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MARCH 2007

OCM NEWS

Higher corn prices – a bad thing?



BY
**KEITH
 MUDD**

I guess I'm just a little bit confused, which according to my lovely wife is nothing new, but for the sake of argument let's presume this is uncharted water for me.

We must return to a more equitable level of price relationship between agricultural commodities.

As a corn farmer the past decade has been a time where low prices have resulted in high levels of embarrassment. As prices have slid lower and lower the level of discomfort has risen to new plateaus. I for one was relieved when USDA moved to direct deposit so the mail carrier wouldn't see the brown envelopes signifying the latest round of government subsidies. So, you can understand my bewilderment now that corn prices are above the level where LDP's and counter cyclical payments are no longer necessary. Four-dollar corn has restored corn farmers' ability to

earn a living from the market, instead of depending on the subsidies to pay our bills. My confusion stems from all the negative press surrounding this good news.

After years of journalistic attempts by urban reporters to portray us as welfare recipients and the Environmental Working Groups outing, if you will, of the subsidies recipients, now we seemingly face the wrath of everyone who has benefited from cheap corn. Corn farmers are now looked at as greedy and opportunistic.

Hunger advocates claim that it is morally wrong to use food as fuel. Livestock producers are concerned about rising cost of production. Environmentalist lament the possibility that some ground considered fragile could rotate out of CRP or pasture into corn production. Food industry economists predict rising cost that could make more of our population food insecure. All of these concerns are valid but, let's face facts here, corn farmers are just glad demand has caught up with supply.

You can't have it both ways, corn farmers cannot be vilified for taking subsidies one day and then crucified the next for causing all the anxiety listed above.

It's time to reconsider the relationship between the commodities and the different sectors of agricul

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THINGS ARE LOOKING UP



FRED STOKES
EXECUTIVE DIRECTOR

It is always risky to predict what politicians will do, but after a recent four-day visit to DC, I feel better about things. There is still plenty of opposition to mandatory COOL and the fair competition initiatives, both from commodity groups, certain farm organizations and from powerful members of the congress. But, an agricultural aide for one of the strongest congressional opponents stated in a public forum that he expected both funding for mandatory COOL and Senator Harkin's Fair Competition Act to pass overwhelmingly. That heightened my mood for the whole visit.

I was joined for the last two days of the visit by Michael Stumo and fellow Coalition for a Prosperous America (CPA) Board Members Bob Johns, Dave Frengel and Rob Dumont.

(In case you haven't gotten the word, we have chartered two non-profit corporations; Coalition for a Prosperous America, Inc. and Coalition for a Prosperous America Education Fund, Inc., to pursue reform of our errant trade agenda. The current board of these corporations consists of Bob Johns, Charles Blum, Fred Stokes, Rob Dumont, Jock Nash, John Dittrich and David Anderson. Johns, Blum, Nash, and Anderson represent manufacturing and labor while John Dittrich and I represent agriculture. Michael Stumo, not on the board, is deeply involved in all the activities of the organizations.)

The five of us visited with the staff

of Rep. Boswell (D IA), Sen. Thune (R SD), Rep. Barney Frank (D Mass), Sen. Casey (D PA), Sen. Grassley (R IA), Rep. Kagen (D WI), Rep. Braley (D IA), Sen. Dorgan (D ND), Sen. Harkin (D IA). Thanks to the good work of Cap Dierks, we met personally with Senator Ben Nelson of Nebraska. Senator Nelson was enthusiastic concerning our efforts and expressed his willingness to work with us to cause a review of trade agreements.

We also visited with Representative Duncan Hunter, a Republican candidate for president. He is very strong for fair and balanced trade and is interested in working closely with the new coalition as it progresses.

During our visits, we emphasized the commonality of problems caused by unfair trade for all producers, especially agricultural producers and manufacturers. We hit the trade deficit heavily and pointed out that the Free Traders want to talk exclusively about the virtues of "free trade" (which exists only in their overactive imagination) and the wondrous benefits of exports and ignore the negative impact of our much greater imports.

I believe we laid a good basis for support for MCOOL, competition, denying renewal of Fast Track and a top-to-bottom review of existing trade agreements.

Nevertheless, I am very concerned about the future of family agriculture and about the assault on our people, our national sovereignty and national security posed by a trade policy. There is still hard work to be done. Free traders continue to quite correctly point out that U. S. exports in 2006 grew at 14.5 percent. They are quick to point out the dollars and jobs represented by these exports. What they fail to reveal is that in 2006, our trade

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KRUSE (continued from page 5)

in Chicago but not their basis risk.

CBOT delivery points are too few and far away. The demand for corn growing regionally due to the ethanol industry should improve the traditional 50 cents under at harvest, 20-30 cents under summer basis levels typically seen in the WCB, as quickly as farmers realize the leverage they've gained in the marketplace from control of physical inventory. Endusers still have to convert futures price protection to actual commodity control and they don't have that accomplished yet. That's why they are coming with all the schemes offering incentives to get farmers to commit bushels to them.

Farmers should ignore these offers. They wouldn't be coming at them if endusers had any market leverage. They benefit endusers, not producers. I believe producers have a very small risk in the basis, with plenty of buyers available, eliminating any need to commit to one. Endusers are trying to sucker farmers into assuming their basis risk.

Some grain buyers offer no basis established contracts. While this does allow producers to take advantage of basis improvement, any commitment of grain to endusers undermines the endusers incentive to improve the basis. It is the commitment of physical grain that they want and will go to extremes to get it. Farmers should take full advantage of the basis leverage.^{DK}

MUDD (continued from page 1)

In days past diversified farmers didn't worry about high corn prices. The old saying was that cheap corn made cheap hogs and vice versa. Diversification meant that if one enterprise was bleeding red ink another would pick up the slack. Today very few of us practice this kind of agriculture, the experts convinced us long ago to concentrate on one specific area and specialize.

So, where does this leave us? All sectors of agriculture need profitability to survive. Hopefully it will come from the marketplace instead of the government's treasury. We are going through a reorganization of relationships. The realization is that four-dollar corn is not high, it reflects the cost of production plus the profit that is warranted in today's economy.

We all know what has driven the price of corn higher. I haven't mentioned it (the e word) and I'm not going to. It is irrelevant to my point. Regardless of the reason grain prices have risen, it is now our challenge to adapt. In a properly functioning market rising input, cost may trigger a temporary reduction in supply bringing about a correction in the relationship between input cost and final product price. This is how it is supposed to work, remember? If four-dollar corn requires ninety-dollar fat cattle and sixty-dollar hogs, if corn flakes go up fifteen cents a box and meat prices at retail increase five to ten percent that is okay. We must return to a more equitable level of price relationship between agricultural commodities.

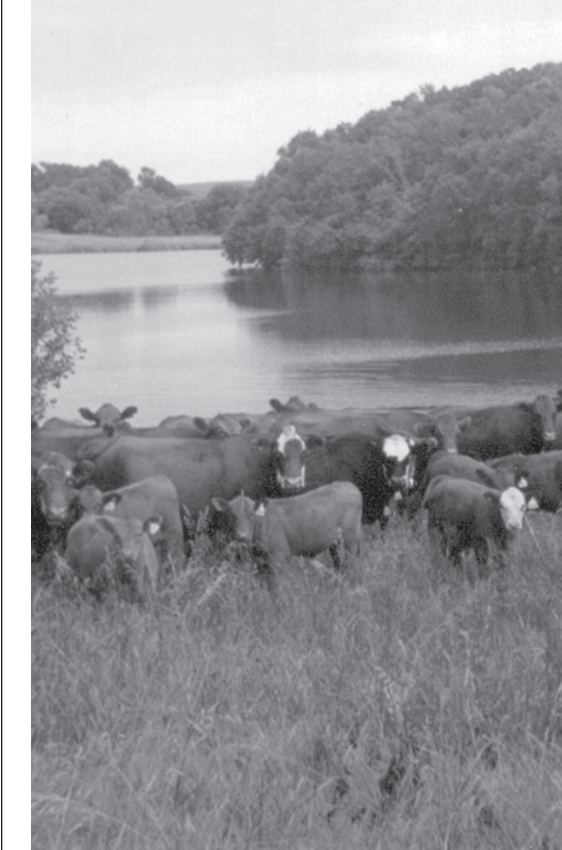
In an industry where all too often the largest share of dollars flow in the direction of the most powerful maybe this signals a change. Perhaps, what corn prices have done this winter is a harbinger of something we all desire. What I see for the first time in a

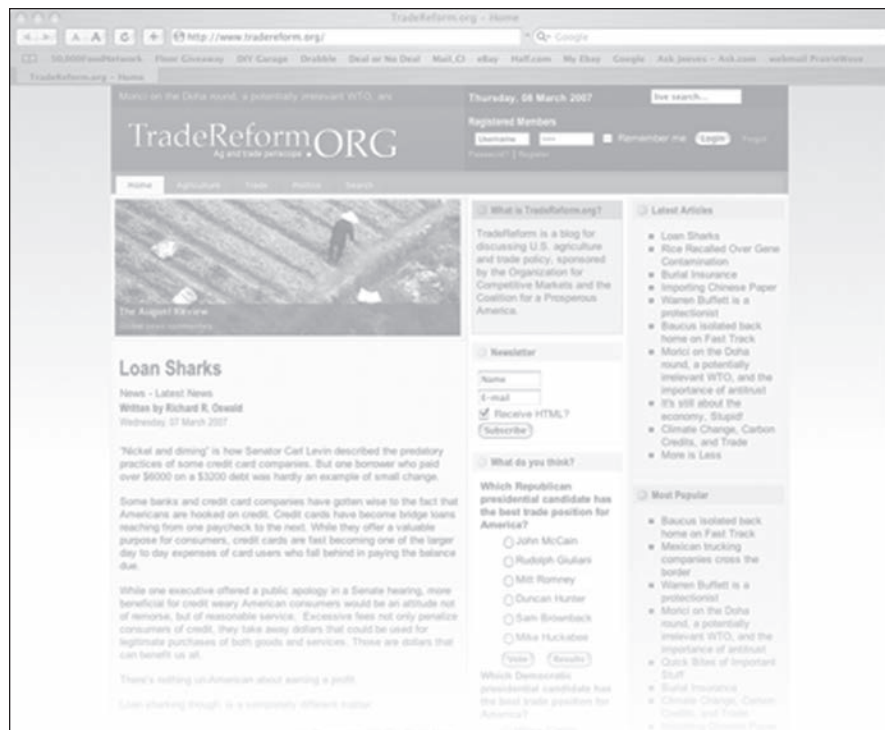
long time is the law of supply and demand working; it is our responsibility to see that it flows through to other sectors.

Competition is the force that can drive this change; OCM is the power that will restore competition.
KM

Free trade is one of the laissez-faire theories that has been abandoned by every serious student of economics; free trade is one of the laissez-faire theories the reliance on which has reduced England to her present position of scrap-heap industrialism

- Teddy Roosevelt, Saturday Evening Post, October 26, 1912, p. 4.





TradeReform.org

OCM has started an exciting new trade blog called TradeReform.org (www.TradeReform.org). It is a daily update of significant issues in agriculture and trade, conveyed with edginess and satire. Michael Stumo, Richard Oswald, Alan Guebert and others write on these issues.

The Coalition for a Prosperous America co-sponsors the site. CPA is a coalition among OCM, powerful domestic manufacturing interests, labor, and consumer groups to focus on achieving a new and improved national trade strategy.

The Farm Bill, the presidential campaign as it relates to ag and trade, Fast Track authority, dumb things said by so-called “free traders,” and other matters are addressed every day. Consider adding TradeReform.org to your periodic viewing of the news while online.



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If you are interested in receiving information on any of these planned giving vehicles or have a question, please contact Michael Stumo by calling 413-854-2580 or email stumom@competitivemarkets.com.



FROM OCM'S
GENERAL COUNSEL

MICHAEL STUMO

DC REPORT: COMPETITION IN THE FARM BILL

OCM's efforts are on track for substantial competition reform in the Farm Bill. Senator Agriculture Committee Chairman Tom Harkin (D IA) filed a comprehensive Competition Bill with bipartisan support. I list the co-sponsors here because you should know who is supportive - Senators Mike Enzi (R WY), Russ Feingold (D WI), Craig Thomas (R WY), Byron Dorgan (D ND), Claire McCaskill (D MO), and Max Baucus (D MT).

Senator Grassley (R IA) filed the packer ownership prohibition with bi-partisan support. Grassley also filed another very important bill requiring packers to buy at least 25% of their livestock on the spot market.

We believe these bills have a very strong chance of passage in the Senate Agriculture Committee. OCM members and friends should contact their Senators to support these bills.

The House Agriculture Committee has yet to see any competition bills filed. Chairman Collin Peterson (D

MN) should receive requests to remedy this. Leonard Boswell (D IA) is the chairman of the Livestock Subcommittee on the Ag Committee. Iowa's state senate has been quite active on competition at the state level. Boswell has been identified as an “at risk” Democrat by his own party. He should try to build his record of accomplishment, but has so far not chosen to act on competition.

The newly elected House Democrats (the “newbies”) are an interesting freshman class. They tend to be populist, especially on trade. Unfair international trade practices by China and other countries have much to do with our trade deficit. Unfair practices in agriculture have much to do with our farm problems. The newbies are restless, and may soon become more aggressive with the “Oldie” Democrats in the House.

The Republicans are still behind the times. This is not partisan, it is just fact. Senators Grassley, Enzi (R WY), and Thomas (R WY) are very good on ag competition issues. Thune (R SD) could be good, but waivers. Other Senate Republicans tend to support the packers. OCM members active in Republican state politics should put pressure on the party within their states. In the House, Barbara Cubin (R WY) and Dennis Rehberg (R MT) appear to have the right ideas on competition, but they are not on the House Ag Committee.

Competition is about free markets. It should not be partisan, but there is a partisan divide. Continued education of elected leaders is needed for competition in agriculture to achieve non-partisan status. Strong, fair rules are needed to govern all markets. It is merely good government.^{MS}

Unfair international trade practices by China and other countries have much to do with our trade deficit. Unfair practices in agriculture have much to do with our farm problems.

STOKES (continued from page 2)

deficit rose to an all-time record of \$764 billion. Also missing in their spiel is that our deficit in 2006 with Japan, which was the largest ever between our two nations and that our deficit with China was the largest ever recorded between any two nations. These negative trade numbers also represent dollars and jobs --- going the wrong way!

Amazingly, one still encounters those who contend that NAFTA has been a boon for U. S. interests; totally ignoring the fact that our trade surplus with Mexico in 1994, quickly turned negative and was a startling \$60 billion in 2006. These debates with free traders bring to mind the old saying; “figures don't lie but liars can figure.” Theodore Roosevelt, my all-time favorite president is reported to have written:

“Thank God I am not a free trader, Pernicious indulgence in the doctrine of free trade seems inevitably to produce fatty degeneration of the moral fiber.”

Our trade deficits and our foreign debt are very dark clouds that loom over the future of our kids and grandkids. We have had ourselves a wild party on their credit card and they are likely to be upset when they get the bill.

My feeling is that our generation broke it; we should at least try to fix it. It is a matter of duty and honor. I am hopeful that our rapidly growing coalition will be an effective counterbalance to the powerful forces totally devoted to making a quick buck with utter disregard for the harm they cause.

Please continue to support OCM as we work on a number of fronts and in concert with others to make a better day for family agriculture and our country.^{FS}

“Free trade means a level playing field for true competition among firms and industries in different countries.”

Will the Real Free Traders Please Stand Up

BY MICHAEL STUMD

We at OCM are the free traders. The folks who claim to be “free traders” are something else. Free trade means a level playing field for true competition among firms and industries in different countries. But today’s trade leaves American agriculture and manufacturing with tremendous disadvantages as other countries protect their industries. Our trade agreements were written by, and for, elite multinational corporations. They benefit. We don’t.

For example in 1994, China devalued its currency 40% against the U.S. dollar and has fixed it there ever since. This means all Chinese goods cost 40% less for the past 13 years. Assuming that an American manufacturer of, say, tables builds them for the same cost as a competing Chinese manufacturer, the Chinese product is 40% less cost than the domestic product. This is not capitalism, but a government determined advantage that is devastating.

If you could set up a department store business in your nearest shopping city with a 40% ongoing, government granted cost advantage, you would drive your competitors out of business. You could claim your competitors were merely inefficient, but the fact is that you started the football game with the score 40 to 0 before the first play.

Why do multinationals benefit? Because they close American plants, build behind China’s protected walls, and export cheaply to the U.S. It’s a great system to impoverish and destroy your American competitors that remained loyal to the U.S. The multinationals game the system in ways the press has not fully realized, but the CEO’s of those companies have long since figured out.

Border adjustable taxes are also a major barrier to fair trade. Most of our foreign trading partners have value-added tax (VAT) systems rather than, or in addition to, income tax systems. The VAT system is a tax on the estimated market value added to products at each stage of manufacture or distribution.

When U.S. goods enter Germany, a 17% tax is added. But when German goods are exported to the U.S. the 17% is rebated to the German company.

The economic result is a 17% cost advantage for the German exporter, and a 17% cost disadvantage for the American company selling to Germany. This border-adjustable tax aspect of the VAT system acts like both a tariff and a subsidy, but is legal under the trade laws. The U.S. eliminates tariffs, has not VAT, and we are at a tremendous disadvantage with every country.

The result is a trade deficit spiraling out of control. Warren Buffett calls it “pseudo-trade”. We bought \$760 billion dollars worth of goods and services, a full 6% of gross domestic product, last year that were not reciprocated by sales. “Like a very wealthy but self-indulgent family, we peeled off a bit of what we owned in order to consume more than we produced,” said Buffett in his annual letter to Berkshire Hathaway shareholders.

Because past trade deals have performed so badly, OCM is calling for a halt to new trade agreements until a full-scale audit of these agreements is completed. When each deal negotiated produces such horrendous results, it only makes sense to stop, scratch your head, and figure out what went wrong before doing it again. After the loss of 3.2 million jobs and 40,000 manufacturers, as well as losing our food trade surplus, we are past the time to re-evaluate.

The President’s Fast Track authority (also called Trade Promotion Authority) is set to expire in June. The U.S. Constitution give Congress the power over trade, but Fast Track legislation allows the Executive Branch to negotiate trade deals, and does not allow Congress to change them. Fast Track was a bad idea under Clinton, is a bad idea under Bush, and will be a bad idea under our next President. The Executive Branch tends to “give away the store” when negotiating trade deals, and we need Congress to force discipline upon the process. OCM is vigorously opposing renewal of Fast Track, or TPA, this year.^{MS}



DAVID KRUSE

PRESIDENT, COMMSTOCK INVESTMENTS
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Not only did soybean prices climb over \$10/bushel in 2004, but basis levels in Northern Iowa/Southern Minnesota soared from 50 cents under Chicago to spot premiums of \$2/bushel premium Chicago futures as the regional supply shortage climaxed. Several new soybean crush plants were built in the region just before soybean supply shrunk and the result was bull markets both in Chicago and locally in basis levels. When at the recent Wisconsin Corn/Soybean Producers convention, a farmer with a million bushels storage told me that he no longer accepts a basis from buyers, but sets his own basis. He said he was getting his price as buyers were paying it.

A 752 million bushel USDA corn carryover is pipeline supply. Existing supply will not be located precisely or conveniently to existing demand. Basis levels are going to have to move some supply around from where it is to where it’s needed. Similar to new soybean crush plants becoming operational in southern MN in 2004 disrupting traditional basis levels, the ethanol industry, with a new plant coming on line every few days this year will re-define the basis in many areas. Commercial grain buyers will attempt to buy grain at traditional basis levels

that farmers have been used to hoping they haven’t figured out that leverage has shifted to farmers.

Farmers may like the price of corn in Chicago but they may like their local basis even better. Every time that a farmer forward prices grain to an enduser for delivery, he locks in a basis, eliminating his ability to profit from local demand. Endusers are coming up with all kinds of different schemes from building grain bins, to subsidizing the cost of a call option to gain control of physical inventory. When farmers surrender control of physical inventory it weakens the basis. Personally, I’m not in a mood to accept a basis right now. Local basis levels for corn here in NW Iowa could just as easily move from a discount to Chicago prices to a premium just as they did in soybeans in 2004.

Endusers have to gain physical control of a commodity and that is proving more and more difficult for them to accomplish. Many existing ethanol plants are expanding their on site grain storage having become uncomfortable with their ability to source grain during lengthy periods of time, forcing them to expand storage in defense. They can gain price protection by buying Chicago futures but hogs don’t eat paper nor can a written agreement be crushed and distilled into ethanol. The past two years when corn was plentiful, there was virtually none for sale at harvest. Elevators bought corn locally

but wouldn’t sell it locally. They had better markets for corn then selling to livestock producers at traditional out charges.

Physical control of grain has gotten valuable and that value becomes evident in basis levels. Some farmers like that WI corn producer have figured that out. Farmers need to price their basis just like they do their grain. Even if they can lock up price protection in Chicago they have more to gain by waiting to accept a basis. Local corn basis levels are now 35 cents under Chicago futures. I believe we’ll see the local price of corn trade premium to Chicago at times in the near future which is when producers should then make physical cash sales.

Endusers have to buy corn, not just when they see a price they like, (that’s not likely going to happen). They have to buy corn when it’s available. We recognized this, which is why we recommended endusers buy corn last August when farmers were cleaning bins for the next harvest. There was more corn available for sale than at harvest. Endusers will have to buy corn whenever they can get it. I believe a lot of endusers may have locked up some price protection by buying futures or options in Chicago, but are still going to be caught between a rock and hard place, acquiring the physical inventory. They may have hedged their price risk

Please see KRUSE on page 7

David Kruse is president of CommStock Investments, Inc., author and producer of *The CommStock Report*, an ag commentary and market analysis available daily by radio and by subscription on DTN/FarmDay and the Internet. CommStock Investments is a registered CTA, as well as an introducing brokerage. (Futures Trading involves risk. Past performance is not indicative of future performance.)
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