



WWW.competitivemarkets.com

P. O. Box 6486
Lincoln, NE 68506

Contact: Fred Stokes
tfredstokes@hughes.net
Cell: 601 527 2459

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Too Big to Fail Strikes Agriculture

Lincoln, Nebraska: The American economy is now pockmarked with evidence of economic landmines—leaving huge craters after each and every “too big to fail” episode. Banks, auto manufacturers, airlines, and industries across the economy have been devastated largely because of concentration of market power in few firms and management arrogance that each is too big to fail.

Until now, agriculture seems to have drawn an exemption from the process. But, the latest crater left from a detonated large firm’s failure is in the cattle business.

Eastern Livestock LLC, New Albany, Indiana, is a big name in cattle country. Eastern’s business—matching buyers with sellers of calves big enough to leave the ranch and enter feedyards—was the dominant company in the industry. It may have handled nearly one-third of all US cattle.

According to papers filed in court in Indiana, Eastern’s revenue tripled during the past year. But, this was because it was trading with itself—kiting checks so its money movement looked like it was three times the true volume. The banks caught on, stopped the check kiting, and Eastern collapsed.

The Grain Inspection Packers & Stockyards Agency (“GIPSA”), a USDA agency responsible for oversight of cattle traders, has been on the spot. GIPSA audited Eastern in 2010 and was trying to regulate the firm.

But GIPSA's authority is very limited. The maximum bond it could require to protect unpaid livestock sellers was \$875,000—less than one percent of the total estimated losses caused by Eastern's demise.

GIPSA is in the process of issuing new rules to regulate the marketplace. The proposed rules would have only a modest effect on a firm like Eastern, but they have drawn the ire of big players in the cattle, hog, and poultry industries. The biggest packers and producers call the proposed new regulations "draconian" and claim they will "set the meat industry back 50 years."

OCM's General Counsel, David A. Domina said: "Too big to fail is simply not working; too big to fail is a failure in and of itself. The collapse of this massive firm is going to be devastating to thousands of cattlemen, sale barns, truckers, ranch hands, and many others. It may take years to sort out the full scale of devastation. We cannot allow this kind of concentration to continue."

Eastern Livestock's business is now in the hands of a court-appointed receiver. All indications are the firm's principals can expect more, and more complex, legal problems to come.

Working for fair and competitive markets that benefit farmers, ranchers and rural America, while advancing the interests of American Consumers!