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Statement by H.D. 'Harry' Cleberg
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Before the U.S. Trade Deficit Review Commission
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I would like to thank the commission for inviting me here today to present my views on the causes and consequences of the trade deficit, and solutions for dealing with it. My name is Harry Cleberg. I am the President and Chief Executive Officer of Farmland Industries, Inc. Farmland Industries is the nation's largest farmer-owned cooperative with 1,700 cooperative partners and more than 600,000 farmer-owners. Focused on meeting the needs of our farmer-owners in the United States, Canada and Mexico, Farmland is a highly diversified company with major business lines in crop nutrient and crop protection products, animal feeds, petroleum, grain processing and marketing, and the processing and marketing of pork, beef and catfish products. Farmland and its subsidiaries have operations and sales in over 60 countries worldwide. I appreciate the opportunity to share my views on this matter before you today.

The substantial growth in the size of our trade deficit in recent years is both a reflection of our country's economic

strength, and cause for concern from a long-term perspective.

Last year's trade deficit of \$271 billion is a clear indication of imbalances between the strength of the U.S. economy and the relative strength of the economies in the rest of the world. In recent years, the United States has experienced a sustained period of strong growth and relative low inflation, while creating a favorable investment climate for investors from here and abroad. Increased foreign investment in our capital market has supplied our private sector the capital to continue the economic expansion. Additionally, a balanced federal budget and the repurchase of federal debt have added confidence to the economy and freed more capital for the private sector. This additional capital has helped finance greater imports, leading to higher trade deficits, and contributing to a strong dollar, which subsequently places substantial price pressure on our exports.

The rise in the trade deficit is caused by a combination of strong demand from U.S. consumers and businesses for imports, weak economies abroad, large sums of capital flowing into the U.S. economy, and U.S. trade policy. This suggests that the rise in the trade deficit reflects U.S. prosperity and an attractive investment climate for institutions and individuals. In the short term, this is good for Americans.

The best way to deal with the trade deficit while minimizing capital implications is to lower barriers to foreign markets for American agricultural products, goods

and services. Thanks to market-opening agreements, such as the North American Free Trade Agreement (NAFTA), we have substantially expanded the size of our export market. Since NAFTA's passage, Farmland's business with Mexico grew from \$50 million in 1992 to \$570 million in 1999 and is still growing. During that same period, our total international sales increased from \$450 million to \$3.4 billion.

This year, the most significant step America can take to reduce our trade deficit is to support China's accession into the World Trade Organization (WTO). The WTO accession agreement China signed with the U.S. is potentially the largest market access agreement for American agriculture. The United States Congress must vote this May to approve permanent Normal Trade Relations for China or this enormous market will go to our competitors.

China's accession to the WTO is exactly the type of agreement that will help boost our exports. China has agreed to substantially lower its trade barriers, while the United States gives up nothing. This increased level of market access will allow American farmers and ranchers to access China's 1.25 billion consumers. Of those 1.25 billion consumers, approximately 196 million of them will move into the middle class in the next 10 years, adding substantial buying power for American goods and services.

As a member of the WTO, China will be bound by the rules of an international trade regime. This action will help reduce the \$69 billion trade imbalance that exists with China. But if Congress votes against permanent Normal

Trade Relations, we will have done nothing to redress our trade deficit with China, and worse we will damage our reputation as a reliable supplier of goods and services to China and the world.

The USDA estimates China will account for a 37 percent increase in American farm product exports over the next 10 years. The average Chinese tariff will be reduced from 31 percent to 14.5 percent, China also agreed to eliminate agricultural export subsidies and to open their market to foreign-owned food distributors. China has already implemented our 1999 bilateral agreement on non-tariff sanitary/phyto-sanitary barriers and recently has imported Pacific Northwestern wheat for the first time in more than 25 years. The potential here to access the world's most populous nation is incredible, but this will not be realized until Congress approves permanent Normal Trade Relations. China will become a member of the WTO with or without the United States. Our choice is if we want to enjoy these favorable terms or if we want to hand this market over to our competitors.

Clearly, American farmers are some of the most productive and skillful producers in the world. However, they cannot expand their exports without the commitment of our government. Trade needs to be a priority for the President and for Congress. Since fast-track authority expired in 1994, the President and the United States, as a whole, lack the leverage and authority necessary to press forward to open foreign markets. Consequently, the lack of leadership from our government has only contributed to increasing the trade deficit.

What is worse than the lack of leadership, is when the United States sanctions its own farmers and workers. The U.S. maintains some form of sanctions on 73 countries, comprising nearly 70 percent of the world's population. These economic sanctions cost American farmers and workers approximately \$20 billion in lost business annually. Since American agriculture has such a large exposure to the international markets, unilateral economic sanctions have the severest effects on American farmers and ranchers. Unilateral economic sanctions equate to: 1) lost sales, 2) lost market share, 3) increased competition, and 4) damage to our reputation as a reliable supplier.

Sanctions against Sudan, North Korea, Libya, Iran, Iraq, and Cuba account for approximately 10 percent of the world's wheat markets, 14 percent of the world's rice markets, 5 percent of the world's barley markets, and 5 percent of the world's vegetable oil markets. Even worse, the recent proliferation of sanction initiatives from the Congressional and Executive branches, including some of our major customers, risk serious backlash against American farm exports.

Trade embargoes and unilateral economic sanctions have done little to forward our foreign policy agenda. Our sanctions policy has done more to subsidize our competitors, remove markets from our producers, damage not only our producer's livelihoods but also the thousands of people agricultural exports employ, and most damaging of all is our tarnished reputation as a reliable supplier of quality agricultural products.

Lastly, we must keep in mind the fundamentals that have allowed for this era of economic expansion. The balanced budget of the federal government, our open markets policy, and a low rate of inflation have all contributed positively to the economic expansion that is still continuing in this country. Lower government debt has decreased the cost of capital for the private sector. Our open market policy has kept competition alive and promoted innovation. And the low rate of inflation has allowed millions of Americans to steadily increase their quality of life.

In conclusion, while the fundamentals of our economy look positive, the long-term implications of a sustained trade deficit is cause for concern. The best answer for this concern is to push for open markets abroad for American farm products, goods and services. This includes approving permanent Normal Trade Relations for China, approving Fast-track authority, and reforming our sanctions policy. Many of these measures would assist our farmers and workers in being more competitive in the world market and potentially reduce our trade imbalances. Again, thank you and I would be happy to answer any questions you have at the appropriate time.