OCM
Organization for Competitive Markets

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Honesty. Prosperity. Economic Liberty.

Honesty is COOL

by Randy Stevenson
President

Mandatory Country of Origin Labeling (MCOOL) has been very effective, according to some reports. Actually, that depends on what its intended purpose was. One of the things that has happened since the law went into force on September 30, 2008, is that imports of cattle from Canada and Mexico are dramatically down. Cattle numbers moving from those two countries were down almost 40% in a year over year comparison, despite currency exchange rate movements that ordinarily would have pushed the numbers the other direction.

The effect has been so devastating to Canadian producers that they are complaining to the WTO that the MCOOL law is an unfair trade practice, in spite of the fact that Canada and several dozen other countries have similar laws. Canadian producers still want to complain about alleged losses of $10 million a week right after implementation.

What we may see going on is a combination of market manipulation and fear. The packers are paying less for cattle that don't meet the USA origin criteria. However, they are not yet getting less for the meat derived from those animals. Beef sold on the retail level does not yet consistently have a distinct country of origin label. Some packers are still labeling their beef with the generic USA, Canada, and Mexico origin information that does not inform the consumer nor does it garner distinct pricing.

That leaves the justification for distinct pricing of different origin cattle based on the cost of segregation. If segregation of cattle at the packing plant or in the feedlot is costly, then there might be a legitimate reason for lower bids. But when the Japanese demanded in-plant segregation based on age a few years ago, several plants complied without loud complaints of the exorbitant costs. And of course any feedlot that complains of segregation costs is just blowing hot air. Foreign cattle would come in already marked with a brand, a tag or more likely both, that would distinguish them during their stay. Feedlots already segregate by lot, and owner, and other ways. Doing so by origin would not cost a penny extra. Nor would the paperwork, as it is essentially the same for domestic origin cattle as it is for foreign origin cattle.

The fear factor comes into play because producers don't know what to expect out of the packers. Packer resistance to foreign cattle seems to be extreme. Justified or not, it is a fact. That resistance has trickled through the market with the effect of severely reducing the numbers of Canadian and Mexican imports. Thus, some are now saying that MCOOL has been very effective. However, that was not the original purpose of MCOOL. It cannot be judged effective unless it meets its original purpose.

When Adam Smith examined the activities of the marketplace in the late 1700's, he was looking at a marketplace that was considerably different from what exists today. For one thing, the proportion of small businesses in the economy as a whole was much higher. More market participants transacted in goods closer to their raw state than now. And more consumers were more knowledgeable about the products they bought than is now true. As Smith hypothesized about market function, he assumed knowledgeable participants. Smith's successors have made the same assumption. Indeed, to expect the market to work as Smith described, the participants must all be knowledgeable. In fact, most models depend on absolutely perfect knowledge. This is the premise that has led to prohibitions against fraud and dishonest practices being included in statutes and regulations that we have lived with for quite some time.

MCOOL was intended to carry this same principal a bit further, or arguably to properly apply it to origin labeling. Many consumers have wrongly concluded that a label that says USDA on it means the product is of US origin. A separate MCOOL label will clear up the ignorance, resulting in a knowledgeable

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Some news for a change

BY FRED STOKES
EXECUTIVE DIRECTOR

It occurred to me that perhaps our newsletter should have more news and less opinion and philosophical utterances. Maybe this should be my New Year's resolution.

The number one OCM priority and major focus at present is the effort to block, or at least severely mitigate the resulting damage of a merger of JBS S. A. and National Beef Packers. JBS is a Brazilian Company and the largest beef packer in the world. This company is hardly a good corporate citizen; having been fined more than $8 million in Brazil for antitrust violations there. JBS has already acquired Swift and the beef operations of Smithfield, including Five River Feeders. Five Rivers is the largest cattle feeding operation in America and provides JBS with a two million head per year captive supply of slaughter-ready cattle.

Currently, the top four beef packing companies in this country slaughter 88% of the fed steers and heifers. With the JBS/National merger, there would only remain three major packers. National currently has contractual arrangements with U. S. Premium Beef and other branded programs; which essentially provide a source of captive supply. This merger would further concentrate and lessen competition in an already highly concentrated market that is marginally competitive at most.

After several months of effort by OCM and R-CALF, with the help of attorneys David Balto and Professor Peter Carstensen, the U. S. Department of Justice (DOJ) along with 17 states, were persuaded to file suit to oppose the merger. OCM and R-CALF teamed up and also filed suit, asking that the two suites be combined. This was opposed by DOJ and ultimately denied by the trial judge. Recently, DOJ asked that court action be stayed to allow them to attempt negotiations for a settlement. At this point it is clear that DOJ anticipates some divestiture of National facilities and then permitting the merger to go through.

OCM, R-CALF, and our legal team are going all-out to encourage the 17 states to join with us in opposing any settlement that would increase concentration and lessen competition. Several states agree with us that captive supply is the most troublesome aspect of the pending merger. However, if we can pass a ban on packer ownership and some captive supply legislation in this next congress, this part of the problem would be nullified. I believe we have a good chance of getting this done. We owe a debt of deep gratitude to Bill Bullard of R-CALF, David Balto and Peter Carstensen for their long hours of outstanding work. Their continued support and effort are key to a tenable outcome.

The OCM Seed Concentration Project is our second highest priority and one that we consider a significant aspect of our overall mission. We have recently commissioned Vince Wade, an award winning TV reporter to make three short videos to be posted on YouTube. We will then disseminate the URL link via email to a larger, targeted audience. We see this as the more cost effective way to reach folks with our message and create pressure for remedial action.

I just returned from a three-day visit to Washington and am much encouraged after the visit. The U. S. Government Accountability Office (GAO) is conducting a major study concerning

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"A Stimulus for Rural America"

BY RICHARD OSWALD

Often seen as oases of agricultural productivity, rural areas of America are deserts of economic development.

Some argue that President-elect Obama's proposed economic stimulus package should be spent to benefit large municipalities. Bruce Katz, vice president of think-tank Brookings Institute, proposes redesigning urban areas to make them more attractive to middle income workers. Tools like school vouchers, and Federal housing projects would be used to attract middle income earners back to the inner city.

Katz plans to draw the workforce to where they could be used more effectively. But focusing on city economies is often done at the expense of rural awareness and economic development.

Over the last decade, cities have spent a large share of their wealth on sprawl. Burdened by the heavy cost of demolishing decrepit buildings and streets, it is doubtful that, without government incentives, projects that renovate and improve rundown neighborhoods would supplant less costly efforts at the cities edge.

So maybe Katz has a point about building inner city infrastructure.

Uncontrolled urban shopping mall sprawl has created congestion and added demand for roads and bridges where they weren't needed before. Funding for restoring rural roads and bridges often suffers as a result. As more farmland disappears under new concrete parking lots, inner cities are abandoned to blighted gangland neighborhoods, climbing crime rates, and mayhem.

There's no doubt that Katz of Brookings and others will gain traction with the incoming administration when it comes to urban reclamation. Their call will be heard. But ignoring the needs of rural America in the bargain would be a mistake. The need for rural food and energy production has continued to increase even as our farm fields have been swallowed by spreading REIT development, and inner cities have been allowed to fade.

Thanks to short sighted rural policies, we've been fading too.

Big rural towns may have even better luck than large cities when it comes to attracting and keeping manufacturing jobs. Where big towns fall short is population and the need to draw labor from rather broad areas of the surrounding countryside, perhaps as many as 5 or 6 counties. Mostly due to a willingness to grant tax credits, and greater political support, big towns are better at attracting TIF aided business opportunity than their smaller counterparts.

High transportation costs last year drove many rural residents to seek housing closer to their jobs in big towns. But big towns still need to extract laborers from rural areas and the small communities surrounding them in order to meet demand.

In big cities the cost of commuting is justification for light rail; That's one of Katz' goals. If people can't afford the commute they'll look for employment closer to home which makes it tougher for big business to shift jobs across broad spectrums of industry. But in rural America workers are forced to bear the expense of going where the jobs are.

By cheapening the cost of transportation, we also cheapen the cost of labor. And by limiting rural development in lower population areas we accomplish the same fete for big

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consumer with the attendant effect of a better functioning market.

From that standpoint, MCOOL is not yet effective. Consumers are not yet clearly informed as to the origin of their beef. With the six-month "educational" grace period the USDA announced following implementation last September, full-fledged origin labeling with full disclosure and honesty has not yet taken place.

The relative value of foreign beef versus domestic beef needs to be driven by the consumer. Thus far, the consumer has not had an effective opportunity to take that action.

The integrity of the market depends on honest transactions. MCOOL is an effort to drive honesty into the market and to get as close to perfect knowledge as is practical. That effect has not yet pervaded the consumer market for beef. And if packers and feedlots complain about the added costs of implementation, they are hard to believe. But even if they are correct, then that is just the cost of honesty, and, after all, honesty is priceless. RS

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the level of concentration in the food industry. OCM was contacted and asked to provide input. Bill Heffernan and Bob Taylor (both founding OCM members) and I attended a lengthy session with the GAO lead analyst and other staff on the morning of January 8th. Bill and Bob did a great job and will likely be major providers of material and data for this very significant project. I am optimistic that this study will greatly assist OCM in addressing the diminished levels of competition; which are the product of concentration. This study should be completed within the year and I expect congressional hearings as a result.

The Coalition for a Prosperous America (CPA), an organization

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David Kruse
President, ComStock Investments
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Mexico suspending meat purchases from 30 U.S. meat plants, similar actions taken by Russia, slowing by China of the unloading of U.S. soybeans, the E.U. re-fileing its WTO case against hormone produced U.S. beef. . .Are all of these just isolated instances of manifesting trade disputes or are they the beginning drum-beat of growing protectionist trade actions brought on by the worsening global economy?

I've read where one difference between the current global recession and the 1930's is that we have free trade and a system to protect us from protectionism in the WTO. We think that there is risk in getting too comfortable with the notion that protectionism is not a threat. There won't be a Smoot-Hawley Tariff Act as was passed in June 1930 but there is room within WTO rules for a significant shift toward protectionism without violating WTO rules. The Economist magazine notes that "A modest shift away from openness - well within the WTO's rules - would be enough to turn the recession of 2009 much nastier. Incremental protection of that sort is, alas, all too plausible."

Countries don't turn protectionist until it hurts. As the economic recession worsens, the political pressure for protectionism will grow. There have already been demonstrations and social unrest in both China and Russia. Protectionism is an opiate, pulled down from the shelf when economic pain becomes unbearable. Tariffs on goods have fallen from an average of 26% in 1986 to 8.8% in 2007. This sparked a trade renaissance behind the falling trade barriers. But alarmingly, the global credit crunch has brought trade growth to a grinding halt. The World Bank predicts that trade likely declined 2% this year, the first global trade contraction since 1982. Russia, India, and Vietnam raised tariffs this year as the economic pain triggered political thresholds.

Tariffs will rise. The International Food Policy Research Institute says that if all countries raised tariffs to the maximum levels allowed by the WTO that global trade could shrink by 7.7%.

The Economist warns, "For the first time in more than a generation, two of the engines of global integration - trade and capital flows - are simultaneously shifting into reverse. The World Bank says that net private capital flows to emerging economies in 2009 are likely to be only half the record $1 trillion of 2007. This twin shift will force wrenching adjustments. It will be tempting to prop up domestic jobs and incomes by diverting demand from abroad with export subsidies, tariffs and cheaper currencies."

Before this global economic recession is over, the WTO will be thoroughly tested as an institution and the last half century of globalization will be defined as either a lasting trend or an aberration.

DTN Ag News noted, "The United States has begun legal action at the World Trade Organization aimed at halting Chinese government subsidy programs that U.S. Trade Representative Susan Schwab said, 'aim to unfairly promote Chinese branded products at the expense of American workers, farmers, ranchers, manufacturers and intellectual property owners.'

Some see this action as connected to slowed unloading of U.S. soybeans in China. Mexico, banning meat from U.S. plants, an action expected to be brief, was likely connected to COOL which angered both Canada and Mexico. COOL is widely practiced by U.S. meat customers so is not seen as violating WTO rules. Ironically, a bailout of the U.S. auto industry would be considered an illegal government subsidy by the WTO, but so many other countries are aiding their automakers no one is expected to cast the first stone.

In the 1930's, protectionism flourished largely because of macro-economic failures. World governments and Central banks aren't making that mistake again, putting out macroeconomic stimulus programs this time up the gazoo. Yet, tempers appear short and minor trade actions gather immediate retaliations. Doha died and it remains to be seen how good the WTO is as trade cop. The U.S. is no longer leading globalization. The newly elected Congress will be the most protectionist in decades unlikely to wink at trade transgressions by trade partners as has been done in the past.

The bottom line here is that there is going to be trouble. We're not likely going to get through this global economic retrenchment without some kind of major trade dispute blowing up. President-elect Obama has uttered protectionist rhetoric during his campaign in deference to union supporters. Herbert Hoover signed Smoot-Hawley despite the opposition of key economic advisors and a petition signed by 1028 American economists.

Smoot-Hawley soured trade relations with other countries giving an already contracting world economy another squeeze. President Barack Obama would not sign another Smoot-Hawley but Smoot-Hawley will likely materialize in this economic cycle as some trade measure that those looking for Smoot-Hawley would not immediately recognize. My concern is that nearly 100 years from now, when the world is experiencing its next economic depression they will all allude to another trade mistake that worsened this depression like we allude to Smoot-Hawley today. Watch out for it.

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 Agri-Vantage 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: CommStock Investments, Inc., 207 Main St., Royal, IA, 712-933-9400, www.commstock.com. E-mail to: info@commstock.com

Food is Life

by Richard Oswald

(Reprint of December 08 article which was incomplete)

Suppose we allowed US agriculture to consolidate into 5 large corporations that account for nearly all of the processed food in the United States. And suppose those corporations grew so large that they had tentacles extending into nearly every food related business in the nation and the world. And what if a majority of those 5 major corporations through lack of oversight from their own overseers as well as those of the government, failed catastrophically in such a way that virtually all food production and distribution was threatened?

That's what happened when our financial system nearly crashed and burned this year. Many people lost their investments, their homes, their jobs, and their retirement.

People are always the first to feel it and the last to heal it.

In order to mend the problem the Federal Reserve basically had to print more money...but the problem still isn't fixed as more and more big businesses fall like a row of dominoes. Right now there seems to be no end in sight.

So far the results for AIG, Merrill Lynch, Washington Mutual, and Citigroup have been mixed at best, but worse for Lehman Brothers, and maybe GM, Ford, and Chrysler too.

And the printing presses at the Fed keep running day and night.

Is bigger really better? In giant corporate America, bigger now seems to refer more to losses than efficiencies. Yet consumer food costs remain high even though food commodities are well off the peak.

For those promoting the same business model for US food production that is currently causing so much financial and business pain both at home and abroad, my question is this; "How do you print more food?"

Still, it doesn't appear that we've learned a thing, because some are still saying that the answer to cheap abundant food lies with the notion that bigger is better in portions, in trade, and in corporations.

In order for our financial system to thrive, plastic has been a key ingredient. Americans live on plastic these days. Most of the plastic is in the form of credit cards, some of them sponsored by the same guys who trashed our financial system. Easy credit helps maintain consumer spending, but burdens them with double digit interest rates and unmanageable debt.

An interesting side note is that common synonyms for plastic are "fake", "false", and "artificial".

In our food, yet another form of plastic comes to us from the nice folks at Mainland China, where melamine is added regularly to food, even infant formulas, by unscrupulous trading 'partners'.

Big business craves free trade access to various food ingredients world wide. They want to take advantage of low shipping and exchange rates to buy on the cheap, and they want to sell the stuff back to us with a brand name and logo that implies the product is as American as apple pie, but without the inconvenience of a Country of Origin label that could alert the public to their own plastic assumptions about food safety.

In many cases the cost of advertising to create customer appeal probably exceeds the cost of some ingredients. For instance, Kraft Foods advertising budget exceeds $1 billion annually.

Even our commercial fertilizer supplies are at risk as foreign companies add heavy metal pollutant waste like cadmium to their exported zinc plant food supplements. Remember the contaminated imported children's toys from Christmas past? How about the imported poison pet food? Now, it's not just animals or people who are occasionally being poisoned, but the plants and the very soil itself.

Is there a printing press that can replace that?

All alone, American farmers and ranchers are expected to fight the free trade battle with VAT wielding foreign governments as multinational corporations scavenge the battlefield for bargains.

While early morning Black Friday shoppers were crashing Wal-Mart's doors to buy cheap imported goods, our sneaky corporations were quietly slipping through the back door of our domestic food chain with cheap imported goods of their own. If they get their way, Black Friday could come each and every week as shoppers line up on the darkest day of all; The day America runs out of safe, wholesome, and abundant home grown food.

Some things defy explanation while others shouldn't need one. Put simply, food is life. If we can't trust them with our jobs, and we can't trust them with our money, then why would we ever trust them with our food?RO

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towns at the cost of small towns.

Our people have no choice but to drive to where the work is.

Other than shifting employment, low wages, and uncertainty, there can be other drawbacks for those who work for large corporations.

A worker I met at one big city business spent his entire working life at the same job. But while he had never worked at a different physical location, he'd had 3 different employers due to the fact that from time to time, the business was sold. Each time the business changed hands all the workers there lost their accumulated company retirement. As the fellow described the situation to me, at the age of 58 he had decided to retire after 40 years service before the company changed hands and he lost his retirement yet again. "I'm getting to old to start over a fourth time" he said.

It has been proven time and again that rural people are willing to invest in their own communities for the creation of jobs, wealth and retirement income. One such example in Atchison County was a business startup originally known as Missouri Beef Packers. Built almost entirely with local investment, MBP was a successful business injecting millions of dollars worth of jobs and profits into the local economy. Original investors, made up of local farmers and businessmen, enjoyed strong returns on their original investment. After more than 10 years of growth, a greatly expanded MBPXL was sold to Cargill Incorporated. Cargill named their acquisition "Excel". Today Excel is the second largest beef processor in America.

But when hometown investors gave up control of their creation by selling it, we lost it all together when Cargill closed the original plant in Atchison County.

We were wiser, richer, and right back where we started.

Sadly, a second community effort to create local wealth and jobs almost 40 years later was stifled in part by the recent banking meltdown when the proposed renewable fuel refiner, Heartland Biodiesel, was unable to secure borrowed capital to begin construction even after Missouri residents, mostly from Atchison County, put up nearly 20 million dollars of their own money.

That was a huge amount of cash for so small a community to invest.

We need to do more things for ourselves, that we have come to rely on foreign nations and corporations to provide. We need to build more of our own machines, and we need to fuel our machines not with imported energy but our own domestic supplies of energy… we can create fuel with local bio-refineries. We can generate electricity with wind. With the internet we can process data for big business or hospitals, and store the data where it is safest. We can trap climate changing carbon in our fields even as we produce and market real food, food that is free of illicit drugs and chemicals, food that Americans can trust.

As a result, our nation can be a better, healthier, safer place, and rural America can too.

Rural areas of America don't hold every answer to renewed prosperity, but we offer diversity and dedicated workers. We possess a wealth of land and natural resources. We don't require access to the billions of dollars that private sector businesses hope to tap. What we need most of all is the aid and understanding of state and national leadership that defends our rights to develop our own communities for hometown jobs … to build upon our prairie islands of hope and profit from them.

Out here in the country, we aren't just job-holders, we're stake-holders. What we gain enriches people and communities instead of corporations.

We embody the American Dream.

Working together is nothing new for us when both nature and the scheming of men pose significant challenges. A self serving attitude of big business stands in contrast to "Hope" and a "Yes we can" attitude that has been a part of our rural mind-set for generations.

We're still here, we're still hoping, and for rural America today, "Yes we can" has a whole new meaning.[RO]

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founded as a result of OCM efforts, continues to grow in number and influence. Current member organizations represent some 2.7 million individuals. On January 7th, selected members of the CPA Board, myself included, had an hour and one half meeting with the U. S. Department of Commerce (DOC) Transition Team for the incoming administration. We conveyed the damage done to manufacturing and agriculture by current trade policy and suggested some remedial action. Our message was well received and I expect that CPA will have continuing input into future DOC trade policy discussions.

There are a number of other ongoing significant OCM activities that I will attempt to discuss in future pieces. I feel very good about our prospects for making progress with our OCM agenda during this upcoming year. I wish you blessings and happiness for 2009.[FS]

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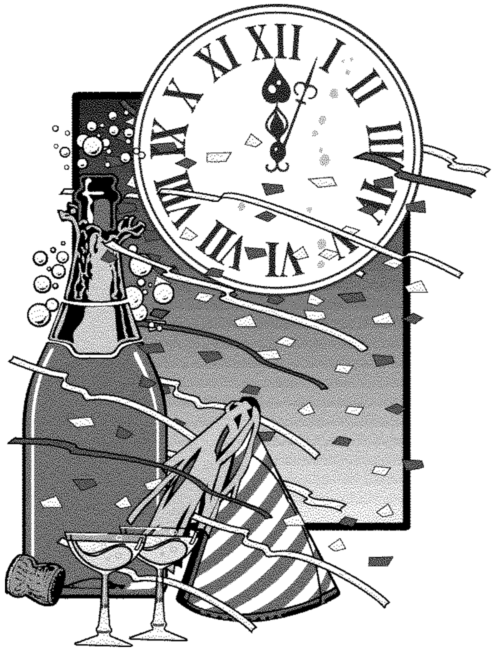

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