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FROM THE Executive Director

FRED STOKES
EXECUTIVE DIRECTOR

Over the years OCM has undertaken a number of significant projects. Some turned out better than others. Notable successes include the retreat and publication of "A Food and Agriculture Policy for the 21st Century", and initiating and participating in the coalition that produced "USDA INC." a study and media event that revealed how big agribusiness firms had hijacked "The People's Departments" (USDA).

Again, with a little help from our friends, OCM is about to embark on an important project; clearly the most ambitious project we have ever undertaken. At the Glen Eyrie Conference Center in Colorado Springs, November 15-17 we're going to conduct the first of a three-conference series on globalization and free trade. This conference; **"Free Trade and Globalization; American Opportunity or Risk to Economy and Security?"** will tell the rest of the story!

The American people were sold a bill of goods with NAFTA and the other "so called" free trade agreements. Every single promise made has failed to materialize. We have seen our family farms and ranches put out of business, our manufacturing base hollowed out, good jobs transferred to cheap labor in the developing world and an accumulated trade balance since 1990 that is off the charts. This debt owed to foreign interests now approaches $6 trillion and grows by more than $2 billion every day; it threatens to undermine our national economic security. To add insult to injury, these United States of America, the world's richest nation and only remaining superpower has become the world's greatest debtor nation; ——- with China, a country with rampant poverty holding more of that debt than any other country. Outrageous!

Now we see the emerging plans to greatly expand the port system in Mexico and build a NAFTA superhighway to handle the expected continuation of cheap Asian (mostly Chinese) imports that increases 15% each year. Mexico, having lost most of its manufacturing to even cheaper labor in Asia, is now relegated to being a cut-rate longshoreman for those who took away the jobs they acquired via the "Giant Sucking Sound".

Beyond any doubt, Free trade and globalization have been demonstrated to be a dismal failure. It is past time to tell the U. S. voter the truth, and with this conference series we intend to do that!

OCM Board Member and project designer, John Dittrich has produced a masterful fourteen page roadmap for a successful conference. Our friends and allies, National Farmers Union and American Corn Growers Association have joined us as co-organizers of the event and assisted with funding. The talented Peter O'Driscoll, Director of Action Aid International has become a key advisor. Tom Mullikin and his twenty-seven member team, from the prestigious law firm, Moore & Van Allen have committed (pro bono) to assist us in making this conference series a smashing success. Many other organization, activities and individuals will furnish financial support.

We currently have commitments from nationally prominent experts as participants and are assured of finishing out our participants list with

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WHAT'S
INSIDE

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Reclaiming the Agricultural Marketplace For Independent Farmers, Ranchers and Rural Communities!

UPDATE
FREE TRADE AND GLOBALIZATION CONFERENCE

A message from JOHN DITTRICH, OCM Board Member
Project Designer for Free Trade and Globalization Conference Series

Interest and Excitement is building for OCM's ambitious project titled "Free Trade and Globalization: American Opportunity or Risk to Economy and Security".

As our executive director Fred Stokes relayed in the September newsletter, this project originated with our OCM annual winter board meeting held in Colorado Springs in February of 2006 (at board member Mike Callicrate's Ranch Foods Direct facility). Over the years, OCM has grown to understand that trade policy is inextricably intertwined with our core issues of concentrated and anti-competitive agricultural markets, and the corresponding lack of market power by producers (and consumers).

Fred Stokes promoted the idea of a broad-based trade conference at that time, which President Keith Mudd and the board endorsed as a key part of pursuing our core mission. At that time, I offered to frame and conceptualize an ambitious project for later board review, with some of the key elements discussed at our board meeting.

The design document was soon enthusiastically approved by the board. Since February, Executive Director Fred Stokes and I have been methodically building the project with regular input from our board. At the board's direction, Fred has pursued the project on a daily basis as his highest priority, utilizing his well known and impressive skills as a communicator, net-worker, and organizer.

Fred has been keeping our members and supporters updated on the project through our newsletter. However, our supporters (or new readers) may still ask why OCM is pursuing this ambitious trade project considering our roots were not initially focused on trade. Following is an excerpt from the "Background" section of the Free Trade and Globalization design document which has been used to frame, organize, and recruit for, the conference series. It may be of interest to our members and supporters as we fast approach the first of what we hope will be a very productive conference series.

"The Organization for Competitive Markets (OCM) is a grassroots and agriculturally oriented think tank composed of farmers, ranchers, academics, and attorneys. Since it's founding, OCM's mission has been to improve the fairness of agricultural markets for the benefit of both producers and consumers in our food system. We have pursued such improvements through anti-trust and marketplace affecting litigation and legislation.

Though its board is politically diverse, OCM's roots are in Middle America, and lean politically conservative. However, our issues cut across all partisan and ideological lines, and our allies range from the very liberal, to the very conservative.

Co-founder, second president (following Clay Daulton of California), and now executive director Fred Stokes is a retired career Army officer, now rancher. We are strong supporters of a properly functioning democratic

Please see DITTRICH on page 6

Honesty, Prosperity, Economic Liberty

STOKES (continued from page 1)

truly distinguished individuals. I have been amazed at how eager prominent and talented folks are to be a part of this conference series. OCM is rapidly expanding its circle of friends and bringing together a new and powerful coalition.

Please read with some care the related articles by Professor Peter Morici and Senior U. S. Business and Industry Council Fellow, William Hawkins. Our foreign debt and the plans for building infrastructure for expanded Asian imports (and diminished U. S. exports) are major concerns. However, there are other important issues that we will examine in these conferences; including national security, sovereignty, food security and the shrinking middle class.

The products generated by these conferences will be highly publicized. We intend to get the word out. It does little good to arrive at the truth and then hide it under a rock. After this first conference, we will immediately begin planning for the next. which will address courses of action and specific solutions to the problems identified and illuminated. This second conference will bring together the elements of a new and powerful coalition, which will have the ability to more adequately represent our side of the debate. It will likely be held in a media center such as Washington DC.

This first conference in Colorado Springs is not an open meeting, but we will have some space for observers. Let us know if you would like to attend a portion of this first conference and we'll try to fit you in. Stay tuned![FS]

KRUSE (continued from page 3)

cash markets for some time. You can't lose what doesn't exist. The Justice Department evaluates how mergers impact industry concentration with a formula called the Herfindahl - Hirshman Index. An industry is considered to be highly concentrated at 1800. The PSF - Smithfield merger will not trigger the index. One could argue flaws in the formula but achieve nothing with a Washington administration that won't care. Ironically, the merger will position PSF-Smithfield Foods advantageously because their merger may hinder any others, because the next merger may trigger the concentration index generating much more resistance from anti-trust regulators. PSF - Smithfield Foods needed to move now before someone else did.

I continue to see Tyson/IBP with the greatest vulnerability as a result of their lack of integrated livestock production. Smithfield's Joe Luter is right about his integration model. Integration is competitive. Independent hog producers can't compete against integrated hog producers and non-integrated packers can't compete against packers who produce hogs. Triumph Pork tipped the scales in the hog industry expanding aggregate kill capacity therein tightening the supply of hogs available to non-integrated packers. IBP is vulnerable and Joe Luter loves to exploit vulnerability. He's coming at them in the beef industry too. [DK]

DITTRICH (continued from page 6)

keenly aware of risk, both perceived and un-perceived. They are the first to sense something wrong with their surroundings, and are often the first to be impacted by economic or environmental changes. Historically, they have concern for others, and take care of their neighbors. Above all, farmers and rural people are patriots.

Considering these factors, OCM and the other agricultural organizers believe that we are properly and uniquely suited to propose, pursue, and lead the conference series agenda.

We hope that this background will pique appropriate interest and appreciation from readers for this effort."[JD]

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AMERICA (continued from page 5

Rising debt and falling growth are prescriptions for calamity.

The Bush Administration urgently needs to persuade China and other Asian countries to significantly revalue their currencies and to stop intervening in foreign exchange markets.

So far China has balked at meaningful action. It has permitted the yuan to appreciate by about 4.5 percent over 15 months. That is hardly enough to have any meaningful effects.

At the conclusion of his recent trip to Asia, Treasury Secretary Henry Paulson announced the initiation of a U.S.-China Strategic Dialogue. We have had years of talk, now we need strong action to combat Chinese and broader Asian protectionism.

Unfortunately, many U.S. multinationals, like GE, Caterpillar and GM are making huge profits in the protected Chinese market, and President Bush is reluctant to disappoint his strongest supporters.

Branding his critics protectionists, instead of the Chinese, the President appeases his domestic allies and foreign powers to the peril of the nation.

Peter Morici is a professor at the University of Maryland School of Business and former Chief Economist at the U.S. International Trade Commission

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DITTRICH, (continued from page 2)

and market-based economic system. We believe that such a system, when properly regulated and refereed, provides the greatest opportunity for the human potential, and provides for the greatest common good.

However, OCM fears that such a democratic market based system is weakening due to ever-increasing concentration of economic power, and a weakening of national and global oversight of the markets. We are experts in this area, and increasingly understand that this problem is much broader than agriculture. We believe that Free Trade and Globalization, as currently pursued, is negatively impacting our desired economic system. OCM now believes that it cannot achieve its original mission without pursuing the conference series agenda.

Though the co-sponsor list is intended to be quite diverse, OCM is joined by a short list of primary organizers that are grassroots and agriculturally oriented. Readers may rightfully ask, why are agricultural organizations initiating and leading this broad conference agenda?

There are three key reasons why agriculture interests are best suited for this effort, which we would ask readers to consider.

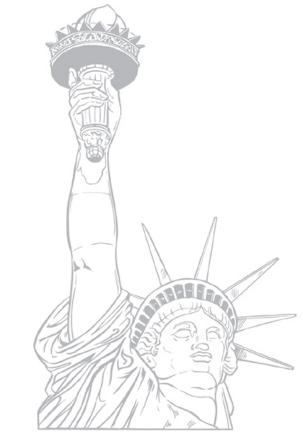
First, promoters of free trade typically focus heavily on the benefits to agriculture. Agriculture and farmers are often invoked as both ardent supporters of the current free trade model, and as being major beneficiaries. In the US, concerns raised by non-ag sectors are often over-ruled by supposed concern for family farmers. Though there is sharp division in the countryside over whether free trade/globalization is beneficial or damaging, the public perception is that agriculture organizations are broadly supportive. However, the organizers understand that many farm organizations have conflicts of interest with producers due to their funding sources. Therefore OCM and others believe that non-agricultural sectors have not received appropriate balanced input from agriculture.

Secondly, the organizers understand the complete food system from farm to consumer. They understand that the food system, both in the US and globally, is heavily impacted by free trade initiatives. Though a properly operating system is taken for granted in the US, risks to that very important system have not been properly analyzed. Additionally, outside the US in many underdeveloped countries, the majority of the population is farm or rural. Free trade initiatives that pressure these populations have broad social, political, and environmental impacts. The impacts on these populations have the potential to affect industrialized countries and global security in ways that are often not debated and are poorly understood.

Finally, throughout US history, it has often been farmers and ranchers that have first raised the alarm about outside or domestic risks to our country. The farm and rural economy has under performed the rest of the US economy for many years, in part due to some of the questions raised in the conferences. As a consequence, farm and rural populations are now sometimes viewed with sympathy or even condescension. However, readers should remember that beginning with the founding fathers, farm country has historically provided great leaders and great thinkers for this country.

Most farmers and rural people are common sense Middle America, not prone to extremism to either the right or the left. Due to their close tie to Mother Nature, farmers are

Please see DITTRICH on page 7



America, the Debtor Nation

by Peter Morici

The United States is a debtor nation, just like the poorest states in Africa, Latin America and Asia. Since the fourth quarter of last year, U.S. citizens and businesses have paid more dividends, interest and the like to foreigners than they have received from abroad.

How Americans entered a debtor's life is hardly a puzzle but what it means is even more troubling.

For most of the last 30 years the United States has been piling up large trade deficits. The current account, which includes net exports of goods, services and income payments, has now reached 6 percent of GDP, and must be financed by capital inflows. Foreigners must purchase large amounts of U.S. property, stocks, bonds, bank deposits, and currency, or the current account deficit cannot be financed.

The U.S. appetite for foreign goods and services moves up in a fairly steady fashion, other things remaining the same, but the private sector appetite for U.S. assets is erratic. When foreign purchases of U.S. assets dip and do not finance the current account deficit, the supply of U.S. dollars in foreign exchange markets should exceed the demand, and the dollar should fall in value against other major currencies. U.S. exports should become more competitive and imports more expensive. In turn, the trade deficit should shrink to an amount foreign creditors wish to finance.

However, for decades, Asian nations, led first by Japan and now China, have prosecuted a mercantilist development strategy. They consistently buy U.S. dollars and securities to keep their currencies and products cheap.

Regardless of the level of private demand for U.S. assets, these governments have consistently entered foreign exchange markets, sold their currencies for U.S. dollars and converted the proceeds into U.S. bonds and bank deposits.

When private purchases of U.S. assets slack off, those governments rev up purchases to keep their currencies and their products artificially cheap on U.S. markets. To support these policies they erect arcane barriers to U.S. exports—automobiles and parts, heavy machinery, electronics, and software have been particular targets for their protectionist industrial policies.

This process has escalated during the recent economic expansion to dangerous proportions. Each year, China spends more than $200 billion, or 9 percent of its GDP, purchasing dollars and other foreign currencies and converting those into debt instruments. This provides an off budget export subsidy of about 25 percent of the value of China's exports.

The debt Americans are incurring is massive. Direct investment in U.S. productive assets provides only about 11 percent of the needed funds, and the balance is obtained through the sale of Treasury securities, corporate bonds, bank accounts, and other paper assets. Americans borrow nearly $60 billion each month to consume more than they produce. The total debt will exceed $6 trillion by the end of 2006.

At the same time, our ability to finance this debt is shrinking, and with it our economic security. By running such massive deficits, the United States is shifting resources in record amounts out of export and import-competing industries, like autoparts and software, where worker productivity and investments in R&D are high, into non-trade competing activities, like restaurants and retirement homes. This lowers GDP immediately and cripples future growth.

Over the past five years, the process has accelerated, as Americans, financed by China and other Asian governments, over-invested in large houses and shopping malls instead of R&D, plants, equipment, and software that drive productivity growth and product innovation. JPMorgan estimates that potential U.S. GDP growth has declined from 3.5 percent 1996 to 2002, to 2.7 percent in the years since. Going forward it estimates potential growth to be even lower.

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NAFTA highway or new silk road?

by William Hawkins

September 24, 2006

On Sept. 7, the Security and Prosperity Partnership of North America (SPP), a government office established in March to increase cooperation between the United States, Canada and Mexico, released a progress report. Among its achievements was creation of an American Competitiveness Council to enhance North America's posture in the struggle for hotly contested global markets.

Unfortunately, major events are already unfolding that will undermine this belated attempt to respond to ambitious rivals who have been piling up ever-higher trade surpluses at the expense of American-based enterprises.

A flurry of articles over the summer painted the SPP as a step toward a North American Union that would submerge national sovereignty and open the U.S. to mass migration and political corruption. Human Events launched the story from the right, but it spread across the spectrum to the Daily Kos on the left.

One focus of the articles was a planned corridor of highways and railroads from Mexico into the American Midwest dubbed the "NAFTA Highway." Some of the stories sought to revisit the debate over the North American Free Trade Agreement, but what is really behind this transportation network heralds the collapse of NAFTA and its dream of a stronger continental economy. NAFTA was supposed to combine cheap Mexican labor with U.S. capital and technology to improve competition with Asian rivals. C. Fred Bergsten and Jeffrey Schott, of the Institute for International Economics, testified to Congress in 1997: "We wanted to shift imports from other countries to Mexico – since our imports from Mexico include more U.S. content and because Mexico spends much more of its export earnings on imports from the United States than do, say, the East Asian countries."

Imports from Mexico grew rapidly in the 1990s on this model, but that is not what drives activity now. Today, the massive wave of imports from Asia is clogging West Coast ports and sending shippers and retailers searching for new routes to bring even more foreign products into the United States. Container ship traffic from China is growing by 15 percent a year. Between 2003 and 2005, annual imports from China rose by $92.2 billion, and from other parts of Asia by $41.0 billion.

The final terminus of the planned transport network is the Kansas City, Mo., SmartPort. Its Web site proclaims, "The idea of receiving containers nonstop from the Far East by way of Mexico may sound unlikely, but... that seemingly far-fetched notion will become a reality."

The Chinese firm Hutchison Whampoa has partnered with Wal-Mart in a $300 million expansion of Lazaro Cardenas to handle perhaps 2 million containers annually by the end of the decade. The American Chamber of Commerce in Guangdong, China, has held seminars promoting this Mexican port. Punta Colonet, about 150 miles south of Tijuana, is also eyed for expansion to offload millions of additional containers filled with Asian imports. Kansas City Southern railway has bought the Mexican rail links and the State of Texas is negotiating with a Spanish firm to build a corridor of toll roads from the border heading north.

While American-based manufacturers will continue to suffer under the barrage of Chinese goods, Mexican industry will be smashed flat by what should be called a new Silk Road rather than a NAFTA highway. The economic development goals of NAFTA are being abandoned.

More than 600 of the maquiladoras assembly plants along the U.S.-Mexican border have relocated to China, leaving their Mexican workers behind. There is little chance for Mexican wages to rise if at $1.50 an hour they can be undercut by Chinese labor at 50 cents an hour. NAFTA was to be a way to lift Mexicans out of poverty and stem illegal immigration to America. A similar argument was made last year about the Central America Free Trade Agreement (CAFTA). As South Carolina Republican Rep. Bob Inglis said during that floor debate, "I stand here convinced that it is the best strategy available to combine with our neighbors to the south to compete with the Chinese."

The new transport plans make a mockery of these arguments, as they are aimed purely at helping China improve its competitive advantage over all North and Central American rivals. What is being built is truly a "Highway of Death" for both NAFTA and CAFTA. The resulting regional turmoil will be felt in the United States.

It is well past time to rethink the sophistry of "free trade" with China. Instead of spending billions of private and public funds aiding Chinese traders, a major effort should be launched to rebuild and expand the North American production base, and to stem the massive outflow of capital and technology to Beijing, America's ambitious geopolitical rival. A key part of that effort would be to restructure NAFTA to create a true trade bloc that would drive Chinese goods off the continent, rather than into its heartland. WH

William Hawkins is senior fellow for national security studies at the U.S. Business and Industry Council.

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Honesty, Prosperity, Economic Liberty

The politicians will give the recently announced purchase of Premium Standard Farms (PSF) by Smithfield Foods a good going over, saying all the politically correct things about the need to protect competition in livestock markets, but they surrendered the issue in the late 1990's when efforts to block packers from owning hogs were beaten back by integrators. It's too late now.

The Senate passed a ban on packers owning livestock as the 2002 farm bill was being marked up, but the measure was killed in conference committee. The compromise was Country of Origin Labeling (COOL), included in the farm bill, but later circumvented by derailing enforcement. Whatever intent of Congress to promote and protect competitive livestock markets, including mandatory price reporting, has been thwarted by packer special interest influences on agency implementation. The interests of independent livestock producers, even when they win legislatively, have been undermined bureaucratically. The damage has been done and the merger of PSF and Smithfield Foods is just a reminder. The additional adverse impact to competition from this specific merger is negligible, like shooting a dead body.

Iowa has two great U.S. Senators willing to champion independent livestock producer interests but leaders can only do so much if no one will follow. Independent livestock producers chose to seek safety under the perceived protection of integrated production rather than fight it out to remain independent. NPPC and NCBA policy supported integration, prompting Senator Chuck Grassley to label them "packer lackeys." Neither state cattle nor hog organizations gave Iowa Senators the backing they needed, always stopping short of full fledged battle. The 1998 hog market meltdown broke hog producers resolve, prompting them to trade a competitive market for a guarantee of shackle space.

The merger of PSF and Smithfield Foods is just a progressing result of that victory. With fewer than 10% of hogs now sold in the spot market, it's too big a dog for the tail to wag. Senator Chuck Grassley says that he believes that anti-trust laws are strong enough but they lack enforcement. Packers/integrators own the USDA. It's a captured agency. The Inspector General found that the administrator of Packers and Stockyards was purposefully suppressing enforcement of P & S statutes. In my opinion, I believe this was being done with the full support and understanding of the political interests inside USDA and the Bush administration.

USDA is a captured agency with policy dictated by meat packers, no different than the Pentagon being run by the military industrial complex. Meat packing officials move in and out of USDA like Generals and Admirals shuttle jobs between the Pentagon and defense industry but no one even thinks anything of it at USDA. The PSF/Smithfield Foods merger may prompt some hearings on meat industry concentration but nothing will come from them as the fox owns the chicken coop and all the chickens in it. Smithfield Foods bet $100 million that the deal will go through by agreeing to a termination fee if it doesn't. They own the process so it's not much of a risk.

"There simply is no such thing as a North Carolina hog market." That's the assessment of Merc economists, Steve Meyer and Len Steiner. The price of hogs in North Carolina is based on the IA/MN weighted average in formulas. PSF doesn't buy hogs in the Midwest. The merger of Smithfield Foods and PSF's will have no impact whatsoever on price discovery as PSF has not participated in competitive price discovered

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David Kruse
President
ComStock Investments

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