



Reading the Opponents Playbook

BY RANDY STEVENSON
PRESIDENT



deal with even bigger and tougher retailers. Safeway, Kroger, and even more powerful Wal-Mart, wield great market power. It is almost sad to realize that the packers probably learned many of their market power tactics from the retailers. The word

Please see STEVENSON on page 6

Multinational meatpacker JBS has abandoned its plans to acquire National Beef, the fourth largest meatpacker in the US. Both R-CALF USA and OCM had teamed up to oppose the acquisition. Although the real motive for abandoning the plans is unclear, the opposition by the Department of Justice (DOJ), R-CALF USA, OCM and 17 state attorneys general, definitely had an impact.

situations where the market can be manipulated.

Another important leftover from JBS' abandoned effort is the fact that JBS now possesses a great deal of proprietary information about the internal workings of National Beef. Even though the CEO of National Beef has made an optimistic statement about the company's future, he should realize that his biggest competitor has an inordinate amount of inside information on National.

While the information may grow more stale over time, JBS could possibly use it in today's tough economic climate to their own advantage and to National's detriment. We hope that the DOJ realizes this situation and will continue to monitor the fallout. We also hope the Packers and Stockyards Administration also wakes up to this possibility. To think that JBS' change of plans ends all the problems is foolhardy.

Rumor has it that one of the reasons for the abandonment of the planned acquisition was that it would have been extremely difficult to find an alternate buyer for the plants that DOJ was concerned about. One certainty in the wholesale beef market that JBS, Tyson, Excel and National contend in, is that it is not an open and competitive market. Perhaps it is even less competitive than the fed cattle market.

These packers, as big as they are, must

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glomeration of feedyards that has a one time capacity of 800,000 head. That situation leaves JBS with a significantly larger captive or nearly captive supply of cattle for their slaughter plants. Five Rivers is also positioned to be a significant player and a significant influence in the feeder cattle market.

Owning large feedlots grants JBS extreme leverage in the fed cattle market. No doubt, they will use it. Efforts need to continue in Congress to restrict the use of packer owned and controlled cattle in

NOTE TO READERS

From President Randy Stevenson

This month's newsletter contains two articles with differing viewpoints on grain reserves, one by David Kruse and the other by Dan Looker. OCM does not have a policy position on grain reserves. Our members differ as to their own points of view. With that in mind we have decided to provide both viewpoints, acknowledging that grain reserves or their absence have an impact on the market. We hope our readers will apply their own discernment to both of these worthy articles.

WHAT'S INSIDE

A RETURN TO BASICS

by Fred Stokes 2

OLD IDEA THAT'S TIMELY

by Dan Looker 3

THE COMSTOCK REPORT

by David Kruse 4

IT'S OK

by Richard Oswald 5

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A Return to Basics

BY FRED STOKES
EXECUTIVE DIRECTOR

For the past five or six years, the OCM Board has held a face to face, mid-year meeting. These meetings were held in various places, to include Montgomery, Biloxi, Corpus Christy and Omaha. They have served to sharpen our collective vision of what the organization is all about and helped promote a sense of brotherhood.

This year's meeting was held March 9 - 11, in conjunction with the National Farmers Union Convention in Arlington, Virginia, just across the Potomac from DC. Over the years, OCM and NFU have generally seen the issues in a similar light and worked well together. We understand the necessity of working together with those having similar goals and wanted to strengthen this relationship.

Perhaps the major issues discussed at the meeting was the theme for our upcoming annual conference and membership meeting, scheduled for St. Louis on August 7-8. OCM prides itself in having good, hard-hitting, pertinent to the moment conferences. We believe they have gotten progressively better over the years and we wanted to make this year's meeting especially good and meaningful.

We decided to build our conference program around our founding mission and principles. Bill Loughmiller, an Idaho potato grower who served on the original OCM board attended the meeting in Arlington and commented on the exceptional wisdom and insight reflected in our mission and founding principles. Certainly, the current situation in agriculture and our general economy vindicates the course we have maintained for the past ten years. Concentration and resulting abusive has been clearly demonstrated to be a major factor in today's problems. I thought it might be good to reacquaint our members and friends with the proceedings from our founding meeting at the Embassy Suites Hotel in Kansas City more than ten years ago.

I commend the following to your attention.

MISSION STATEMENT, POLICIES, OPERATING PRINCIPLES, AND

RESOLUTIONS

As adopted by the membership of the Organization for Competitive Markets on August 26, 1998 - <http://www.competitive-markets.com>

1. **MISSION:** The mission of the Organization for Competitive Markets is to re-establish fair and truly competitive markets for agricultural products; and to protect those markets from any abuse of power.

2. **POLICIES:** This mission will be accomplished by actively pursuing the following policies:

a. Understanding and explaining to the public the threats to agricultural markets and to the public interest by concentration, vertical integration and other abuses of power;

b. Organizing producers and other concerned citizens to take responsible direct action in support of the OCM mission;

c. Working for appropriate public policies that facilitate competitive markets and the enforcement of those policies by:

(1. Working for equal access to all markets for all interested buyers and sellers;

(2. Working for equal access for all interested parties to all relevant market information, both domestic and international;

(3. Working to provide accurate, unbiased information;

(4. Working for accurate, honest, public reporting (price, quantity, quality, timing) of all agricultural commodity transactions, both domestic and international;

(5. Working for the removal of barriers to entry or exit, into or from agricultural industries or markets, both domestic and international;

(6. Working to end or significantly reduce captive supplies in all commodities;

d. Funding, advocating, and encouraging unbiased research;

e. Seeking foundation or other funding to support OCM, which is consistent with our principles and mission.

f. Pursuing possible class-action lawsuits or other legal methods, both domestic and international;

Please see STOKES on page 6

OLD IDEA THAT'S TIMELY

Last year was a textbook example of the need for grain reserves to moderate prices and to keep your grain-buying customers alive



BY DAN LOOKER
Business Editor
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I'm heading out on a limb to back an idea that's never been hugely popular with grain growers. There aren't too many of us out here. There's the National Family Farm Coalition, the American Agriculture Movement, and the American Corn Growers Association. And I shouldn't forget the respected agricultural economist, Daryll E. Ray, who heads the University of Tennessee's Agricultural Policy Analysis Center.

What do we all have in common?

We favor reestablishing some kind of significant national grain reserve.

A PRESCIENT WARNING

As early as last May, Ben Burkett, a vegetable grower who is president of the National Family Farm Coalition, was complaining that the new Farm Bill has no grain reserve.

"We are now just one weather disaster away from seeing \$10-a-bushel corn or \$20-a-bushel wheat with absolutely no plan in place for such a calamity," he said.

At the time, many of us probably would have asked what was wrong with \$10 corn.

Now we know.

The Corn Belt didn't have a serious drought last year. But planting delays and widespread flooding in Iowa and nearby states helped push cash corn prices above \$7 last summer. A few fortunate corn farmers sold near the high. Most didn't.

Only months after that, one of the nation's largest ethanol companies, VeraSun Energy, was bankrupt. So was the chicken producer, Pilgrim's Pride. Overexpansion and management undoubtedly were factors, in VeraSun's demise. In hindsight, we know that speculators helped drive

grain prices upward.

But 2008 was a classic example of the saying, "Nothing cures high prices like high prices." In a recent supply/demand report, the USDA

'A drought on the scale of 1988 would make last year's food-vs.-fuel debate look downright polite.'

trimmed expected corn use for ethanol by about 300 million bushels.

I've written about this before. And I've heard from many of you who say that grain reserves are a ceiling on market prices. They are. But they also provide some stability for feedlots, ethanol plants, and other end users.

Last year we saw what happens to your customers when they're whipped by extreme price volatility. The effect of end users going out of business was probably far worse for your bottom line than any weight on prices from a reserve. Grain prices didn't just hit a ceiling, they fell like a rock. The collapse of the general economy had a lot to do with that, too. But a widespread drought like the one we saw in the Corn Belt in 1988 would be just as bad, maybe worse, for agriculture.

Unlike some members of groups who want to reestablish the supply management that existed until the 1996 Farm Bill, I don't see grain reserves as a route to prosperity.

The larger commodity groups that have long promoted new uses for our crops — ethanol, plastics, lubricants, and other products — have the real answer for driving prices higher.

But those industries cannot thrive without a reliable supply of inputs. A drought on the scale of 1988 would make last year's food-vs.-fuel debate look downright polite.

VIRTUAL REALITY?

Conventional wisdom says international trade will fill any gaps. Economist Daryll Ray disagrees.

"Agricultural trade negotiators also ignore the needs for physical reserves of storable commodities," he says. "Trade theory assumes that if country A runs short of a commodity, it doesn't need physical reserves because it can get it from country B or C or D. But occasionally a number of countries have production problems in the same crop year. That is when physical reserves are needed. Virtual reserves will not do."

We learned the hard way in 2008 what happens when banks have virtual collateral. Let's hope that in 2009 the world doesn't have to eat and drive on virtual reserves. ■

**DAVID KRUSE**

PRESIDENT, COMSTOCK INVESTMENTS

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The subject is Grain/Food/Commodity Reserves. I'm surprised at how many U.S. farmers, farm organizations and farm writers, who want limits put on ag markets so that they don't ration tight supply with price, thereby providing farmers maximum incentive to expand production. They favor what they call Strategic Grain Reserves.

They are called strategic because they provide a supply of last resort to avert shortages so that endusers, consumers and governments don't have to protect themselves by maintaining reserves of their own. The government essentially acquires stocks to do that for them and hold/store these stocks to provide a residual supply should tight stocks occur that raise market prices.

We've gone down that road before in the U.S. and it worked from the enduser/consumer's point of view. Strategic grain reserves act as a lid on the market. Stocks typically never get so tight that when stored supply from reserves is opened like the flood gates on a dam that prices won't fall and farmers get soaked.

That's the whole point of having strategic reserves which is to protect endusers/consumers from high prices resulting from short supplies. If you are on that side of the fence, I can see why strategic reserves have appeal. Producers/farmers however, are not on that side of the fence

and depend on supply/demand functioning as much in their favor as it does the other way against them. China is building strategic reserves of many natural resources. As such a large consumer of commodities and raw materials, they see shortages of basic commodities as a strategic security issue. They have known hunger and the communist government knows that despite their power, their continuing control rests on satisfying the basic needs of their people. Government fear of social unrest drives their economic plan which includes strategic food and fuel reserves.

The U.S. has a strategic petroleum reserve because it imports large quantities of oil and is therefore dependent on foreign supply. China imports large quantities of virtually everything to meet the needs of its vast population. That dependence on foreign sources of supply makes strategic reserves sensible and desirable. The primary difference from the strategic petroleum reserve with a grain/food reserve in the U.S. is that we are by a significant measure, a net food exporter.

We don't currently depend on anyone else to feed us. The U.S. farmer provides cheap/bountiful/healthy food. There is absolutely no reason for a U.S. food/grain reserve because there is virtually no conceivable risk for shortages in the U.S. food supply. We import food because we want to, not because we have to. We may like French wine, Peruvian plums, or Mexican tomatoes but we can provide for ourselves all the calories needed for Americans. There is a natural argument to be made for other nations who depend on imports to maintain strategic food reserves, but none for us to do it for them. That is a cost that they should bear and the U.S. taxpayers

have plenty of things to fund of their own without bearing the cost of something that they don't need.

The 2008 market spikes were extremely short lived. There was never any real danger of shortages. Exports of corn actually grew all the while we were expanding the ethanol industry and corn production to meet it. The price rally did exactly what it was supposed to do which was give farmers the financial incentive to grow more and they did.

Successful Farmer Business Editor, Dan Looker, suggested that VeraSun and Pilgrim's Pride bankruptcies were caused by shortages that could have been averted by strategic grain reserves. The risk management prowess of these companies was so inept, they created their own problems and their demise. Had these companies had no risk management programs, instead bought and sold daily on the spot market, both would have likely avoided bankruptcy as the real losses from what was a relatively short period of high corn prices would have been very small compared to what they reported from so called, "hedge losses," magnified by risk management failures.

No strategic corn reserve would ever guard against that much incompetence or should one have to. Farmers have to manage their risk and endusers have no less responsibility. We have had a cheap food policy in the U.S. for several decades and no one has starved in the U.S. because our food was too high priced or any shortage existed. Strategic grain/food/commodity reserves are meant to hold prices down and protect national security interests. It would be smart for China, Japan, South Korea and many other nations dependent on the U.S. and other commodity producers for grain/food to maintain strategic reserves. It would be dumb for us to do it for them. ^{DK}

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It's OK

BY RICHARD OSWALD

Most farmers aren't comfortable with harvesting a crop while the seed's still in the bag, but that is what USDA does every year.

One thing I've learned from being a farmer is that USDA generally thinks it knows more about my business than I do. Like most farmers I generally scratch my head when I read the first projections out of Washington, telling the world what I'll earn and what I'll grow in the next 12 months.

Already this year USDA is spreading the word that my income will be down 20%. They've made the first early predictions of how much I'll plant, and where.

The message to end-users is "you need not worry; America will have no shortage of food commodities."

There are no secrets in my business. Compare that to big corporate food companies that sell tainted peanut butter laced snacks for years on end, or banks that were broke before anyone knew.

My business is an open book, but all the information in the library isn't free, or even known. Big corporations have learned to keep their secrets to themselves while Big Food has educated Americans to consume unknown concoctions from colorful Mylar envelopes. It's all about tolerance, because there is a certain tolerance for contamination of every thing we eat, even for salmonella in peanut butter sold over a two year period.

What USDA knows, and FDA and the Department of the Treasury doesn't know seems strange.

But to quote a friend, "Hey-- it's OK!"

That's what I heard Joe Maxwell say at the Missouri Farmers Union annual meeting in late January when he spoke on the current condition of farming. Joe is an attorney, former Missouri Lt Governor, and, along with his brother Steve, a

fourth generation Missouri family farmer.

According to Joe, there are different approaches to farming.

When a farm can no longer feed the farmer, he rents it out or sells it, and the farmer who picks up that acreage becomes big enough to survive a while longer.

What Joe and Steve have figured out is that the same farm that provided for their family for 3 generations is no longer large enough to sustain itself as one of USDA's commodity farms.

So the Maxwell's started thinking about what would make their farm profitable and sustainable. That's the type of thinking behind Heritage Acres Pork, Sappington Market, Missouri's Best Beef, and Gateway Beef. All are Missouri cooperative businesses, and products of the Family Farm Opportunity Center, an outgrowth of Missouri Farmers Union seeking to build new generation cooperatives in order to offer marketing power to small and medium sized family farms.

The way Joe sees it, if farmers want to produce USDA regulated commodities, "It's OK". But if farmers want to grow and market food to earn a better return and sustain the family farm, then, in Joe's words, "that should be OK, too".

As I learned from attending a Growing Growers of Kansas City market gardening workshop held at the Buchanan County Missouri extension office in St Joseph last summer, the challenges of marketing food can be as great as those involved with producing the food.

Growers attending the workshop heard from agronomist/grower Tim Walters, K State plant pathologist Megan Kennelly, and K State entomologist Ray Cloud. Then we traveled south to the outskirts of St Joe and Natures Choice, a food farm owned by Fred and Helen Messner.

Fred says pretty much the same things that Joe Maxwell does. A small farm cannot compete on the same playing field with big commodity farms. Fred's original farm was a dairy. He took a time out from farming to take a job working in Australia. That's where he met Helen. Eventually Fred and Helen came back to America and bought the 40 acres that became Natures Choice, something Fred calls an "enterprise based farming operation". In such a competitive business, Fred said that food farmers need to innovate continuously, because other farmers, the competition, adapt rather quickly to gain market share.

But that stands in contrast to something Joe said, that as big corporations take away more market share and gain more control of markets they tend to let small pieces of the market fall away. That gave Joe, Steve, and Heritage Acres an opportunity when small proprietary sausage makers in places like Kansas City or California were finding it harder and harder to locate reliable local supplies of high quality fresh meat.

Joe told the story of introducing a group of potential buyers to hog producer and MFU president Russ Kremer. After riding in the car with Russ from the airport to the farm and seeing how Heritage Acres pork was grown by over 50 area farmers, the buyers were sold.

That a big part of marketing involves acquainting grower/sellers with buyers was echoed by Fred, but Fred found that in order to market effectively, getting the buyers attention in a farmer's market setting takes some doing. One thing that worked for him was selling piles of vegetables in order to give customers the feeling they are getting a lot for their money. According to Fred, "The bigger the heap, the better it sells." He said that time after time, consumers would walk up to him to ask if he had a particular vegetable or fruit even though he had several small

Please see OSWALD on page 7

STEVENSON (continued from page 1)

is that retailers have been able to strong-arm packers into providing beef on long-term fixed-price contracts for several years now. Even though packers input costs vary at least weekly with the price of fed cattle, they have reportedly made agreements with retailers to fix the price of beef for months at a time.

Retailers like fixed prices because they are more palatable to consumers. Varying prices on commodities impact consumers negatively. They like to know what to expect before they get to the store, and they like the prices to be somewhat like they were on their last visit. Catering to the consumer is commendable, but retailers actually would have to manipulate the market in order to accomplish this. But over the long haul, the integrity of the market is more important.

It is also likely that packers would not agree to such a fixed price arrangement unless they had some reasonable assurance that they could exercise some control over their input costs. If they could not, they would be signing their own death warrant with each contract. By far, the greatest input cost for packers is the cost of fed cattle. Thus, market manipulation by packers is probably the only way they would be able to survive in a wholesale beef market that is non-competitive.

Data from the USDA suggest that something like this has been happening. USDA reports of operating income from the 40 largest meatpackers shows that the group of the ninth to the twentieth largest packers had the highest, the top four largest firms had the smallest over a thirteen year period. Aside from the possibility of of management inefficiencies due to the size of the corporations, one major difference between the companies in the different groupings is that the customers of the big four are retail giants. The indications of market power by those giants is abundant.

Because of all these factors it is unlikely that a buyer of only one or two of National's slaughter plants would survive. JBS knows it, and any potential buyer would know it.

It is not only the cattle market that is broken, but the beef market, too. Fixing only one would be a great challenge, but the reality is that the whole thing needs fixed. Retailer market power is a major contributor to the continuing enlargement of the farm to retail price spread in beef. Our work is certainly cut out for us.^{RS}

STOKES (continued from page 2)

3. OPERATING PRINCIPLES: The following operating principles will function as interim bylaws for the OCM until a full set of bylaws can be considered, recommended and approved at the next full membership meeting.

a. There are two categories of membership in the OCM: founding members and regular members, each with full voting rights, i.e. one membership-one vote. Membership is vested in individuals only. There are no company, corporation, organization, or collective members of any kind.

b. Founding members make a one-time contribution of \$1,000 (which includes dues for one year). Founding members may pay annual dues of \$200 after the first year. Founding members agree to have their names identified as founding members in OCM materials.

c. Members make an annual contribution of \$200 (annual dues). Membership in OCM is by invitation of members only.

d. The OCM is a one-member, one-vote, democratic organization. The OCM will hold at least one full membership meeting per year (annual meeting), with other meetings scheduled as needed.

e. A nine (9) member interim Board of Directors will be democratically elected, from among OCM members, at the initial OCM meeting to be held in Kansas City, MO, August 25-26, 1998, to a one-year term of office. This board will establish a subcommittee to prepare recommendations for the membership and make-up of future OCM boards including, but not limited to, the number of board members, staggered terms of membership, geographic dispersion, commodity coverage, and areas of expertise represented on the board. The full OCM membership will vote on the size, make-up, and other characteristics of the OCM board, and will elect a board meeting these characteristics at the second annual OCM meeting.

f. The full OCM membership, at the initial meeting and at subsequent annual meetings, will elect a President and Vice President, to one-year terms, from among the elected board members.

g. The Board of Directors will elect other officers to one-year terms of office from among its membership. Such elected officers, along with the President and Vice President, will constitute the Executive Board of the OCM.

h. The OCM is a member-driven organization. With membership comes responsi-

bility, including: actively working to achieve the mission and carry out the policies and operating principles of the OCM; serving on committees, subcommittees, task forces, or other working groups; and voluntarily applying talent, expertise, and time to accomplish the OCM objectives.

i. The Board of Directors may hire staff persons or contractors who are dedicated to the mission, policies, and operating principles of the OCM.

4. RESOLUTIONS: Adopted by the membership of the OCM on August 26, 1998.

BE IT RESOLVED: that the members of the Organization for Competitive Markets (OCM) encourages its Board of Directors to work for legislation and government action to reverse the negative effects on competitive pricing of agricultural products caused by:

- i. vertical integration;
- ii. packer/processor concentration;
- iii. anti-trust violations in the agricultural markets;
- iv. and retail price fixing.

BE IT RESOLVED: that the OCM endorses the efforts of the Cattlemen's Legal Fund and RCALF.

BE IT RESOLVED: that the OCM will call for legislative hearings on agricultural concentration and the free market system in agricultural commodities.

BE IT RESOLVED: that the OCM will actively pursue legal action in support of its goals.

BE IT RESOLVED: that the OCM will work toward elimination of interstate trade restrictions on state inspected meat products entering interstate commerce as long as state inspection regulations are at least equal to the quality standards of the federal government in order to encourage competition in the meat processing industry.

BE IT RESOLVED: that the OCM supports country of origin labeling for all meats.

BE IT RESOLVED: that the OCM will use the opportunity of the Farmer's Wife film to educate the public about market concentration.

BE IT RESOLVED: that the OCM will support mandatory, daily price reporting from those meat packer/processors which slaughter or process 5% or more of any species of livestock. Such price reporting shall come from parties on both sides of the

Please see STOKES on page 7



STOKES (continued from page 6)

transaction, include domestic or international transactions, as well as meat sales, in order to facilitate transparency of market activity necessary for a fair and open price discovery process.

BE IT RESOLVED: that the OCM supports the petition for rulemaking pro-pounded by the Western Organization for Resource Councils (Fed. Reg. Vol. 62, No. 9, January 14, 1997) regarding captive supplies in the beef industry.

BE IT RESOLVED: that the OCM will work to reduce captive supplies in all agricultural commodities.^{FS}

Adopted August 26, 1998

OSWALD (continued from page 5)

piles of them on the table in plain sight. So he developed the strategy of keeping most of his stock out of sight except for one attention getting heap in the middle of the table; people buy more readily when they think the supply is limited.

While the perception of a limited supplies worked for Fred, it was the fact that supplies of certain products were indeed lim-

ited that makes other markets work. In addition to his full time off farm jobs in local warehouse and operating the family farm, Steve Maxwell took on the job of driving a refrigerated meat truck for Heritage Acres from one side of the state to the other in an attempt to build market share among state retailers. With Sappington's Market in St Louis, a wide variety of Missouri food from asparagus to zucchini, is available in season alongside Heritage Acres Pork, Missouri's Best Beef, and other Missouri products. Unlike the farmers markets that Fred Messner attends, Sappington is more along the lines of a supermarket, advertising the farm origins of it's food right down to the farmer who grew it.

Still, in order to produce Heritage pork for Sappington and other wholesale and retail outlets, slaughter has offered even greater challenges than marketing.

All that seems to have changed with an agreement struck between Heritage Acres and Tai Shin Foods, a Taiwan based corporation. When Tai Shin came to Pleasant Hope Missouri they did so with the intent of buying and slaughtering part of the thousands of head of hogs that are grown in and around that part of Missouri. After

investing in a modern state of the art facility complete with worker dormitories, they learned that most hogs grown in the area were already under contract. At the same time Heritage Acres, having finally made inroads with buyers like Chipotle Grill, was struggling to meet demand for their product. Slaughter was proving to be the biggest bottleneck. Now, thanks to the agreement with Tai Shin, heritage acres is able not only to process their own pork, but also to buy additional hogs from local producers in order to satisfy a growing demand.

That's a dream come true for people like the Maxwell brothers, Kremer, and all the other members of the Heritage Acres cooperative.

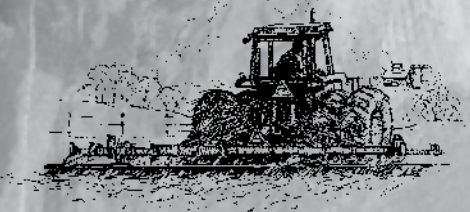
Chances are if you ask the members of Missouri Farmers Union if it has all been worth it, they'll agree that the struggle was real. But like Joe Maxwell says, "It's OK", because the rewards of markets and the chance to profit offered to family farms have been more than worth the wait.^{RO}



See us on the web!

MISSION STATEMENT

The **MISSION** of the Organization for Competitive Markets is to re-establish fair and truly competitive markets for agricultural products; and to protect those markets from any abuse of power.



MARK YOUR CALENDARS

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August 6-7, 2009

Membership Meeting
August 8, 2009

St. Louis, Missouri

Watch for more details!

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March/April 2009

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