Tobago, Canada and Russia because these countries have low natural gas prices. Potassium comes from Canada and Russia.



Foreign Policy [7] Agriculture now depends on phosphorus as a plant nutrient, a relatively recent phenomenon.

King Phosphorus

Of these natural resources, phosphorus is the most critical to the world's food security. Phosphorus is necessary for all living matter — plants, animals, humans, bacteria, and all other kinds of critters. Humans get phosphorus from plant and animal food products.

From a practical standpoint, phosphorus is neither created nor destroyed, but it does change form and location. Phosphorus removed from fields in plant material must eventually be replaced to avoid food and plant biomass yield decreases.

Modern agriculture is very wasteful of phosphorus. It is flushed down toilets and lost from farm fields through erosion and runoff.

Factory farming has concentrated livestock and poultry production, thereby concentrating waste production in the same areas. Livestock and poultry waste contains nitrogen, phosphorus and potassium and is a valuable fertilizer.

But this waste isn't spread around. It is heaped up in particular areas. There is enough poultry waste produced each year in the Illinois River valley in northwest Arkansas to cover a 115 mile two lane highway from Tulsa to Fayetteville to the depth of 18 inches.

Meanwhile, improper application to land or over application can cause environmental problems.

Runoff often results in problematic algae blooms—"pond scum" to rural folks--in tanks, lakes and rivers. Phosphorus from livestock waste collects in sediments at the bottom of ponds, lakes and rivers, but recovery of this phosphorus from either human or animal sources is expensive.

Who will control the supply of fertilizers?

Morocco and China have 60% of the world's estimated phosphorus reserves. South Africa, Jordan and the U.S. have smaller deposits. At present consumption rates, world reserves will be depleted within a century.

The U.S. supply will be exhausted in 15 to 30 years.

China has imposed a 100-175% tariff to curtail phosphorus exports, yet the U.S. continues exports to China. Without changes in farming systems to reduce or eliminate phosphorus waste, the United States will be dependent on politically unstable countries for phosphorus.

Fertilizer cartels

The world's fertilizer industry has a long history of government or corporate cartels. These cartels have agreements (either tacit or explicit) to fix prices at artificially high levels and to divide the market.

Between the world wars, 90% of phosphate rock exports were controlled by cartels. And cartels still dominate fertilizer reserves and trade.

China's export taxes effectively take that country out of the world market, leaving phosphorus mined in the United States and Morocco as the major sources. Trade in phosphorus is dominated by three corporations: Mosaic (Cargill), Potash Corporation of Saskatchewan, and OCP. Cargill and Potash Corp. have annual fertilizer sales of about $20 billion annually, while OCP has annual sales of phosphorus of around $10 billion.

Potash Corporation of Saskatchewan was formed as a Crown Corporation by the Saskatchewan government in 1975 but was privatized in 1989, becoming a publicly traded corporation. Potash Corp. also has substantial stock holdings in other fertilizer companies. It owns 14% of ICP (Israel, Spain, UK), 28% of APC (Jordan), 32% of SQM (Chile), and 22% on Sinofert (China).

Cargill owns or controls over 30% of the U.S. reserves of phosphate rock, while Potash Corp. has 50% of domestic reserves.

OCP is a Moroccan-sanctioned, privately traded monopoly that controls practically all of the reserves in Morocco and the Western Sahara. OCP deals exclusively in phosphorus, while Cargill and Potash Corp. also manufacture nitrogen and mine potassium.

Three company control

Having only three transnational companies — Cargill, Potash Corp., and OCP — control reserves and trade for a critical input to food production is alarming. But the political and economic control of these products is even more troubling.

Cargill and Potash Corp. form an export cartel, PhosChem. It's interesting that PhosChem was organized under the 1918 Webb-Pomerene Act that was intended to help small American businesses engage in collective export sales. It was a way for small firms to countervail the power of foreign governments.

But Cargill is the world's largest privately held corporation, and Potash Corp is a Canadian company. Neither is "small" nor is Potash "American." Yet they continue to be given antitrust immunity under the antiquated W-P Act. (For more on the potash cartel, see this recent *New York Times* article [8].)

Troubling, ain't it?

Foreign Policy [7] As phosphorus has come under the control of a handful of firms, its price has increased.

But there is more. Canada sanctioned a potash export cartel, Canpotex, whose members are none other than Potash Corp. and Cargill, joined by Agrium. Agrium is the 6th largest fertilizer company in the world and, by the way, has small phosphorus holdings in the U.S.

The world's potash reserves are primarily in Canada and the former Soviet Union. In the last few weeks, a Russian billionaire has been working on a deal to merge the two Russian potash companies, Uralaki and Silvinit, and the Belarusian company, Belaruskali. All of these mine potash. The reason given for merging these companies is "so they won't have to compete with each other," which "will be worth billions."

In the last few weeks, BHP, Ltd, the world's largest miner, made a hostile bid of $38.5 billion for Potash Corp. The Russian deal and the hostile takeover of Potash Corp., if they happen, will further consolidate mining and market power for basic natural resources.

Bottom line: World trade in potash fertilizer may be dominated by two entities, Canpotex, a Canadian cartel, and the conglomeration in the former USSR. World phosphorus trade is already dominated by PhosChem, a U.S. sanctioned cartel, and OCP, a Moroccan sanctioned monopoly.

Troubling, ain't it!

Commercial agriculture, as practiced for the past 50 years, is not sustainable because it depends so heavily on diminishing supplies of fossil fuel and mined fertilizer. Furthermore, control of critical inputs to food production by a few giant transnational businesses and politically unstable

Please see TAYLOR on page 7

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DAVID KRUSE
PRESIDENT, COMSTOCK INVESTMENTS

REVIVAL OF HONOR - PART II

The rest of the story . . . . .

When COOL was being debated, packers hated it. They made millions of dollars selling foreign product to U.S. consumers who believed it was U.S. meat and they envisioned the opportunity to make $billions, expanding on the practice, a profit scheme potentially undermined by COOL. As part of their opposition to COOL, packers launched a misinformation campaign designed to scare producers, making COOL look so ugly that even initial supporters would recoil in shock. They sent out warnings of dire consequences of COOL in producer's checks. Ultimately, it proved to be unwarranted intimidation.

They are practicing a similar strategy to pushback against new USDA GIPSA rules. The hearing held in Colorado and comment period is supposed to gather input that will shape the final product. Some concern and complaints are valid so rules need to be adjusted to accommodate value based contracts. I will believe that USDA will listen and respond correctly until they haven't. The threshold for packers to explain and document their pricing activity should not be that high for them to cross, nor should it negatively impact producer interests in the market place. Packer threats relative to COOL were grossly exaggerated and their response to new APHIS rules should be no different.

Our cattle company sells on the cash market each week. Nothing is contracted. All sales are negotiated. Our feedlot is not one of those who got lazy, adding to packer captive supply. Our feedlot contributes to price discovery each week instead of sucking the life from it as contract feedlots do. The management of the type of cattle fed, feed stuffs used and feedlot environment provided, produces a very consistent product so that the packer knows what he is getting. It's a myth perpetuated by integrators that you have to have a contract arrangement to make that happen. Most of our cattle are sold to one packer who bids what we believe is top dollar, knowing what he will get. There is an exchange of information between the feedlot and the packer without a contract between them that equals any contract out there.

Do the new rules put our feedlot system and market practices in jeopardy? There is no contract and the reason why they bid what they bid can be defined and recorded. Yet, packers are insinuating otherwise. The feedlot priced a set a cattle $1/hrd above the market and a packer told us that they had not paid it, so if they did, they would have to justify it under the new rules. They ended up buying the cattle for the asking price and the market kept right on climbing, but that didn't stop them from trying to use the threat of the rules to avoid paying more for the cattle.

Is that the rules fault or the packers? NCBA or AMI would tell you it's bad rules, but to me, it's the packers. The rules prohibit "Undue or unreasonable preferences or advantages; undue or unreasonable prejudice of disadvantages." That's targeted at sweetheart deals where captive supply is contracted to packers so they can bid lower in the cash market. The late IBP president, Bob Peterson, expressed surprise that feedlots would contract cattle to packers on a formula basis as he admitted using the captive supply to fill plant needs to avoid having to pay up for cash cattle in the open market.

More cattle are sold in the north in negotiated cash sales, 60% in NE versus just 26% in TX where the vast majority of cattle are fed under contracts. Friona Industries, a 275,000 head feedlot in Texas says, "The cash market is a very poor method for determining value." There has to be a cash price negotiated by someone somewhere in order to provide a base price for contracts that Friona thinks it is getting a premium above. Any premium they get by committing cattle to the packer helps the packer depress the base price.

We sell 100% of our cattle in the cash market and I would put our results up against them any day. A regional shift has occurred since 2000 to today where the concentration of cattle on feed has moved north from the south to the Midwest...from where they contract cattle to where they negotiate the sales.

Captive supply depresses cattle price discovery in favor of packers. In the hog industry, 94% of hogs were owned or contracted, leaving just 6% on the open market. Meat prices now determine the hogs values and packers can choose what product trade they report so that only the insiders know the condition of product movement.

That's a big flaw in the mandatory pricing law that I have not seen the NPPC try to fix because they work for the packers. Hog contract production is different than poultry contracts but market access is controlled by packers in both. Beef Magazine/NCBA would have the beef industry suffer the same fate, calling it efficiency, creativity or progress. DK

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TAYLOR (continued from page 5)

governments is unacceptable. Monopoly is bad.

The countries of the world must begin meaningful discussion about what kind of food production system and food economy are best for humanity. Those with narrow political interests or the selfish few corporate executives and their puppets should not prevail in developing a new food system.

The world's agriculture depends on a mineral that is declining in production and is controlled by a cartel of companies. ***Troubling, ain't it?*** RT

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