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Quote of the Month

"Life in prison has actually been better than life at ADM," Mark Whitacre recently told U.S. District Judge Manning. Whitacre, a former ADM employee, informed the FBI about ADM's price fixing before going to jail for embezzlement.

OCM Annual Meeting Report

The OCM Annual Meeting was held on August 20 and 21. Some participants stated that this was the best conference they had ever attended. The membership elected Fred Stokes (Mississippi) as President and Mike Callicrate (Kansas) as Vice President. The newly elected board of directors includes Clay Daulton (California), Steve Cady (Nebraska), Dr. John Helmuth (Missouri), Keith Mudd (Missouri), Senator Cap Dierks (Nebraska), David Andrews (Iowa), and Frankie Summers (Kansas).

The first day of the meeting included substantive presentations in four sessions: (1) Biotechnology, (2) Legislative Issues, (3) Ag Consolidation, and (4) "Visioning for a Preferred Agricultural Future." Additionally, U.S. Senator Bob Kerry (Nebraska) made an impromptu appearance making the point that our country, as a democracy, has the power to create the type of future we choose. Many of the presentations are or will be available on the OCM web site.

Biotechnology: Session 1

On biotechnology, Dr. Neil Harl of Iowa State University stated that biotechnology is resulting in tremendous seed industry concentration and limited market choices for farmers. Production contracts are vertically integrating the industry and corporatizing row crop farming.

Gabriella Flora of the Institute for Agriculture and Trade Policy spoke about the power of intellectual property rights (IPR's) in biotechnology. She described past court and U.S. Patent Office decisions which have allowed corporations to patent life forms. Ms. Flora also illustrated the globalization of IPR's through international treaties in light of the detrimental effects on independent agriculture.

Dr. Robert Taylor of Auburn University made a presentation entitled "Frankenstein Foods, Frankenstein Firms" pointing out the diminishing market competition caused by the rapidly consolidating biotechnology industry. "Complexity management internal to the firms are replacing transparent markets for allocating resources," according to Dr. Taylor. He also stated that land grant universities are selling their research services to the highest biotech bidder.

Legislative Issues: Session 2

State Senators Cap Dierks (Nebraska), Frank Kloucek (South Dakota), Jack Kibbie (Iowa) and Bruce Larkin (Kansas) made presentations as to their efforts to pass legislation on mandatory price reporting, country-of-origin meat labeling, and anti-price discrimination. They described the importance of this legislation for the future of American family farmers and ranchers. The senators also emphasized that a bi-partisan or non-partisan approach was necessary to be successful.

All senators expressed disappointment that the federal law on mandatory price reporting was preempting hard-won state legislation. They further described the intense packer lobbying against these bills. There were fourteen legislators from seven states in attendance at the conference.

Consolidation: Session 3

Lynn Hayes of Farmers Legal Action Group presented on the failure of the USDA to enforce the Packers & Stockyards Act. She stated that USDA has the authority to do more to preserve competition. Ms. Hayes also reviewed a proposed administrative rule prepared by the Western Organization of Resource Councils which would, if enacted, require all long term livestock contracts to be publicly traded without secret agreements.

Bert Foer of the American Antitrust Institute spoke about the need to increase budget appropriations for the Antitrust Division of the U.S. Department of Justice. Without these resources, the Antitrust Division cannot be effective in preserving competition in the country. The focus of Mr. Foer's talk was on retail food concentration which is turning supermarket chains into "power buyers" that can force down supplier prices. Farmers, being the least powerful group in the food chain, can be hit the hardest.

Jon Lauck, a Ph.D. in economic history and editor of the *Journal of Global Trade* at the University of Minnesota College of Law, made the theoretical case for more stringent antitrust enforcement. He stated that antitrust law was designed to prevent abuses of power between industry players and especially against the farmer. He sees the recent myopic focus on the consumer as giving way to a broader view of the purposes of competition policy.

Visioning for a Preferred Agricultural Future

Dr. John Ikerd, University of Missouri, spoke about a new approach for the marketing success of family farm agriculture. He asserted that the family farm must get closer to the consumer and develop a relationship with the consumer. He argued that the new era in economics would mean supplying widely diverse niche markets, rather than a few mass markets, and that relationships would be the key competitive factor.

Dr. Mary Hendrickson, also of the University of Missouri, informed the group about actual examples of direct marketing to consumers. She coordinates the Food Circles Project at the University of Missouri which helps farmers connect directly to consumers. Farmers get more money for their production while consumers reconnect with the land and receive fresh, nutritious, wholesome food at reasonable prices.

Robert Gronski, National Catholic Rural Life Conference, argued for broadening ag policy decision making beyond mere economics. He stated that a democratic society can create a food system which is based upon stewardship, morality and the common good. Mr. Gronski, asserting that a corporatized agriculture is not a preferred agriculture, called for more democracy in shaping our food system -- a democracy which would incorporate ethical, religious and societal concerns in addition to the profit motive.

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NEWSBRIEFS

Antitrust chief says consolidation is not a problem

On July 28, Joel Klein told the Senate Ag Committee that consolidation in agriculture was not a problem. "That price decline is not a product of increased concentration in agribusiness," stated Klein. Echoing the distracting claims of USDA Secretary Glickman, Klein blamed low prices on economic problems in Asia and Europe.

Prior to the merger, USDA estimates the Cargill and Continental controlled 42% of corn exports, 33% of soybean exports and 20% of wheat exports. Sen. Kent Conrad of North Dakota said Klein was ignoring a long term decline in commodity prices and the diminishing farmer share of the retail food dollar. Conrad made the obvious point which escapes Klein and the consolidation apologists, "Power in the marketing chain gives you a greater share of the retail dollar."

Toothless CFTC?

Senator Richard Lugar, Chairman of Senate Ag Committee, and Rep. Tom Ewing, Chairman of the House Ag subcommittee with jurisdiction over the Commodity Futures Trading Commission (CFTC), may be planning to take the regulatory teeth out of the CFTC. Current legislative authorization for the existence of the CFTC ends in about one year. The CFTC regulates the commodities futures markets.

Former Iowa Representative Neal Smith, an OCM member, drafted the initial legislation creating the CFTC in the 1970's. Responding to complaints of abuse and fraud, Mr. Smith envisioned an agency based on the Securities and Exchange Commission (SEC) model to root out problems. Mr. Smith has been since disappointed with the consistent lack of active enforcement by the CFTC. The FBI has surpassed the CFTC in futures trade fraud investigations.

The recently departed head of the Commission, Brooksley Borne, made some enemies by proposing to regulate the trade of financial instruments known as over-the-counter (OTC) derivatives. Lugar and Ewing may be motivated by their opposition to this regulatory expansion. However, any reauthorization must strengthen the ability for an independent agency to root out improper futures trading in all its colors. Either the CFTC or the SEC must do the job.

Where are the purebred breeders associations?

The biggest factory farms have no use for the purebred genetics from the diverse purebred industry in livestock. With consolidation, drastically fewer markets are left for purebred breeders. Yet the purebred associations often occupy themselves with inconsequential issues as family farms and ranches, their main clientele, wither away.

Members of these organizations have some ability to persuade policy makers and commodity groups to get off the industrialization bandwagon and work for Rural America. One would think that they would - as organizations - join the battle for Rural America rather than struggle to divvy up the 4-H calf market.

The Retail Food Cartel

The American Antitrust Institute (AAI) urged the Federal Trade Commission (FTC) to take a less permissive posture with regard to the wave of supermarket mergers. Recent mergers include: Albertson's and American Stores; Safeway and Dominick's; Kroger and Fred Meyer; and Ahold and Giant Food. Ahold is now attempting to acquire the Pathmark chain in the Northeast. Safeway, Kroger, Albertson's, Ahold and Walmart control 33% of the U.S. grocery sales, up from 19% for the leading 5 chains five years ago. AAI predicts that soon four to five chains will have 60% of the national market.

AAI's Bert Foer argues that the FTC policy of forcing divestiture of certain stores and then approving a merger is not good policy. There is serious reason to believe that the buyers of the divested stores will not be strong competitors to the huge retailers. The huge retailers retain nationwide marketing, distribution and financial muscle which gives tremendous advantage over a small competitor.

AAI did not go so far as to argue for a moratorium on all new major mergers in retail. However, the FTC should think seriously about whether the divestiture remedy - i.e. selling some stores to a firm which is not necessarily a strong competitor - constitutes sufficient prevention of competitive problems. Farmers and consumers are at risk.

World trade and family farms

The incessant clamoring for "freer" world trade not only locks farmers into discount-priced world markets, it also threatens the efforts of some family farms to distinguish their products from the mass commodity food system. If a small African nation were to provide government incentives for its people and institutions to purchase food from local farmers, this could be challenged by Cargill as a trade-distorting government policy.

In this country, many family farms are making money through promoting the local food concept. New Jersey even has a "Jersey Fresh" certification program. However, these attempts by the "little guys" to preserve a spot in the global, generic food market are at risk. Multinationals can petition their government to bring a WTO case against the offending local-food-promoting government to impose sanctions.

Thus, despite all the bumper-sticker rhetoric for free trade, it becomes clearer that most benefits accrue to global corporations.

Biotechnology update

Gerber baby food company, owned by biotech parent Novartis of Switzerland, has decided to eliminate genetically modified (GM) food from its products. H.J. Heinz Co. will follow suit in its Earth's Best line of baby food.

- Japan, Australia and New Zealand have decided to require that GM food be labeled as such for the consumer.
- Research from the University of Arizona showed that Bt resistant bollworms in Bt cotton may develop faster than expected. The article appears in the August 5 edition of the journal *Nature*.
- Research results from field tests by the University of Minnesota and University of Wisconsin revealed that Roundup Ready soybeans yield less than conventional varieties.

Mandatory Price Reporting

The Senate Ag Committee unanimously approved mandatory price reporting on July 29, 1999. Unfortunately, the legislation, if approved, would preempt state laws passed earlier this year. Additionally, the bill requires daily reporting of the cash or spot market while allowing packer procurements through forward contracts to be reported weekly.

OCM board member and ag economist Dr. John Helmuth says that the bill creates a strong incentive for packers to shift towards captive supply (marketing agreements, forward contracts and packer owned livestock) because the reporting requirements are less stringent, and thus less valuable for producers.

"Exported to Death"

The Economic Policy Institute, a Washington, DC think tank, released a July 8 report outlining how the combination of export dependence and deregulation that has guided U.S. agricultural policy has led to the financial ruin of many family farmers. Entitled "Exported to Death", the report further states that the plight of U.S. farmers is likely to worsen because: (1) expanding supplies are likely to outpace demand for U.S. farm products; (2) the export-led growth strategy has forced consolidation of agriculture; and (3) NAFTA has resulted in a significant decline in the U.S. farm trade surplus with Canada, Mexico and Latin America.

The author of the report, Robert E. Scott, proposes several solutions which are available from the Economic Policy Institute at 1-800-EPI-4844 or at www.epinet.org.

Do big Coops work for their members?

As the big coops merge and vertically integrate, they are being justly criticized for harming their members. Farmland Industries joins IBP and the meat packing cartel in vertically integrating while it builds grain ports in far corners of the world such as Argentina to send foreign grain into the U.S. Ag journalist Al Krebs reports, in the *The Progressive Populist*, that former Mid-American Dairymen cooperative, now merged into the huge cooperative Dairy Farmers of America, has just been found liable for aggressively driving one of its dairy producing members out of business.

On June 1, 1999, Judge Patricia Hedges in Louisiana found that the big coop was responsible for putting the dairy owned by Clayton, Carole and James Knight out of business. Essentially, Carole Knight began criticizing Mid-Am in a monthly newsletter, *Milklines*. She then achieved a spot on a divisional board of Mid-Am. She utilized that board seat to scrutinize management and deliver information to membership as to why cooperative profits were not being distributed to membership.

Court proceedings revealed a cooperative management plan to terminate the Knights membership because of their criticism of Mid-Am. The Knights membership was terminated and their dairy farm, left with no other Louisiana market outlet, liquidated. Judge Hedges, in a blistering court decision criticizing the big coop's management and board, awarded the Knights over $350,000 in damages.

Dual food systems

Rick Welch, formerly a USDA employee and now with the Henry A. Wallace Institute for Alternative Agriculture, has been closely studying consolidation in agriculture. His recent writings conclude that U.S. agriculture is now in a dualized structure: industrialized agriculture and direct marketing.

The most striking difference distinguishing the two types of production is who has control over key production decisions. In industrialized agriculture, farmer control is being replaced by distant corporate control. In direct marketing agriculture, the farmer maintains control over the production and management of the entire enterprise. A copy of the report, "Reorganizing U.S. Agriculture, The Rise of Industrial Agriculture and Direct Marketing," is available at www.hawiaa.org.

More retail food consolidation

Safeway, the third largest retail food chain in the country, has agreed to acquire Randall's Food Markets, Inc. in Texas. Safeway is based in Pleasanton, California and operates 1,319 stores in the western U.S. and 210 stores in western Canada. According to *Feedstuffs* magazine, Safeway acquired Vons Companies in California in 1996, Dominick's Supermarkets in Chicago last year and Carr-Gottstein Foods Co. in Alaska during this year.

Randall's operates 116 stores in Texas. The combined company will have more than $27 billion in sales behind number one Kroger Co. and number two Albertson's, Inc. The retail consolidation is another factor which has pushed processors to consolidate in order to competitively negotiate with retailers. Thus, a decentralized, competitive food industry requires decentralization at each stage of the farm-to-market food chain.

The consolidation at the top end of the grocery business is driving mid-sized competitors to merge as well. North Carolina based Food Lion (53.5% owned by a Belgian retailer) announced a $4 billion deal to acquire Hannaford Brothers. The combined company will have $14 billion in annual sales and 1,350 stores.

Dr. Ron Cotteril of the Food Marketing Policy Institute at the University of Connecticut states that prices in the food chain are essentially set at the retail level. All other prices are determined or negotiated back from that retail pricing point. Farmers, being in the weakest bargaining position, receive less and less of the consumer dollar.

A federal repeal of the Illinois Brick Supreme Court decision which prevents farmers from bringing antitrust actions against retailers would be a step in the right direction for law enforcement and promoting competition in this country. Consumer food prices continue rising as farm gate prices plummet.

AMI opposes new coop plants

The USDA has proposed financing feasibility analyses of producer-built packing plants. Although small coop plants are being built or studied across the country, the National Pork Producers Council has recently put forth the concept as well. The American Meat Institute (AMI) has gone on the offensive to shut the effort down.

J. Patrick Boyle, President and CEO of AMI, sent a letter to the NPPC president John McNutt saying that meat packers operate in a competitive environment in which there are "no barriers to entry." He also said that pork producers should not build plants with government assistance. Boyle ignores the fact that most of his member packers have received millions in government corporate welfare in the form of tax breaks, low-interest loans, etc.

Separately, in July, IBP mailed fliers, entitled "IBP Feedback", to hog producers with their checks stating that pork packers are running at about 20% below capacity and that the NPPC should focus on ways to market more pork. Does anybody really believe the meat packers anymore?

NCBA selling influence

The National Cattlemen's Beef Assn. (NCBA) is moving to distance itself further from its producer members by proposing to become a federation of beef cattle industry organizations. NCBA would have no more individual producer members under the plan. NCBA would have two boards, the Policy (formerly "dues") Division and the Promotion (formerly "Checkoff") division. In the Policy Division, State and regional cattle organization could get as many board seats as they wish as long as they pay anywhere from $10,000 to $35,000 per seat. Packers can pay $5,000 for non-voting seats where they can watch what the states are doing and be heard in board debate.

The NCBA would also sell seats, and thus influence, on the Promotion Division to meat packers, state beef councils, etc. to oversee where the checkoff dollars are spent. Packers get to vote on the board of the Promotion Division under the plan.

Make no mistake, this is a plan to give the packers and their puppet feedlot states, Texas and Kansas, more power and to reduce the producer to the status of rhetoric when NCBA presents the "industry position" to government and the public. It is a very dangerous plan.

Farmland Industries doubles meat income

Farmland Industries, Inc., the big U.S. ag cooperative, reported that its meat income doubled from $24.4 million to $48.8 million In its first fiscal 1999 nine months. Yet Farmland continues paying low commodity prices to its members. So much for big coops helping their producer-members.

Dairy coops take voting rights from members

The federal milk marketing order debate will ultimately be decided by dairy producers and cooperatives through a country-wide vote. However, dairy coop boards can unilaterally decide to "bloc vote." The bloc vote means that the coop takes away the right of its members to vote on the milk marketing orders and the coop board does the voting. Thus, the huge merged dairy coop, Dairy Farmers of America (DFA) wields tremendous policy power.

When a referendum was held several years ago to decide the fate of the dairy checkoff program, coops used their voting power to beat back the critics and continue the program. This highlighted the "taxation without representation" concerns of checkoff opponents.

The federal government needs to change the rules to prohibit bloc voting by cooperatives as anti-democratic and without justification.

Farmland charged with retaliation against Callicrate feedyards

OCM board member Mike Callicrate, owner of Callicrate Feedyards in St. Francis, Kansas, has been fighting for independent agriculture long before OCM became an organization. As a result of his speaking out, Farmland and other packers have retaliated against his feedlot by refusing to buy or bid fair prices. Now the USDA has filed a complaint against Farmland based upon that retaliation.

Nobody expected Farmland to admit to retaliation, and as expected, they have denied the charges. USDA has been historically reluctant to file charges of anticompetitive practices against meat packers because of friendly relations with agribusiness, low budget allocations for enforcement, and low quality of investigators, economists and attorneys. However, we can only hope that this is a step towards more vigorous enforcement of fair competition laws in agriculture.

(Edited by Michael C. Stumo)

OCM DETERMINED TO CREATE EQUITABLE MARKETS

Max Waldo

August 24, 1999

The OCM conference was a great success. The presentations were very informative and the personal testimonies from the membership were inspiring. The talk from Senator Kerrey and his comprehension of the economic realities of our market place was insightful. It was rewarding to come together with a membership of like-minded people who have a sincere passion for improving the economic structure of our rural society, with a focus on market reform.

Consolidation is central to many economic and societal problems. Business and agriculture consolidation limits opportunity, genetic diversity, consolidates wealth, presents environmental challenges and food health hazards. Consolidation ultimately leads to political and corporate control.

A study of the book of Micah in the Old Testament is enlightening. For those short of time to read the entire book, one might focus on Micah 2:1, 6:12, 7:3, 6:8, 4:3-5, 7:7, 11, and 20 in that order.

It is very important to our cause that we continue to expand active membership. All of your ideas for market reform should be brought to the board for consideration. As action plans are developed, the entire membership needs to be brought into the process of seeking solutions.

Livestock price reporting, elimination of unreasonable price discrimination, the curtailment of vertical and cluster integration, and aggressive anti-trust challenges relating to mergers and monopolies are all part of the agenda. The immediate concern is that of getting a meaningful price reporting bill passed through Congress in early September. Contact your Senators and particularly your Congressmen regarding market reporting, but more importantly pushing for the enforcement of Section 202 of the Packers and Stockyard Act. Enforcement of this Act, which is current law, would create a fair, competitive and non-discriminatory marketing system. Independents will not be able to survive in production agriculture unless the table is much closer to level.

Thank you for your interest in participation in these worthy causes. As Fred Stokes, our new board Chairman of OCM would say, "keep the faith".