Supplemental Statement

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INDEPENDENT BAKERS ASSOCIATION

Bakers are stunned and, in some cases, crippled financially by the massive increases in flour prices and by the grain markets' unprecedented volatility. The ripple effect caused by the increase in the price of flour and other wheat products is now reaching grocery store shelves, and is forcing producers and consumers alike to make difficult and painful choices. We estimate that baked goods, cereal, dairy products, meat, and poultry will cost U.S. consumers an additional $30 billion per year if prices remain at current levels. The international situation is even more dire; World Bank President Robert Zoellick has warned that 33 countries are at risk of social upheaval as a result of rising food costs.

Bakers who are locked into contract business, such as with schools, hospitals, and other institutions, are facing particular difficulty. The baking industry is remarkably sensitive to even small changes in the price of wheat. This is especially true for independent bakeries such as Aunt Millie's Bakeries. Operating as we do on a margin of as little as 1-1/2%, even a $1/bushel increase in the price of wheat can wipe out our profits. A price increase from $5/bushel to $7/bushel translates into a $3 million loss for us. If the increase rises to $3, we lose $6 million. It is no exaggeration to say that we—and the rest of the industry—are in the throes of a crisis. Price increases necessary to cover these costs meet with substantial resistance on the part of grocers and consumers, and the delays in implementing these increases are very costly.

Secretary of Agriculture Ed Schafer said on April 16 that domestic wheat stocks are at a 60-year low, and rightly described the situation as a crisis. Global supplies are at a 30-year low. This reduced supply is the primary cause of the current domestic and international woes. Unless swift action is taken, overseas unrest and starvation are all but certain to continue.

We believe that one option available to policymaker stands out as offering the highest possible degree of supply- and price relief in a relatively short time frame: permitting farmers to choose early termination of federal Conservation Reserve Program (CRP) contracts. We urge the Department of Agriculture to take this step immediately so that it may take effect in time for the 2009 growing season. At present, 34.5 million acres are enrolled in the program. Bringing even a portion of this land back into cultivation would alleviate the supply crunch and would make up for some of the 20 million acres lost to ethanol production.

Some in the agriculture community argue that CRP land ought not to be released for production, claiming that much of it is unsuitable for farming. But farmers advancing this point of view cannot have it both ways. If the land is, indeed, “no good for crops,” then farmers should not receive taxpayer money for not growing crops on that land. From our perspective, land that was farmed in the past should be considered suitable for farming again. It cannot be the case that all 34,500,000 acres in the CRP are unsuitable for farming. If it is, then we should quit spending $2 billion a year to pay farmers not to farm. These artificial constraints in the supply of wheat and other crops have exactly the effect one would anticipate: propping up wheat prices that are already at historic highs. Amid the current supply woes, this would appear to be a remarkably is a shortsighted use of taxpayer dollars— even by government standards.

Another possible solution to the current crisis involves the imposition of trading limits. While we recognize that speculators play a necessary role in commodities markets, we also believe that they and other investors have amassed far too much power. In the process, they have unwittingly subverted the intended purposes of the commodities exchanges. It is evident that the exchanges’ original purpose of providing a market for producers and users has shifted, and is now dominated by banks, pension funds, foreign entities, and index funds for investment purposes. The huge amount of managed money (estimated to be in the neighborhood of $200 billion) has apparently overwhelmed the grain markets:

- On February 29, 2007, Ag Resources calculated that commodity index funds held contracts for about one billion bushels of soft red winter wheat—about twice what the United States will produce in 2008.

- Current speculative limits of 5,000 contracts allow a single entity to purchase 6% of the entire annual spring wheat crop for one month. A purchase of that magnitude will surely drive the price up. Conversely, incremental sales will drive the price down.

- On September 4, 2007, Progressive Ag Marketing, Inc. wrote, “Funds have got complete control of the wheat market, and it will top when they decide it will top.”

It is clear that the tight world supplies, fueled perhaps by the diversion of corn into fuel, caused a psychological stampede to buy scarce commodities “before it went higher.” This psychology did not exist in the 50-year era of grain surpluses. We are now living in an era marked not by surpluses but by tight supply. In this unprecedented environment, the market undergoes larger price swings. It is the classic example of “too many dollars chasing too few goods.”

In summary, we think that a cooperative, two-pronged approach to this dangerous situation is in order:

1. **In order to alleviate dangerously low world grain stocks, the USDA should permit the penalty-free release of farm land from the Conservation Reserve Program.**

2. **The impact of the dominance of investment funds should somehow be diluted** so that producers and users can have a more normal mechanism to price commodities. The cotton run-up in March 2008 was a good example of out-of-control gyrations. Some have suggested a separate market for producers and users; this might have merit in the long run. Certainly, traders should be subject to lower trading limits in the short term. Limiting trades to a maximum of 3% of the annual production of specific crops is a sensible ceiling. Some argue that index funds and pension funds are simply passive holders of grain that do not roil the markets because they hold grain for a longer term. In fact, this activity only reduces the supply available for users to purchase, thereby worsening any existing shortage and increasing prices at a faster rate.

The largest bread bakers in the U.S. (Sara Lee and Wonder Bread) only use about 10,000 contracts each year. Should speculators be able to buy in a single trade as much or more than the annual requirements of the largest bakers in the country? We think not, and we believe that applying reasonable restrictions to these transactions would have a mitigating effect on recent price volatility without unduly interfering with the legitimate and important role of grain market speculators.

As independent bakers, we are deeply concerned about the effect that these unprecedented market conditions place on domestic businesses, on U.S. consumers, and on the millions of people facing food shortages in underdeveloped nations. We believe that the steps outlined above will have an immediate and salutary effect on this urgent problem.

The Independent Bakers Association is a national trade association founded in 1968 of over 400 mostly family owned wholesale bakeries and allied industry trades.

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