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August 2006

RECLAIMING THE AGRICULTURAL MARKETPLACE FOR INDEPENDENT FARMERS, RANCHERS, AND RURAL COMMUNITIES

CONVENTION *Highlights ...*

Fred Stokes, Executive Director, discusses "The Case for a Conference on Globalization and Free Trade"

The Organization for Competitive Markets held their 2006 Annual Food and Agricultural Conference – *"Agricultural Economics, Law and Policy"* in Omaha, Nebraska on July 21, 2006. The convention program included two panels of nationally renowned experts.

The first panel 's topic was *"Global Competition & The Next Farm Bill"*. The panel included John Dittrich - former Vice-President and Senior Policy Analyst for the American Corn Growers Association, Dr. Bill Heffernan – Professor Emeritus (Rural Sociology) – University of Missouri, and Dr. Daryll Ray – Director, University of Tennessee Agricultural Policy Analysis Center.

The second panel discussed *"The Courts, USDA, and the Future of the Family Farm"*. This discussion was lead by Cap Dierks – former Nebraska State Senator and Chair of the Nebraska Legislature's Agriculture Committee, Roger McEowen, J.D. – Leonard Dolezar Professor of Agricultural Law at Iowa State University and author of numerous articles and books on Agricultural Law, and David Domina, J.D. – Distinguished agricultural anti-trust attorney and lead counsel in the Pickett v. Tyson price fixing case.

These panels examined the relationship between globalization and the necessities for the next farm bill, and the impact of recent court decisions on the role of the USDA and the family farm.

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WHAT'S INSIDE

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"Global Competition & The Next Farm Bill".
Left to Right – John Dittrich, Bill Heffernan and Daryll Ray

"The Courts, USDA, and the Future of the Family Farm"
Left to Right – Cap Dierks, Roger McEowen and David Domina

CONVENTION
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The final afternoon speaker was Fred Stokes, OCM's Executive Director. His discussion was on *"The Case for a Conference on Globalization and Free Trade"*. During his presentation, he made

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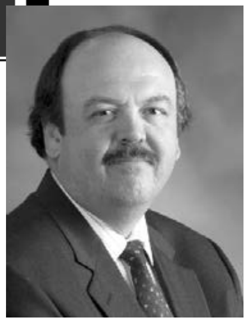
THE COMSTOCK REPORT



DAVID KRUSE
PRESIDENT, COMMSTOCK INVESTMENTS

Doha trade talks are at the scare everybody that they will fail at great loss to the world economy without dramatic concessions from all sides to see if anyone blinks. Industrialized countries with subsidies are countered in a stalemate by developing countries with tariffs. Industrialized countries say they won't reduce subsidies without a corresponding cut in tariffs from developing countries. There are unique exceptions such as France that says it won't cut ag subsidies or India which says it will keep its tariffs, both seemingly immovable in their positions.

The U.S. made the first big move, an offer to cut ag subsidies by 60%, but momentum quickly faded. While world trade negotiations have typically been threatened with failure before enough pressure was built to force concessions to make an agreement, this time seems different. It may take not only a failure of Doha, but the pain of that resulting failure to be felt before the environment for another agreement is right. The U.S. Congress is not predisposed to extend trade promotion authority to the President which expires next year and has counseled the White House not to make any more unilateral concessions on subsidies until trading partners agree to reduce tariffs.

The U.S. concession to cut ag subsides 60% has not been matched by Europe or by offers to cut in tariffs of developing nations. Most see trading nations becoming resolved to a Doha failure which deflates efforts to gain an agreement. No one's officially given up, allowing themselves "this summer" or until the "end of the year." I'm convinced that U.S. trade negotiators will ultimately try to sell us a bad deal in lieu of no deal at all. We've already done that and don't need to go there again. It also needs to be a transparent comprehensive deal. Every country has products and industries they deem sensitive. Calling for an across the board cut in tariffs and then giving oodles of exemptions won't work.

Ag Sec. Mike Johanns says, "Tariff reduction has to be real and meaningful, and the loopholes have to be dealt with. You can't agree to tariff reduction only to see everything slip out the back door because of loopholes."

WTO Director Pascal Lamy has promoted a 20-20-20 solution in which G-20 nations agree to a $20 billion limit to U.S. subsidies, balanced with a 20% maximum industrial tariff. The proposal didn't look to have any legs. Iowa Senator Chuck Grassley says that we're not going to give up any (more) of the agriculture safety net until we get market access. The U.S. has put the most aggressive concessions on the table and they've not been reciprocated. Trading partners seem to think that the U.S. will give more rather than see talks fail. World Bank President, Paul Wolfowitz, suggests the U.S. should make more unilateral cuts in farm subsidies. Remember that Wolfowitz was defense Sec. Don Rumsfeld's right hand man, getting promoted to World Bank head for the great job he did getting us into Iraq. Wolfowitz says most farm subsidies don't go to family farmers. He obviously is as much an expert on farm subsidies as he was the occupation of Iraq.

Family farmers that I know would miss farm subsidies as they've been 90% of the profit in corn/soybean production and without market access to replace the market support provided by subsidies, would be sold out by a Doha agreement. It's a huge leap of faith to believe that market access can realistically replace farm subsidy income. I think that's a pipe dream the politicians will use to blow smoke to cut subsidies, farm income that the market won't replace.DK

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/FarmDayta and the Internet. CommStock Investments is a registered CTA, as well as an introducing brokerage. Mr. Kruse is also president of AgriVantage Crop Insurance and Brazil Iowa Farms, an investor owned farming operation in Bahia, Brazil.(Futures Trading involves risk. Past performance is not indicative of future performance.) For information on subscribing to the daily CommStock Report, contact:

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Myths of Bigness

FROM OCM'S GENERAL COUNSEL
MICHAEL STUMO

Defenders of food industry mergers argue consumer benefit is all that matters, and if suppliers (i.e. farmers/ranchers) get squeezed, it is not a policy concern. Merger defenders assume that low farm gate prices are transferred to the consumer. Neither economic theory nor economic facts support this. The actual result is a concentrated food processing and retail sector creates high prices for consumers.

Consider this fictitious world. Big Retail, Inc. is the only supermarket chain in the country. Big Processing, Inc. is the only meat and poultry processor in the country.

Big Retail has no competition in food retail. It can raise prices without fear of competitors taking market share. But if it raises prices too high, consumers will cut back on food purchases, especially higher value food – and decrease Big Retail profits. So the only limitation on price hikes is consumer willingness to pay. Competition in the market does not determine prices.

Big Processing can lower prices for livestock and poultry producers without fear of other companies bidding higher and taking market share. But Big Processing must keep the prices high enough to entice producers to keep producing. This is its only limitation. Competition in the market does not determine prices.

Big Processing has to negotiate with Big Retail to sell its red meat and poultry product. But they have no other constraint on price. They can increase profits without fear of competition.

After Big Processing bought its last competitor, it dropped all livestock and poultry prices by twenty five percent, dropped its price to Big Retail by 5%, and pocketed 20% profit. Big Processing argued it would be more efficient because it was so large ... benefiting producers and consumers. But it actually increased waste because no competition kept it lean and honest.

After Big Retail bought its last competitor, it saved 5% on its red meat and poultry prices, hiked consumer prices by 10%, and pocketed 15% profit. Big Retail argued it would be more efficient because of its size, but it too became more wasteful without competition, and yet profit increased.

Consumers were harmed. Producers were harmed.

In the real world, lessening competition in food retail and food processing progressively harms consumers and producers. The efficiency of being large is overwhelmed by the societal losses from price gouging and market power. Consumer choice is lost. Markets, the mechanism to value products each day, are lost. Livestock producers vanish. The result is a less diverse economy which cannot self-correct absent a large shock to the system.

Competition is the best market regulation. Government regulation must focus on preserving competition so the market can work to regulate itself.MS

CONVENTION
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the case for holding a series of conferences on the impacts, shortfalls, and alternatives to globalization and free trade.

The banquet speaker was Roger McEowen, an Iowa State University Law professor. He addressed the group on integration and concentration in all agricultural sectors, trade regulations and enforcement, and farm bill policy.

Next year's OCM Annual Food and Agricultural Conference will be held July 20-21, 2007 at the Downtown Doubletree, Omaha, Nebraska.

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**2007
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EDITORIAL

KEITH MUDD
PRESIDENT, OCM

The headline read "Young pork producer struggling to survive." I knew the face. I live in the same community so quickly I scanned the article looking for the reason for this struggling pork producer to be so stressed.

The word jumped right off the page. R-E-G-U-L-A-T-I-O-N.

I looked for specific words or combinations of words. Phrases like high corn prices, depressed hog prices, escalating feed cost were surely at the center of this young mans plight. But then I remembered, the price for corn was below the cost of production. Soybean meal couldn't be to blame either with soybeans being in a similar predicament. It had to be price. It is always price isn't it? A quick check of DTN threw cold water on that theory. Hogs have been profitable for an extended period of time. What could it be?

And there it was. The word jumped right off the page. R-E-G-U-L-A-T-I-O-N. He was being regulated out of business.

There are legitimate concerns about regulations in many sectors of agriculture. The Bureau of Land Management, Environmental Protection Agency, Department of Natural Resources and the Occupational Safety and Health Administration are just some of the over zealous bureaucratic departments that over regulate from time to time.

This was not one of those instances. His fear was that he wouldn't be allowed to build the additional finisher he needed to feed his increased production. According to the story he needs to build two more finishers. I don't know how many he currently uses but I would guess twelve to fifteen, or more, would not be far off. How strange to use a word like survive when you're talking about an additional ten to fifteen percent. Perhaps it was a poor choice of word or perhaps his very survival does depend on those to additional buildings.

The same operation announced several months later an aggressive plan to expand. Current production from 3500 sow will soon increase to 7500. Another farm located in an adjacent county announced earlier this year a planned increase of 9000 sows. In both instances the owners claim they need to expand to take advantage of new technologies. One even went so far as to state that he could either continue with 3500 sows, or as he described it continue in survival mode, or expand to a profitable size.

I'm not suggesting society limit operations based upon size. What is interesting though is the new language that is employed to support these endeavors.

The one hundred sow producer is long gone as are a lot of the growers with three hundred. Still there remains quite a few with 6 – 12 hundred sows. Several years ago these guys were the most efficient and aggressive in the industry. How did it turn so quickly that now they are just surviving? I wonder how many of them were surprised to hear that they were in survival mode with their six hundred sows. Or could it be that this talk of barely surviving or struggling is just the new way to garners support for these large increases?

This new language also includes a new phrase for those who are anti-agriculture. If you oppose these new ten thousand head sow farms you are anti-ag. Makes no difference if you have raised hogs all your life, if you oppose this many sow on one farm you are labeled. Opponents to a hog finishing facility that would be situated less than a mile uphill from a municipal water supply in Northeast Missouri were recently branded anti-ag also.

Farmers who have devoted their life to raising livestock and being good stewards of the land are frequently among those labeled. How absurd is that?

Often, claims of increased economic activity accompany the expansion. The producer who is expanding to 7500 sows explained how this would create additional jobs. His farm would consume enormous quantities of corn and soybean meal, all purchased locally of course and would pay the local electric cooperative over $400,000 a year. I suppose the smaller hog producers didn't use any corn or meal and most certainly didn't have electric bills. It is almost as though these guys created animal agriculture.

There is a campaign in rural America to gather support for these large hog farms. It involves a new language, a redefinition of certain words to invoke sympathy for those wanting a certain objective. Who wants to be against a struggling hog farmer? Who wants to be labeled anti-ag? It was hard enough keeping up with the technological advances in agriculture now it looks like I have to learn a new language also.KM