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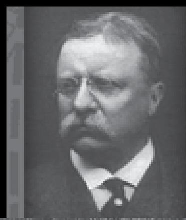
OCM NEWS | MARCH 2011



The Stevenson REPORT

The GIPSA Bubble

BY RANDY STEVENSON, PRESIDENT

When the market moves, there is usually more than one single factor involved. This is especially true the more long-term we look at the market. But it is also common that one factor or another may have a stronger influence at any given time on the status of the market.

It seems strange that over the past few months a rise of price in the cattle market has coincided with concern over the new rules proposed by GIPSA. It is a fact that cattle numbers are down to historic lows. This has been brought into being because of a historically lengthy fourteen year liquidation phase. Such a long liquidation phase is an indicator of a broken market. There is no reason not to believe that such a short supply would have an effect on the market. But it is also easy to believe the short supply is not the sole factor at work.

> **Human nature makes us check our speedometer when we see a cop car by the side of the road.**

Human nature makes us check our speedometer when we see a cop car by the side of the road. We instinctively make sure our speed is just under the limit. Usually that involves slowing down just a bit when we think we are being watched.

I also think that the meatpackers and others in the supply chain have been guilty of collusion in the market. Much of that collusion, I think, has been tacit, and therefore difficult to see and prove. But as the supply diminishes, the possibility to collude quietly diminishes with it. The meatpackers, knowing they are being watched, and with new regulations on the table, they are driving more carefully now.

Therefore, I think part of the cause for our good prices for cattle right

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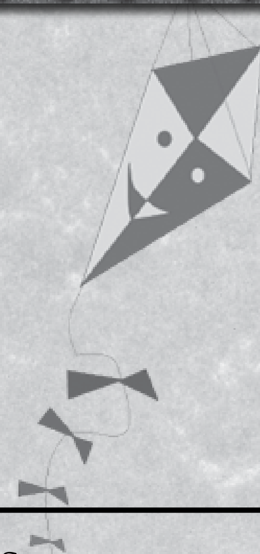

What's INSIDE...

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The opinions of the authors presented in our newsletter are their own and are not intended to imply the organizations position. OCM has membership with diverse viewpoints on all issues. OCM is committed to one and only one principal; competition.

Reforming the Marketplace;

What's next?

THOMAS F. "FRED" STOKES
Executive Director

In a February 9th letter to Agriculture Secretary Vilsack and Attorney General Holder, Senators Patrick Leahy and Charles Grassley state; "we would appreciate an update as to what the DOJ and USDA plans for its next steps." The two senators, Chairman and Ranking Member of the Senate Judiciary Committee, were referring to following-on actions after the conclusion of last year's joint DOJ/USDA workshops. "What's next" seems to be the question on the minds of lots of folks these days. I frequently hear; "They've given us hope and the expectation of better days for farmers and ranchers, but when will we see some action?"

Mr. Secretary and Mr. Attorney General, your unprecedented initiative renewed our hope; but when can we expect relief from the dire situation you so eloquently portrayed at the joint workshops?

In 2009, plans were announced for a historic series of workshops to examine the competitiveness and fairness of markets that affect the livelihood of farmers and ranchers. Also at that time, DOJ began an investigation of anticompetitive practices in the transgenic seed industry.

Between March and December of 2010, a series of five workshops were conducted, dealing with row crops, dairy, poultry, livestock and retail margins.

On June 22, 2010, the proposed GIPSA Rule was posted on the federal register.

During July of 2010, the results of a performance review of the NCBA handling of the Beef Checkoff Program revealed serious irregularities, which precipitated an audit by the USDA Inspector General.

The above events generally worked to the chagrin of big agribusiness, meat packers, poultry and pork integrators and their associated organizations, politicians and various other colluders. But, these happenings help break the cynicism of independent farmers and ranchers and gave them hope that our government was going to finally address the marketplace ills that had systematically shortchanged them and unjustly rewarded processors and retailers. Just maybe the prices they received for their crops and livestock in the future would be the product of a dynamic and competitive market rather than the reflection of the market power of buyers.

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MO Big Pig

The Missouri legislature is passing laws that makes the world safe for Big Pig. That means, the world is a lot less safe for the rest of us.

BY RICHARD OSWALD

My dad, when he was about 10 years old — back when Big Pig was just a hog.

One of my favorite pictures is one of Dad when he was about 10 years old, standing next to Granddad's prize hog.

A good caption would be "Are you gonna eat that?'

That's about the way some of us in Missouri feel about the current CAFO hog craze raging through the Missouri state capitol, Jefferson City. (CAFO, as in Concentrated Animal Feeding Operation.) The House and Senate have both passed bills allowing Big Pig CAFO corporations to do just about anything they want.

According to the wisdom of our elected leaders, if a CAFO damages a neighbor, damages are limited to the sale price of the property. Wreck my home and all you have to do is hire an appraiser, get a price and buy me out.

If this had been science fiction instead of a real life story of bad legislation the title would have been "The Hog That Ate Missouri."

What the Missouri General Assembly affirms is that there's no such thing as a bad CAFO. If you want to compete with corporations, big or small, or simply live next to them, then you'll have to do it on their terms even if you were living there first.

Don't get me wrong, I'm a farmer. I've had fertilizer of the livestock variety on my boots and I'm not allergic to it. It's just that what's going on here is an insult to responsible livestock producers wherever they are.

Whether you like them or not, not every CAFO is all bad. Some facilities are well designed and maintained, placed in just the right spot. Others are chronic bad actors. The good ones don't deserve to be lumped together with the bad.

But that's what Missouri has done by taking away the incentive to be good.

The St. Louis newspaper writes: "State lawmakers have embarked on an unprecedented expansion of government power to intrude on private-property rights."According to Missouri House Bill 209 and Senate Bill 187, if Big Pig encroaches on my rights, the best I can do after hiring a lawyer and fighting all the way to the Supreme Court, is win the amount they cost me. They're free to take, and take, and take again, until they've taken the full value of my property without ever paying a penalty. If the stink from a Big Pig operation devalues my $200,000 property by $75,000, the CAFO is liable for $75,000. That's it. No damages.

Once the value of my home is eaten up, I'm fresh out of luck.

When the House and Senate blend

Please see OSWALD on page 6

... Now that Missouri has greased a path for Big Pig pollution that resembles corporate take-all power of eminent domain, and Missouri voters have lost a big slab of their property rights....how big can Big Pig in Missouri grow?

(With Permission to reproduce)

David Kruse
President, ComStock Investments

Darden Restaurants, which own Olive Garden and Longhorn Outlets, believes food prices and net energy costs will rise 1.5-2% this year and 3.5-4% in 2012. Darden has locked in 100% of its seafood for this year and 30% for 2012. It has bought 75% of its beef needs for 2011 and 40% for 2012. These two foodstuffs, fish and beef, account for 80% of Darden's food costs.

The Restaurant's holding company thinks that it will make money, boosting its profit projections. Darden is running a good business. What we are going to find out, what I believe will be a revelation to many, is that raw commodity prices can rise so much, products like corn and cotton can double, and yet it will have "little" impact on retail food and clothing prices.

At $4/bushel for corn, a 10 oz box of cornflakes has 5 cents of corn in it. At $8/bushel, it's 10 cents. When that happens, it triggers this reaction in food companies. They raise the price of cornflakes 45 cents a box and blame it on ethanol.

The truth is that ethanol, used as a scapegoat, is making food processors richer. Food ingredients make up such small price components of finished foodstuffs that they can double, triple or even quadruple without much impact on net costs to consumers. When corn prices fell as they did in 2009, food processors didn't lower prices. They profited. When the price of cotton doubles, the price of clothing won't double. Clothing manufacturers spend more on labor, energy and marketing than they do on cotton.

Many will be surprised at how easily commodity cost increases are absorbed by mills and processors, although as their margins will be squeezed, they will want everyone to think that is the reason that they are raising prices so much. I think what we will find out is that commodity prices in terms of relative value to equities, wages, salaries and Wall Street bonuses, had gotten just too cheap and a long delayed adjustment was necessary.

It took China and biofuels to unleash ag values. Many don't like it. The complaining will get louder. They loved the cheap food policy that kept farmers farming for the government, living off subsidies that depressed prices for endusers. That period, which has passed, will be thought of as the good old days for endusers. China's economic growth is the primary driver behind world food price inflation, soaking up world commodity production capacity.

Other factors include European rejection of biotechnology by limiting crop production to lower productivity, non-GMO crops and raising prices by restricting market access to non-GMO commodities when GMO food/feedstuffs are much lower cost. The rising cost of energy, factoring into production, processing, and transportation costs is a primary general food cost inflation factor.

One time weather events have significantly impacted grain prices, drought in the Black Sea region, floods in Pakistan, floods in Australia, drought in Argentina and numerous weather events trimming acreage and yields elsewhere combined to tighten stocks. I believe biofuels as a factor raising food prices comes in below all these others in significance, contrary to how ethanol is portrayed in the media.

Ben Bernanke doesn't see inflation as a major threat. The

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1970's saw a wage and price inflation spiral. We are so far away from producing any wage inflation as the U.S. workforce is so much more worried about getting a job than what it pays, business labor costs are low with no prospect of any tightening of the labor market enough to significantly raise wages.

QE2 was absorbed into credit markets so fast that the sea of liquidity feared by inflationists, is imaginary. Wage and price inflation occurs when labor and product market capacity get too tight. Agricultural products are only one small ingredient in general consumer products and proving that they can adjust without triggering a general wage and price inflation spike. If one occurs, it won't be because of what the Fed has done. China is managing its commodity stocks well. They maintain strategic reserves and import to manage supply relative to consumer demand.

The country producing more risk to me is India. India protects its ag markets by restricting imports. The modernization of their agriculture has bogged down and the Green Revolution is exhausted. The result is a much less content population and higher inflation. India's population growth is unsustainable, poised to exceed China's. They don't have the cash reserves that Beijing has and is blocking further ag trade liberalization in Doha that could open their markets, allowing an import component to managing Indian food price inflation.

The Economist Magazine advises, "Central bankers should not be very alarmed either by the scale or by the dynamics of overall inflation. Inflation is up, but hardly high. In no big economy, emerging or rich, is it at the peaks reached in 2008 (in America it is merely 1.5%.) Much of its recent rise is driven by what are clearly one-off factors, from weak Russian harvests that sent grain prices soaring to the rise in value-added tax in Britain. Central bankers should ignore such temporary shocks. Their role is to prevent one-off surges from translating into persistently higher pressure on prices. So far, there is little evidence of that."

I don't believe that surging commodity prices will necessarily turn into the inflation that so many fear. I think that it is just a necessary repricing of an under-valued sector. Food has been too cheap too long. I think that China and populations of new consumers being created by global economic growth in emerging nations is the primary driver for higher commodity prices.[DK]

STEVENSON (continued from page 1)

now might be partially due to something we could legitimately call "the GIPSA Bubble". Because of the obvious watchfulness on the part of regulators, the ones regulated are more cautious and let the ordinary market forces work properly instead of struggling together against them.

At the same time, we see another anomaly. While the retail price of beef is going up a little, the rise does not even closely match the rise in the value of fat cattle. What that tells us is that something either has been or is amiss in the market signals going from feedlot to consumer. Retailers are apparently willing to give up some of their share of the share of the retail dollar, keeping the eyes of the regulators looking elsewhere.

The bottom line is that just because the price of cattle is good right now, it doesn't mean that the broken market has been fixed. It only means that some of the players have slowed down a bit because the cops are watching. We should not see the increase in prices as and indicator of a cured market. One thing we should ask is whether feedlots are getting more and competitive bids and inquiries than before. It could easily be the case that meatpackers are not necessarily being more competitive, but rather that they still possess the same market power that they always have. They just haven't been abusing it as they have before.[RS]

STOKES (continued from page 2)

The workshops clearly showed that the markets were broken. Perhaps the best evidence was revealed at the December event in DC on retail margins. Irrespective of their rapidly increasing production input costs, the farmer's share of the food dollar consistently gave way to increases in the share of food retailers. Claims that this was due to inflation and advances in convenience ring hollow.

The posting of the GIPSA Rule on the Federal Register was greeted with a firestorm of opposition from meatpackers and their cabal. Their efforts to intimidate, stall and confuse the issue were at least moderately successful. The comment period was extended and their demand for an economic impact study was granted.

The 60,000 comments are now being evaluated and the final decision on the GIPSA Rule becoming final will be well into the future. If it is ultimately finalized in anything close to its current form, it will almost certainly be challenged in court with an uncertain outcome.

The poultry workshop graphically showed the gross abuses of contract growers by integrators. DOJ officials seemingly were incensed at the poignant stories told by some 50 growers. Yet, some of these same growers who testified at the workshops have since had their contracts terminated without prompting an investigation to determine whether or not this was a reprisal action.

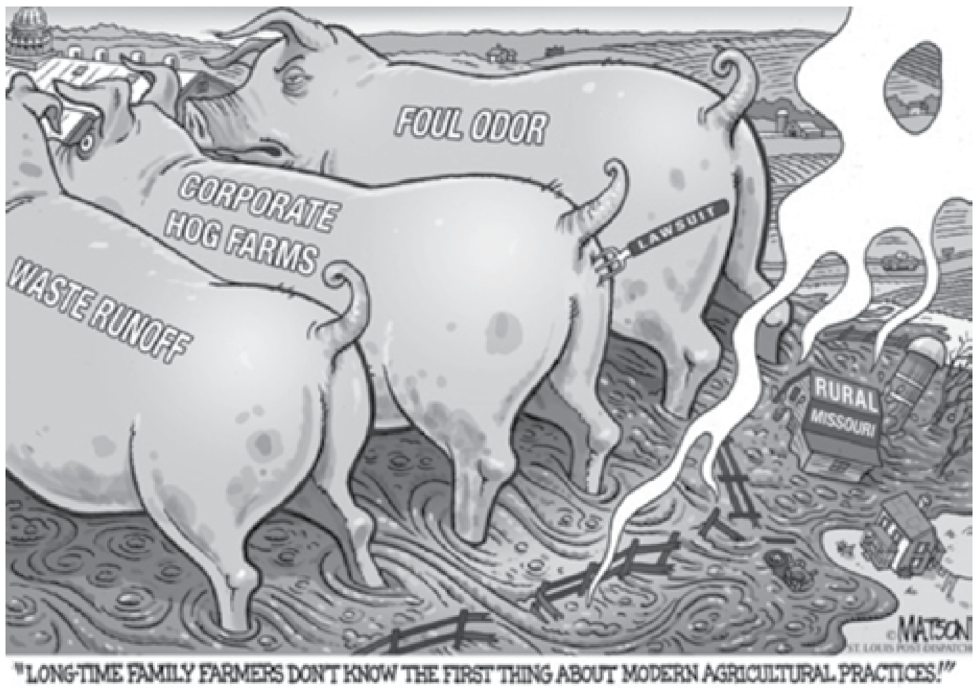
Some eighteen months after DOJ initiated an investigation, no court action regarding the outright monopoly in the GMO seed market is in evidence.

Farmers and Ranchers are still being put out of business by market concentration and anticompetitive practices.

An audit of the Beef Checkoff is now underway but will likely not be completed until this fall. In the meantime, NCBA continues as the prime contractor (handling some $30 million per year) after being exposed as having failed in its fiduciary responsibility and as betraying the trust of producers who are required to pay the checkoff.

The flawed Appellate Court rulings which require a showing of harm to competition before consideration of individual harm continue to shield packers and integrators from the consequences of their violations of the Packers and Stockyards Act.

Mr. Secretary and Mr. Attorney General, your unprecedented initiative renewed our hope; but when can we expect relief from the dire situation you so eloquently portrayed at the joint workshops? FS



St. Louis Post-Dispatch

OSWALD (continued from page 3)

the two bills and make them one, about the only hope left is that Governor Jay Nixon, a long time proponent of local control since his Attorney General days, will refuse to sign such stinky political offal into law.

What prompted this bill? Well, last year 15 residents in northwest Missouri sued Premium Standard Farms (a CAFO with a reputation) and won $11 million in damages. PSF is owned by the momma sow, Smithfield, and they site this verdict as evidence that Big Pig needs the overreaching protection of the Missouri legislature. The folks who rendered this lard in Jefferson City say like it or lump it, that's the way the sausage sizzles.

Look out below, they're not done yet. The Missouri Senate must now consider SB 278 that would give Big Pig protection against damages under the water laws.

There's one unanswered question that lingers in the minds of many; Now that Missouri has greased a path for Big Pig pollution that resembles corporate take-all power of eminent domain, and Missouri voters have lost a big slab of their property rights….how big can Big Pig in Missouri grow?RO

Richard Oswald is a fifth generation Missouri farmer, a regular Yonder columnist and President of the Missouri Farmers Union.

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