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Organization for Competitive Markets

September 2006

Why A Trade Conference?



BY **FRED STOKES**
EXECUTIVE DIRECTOR

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Inside ...*

Why A Trade Conference?
by Fred Stokes
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**Reclaiming the
Agricultural Marketplace
For Independent Farmers,
Ranchers, and Rural
Communities!**

For several years, the board members of OCM struggled with the question of just how foreign trade related to our core mission. As time went on, it became very clear that prices for the things

Last year this country had a record trade deficit of \$788.5' billion.

U. S. Farmers produced were greatly affected by what went on in the rest of the world. At the Board of Directors Meeting in Corpus Christy in February of 2005, foreign trade was seen as the dominant factor affecting our markets and the so-called free trade agreements such as NAFTA as the major culprit in driving our farmers and ranchers out of business.

At the board meeting in Colorado Springs this year, we decided to put together a conference on Free-Trade/Globalization with the hope of helping people to understand the harm that is being done to U. S. agriculture, rural America, our food security, our economic security, society, our sovereignty and our

national security. While we are primarily an agricultural organization, we are also U. S. citizens. So in this conference, we plan to meddle in aspects of globalization and free trade that are not solely related to our core mission but affect country folks as well as everybody else.

The conference will be November 15-17 in Colorado Springs. It is not an open meeting and we only have accommodations for 50 folks. We envision 20-30 of these being experts who will intensively focus on the various aspects of this overall issue and produce a document that we can use to make the public understand that free-trade and globalization are really not the panacea they're being billed as. There will be some room for observers and the press.

Globalization is a term that replaced "The New World Order" which George Bush senior coined and found to conjure up such negative images that it was replaced. What it really means is the free movement of commerce, money, technology and people throughout the world much like the relationship between Nebraska and Iowa. It is an instrument of the transnational corporations and their minions; – and it's all about money.

Hopefully, we can learn something from what happened in Europe. You will recall that it began with the European Common Market, followed by a common currency and the planned erasing of borders and the creation of a new "European" state. However, certain countries balked when it came to adopting a new constitution and

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TRADE (continued from page 1)

surrendering their national identity and sovereignty.

Like the failed European Union, there is a similar vision for North America. I want to read you a short excerpt from a 79 page report by a task force, commissioned by the Council on Foreign Relations.

Report of an
Independent Task Force
Sponsored by the Council
on Foreign Relations

"The Task Force offers a detailed and ambitious set of proposals that build on the recommendations adopted by the three governments at the Texas summit of March 2005. The Task Force's central recommendation is establishment by 2010 of a North American economic and security community, the boundaries of which would be defined by a common external tariff and an outer security perimeter." "Our economic focus should be on the creation of a common economic space that expands economic opportunities for all people in the region, a space in which trade, capital, and people flow freely."

There seems to be serious high level consideration being given to the formation of a new "North American Community". As I read this long document, I'm left with the impression that part of the motivation is to connect cheap Mexican labor to the Canadian tar sands and harvest a bunch of oil and money.

How many of you here have heard about the plans for a **NAFTA Super Highway**? These folks envision a ten-lane highway from Mexican ports, through the heartland of the United States, into Canada. This corridor would also include a pipeline and rail-road.

Recent Article

"The U.S. DOT has earmarked \$2.5 million to an NGO called the North America SuperCorridor Coalition Inc. to plan for "a 10-lane limited-access road (five lanes in each direction) plus passenger and freight rail lines running alongside pipelines laid for oil and natural gas."

When I was commissioned a Second Lieutenant, I took an oath. It didn't say anything about such a North American Union or WTO or GATT or the UN. It had to do with defending the constitution of These United States; – against all enemies, foreign and domestic. I still feel honor-bound to respect that oath.

Those of us who oppose these free Trade agreements are disparaged as "protectionists". This intimidates some; but I kind of like the title. We all need to be protectionists against the transnational corporations and their political minions who are happy to scuttle this republic and oppress the weak in order to make a buck.

You may recall that NAFTA was sold to us as in the interest of our farmers with promises that the treaty would open new, profitable markets, only take away the jobs we really didn't want anyway and replace them with better, higher-paying jobs. It amazes me that we farmers continue to be the stalking horse for other agendas and are so dupable. We bought NAFTA and CAFTA arguments just as many farmers who have a negative net worth, ignore their 3 million dollar exemption on inheritance taxes and with a red face say; "we've got to get rid of this damn death tax".

It was projected that NAFTA would bring prosperity to Mexico, stem the tide of illegal border crossings and increase our already favorable balance of trade. Well, all of us know how things turned out concerning Mexican prosperity and border crossings. NAFTA put subsidized U. S. corn on the global market at below production costs and put the peasant Mexican corn farmer out of business. He either went to

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the horizon but the rapidly increasing military capability of China and the debts that we have saddled future generations with are perhaps the most threatening.

Another big concern that I have has to do with what is happening to the class structure within the U. S. and elsewhere. Manufacturing jobs and family farms are being lost at an alarming rate.

There is strong evidence that China is interested in being the next Global Superpower; and sees the United States as an impediment to that goal.

Jock Nash, Washington Council for Milliken & Company recently called these, "the yellow brick road to the middle class". (WSJ) **"The share of national income going to corporations and the wealthiest individuals, already large, has expanded, while the share going to typical wage earners has shrunk"**. Clearly, the middle class is shrinking, and you can't have a func-

tional democracy without a vibrant middle class.

What do we do in this country anymore that creates wealth? Somehow we must reverse this trend; – consumption doesn't create wealth.

Someone has said that *denial* is not a river is Egypt, but a state of mind that keeps us from dealing with problems. It's sort of like the guy who was told that the gal he was sleeping with just tested positive to AIDS and he responded by saying that he didn't want to be tested and know.

These matters are complex and many people just defer to our politicians and bureaucrats in Washington to take care of things. Well, I'm not so sure that those folks work for us anymore. I'm here today, hoping that we can shake our apathy and begin to deal with these critical issues.

I'm told that the average senator has to raise over \$4,000 per day for his or her campaign. Maybe that's why they are hard to see and discuss things with. Somehow, we need to make our representatives and senators understand that they work for us. We need to hold them responsible. We need to make them concerned about jobs; – their job!

We're way behind and future generations are counting on us to do right so that they won't have to learn Chinese.^{FS}

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North Korean labor. Apparently Chinese labor is too high for these guys. Money and technology always flows to the cheapest labor on the globe.

LA Times, July 9th, "Mexican Port Gets American Connection" (June 20) reports that "Mexico is repositioning itself in a world in which its manufacturing base is eroding and its labor is considered relatively expensive by Asian standards

Wall Street Journal Article July 10, "Bush administration and both parties in Congress are considering signing a "free" trade pact with

"The share of national income going to corporations and the wealthiest individuals, already large, has expanded, while the share going to typical wage earners has shrunk".

South Korea that would cover a special project in North Korea that allows Big Money interests to exploit the enslaved people there." "..... joint-venture Kaesong industrial complex in North Korea that combines South Korean capital with North Korean labor. By the time the complex is in full operation in 2012, it could employ more than 750,000 North Koreans" - again, North Koreans who are literally enslaved and barred from leaving their prison."

While we're on the subject of wages, you may have noted the little ruckus in the congress created when they wanted to raise congressional salaries and leave the minimum wage unchanged.

Do we really have to have illegal immigrant laborers and jobs that don't

pay a living wage to compete globally? Are there really jobs that no one wants; - or just jobs that don't pay a reasonable salary? Does anyone here know what country exports more than any other? It's Germany; and I'm told their minimum wage is in the area of \$12.

Folks, our current trade deficit of \$5 + trillion is a lot of money and we all know that debtors have to be nice and conciliatory to those that they owe that kind of money. This is money that we owe foreign governments and institutions to underwrite the cost of delivered goods that we can't afford to pay for. Our current trade deficit rate is \$2 billion per day. That's a Dubai Port deal every three days. The largest holders of

this debt are China and Japan. Perhaps this is why our government keeps taking high tech items that have military implications off their prohibited list for sale to China and didn't pursue the charge of currency manipulation or WTO labor violations. There will inevitably come that reckoning day.

Do you ever wonder what would happen if for whatever reason, these foreigners decided to call this debt, - a run on the bank, so to speak? When I have posed this question to several high level economist, the answer is always that it will never happen. They reason that these countries have a vital economic interest in a vibrant, healthy U. S. economy. But countries have interests that are not limited to economics. There is strong evidence that China is interested in being the next Global Superpower; and sees the United States as an impediment

to that goal. I believe it is plausible that China would endure a large economic sacrifice to achieve its super-power aspirations.

China is converting their holdings in shaky U. S. dollars to things more tangible. You may know that one of China's recent purchases with their warehouses full of U. S. dollars was the PC division of IBM, a company we used to proudly call "Big Blue". A Chinese company by the name of Lenovo bought IBM's PC division last year. They just recently cut a \$13 million deal to sell 16,000 of these PC's to the U. S. State Department. After a huge uproar by folks who understand the potential for sophisticated bugging, it was decided that these computers would be used only for "unclassified work". Boy, I'm sure glad we dodged that bullet! Now all of us can sleep well and know that all of our country's diplomatic and to some extent, military secrets are known only to those with a need to know.

For those who are into scary stuff, you might add to your reading list, a book called; "Unrestricted Warfare". This is a book published in China in February 1999 which proposes tactics for developing countries, in particular China, to compensate for their military inferiority vis-à-vis the United States during a high-tech war. The book was written by two PLA senior colonels from the younger generation of Chinese military officers. Economic warfare is among their bag of tricks.

Folks, debts ultimately must be paid! This 5.5 trillion dollar trade deficit is in addition to our domestic debt. It looms over us as a threat to the economic viability of this country's economy and the future of our kid's and grandkid's. If something doesn't happen very soon to turn things around, those of us here today will have lived in the hay-day of our beloved republic.

There are many ominous clouds on

TRADE (continued from page 2)

Mexico City and begged or came across the border. In addition, our promised favorable balance of trade with Mexico currently stands at something in excess of a negative \$400 billion.

In agriculture, we frequently hear free trade justified with the argument that we produce more than we can consume at home, therefore, we must find new foreign markets. These politicians and bureaucrats also bluster that the American farmer can compete with anyone and that we will always preserve our ability to produce our own food needs within our borders. Sounds very logical and patriotic! There is one slight problem, - our farmers can't compete with those who have good soil and climate and are happy with \$2 per day. Last year, our food trade deficit was \$21 Billion. We have not met our own domestic food needs since 1998. It's okay to import tea, coffee and bananas, but shouldn't we grow our own meat and potatoes, rather than buying them from whoever can do it the cheapest? I want to talk just a minute about COOL. As you know, we fought and made Country of Origin Labeling for food part of the 2002 Farm Bill only to

have it scuttled by de-funding implementation. The motives behind this effort to force food consumers to buy a pig-in-a-poke is obvious. The transnational traders (traitors) make money by disguising cheap foreign stuff as U. S. products. We must fight to get COOL implemented! If we aren't allowed to identify our U. S. products through country of origin labeling, extol their virtues and sell them to our fellow countrymen for a premium; family agriculture in this country is done for.

Did you know that the United States is the world's largest beef importer? Does anyone here know of anything that we can manufacture or produce on our farms in this country that can't be produced cheaper else where? What is so good about having an export market for our goods at less than their production costs? What is good about a trade agreement which gives others wide-open access to the world's best market here in the U. S., in exchange for limited access to markets where everyone is broke? What is so good about trade in which we run a trade deficit with all of our major trading partners while they run huge surpluses with us.

Last year this country had a record trade deficit of \$788.5 billion.

- China 201.6
- Japan 82.7
- Canada 76.4
- Germany 50.6
- Mexico 50.1
- South Korea 16
- UK 12
- Russia 11
- Brazil 9
- Iraq 7.6
- Israel 7.1
- Viet Nam 5.4

You'll be happy to know that we had a favorable balance of trade to the tune of just over \$240 M with Haiti and Iceland. Ever wonder who's cutting these dumb deals? Folks, at the end of the day, if it all comes down to price; - we loose!

The U. S. consumer is on a spending binge, the likes of which have never been seen before. We're spending like a drunken sailor on a Saturday night, buying these foreign goods, made with cheap labor under deplorable conditions. They're cheap at the point of purchase but how about the true cost? What is the price being paid in job loss, the damage to our national economy, damage to rural America and small towns, the loss of sovereignty, the damage to our standing as a great world power? What about the price in misery paid by those who produce these goods? Does anyone really care? Americans are buying things they don't need, from folks they don't know, with money they don't have, and that's a problem.

This spending craze has caused us to have a negative savings rate. That takes in all forms of savings including 401K's. The last time that happened was during the great depression.

Ross Perot was ridiculed when he talked about the "Giant Sucking Sound". Time has proved him correct! There was also a second giant sucking sound as these formerly U. S. jobs left Mexico for China. Now there's talk of cutting a deal with South Korea to use

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THIS LAND IS YOUR LAND!...THIS LAND IS MY LAND!...
FROM CALIFORNIA!...TO THE NEW YORK ISLANDS!...





THE COMSTOCK REPORT



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PRESIDENT, COMMSTOCK INVESTMENTS

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.

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While index fund investment in the commodity sector has been welcomed for its beneficial impact to prices, it is not totally benign, having a potentially significant adverse impact on functioning price discovery. For-profit exchanges are giddy over record trade volume and open interest that funds have brought to publicly traded exchanges eager to expand position limits and trading limits to grow the size of their markets. Cash commodity markets however, run the risk of becoming the tail swung by price discovery of futures exchanges that are not based on commodity market fundamentals but on the capital investment flows in and out of the commodity sector. The connection between cash markets and respective futures markets differs between commodity markets. Price discovery of cattle and hog markets does not occur at Merc futures exchanges but in the underlying cash markets themselves. Futures markets are forced to align with cash markets via cash settled contracts in lean hogs and feeder cattle or by delivery in live cattle. The Merc is not the center of price discovery with price discovery occurring between consumers and meat retailers and packers and feedlots and ranchers with the Merc reflecting prices discovered.

Cash markets are not set by the closes of livestock futures. The relationship between cash grain markets and the CBOT is much different. The CBOT is the center of price discovery for grain/soy markets. Ironically, virtually all cash grain/soy trade within the industry is discovered basis CBOT prices. Local basis levels adjust to CBOT price discovery but do not occur independent of it. If the Merc closed tomorrow, cash livestock trade would go on almost without notice. If the CBOT blew up, all grain/soy trade in the U.S. would be at least momentarily lost as to how to price their product. There would be a huge grain/soy cash market disruption.

While deliveries are made against futures contracts, when price discovery occurs in the CBOT and not in cash markets, these deliveries tend to play a less powerful or meaningful role in price discovery. The CBOT is the big dog and cash grain/soy markets are the tail being swung. When funds dominate the futures trade, a fundamental distortion can occur. We believe it has occurred in soybean prices this winter.

U.S. soybean carryover was projected to reach 565 million bushels this year which eclipses the previous historical carryover record of 346 million bushels in 1998-99. Global soybean carryover is

record. We could have a flat out soybean crop disaster in 2006 and not run out of soybeans next year. Why did the market call for so many more acres of soybeans when carryover was already at an all-time record? The market didn't, funds did. November new crop soybeans traded \$1 above fundamental market values all winter, producing incentives for farmers to plant more soybeans which the USDA says they strongly responded to. The fund investment in soybeans didn't discover market values, it distorted them.

The flow of fund capital into the soy-complex artificially inflated price incentives attracting record acreage when a record carryover already existed. The price relationship of soybeans was contrary to all previous historical supply/demand price relationships with the distortion explained by the index fund investment into the sector. In my opinion, this threatens the viability of the CBOT as the center of price discovery. Under the new position limits, 100 funds can own the corn crop and 50 the entire soybean crop. The CBOT has gotten bigger than the underlying market and as such is losing its appropriate relationship to price discovery.

These funds could ultimately cost the Federal government and taxpayers

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huge LDP outlays to soybean producers. That's right. The fund distortion of price discovery could cost taxpayers a couple billion dollars and further damage public support for farm program LDP subsidies. I think grain markets and the CBOT has a major problem with price discovery and its role played in producing it to sort out.

The protection of price discovery is in conflict of interest with for-profit exchanges benefiting from expanding trade volume. CFTC regulated? ... About as well as the surface transportation board regulates railroads or the USDA meat packers. The deregulation of industries has unfortunately proven to include insidious relationships between industry and regulators. Industry prevails over public policy and is expanding its dominance of the regulatory and legislative processes.

Congress passes laws but industry writes the rules so Congressional intent is circumvented more often than not in agriculture. If funds distort price discovery of any market creating artificial demand that results in a tax payer liability as is possible in soybeans, then we have a regulatory failure.^{DK}