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Mourning the loss of John Helmuth

"When fewer and fewer individuals make more and more of the economic decisions, whether those individuals are in government or big business, the result is anti-competitive, inefficient and harmful to the society as a whole; when more and more individuals make more and more of the economic decisions, the result is more competitive and more efficient and beneficial to the society as a whole." By Dr. John Helmuth

Dr. John Helmuth, eminent ag economist and OCM board member, died on November 29, 1999 of a heart attack. Dr. Helmuth had a stellar career in advocating for an agricultural economic structure which worked for the people. He was not satisfied, as are other ag economists, with merely crunching aggregate data to support some theory. He dug deeply into the internal activities of agribusiness, whether as Chief Economic Counsel to Neal Smith's Committee on Small Business in the late 1970's or as an expert witness in antitrust cases.

In Dr. Helmuth's honor, OCM will receive contributions for the John Helmuth Memorial Fund to go towards establishing a John Helmuth Award. The Award will honor persons who practice Dr. Helmuth's style of forensic (investigative) analysis of the facts in examining the market conduct of Big Agribusiness.

While John's life has ended, his legacy will continue.

WTO talks fail

Several farm organizations and some farm state politicians have been clamoring for an expanded WTO agreement to cover agriculture. The theory appears to be that U.S. farmers must produce a commodity cheap enough for Cargill to buy it, ship it across the world, undercut local farmers, and still make over 20% profit. What's good for Cargill is good for farmers, that is if you listen to Dean Kleckner.

Consider that Smithfield Foods, King Ranch, Farmland Industries, Cargill, and other agribusinesses are building production and processing capacity across the world. Consider that the U.S. complained to the WTO that Europe was procuring bananas from small Caribbean farmers rather than from Chiquita, Dole and Del Monte (which control two-thirds of the world banana market) and won.

As the WTO rules and past decisions currently stand, most attempts by governments to encourage development of family farm-based production is WTO-illegal as discriminating against global corporations. The knee-jerk "free trade" boosters should actually read the treaty and consider the consequences before giving carte blanche support.

Farmland-Cenex merger fails

The proposed merger between Farmland and Cenex-Harvest States has failed. OCM member David Kruse, owner of CommStock Investments, Inc., reports that the required two-thirds of Cenex shareholders did not approve the agreement. Kruse has led growing criticism of coops stating that they have been merely operated to line the pockets of management to the detriment of member-owners.

OCM member Dr. Robert Taylor, an Auburn ag economist, found that the CEO's of Farmland and Cenex were to walk away with \$7 million if the merger was approved. Other board member and senior management payments would bring the figure close to \$14 million. However, Taylor found that member benefit would be about \$50 each.

Under the bloc voting rules in effect, local and regional cooperatives could vote on behalf of their own members. Despite the risk of cronyism in this anti-democratic process, the merger was rejected. Now Farmland and Cenex need to focus on returning value for member-owners, not extracting more revenue from them.

Farm groups denounce biotech

On November 23, more than 30 farm groups across the country warned their members about the dangers of planting genetically

modified (GM) crops. The groups included the American Corn Growers Assn (ACGA) and the National Family Farm Coalition (NFFC).

They stated concern that inadequate testing of GM crops could make farmers vulnerable to massive liability from genetic drift damage. Gary Goldberg of the ACGA said that farmers must respond to consumer demand to survive. Thus, they should strongly consider planting conventional crops.

While grain dealers are unable to tell farmers that they will be able to take their GM crops next year, most experts expect less GM seed demand for the year 2000.

Drabenstott says no farm crisis

Mark Drabenstott, vice president of the Kansas City Federal Reserve, says that there is no farm crisis. Drabenstott is also director of the Fed's new Center for the Study of Rural America. Though he acknowledged that low commodity prices are "troubling", he claims that farmland values remain high and farm lenders are in good shape.

Drabenstott's speech, before the National Press Club in Washington, continued his cheerleading for integrated food supply chains. "[F]armers now sign on as the first link in a more tightly choreographed food production system," he said.

Somebody needs to introduce the Federal Reserve's economist to the concept of free markets. If farmers are paid in the open market for what the food processors claim the consumer wants, they will produce it almost immediately. Contracts allow Big Agribusiness to incrementally shift risk and financial burden to producers who, once attracted to sign, have no other choice. Then

open markets wither away and the corporate bureaucracies control all decision making.

Coop merger mania

Cenex Harvest States, Farmland Industries and Land'O'Lakes, before the Cenex-Farmland merger was rejected, announced that they would merge their seed businesses into one seed marketing structure. Partial mergers, joint ventures, and cooperative agreements are often preliminary to full merger.

The merged seed structure was slated to become final after March 1, 2000, the previously expected date for the effective Cenex-Farmland merger to become effective. Now that Cenex members have sensibly rejected the merger, it is unclear whether this will occur. Will the Big Coop management give up on self aggrandizement and personal financial enrichment and work to benefit their members -- or not?

Direct Marketing

The only growth sector in production agriculture is direct marketing to consumers. Until recently, this modern trend has largely been ignored by mainstream agriculture. Now, as powerful corporate processors are squeezing most profits out of the disorganized commodity production sector, many conventional farmers are considering direct marketing.

Direct marketing is really the infant development of a parallel food system which bypasses Big Agribusiness. There may be larger risks and larger potential rewards. Volume is smaller, profits per unit are larger, relationships with customers are closer and management and labor are more intensive. Beginning farmers often get into direct marketing because

they don't have the transition cost barriers inherent in converting from conventional commodity production.

Previously dismissed as niche marketing, direct marketing has been following the trend predicted by Dr. John Ikerd, ag economist at the University of Missouri. Ikerd argues that mainstream markets will become a collection of niche markets rather than one big generic market. The strong growth of organic, natural, locally produced and similar marketing concepts in the last decade make direct marketing a more viable option for family farmers and ranchers.

OCM news

In November

OCM board member Keith Mudd, a Missouri farmer, spoke before the Midwest Sustainable Agriculture Working Group.

OCM general counsel Michael Stumo spoke at the annual meeting of the Northern Plains Resource Council in Billings, Montana.

OCM board member Brother David Andrews, also executive director of the National Catholic Rural Life Conference, spoke at the annual meeting of the Rocky Mountain Farmers Union in Cheyenne, Wyoming.

In December

OCM board member Clay Daulton traveled to Seattle for the WTO talks.

OCM members Jon Lauck, Frankie Summers, Brother David Andrews and Niel Ritchie also were in Seattle.

OCM members Stan Clark and Bruce Larkin, Kansas state legislators, co-sponsored a series of listening sessions on the farm crisis in Kansas in December. OCM board members Mike Callicrate and Cap

Dierks, Nebraska state senator, led the antitrust discussions.

Brother David Andrews spoke about globalism and rural life at a St. Louis religious leaders meeting entitled "Theological Education in Rural Ministries."

Farming and Multifunctionality

The radical agricultural industrialists have been successful in arguing that production agriculture is just another industry. In their view, farming and ranching have only economic value. Thus, it should be treated like any other industry.

Those that value a decentralized system of food production recognize that farming has more than economic value. It is fundamental to the environment, strong rural communities and preserving the vanishing countryside. Europe has institutionalized this concept known as *multifunctionality*, a concept which the U.S. government strongly opposes.

The tremendous support of decentralized, family-based production agriculture by the citizens in this country is more than "emotional". It is a fundamental understanding, not yet put into a cohesive concept, of the multifunctionality of the system. Consolidation and globalization run counter to multifunctionality. Policy makers, farm groups, and farmers need to think about agriculture in these more complete terms if any true progress is to be made.

Biotechnology "inherently consolidating"

Under pressure that its position is too "pro-industry" and ignorant of dangers of biotechnology, the Food and Drug Administration (FDA) has organized a series of three public hearings to listen to the public.

Some troubling facts have come out of the FDA's own files.

In the November 30 hearings in Washington, DC, Steven Druker brought forth internal FDA memorandums showing that some of the FDA's own scientists were very troubled about the FDA position in favor of biotech food. One memo by an FDA scientist said that the agencies proposed rules were "very pro-industry, especially in the area of unintended effects," and it is "the industry's pet idea." That memo also said that FDA's rules "contain very little input from consumers and only a few answers for their concerns."

Another scientist's memo said that "[t]here is no data that addresses the relative magnitude of risk." Druker's Alliance for Bio-Integrity (www.bio-integrity.org) obtained the documents in a lawsuit against the FDA.

Carol Tucker Foreman of the Consumer Federation of America argued that biotechnology as applied to foodstuffs was "inherently consolidating" as to industry structure. She also criticized the voluntary safety testing that FDA recommends industry do. In arguing for required testing, she said that "the agency has not squarely placed the burden of proof on industry to demonstrate the safety of new food, which had historically been required in the past."

The bigger-is-better Luddites

Could it be that Mark Drabenstott (V. P. of the Kansas City Federal Reserve) and Michael Boehlje (ag economist at Purdue) are really members of the Flat Earth Society? They have long been preaching that bigger-is-better in agriculture. *Feedstuffs* magazine - which regularly expounds the Big Agribusiness position that we should

only have 50 integrated food companies and no farmers - may be the publication arm of the Society.

Dr. John Ikerd, ag economist from Missouri, and Thomas W. Malone, Sloan School of Management at MIT, say that small enterprises are destined to thrive in the next century. Dr. Ikerd has been writing about this concept for years in the context of sustainable agriculture. Dr. Malone recently stated this view as to industry in general last month at MIT. Malone expects that companies as small as 1 to 10 talented people can nimbly compete with the giants.

Family farms and ranchers should be no exception. They are already as efficient in productivity as the corporates. If they can delink from the Food Cartels and market their products through a "parallel food system" of small cooperatives, direct marketing, and the like, they can eat Smithfield Foods lunch. Just as new, small steel mills outmaneuver and outsell the old conglomerates, newer and nimbler food production and processing networks based on family farm and ranch agriculture may be able to succeed and outperform the cumbersome corporate bureaucracies of the Food Cartel.

Mergers don't create value

Merger Mania is justified by greedy CEO's - who receive massive bonuses through mergers - as creating shareholder value. But KPMG recently released a study showing that 83% of mergers between 1996 and 1998 failed to produce shareholder benefits. Further, "more than half actually destroyed value," according to the report publicized by *The New York Times*.

Earlier this century, big mergers were widely considered to be fueled by the money and power ambitions of upper management. Recently, big business groups and the so-called "Chicago School" drones have persuaded many that it is really good for a few companies to swallow up most of the transactional flows in an industry and internalize them.

Just as studies show that family-farm style production agriculture is just as efficient as a corporatized, Big Brother food system, now we know that the high-minded public benefit rhetoric of the Merger Mania clan is just that - rhetoric.

Biotech firm spinoffs

As Monsanto, the self described "life science" company striving to integrate agriculture, has been looking for a merger partner, Novartis and AstraZeneca are planning to combine their agricultural divisions. After the merger, they will spin off the new entity to placate investors who don't want their money in plant biotechnology.

The new firm will be called Syngenta and will be strictly agricultural. It is unclear whether this new company will draw any investors because of the controversy and poor financial performance of agrichemical divisions.

Checkoff programs may violate free speech

Earlier this decade, commodity checkoff opponents argued that the programs illegally forced them to financially support the speech of the commodity groups. This "compelled speech" argument was shot down in the U.S. Supreme Court in the 1997 *Glickman v. Wileman* decision. The

Wileman case involved a company unsuccessfully objecting to forced contribution to a tree fruit advertising program.

But on November 23, the 6th Circuit Court of Appeals held that a mushroom checkoff program constitutes illegal "compelled speech." The difference appears to be that the *Wileman* tree fruit ads were a part of a comprehensive regulatory marketing scheme while the mushroom case (*United Foods, Inc. v. USDA*) had only advertising without further regulation.

If the 6th Circuit ruling stands, the pork, beef and other checkoff programs risk being declared unconstitutional. This is because these checkoff programs are more like the mushroom case in that there is not comprehensive market regulation associated with the promotional program. Those who believe that the pork and beef commodity groups have been taken over by business interests may now have a new arrow in their quiver.

Biotech update

- Representatives Kucinich (D-Ohio), Metcalf (R-Wash.) and DeFazio (D-Ore.) introduced a biotech food labeling bill in Congress.
- Thailand has banned importation of GMO food seeds to avoid problems in foreign markets.
- Alan Guebert, the respected ag columnist, reported that some cows won't eat Bt corn stalks in the field.
- The Center for Responsive Politics issued a report (*Brave New Farm: The Battle Over Genetically Altered Food*) which reveals the astounding amount of biotech

money contributed to Congress (see www.opensecrets.org).

State inspected meat

Legislation was introduced in November to allow state inspected meat and poultry to be sold interstate. Senators Richard Lugar (R-Ind.) and Tom Daschle (D-SD) introduced the bill with the support of USDA Secretary Dan Glickman.

Currently, only federally inspected meat can be transported between states. Twenty six states have their own meat inspection programs, usually for small packers and locker plants. The legislation is not expected to face opposition from major packers or consumer groups.

If food safety concerns are properly addressed, new competition from small meat processors - whether privately or cooperatively owned - could foster a new wave of competition against Smithfield, IBP and the gang.

Mississippi FB denounces AFBF

In a unanimous vote, the Mississippi Farm Bureau membership passed a resolution strongly condemning the American Farm Bureau for opposing Sen. Paul Wellstone's 18-month agribusiness merger moratorium legislation. The resolution was presented by OCM president Fred Stokes, a long time Farm Bureau member. The resolution stated that Farm Bureau policy - as voted on by members - was replete with statements expressing concern about agribusiness concentration and growing concentration of market power.

[Edited by Michael C. Stumo]