



Office of the President

**Biography of  
Leland H. Swenson, President  
National Farmers Union**

Leland Swenson was elected president of the National Farmers Union in 1988 and now represents nearly 300,000 farm and ranch family members of NFU.

Re-elected unanimously for six additional terms, Swenson has served as the preeminent spokesperson for the interests of family farm agriculture and rural communities throughout the United States and internationally.

Under Swenson's leadership, the National Farmers Union has enhanced its role in influencing legislation in Washington and state capitols, developing and maintaining farmer-owned cooperatives and educating member-families about the issues of the day.

Prior to being elected president of NFU, Swenson served for eight years as president of the South Dakota Farmers Union. There, he was responsible for the formation of the "South Dakota Farm Alliance" which brought farm and church groups together to work for better farm and tax policies. He also organized the largest farm rally ever held in South Dakota during the throes the farm crisis of the 1980s. Swenson's direct ties to production agriculture are maintained through his ownership of a grain farm in South Dakota.

Swenson grew up in the Farmers Union and is the first NFU president ever to have completed the organization's youth program and earn the "Torchbearer" award, the organization's highest educational honor.

In addition to his responsibilities with NFU, Swenson serves on the boards of directors of the Consumer Federation of America and the National Consumers League; on the U.S. Department of Agriculture's Agricultural Policy Advisory Committee; as president and board chairman for Farmers Union's foundation, political action committee, its member service enterprise, its export cooperative; and on the board of the Farmers Union Insurance Companies.

Swenson also serves on the executive committee of the more than 50-nation International Federation of Agricultural Producers.

In December 1997, Swenson was appointed by President Bill Clinton to serve on the Commission on 21<sup>st</sup> Century Production Agriculture. The commission was mandated by the 1996 farm bill and will be the primary vehicle for recommending policy to Congress.

Swenson and his wife Ronda live in Evergreen, Colorado and are the parents of three grown children.



**NATIONAL  
FARMERS  
UNION**

**TESTIMONY OF**

**MR. LELAND SWENSON**

**PRESIDENT  
NATIONAL FARMERS UNION**

**BEFORE THE**

**U.S. TRADE DEFICIT REVIEW COMMISSION**

**KANSAS CITY FEDERAL RESERVE BANK  
KANSAS CITY, MISSOURI**

**APRIL 26, 2000**

400 North Capitol Street, N.W. • Suite 790 • Washington, D.C. 20001 • Phone (202) 554-1600

**Testimony of Mr. Leland Swenson  
President, National Farmers Union  
April 26, 2000**

**INTRODUCTION**

Mr. Chairman, members of the U.S. Trade Deficit Review Commission, as president of the National Farmers Union, it is a pleasure to participate in this special hearing on agricultural trade challenges and opportunities.

The National Farmers Union (NFU) is a general farm organization comprised of twenty-four affiliated state farmers unions representing about 300,000 independent family farmers and ranchers in the United States. Our policy and direction is established annually by these members, and reviewed on a regular basis by their representatives who serve on our board of directors.

The NFU has consistently focused its attention on improving economic opportunity and stability for American farmers, ranchers and rural communities. Three important public policy issues have emerged as priorities for our organization: domestic agriculture policy, competition policy (concentration) and trade policy. Each of these issues, by itself, has a significant impact on the individual producer and the production agriculture sector. The fact that all three issues are interrelated in an increasingly globalized economy compounds the policy challenges faced by agriculture.

The National Farmers Union recognizes the importance of trade to agriculture. We fully understand that the maintenance of an efficient food and fiber production sector in this country is, in part, dependent upon international trade and the application of fair and transparent trading rules.

We also appreciate the fact that our own domestic market remains the basis for producer economic stability and continues to provide a significant portion of the realized commercial demand growth for U.S. agricultural products. In addition, the changing structure of agriculture toward greater concentration and integration, particularly in the input, processing and merchandising sectors; poses new challenges that transcend both national borders and conventional agricultural policy objectives.

I would like to discuss four general topics: 1) characteristics of the agricultural production sector; 2) the current economic state of U.S. production agriculture; 3) the relative importance of trade and the domestic market to producers; and 4) a U.S. policy agenda that is consistent with an expanded trade agenda and improved economic stability and opportunity for U.S. farmers and ranchers.

## **BACKGROUND – Production Agriculture Is A Unique Industry**

By its very nature, food production is a high risk, cyclical industry that has received, as a necessity of life, unique attention for thousands of years. Pharaohs to modern-day politicians have all learned hard and sometimes fatal lessons associated with the environmental, distribution and market risks and cycles associated with agricultural production.

Production agriculture is unique as an economic sector. In some ways it closely mirrors the textbook theory of free enterprise economic models. But, it also deviates substantially from those same models. Unlike most other commercial economic undertakings, the capacity and desirability of production agriculture to adjust to changed economic conditions in either the short or long-term is limited due to its dependence on natural occurrences, length of production period, the structure of other sectors in the food chain, and a variety of public policy decisions.

Agricultural production is one of very few enterprises where nearly all production costs are expended before the producer knows either the level of output or market value of his production. Although technology has reduced the effect of nature on production, weather and other external effects remain the most significant factors in production for nearly all crop and livestock enterprises. It is also unique in that its resource base, comprised primarily of land, is immobile and has limited economic alternatives. Agricultural production does not easily or rapidly adjust to change. Producers may leave the industry, but the land resources remain tied to it.

While the number of producers has been reduced over time, the level of concentration in production agriculture lags behind that which has occurred throughout other sectors of the food industry. Individually, producers have little control or power over production costs or market returns. Therefore, it is to their individual advantage to seek maximum production to spread costs and earn income over the largest possible number of units.

Producer's lack of market power and the commodity nature of production create a situation where producers are price takers, effectively in competition with one another. Input costs are established by a limited number of sellers, and thus are valued at the highest level the local market will allow. In the output market, dominated by a few multinational processing and merchandising firms, the lowest-priced product, increasingly on a global basis, establishes the price for all similar products at any given point in time.

The old maxim that, "the farmer buys at retail, sells at wholesale, and pays the freight both ways", could not be more true.

In order to meet the public desire for an adequate supply of food at reasonable prices policies tend to be geared to the achievement of a high level of domestic self-sufficiency. If a policy error is to be made, it should be on the side of surplus, not shortage promoted either through domestic production incentives and/or imports.

Thus, what is rational production and market behavior for the individual producer may create an economic disaster when aggregated across the whole sector domestically and/or globally and vice versa.

### **STATE OF U.S. AGRICULTURE – Economic Crisis Is Likely To Continue**

U.S. farmers and ranchers continue to suffer the effects of reduced net farm income from production operations as a result of significantly depressed commodity prices and increased production costs. According to USDA projections, U.S. net farm income for the current year is projected at \$40.4 billion, down \$7.7 billion or 16% from 1999, and off \$5.1 billion from the average of the 1990's. Net farm-operating income (net farm income less direct government payments) at \$23.2 billion is down nearly 9% from 1999 and the lowest level since the 1980's. (Table 1)

The index of prices received by farmers for all farm products has declined by nearly 18% since 1996, while production costs continue to rise. The ratio of prices received to prices paid by farmers at 77% in February, 2000 has declined about 20% since the mid-1990's indicating a severe cost/price squeeze.

Nominal receipts for the major field crops are at the lowest point in more than a decade and in real terms at "depression era" levels. (Table 2) Expanded production, as a result of generally good global growing conditions and stagnant export demand have led to a significant increase in U.S. ending stocks reducing the potential for price recovery in the crop sector in the foreseeable future. (Table 3)

Livestock returns, while expected to make a modest price recovery this year, have also suffered from declining prices through most of the decade. (Charts 1 and 2) The economic difficulties faced by livestock producers have been only partially offset by the reduced commodity value of feed costs.

Consolidation and integration throughout the sector are likely to negate the cyclical adjustments that have historically characterized the industry and exacerbate the economic pressure on independent producers.

For two years, the price, income and financial crisis in U.S. production agriculture has been partially averted through emergency government assistance for production disasters and income support. Expectations are high that a similar infusion of capital will occur this year. However, the sustainability of such actions into 2001 and beyond are unpredictable at best due to the cost, political election outcomes and serious questions concerning the lack of a consistent policy and its effectiveness in helping those who need it most.

### **AGRICULTURAL MARKETS – Impact Of Foreign and Domestic Consumption**

Agricultural trade is a significant component of U.S. economic activity. For years, our positive agricultural balance of trade has not only reduced our overall trade deficit and provided an outlet for production that exceeds domestic requirements, but also assisted in promoting American values and raising the standard of living around the world.

Agricultural exports, even at today's depressed price levels, represent about 25% of the total value of U.S. crop and livestock output. However, when exports are netted against imports that compete with U.S. production, the percentage of output associated with net agricultural trade falls to about 10%.

While many factors have been suggested as the cause for the recent declines in our agricultural balance of trade, the fact remains, that compared to the mid-1990's the loss in export value has been the major contributor to the poor trade performance by the U.S.

Over the last 30 years, the overall volume of U.S. exports for major crop commodities has remained relatively stable while domestic demand for those same crops has grown from 50-80%. Stability in export volumes is in large part attributable to the operation of a variety of export competitiveness and humanitarian assistance programs throughout the period. Producer earnings from exports, however, have varied significantly. Comparing projections for the current year with the highest producer export value of the 1990's indicates a nearly 50% loss in producer value.

For livestock, U.S. export and import values have remained relatively stable. However, reductions in U.S. barriers to imports, processing sector consolidation and market globalization; have resulted in domestic market signals to U.S. producers to reduce production in order to increase prices. At the same time the livestock processing and merchandising sector has increased supplies through the import of live animals and red meat products or their own contract production keeping producer prices depressed while consumer prices remain little changed.

Free agricultural trade proponents often claim the producer benefits of commercial trade are manifested in future overseas market growth driven by expanding populations with increased levels of income. The impression is created that exports will provide the enhanced economic opportunity, stability and farm income necessary to supplement stagnant domestic demand.

The reality is that domestic demand continues to grow for both domestically produced crops and livestock. Imports in both volume and value currently exceed the growth in exports and more liberalized trade does not ensure expanded market volume or price enhancement for producers.

The question remains whether or not trade agreements that seek further reductions in trade intervention by governments can enhance the prospects for U.S. agricultural producers.

## **TRADE NEGOTIATIONS – A Fair Trade Policy Agenda**

The United States is and will continue to be routinely and continually engaged in trade negotiations regardless of the outcome of efforts to begin a new round of multilateral trade negotiations under the World Trade Organization, Permanent Normal Trade Relations with China legislation or Free Trade Area of the Americas. The issue for U.S. agricultural producers is not whether negotiations should occur, but rather that they result in agreements that will be beneficial to their interests. Put succinctly, American farmers and ranchers are in need of fair trade rules that acknowledge and accommodate the unique characteristics of their industry.

The National Farmers Union believes successful of bi-lateral, regional or multi-lateral trade negotiations must appropriately address the issues of: 1) Export subsidies; 2) Non-scientific based trade barriers; 3) Tariffs and tariff-rate quotas; 4) Regulatory harmonization; 5) Dispute resolution; 6) Reservations for unilateral actions; 7) Currency adjustments; 8) Domestic and export policy transparency and equity; and 9) International cooperation.

We support the elimination of direct and indirect export subsidies on all goods and commodities with the exception of bona fide humanitarian and/or economic development assistance. Similarly, non-tariff trade barriers, such as sanitary and phytosanitary standards, not based on sound scientific principles, should be eliminated.

Commitments to tariff and tariff-rate quota equalization should be achieved and implemented prior to any further reductions in U.S. border measures. Regulations concerning issues such as the environment, labor standards, public and private intellectual property rights, private sector price discrimination and competition policies (anti-trust provisions) should be harmonized and enforced. Those with higher standards should be allowed to provide protection against the inherent competitive advantage provided those with lower standards.

The dispute resolution process should be streamlined, establish procedures to grant immediate relief or compensation after a preliminary ruling and pending final action, and provide for compensation to the injured party(ies) or industry rather than country. The right for any country to take unilateral actions commensurate with full costs associated with a violation of the letter or spirit of the agreements should be established.

Nations should retain the flexibility to implement domestic agricultural programs in recognition of the unique characteristics, impact of external factors such as weather and macro-economic policies, and multiple functions of the sector. They should be obligated to provide accurate and timely notification and descriptions of their domestic and export policies, including para-statal activities, that may distort production and/or markets. Nations implementing such programs should be obligated to take commensurate action to mitigate the distorting effects those programs have on non-distorting countries.

The trade distorting nature of currency valuation and fluctuations, as an implicit export subsidy and/or import barrier should be recognized in all trade agreements, and parties should seek to minimize the impact of exchange rate fluctuations. In the event a country suffers economic injury as a result of changes in the value of a currency beyond specified parameters, the injured party should retain the ability under the agreement to implement measures that will offset the effect of the currency value fluctuation. Actions should include both border and export measures as well as domestic safety net programs.

Agreements should provide the opportunity and encourage greater international cooperation in addressing issues such as global hunger, economic development, environmental degradation, industry concentration, and non-competitive private sector activities.

## **CONCLUSION**

The National Farmers Union is committed to objectively judging the domestic and trade policy agenda of the United States and our agreements with other countries on the basis their ability to provide greater economic security, opportunity and equity to America's farmers and ranchers.

While we fully recognize the need for, and potential benefits of, agricultural trade we do not believe that trade in agriculture inherently provides the economic panacea to producers that some suggest.

Trade agreements must establish rules that provide for fair and equitable market competition at price levels that ensure a safe and abundant food supply to consumers, a reasonable return to the producer, and long-term sustainability of food production and other benefits associated with agriculture.

Thank you for the opportunity to participate in this special hearing on agricultural trade. I will be pleased to respond to any questions from the Commissioners at the appropriate time.

Table 1

**NET FARM INCOME, 1990-2000**  
(\$ billion)

YEAR	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000 P
Net Farm Income	44.7	38.7	47.9	44.5	49.2	37.2	54.9	48.6	44.1	48.1	40.4
Direct Government Payments	9.3	8.2	9.2	13.4	7.9	7.3	7.3	7.5	12.2	22.7	17.2
Net Farm Operating Income	35.4	30.5	38.7	31.1	41.3	29.9	47.6	41.1	31.9	25.4	23.2

Source: USDA "Agricultural Outlook", April, 2000

Table 2

**PRICES RECEIVED BY FARMERS**  
1990-1999/00  
(\$ per unit)

COMMODITY	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00 P
Wheat (\$/bushel)	2.61	3.00	3.24	3.26	3.45	4.55	4.30	3.38	2.65	2.50
Corn (\$/bushel)	2.28	2.37	2.07	2.50	2.26	3.24	2.71	2.43	1.95	1.90
Rice (\$/hundredweight)	6.70	7.60	5.89	7.98	6.78	9.15	9.96	9.70	8.83	6.00
Soybeans (\$/bushel)	5.74	5.58	5.56	6.40	5.48	6.72	7.35	6.47	5.02	4.70
Cotton (\$/hundredweight)	67.10	58.10	53.70	58.10	72.00	75.40	69.30	65.20	61.10	44.90*

\*Aug.-Dec., 1999 weighted average  
Source: USDA, "Agricultural Outlook", April, 2000

Table 3

**ENDING STOCKS**  
**1990/91-1999/00**  
**(million units)**

COMMODITY	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00 P
Wheat (bushels)	868.0	475.0	531.0	568.0	507.0	376.0	444.0	722.0	946.0	997.0
Corn (bushels)	1521.0	1100.0	2113.0	850.0	1558.0	426.0	883.0	1308.0	1787.0	1739.0
Rice (hundredweight)	24.6	27.4	39.4	25.8	31.3	25.0	27.2	27.9	22.1	39.6
Soybeans (bushels)	329.0	278.0	292.0	209.0	335.0	183.0	132.0	200.0	348.0	325.0
Cotton (480 pound bales)	2.3	3.7	4.7	3.5	2.7	2.6	4.0	3.9	3.9	4.4

Source: USDA "Agricultural Outlook", April, 2000

Chart 1

### Prices Received, Cattle, US

Dollars per Cwt

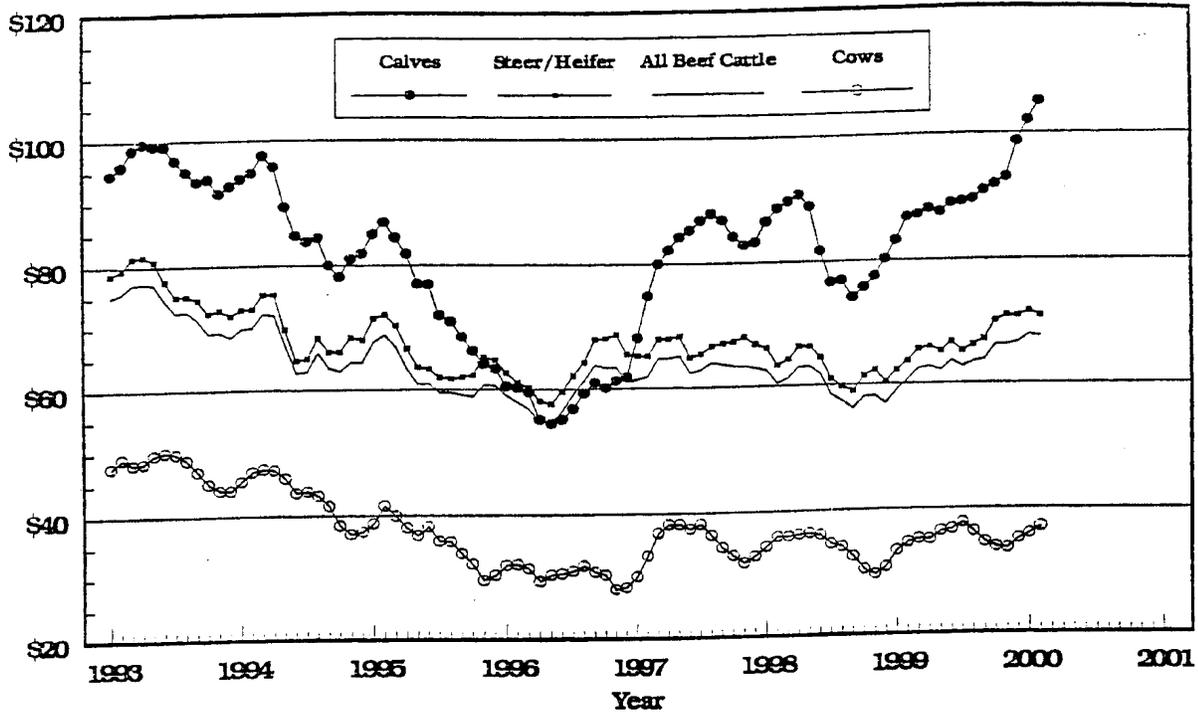


Chart 2

### Prices Received, Hogs, US

Dollars per Cwt

