MR. CLEBERG: To put this into proper perspective of importance, I have served as CEO at Farmland for the last ten years, and this is the first time in ten years that our Board of Directors has met without my attendance, and they're meeting on the other side of town.

And this establishes, I think, Wayne, the importance we place on the opportunity to speak out here.

Being a farmer myself, I realize that having 22 farmers sitting around the table without leadership is somewhat unpredictable, but it establishes the importance of this meeting.

First off, I would like to thank the Commission for inviting me to be here today to present my views on the causes and consequences of the trade deficit and the solutions for dealing with it.

As indicated earlier, I'm Harry Cleberg, and I am glad to be here.

Farmland Industries, as you said, is the nation's largest farmer-owned cooperative, with 1,700 local cooperative partners across North America that encompass some 600,000 farmer-owners.

Focused on meeting the needs of farmer-owners in the United States, Canada, and Mexico, Farmland is a highly diversified company with major business lines in crop nutrients and crop protection products, animal feeds, petroleum, grain processing and marketing, pork, beef, and catfish processing and marketing.

Farmland and its subsidiaries have operations and sales in over 60 countries worldwide.

I appreciate the opportunity to share the views of our organization with 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, as you know, was $271 billion, and it's 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, the weak economy abroad, large sums of capital flowing into the U.S. economy, and the 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, without question, good for Americans.

The best way to deal with 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, or 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 of our company increased from $450 million to the recent year, of $3.4 billion.

This year, the most significant step America can take to reduce our trade deficit is the support of China's accession into the World Trade Organization, or the WTO.

The WTO accession agreement China signed with the U.S. is potentially, in our opinion, 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 virtually 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, we're told approximately 196 million of them will move into the middle class in the next ten years, adding substantial buying power for American goods and services.

As a member of the WTO, China will be bound by rules of 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 that China will account for a 37 percent increase in American farm product exports over the next ten years, and our numbers personally would tend to support that.

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 nontariff sanitary and phyto-sanitary barriers and has recently imported Pacific Northwest wheat for the first time in more than 25 years. And I'm proud to say, Wayne, that our company was involved in that transaction.

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, in our opinion. Our

choice is if we want to enjoy these favorable terms or if we want to hand this market over to our competitors, is really the issue.

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 -- yes -- for the Congress.

Since fast-track authority expired in 1994, the President and the United States, as a whole, lack the leverage and the authority necessary to press forward to open foreign markets.

Consequently, the lack of leadership from our Government has 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 in 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 ten 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 philosophy has done more to subsidize our competitors, remove markets from our producers, damage not only to our producers' livelihoods but also to 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 have not changed.

I realize my time is running out, and I have 34 seconds left, and so I'm going to skip over the last several pages of my written testimony.

But as I come here directly from our board meeting, our Board of Directors, that are representatives of those 600,000 farmers all across North America but primarily in the United States, told me yesterday that permanent normal trade relations with China, in their opinion, is the most significant economic boost that agricultural producers in the Western Hemisphere could have.

Thank you for allowing me to share my thoughts with you.

CHAIRMAN ANGELL: Thank you. We would like to turn to the Commissioners for questions, which may be probing questions.

I somewhat doubt that there are clarification questions given your very clear statement about these topics that are so vital to the nation's interest.

I doubt that many Americans realize the role that agricultural cooperatives played in the liberalization of business in China.

In 1984, a group of American agriculture cooperatives visited China because China wanted to be in the International Cooperative Association and wanted U.S. cooperatives' help.

But the change of communes into cooperatives was the basis for the Chinese development. So I particularly appreciate your very clear-cut statement.

Members of the Commission, do you have questions or any comments you would like to make in regard to Mr. Cleberg's testimony?

Yes. Commissioner Wessel.

MR. WESSEL: Thank you for being here this morning. We appreciate it.

We'd like some information from you, some analysis of how the China market might benefit is vis-à-vis some of our competitors.

Several years ago, when we reached a rice agreement, for example, with Japan, we found out that ultimately the Thais, I believe, gained a significant portion of that market.

In wheat, for example, you know the Argentines, the Australians, and many others are significant producers, as well.

What do you see as the competition in China? What might they be doing in a number of these products themselves? Do you expect them to be a major producer in any of these areas? Are they moving towards that?

MR. CLEBERG: Well, I will address that. Specifically, over a small dinner meeting with the individual that the leadership of China selected to help them achieve WTO approval over a good, cold drink and a nice Kansas steak, we talked about it.

And he said, Harry, let's just be realistic. We have about 22 percent of the world's population, and we've got 6 percent of the irrigable land.

And that is, whether we like it or not, we're going to be dependent upon the Western Hemisphere of this world to provide the food we need as we transition our country from basically subsistence type activity to a more industrialized opportunity.

And I think that says things about as clearly as they could be said.

And we do have people based permanently in Beijing that work there on a regular basis, and the senses that we have would validate exactly what I stated on this issue.

MR. WESSEL: In terms of some of our competitors, again, in many of the feed grains we have, again, the Argentines, the Australians, and others.

What are they doing to try and get into the market? What kind of penetration have they had? And how do you see market share allocation in the future as a result of the agreement?

MR. CLEBERG: It's basically going to be based on economics rather than on shipping it around the world in some form of an allocation program.

And of course, as I suspect most of you know, we have people based in virtually every country in South America and involved in the grain business down there actively, as well.

And it is our opinion that U.S. agricultural producers have the land mass and the climate that would enable us to compete in the worldwide market situation without barriers.

And so we have done a great deal of research on that and still stick with that belief that the technology utilization in this country enables us to deal with potentially higher labor costs in the production of agricultural products, whether they be processed or whether they be raw, in this relationship.

MR. ANGELL: Yes. Commissioner D'Amato.

MR. D'AMATO: Thank you, Mr. Chairman. In your statement, Mr. Cleberg, you stated that China has already implemented the 1999 bilateral agreement on nontariff sanitary and phyto-sanitary barriers. Can

you tell us a little bit more? Can you quantify that for us?

To what extent have we actually been exporting into the China market as a result of this? On a 1 to 10 basis, how would you rate your satisfaction with their implementation of it?

We need some quantification. Let me tell you the background for this.

There are those that argue that the Chinese have never implemented any of our agreements with them and that they simply do them to be able to export more to our market while they keep their market essentially closed, and that part of the reason is that they have to keep their market closed to maintain their hold over their society.

They argue that it's a fundamental contradiction to them as a dictatorship to allow their market to be open too much.

So they go through the paces in order to get into our market to acquire the export revenues to maintain power.

So my question really is, what is their track record on implementation? You're saying they

have implemented this. But we really would like more data about how they are implementing it and to what extent. What do you have on that?

MR. CLEBERG: Well, I could provide more specific data that I didn't bring here.

But as an example, in the recent shipment of pork into China, we were involved in that transaction, also, and it went as expected. As I indicated on the recent wheat situation, it has gone as it was expected.

And yes. Our company has had some bad experiences in the past. At one time, we had ten basically Pan-Amex [phonetic] vessels in the harbor in China, of which there was a perception that there was a TCK type problem that was impacted there, which wound up being a bit of a negotiation type situation.

We've had some of these things in the past that have been very frustrating.

But our perception is, in the last year or two, that we're seeing a changing of this.

To put a better understanding of some of the things that the Chinese leadership are dealing with, in the last 200 years, there have been 75 million

farmers in the United States, Wayne, transitioned from production agriculture to nonagricultural jobs.

And you know how challenging that has been for our policy leaders to deal with that.

I'm told that, in China, they expect that they will need to transition over 500 million farmers, in the next ten years, from agricultural production to nonagricultural jobs. And we know how the pressures and the frustrations exist in that type of transition in this country.

And so, I just plead with you to learn more about some of the challenges that they're dealing with and the pressures that they could be subjected to there.

But that's what their leadership believes they will need to do in the transition taking place within that country.

And we think, from an agricultural standpoint, that can offer additional opportunities to the Western Hemisphere and particularly the U.S.

MR. ANGELL: We would really appreciate having your written documentation of that rise and

sometimes slip back in the trade numbers that you've experienced with China.

MR. CLEBERG: Okay.

CHAIRMAN ANGELL: That would be very helpful.

MR. D'AMATO: Yes. Any data you can give us or research that you've done in terms of what they've done, in fact, to implement these agreements would really be very useful for us.

MR. CLEBERG: We will make that available. And we'll direct it to the appropriate location.

CHAIRMAN ANGELL: You can send it to Chairman Weidenbaum, and he will distribute it to the members of the Commission.

MR. CLEBERG: Okay.

CHAIRMAN ANGELL: Commissioner Lewis.

MR. LEWIS: Thank you very much for your presentation today.

I have two questions having to do with some statements you made, and I'd just like a little elaboration of these two. And then, I have a question about one of your conclusions.

You said the rise in the trade deficit is caused by a combination of -- and then you mentioned U.S. trade policy.

Could you elaborate a little bit on how U.S. trade policy has caused the trade deficit? That's number one.

And then, number two, you said, at the very end of your statement, In conclusion, the long-term implications of a sustained trade deficit is cause for concern. Could you tell us why it's cause for concern?

And then, finally, you said that allowing China in the WTO and normal trade relations will help reduce the trade imbalance that exists with China.

If it turns out not to be so, if it turns out that the trade imbalance is not rectified by this, would you still think it's a good thing? That's the third question. Thank you.

MR. CLEBERG: Well, I'll work back, from the third one back.

And you must admit that I generally look through agricultural eyes. And so please understand that.

But our statistics and the information we have certainly would indicate that as changes take place in China that are expected to take place in the next ten years, that ultimately the need for importing agricultural products –

MR. LEWIS: I’m sorry. If you’re limiting that to agriculture, I withdraw the question.

MR. CLEBERG: I’m talking more about agriculture.

MR. LEWIS: Okay.

MR. CLEBERG: And you see, ultimately, from an agricultural standpoint, by moving substantially more agricultural products in there, we'll have an impact on reducing the deficit regardless of what takes place in other issues.

MR. LEWIS: I can't quarrel with that. Okay. Great.

MR. CLEBERG: So we sincerely believe that, from an agricultural standpoint, there is a benefit there.

MR. LEWIS: Right.

MR. CLEBERG: Moving to the U.S. trade policy, and on that, as to the specifics as to why I'm concerned about that from a deficit standpoint.

Obviously, from an agricultural standpoint, with a strong dollar, that, of course, increases the situation and makes our agricultural products less competitive around the world, and that has an impact on us. And to some degree, we perceive policy has leaned in that direction.

And so that's one of the reasons I comment on that.

MR. LEWIS: Our policy has been towards a stronger dollar.

MR. CLEBERG: Yes.

MR. LEWIS: Right.

MR. CLEBERG: And I'm not saying that is necessarily wrong for the country. But I'm saying that, from an agricultural standpoint, it is a hindrance to increased export activities.

MR. LEWIS: Right.

MR. CLEBERG: And so you must realize, as I sit here, that although I head up a large farm organization, I also own agricultural property, and so

I speak as many farmers would be addressing these issues.

Regarding other issues relating to policy is regarding sanctions. And of course, we are very sensitive about this.

I testified before the Agricultural Committee within the last few months on that situation.

And it appears that sanctions, generally, in the research work we have done, have really very seldom accomplished what they were set out to do.

It seems that frequently, once they get into place, that they never come up for review.

And I suggested there ought to be some type of a sunset on that, any sanction that goes in would automatically die in one year or five years, and it would have to be brought up to discussions again.

And so, the strong dollar, the policies relating to sanctions are the issues that are driving the other two questions, as we look at it through our eyes.

CHAIRMAN ANGELL: The Chair needs to get to two more questioners in about three minutes time.

MR. LEWIS: Well, there's just the last question about the sustained trade deficit being cause for concern. I was just wondering why it's a cause for concern.

MR. CLEBERG: As to why a sustained deficit is a concern to us?

MR. LEWIS: Yes.

MR. CLEBERG: Basically that goes back to the roots of most of us involved in agriculture, because our philosophy as we grow up is that if you have a continuing sustained deficit, that is going to create hardship for you.

And I think that is just basically a part of our culture. And that's generally what most of us in agriculture believe.

MR. LEWIS: I concur.

CHAIRMAN ANGELL: Commissioner Zoellick.

MR. ZOELLICK: I'll be very brief. I want to thank you for taking the time to be with us today. I have a quick question on a different market.

You mentioned NAFTA. And we had a witness, in fact, a U.S. Senator, speak to us a few months ago, who was quite concerned about the Canadian

implementation of NAFTA, particularly related to grains.

And so I would be interested in your view on NAFTA and what it's meant for your company and your constituency, and in particular, your view on the grain trade with Canada.

MR. CLEBERG: I'm not as experienced on the grain trade with Canada as I am with Mexico. And primarily our grain origination activities are more based in the central part of the United States and the southern part of the United States.

And regarding the NAFTA agreement as it relates to Mexico, we have increased the amount of both wheats and feed grains that we have moved, and oil seeds, to Mexico dramatically, as indicated in these numbers.

And it seems to be an ongoing situation where now, with the utilization of the rail system, that we, being contingent to that country, can move those types of products into Mexico very efficiently and have a very sustainable advantage over other sources.

Regarding the movement of meat related products -- and I'm talking primarily in beef and pork -- we have also seen good opportunities there.

So in the Canadian situation and regarding the anxiety that exists on the upper Midwest regarding Canadian products coming in, I'm not as familiar with that as some of you up here probably are.

But the numbers I have seen would indicate, where you looked at the total picture as to what has moved to Canada and what has moved from Canada over the period of time, that when you look at the total mix, that the NAFTA situation or agreement has not been, let's say, as ill positioned as some of even the farmers that have ownership in our company might believe at times.

MR. ZOELLICK: If I could just ask, if any of you or any of your colleagues do have an opportunity to provide us any more sense about durum wheat and the Canadian marketing practice, I'd be very interested in your sense of it.

MR. CLEBERG: Okay.

CHAIRMAN ANGELL: Commissioner Becker.

MR. BECKER: Thank you very much. I have two areas I want to cover. First, Mexico, let's stay with that a second.

You had indicated that, with your organization, the exports into Mexico increased from $50 million to $570 million during the period of NAFTA from '92 to date.

MR. CLEBERG: Yes.

MR. BECKER: That's a ten-fold increase. But at the same time, when you refer to the PNTR as a mechanism of lowering the deficit with China, if you compare that to NAFTA, the deficit with Mexico has gone through the roof.

We started out in pre-NAFTA, with an $18 million surplus. And in 1999, it had risen to a $55 million deficit. So just exactly the opposite has happened from what you think would have happened.

CHAIRMAN ANGELL: Commissioner Becker, what is your question?

MR. BECKER: My question is, how do you relate to that? You said the deficit will go down, in your testimony, with China with PNTR, and just exactly the opposite has happened with Mexico?

MR. CLEBERG: My understanding in China is that we have already removed the barriers for moving most Chinese products into this country. And I would suspect you have the same knowledge of that.

And the discussions underway with the issues with China at this time, as I understand it, is to lower the barrier that they had regarding moving, particularly in my case, agricultural products in there.

And so it's my understanding that the barriers prohibiting Chinese products coming into the U.S. have basically disappeared.

And so I'm saying this is a catch-up situation where, from an agricultural standpoint, that ultimately we will be better off at the end of five years or ten years by providing permanent normal trade relations as the outgo for that as to how it would be should we avoid that decision.

MR. BECKER: You're relating this, then, to agriculture, then, and not the overall deficit being lowered with China?

MR. CLEBERG: Well, but let's just follow that scenario through. As I see it, there isn't much

restriction for Chinese products to come into this country at this time comparative as to products going in there. Is that correct?

MR. BECKER: That's my understanding, but so was the case with Mexico.

MR. CLEBERG: Now, follow that on through. The world does not remain static, the world is going to change.

And where I'm coming from, I'm saying that, in five years, that we will be better off by changing that situation where we will have agricultural products moving into that country, as well as into Mexico, that will reduce the deficit as to what it would have been at that time had we not had a policy for agricultural products to move in.

MR. BECKER: The second question is on sanctions. You've come down hard against unilateral sanctions. The sanctions you’re referring to have not been imposed solely on agricultural products, have they?

MR. CLEBERG: There are sanctions on a variety of products, but where I'm coming from is that I have not seen anything in history to indicate that

sanctions on medical products and agricultural products have basically been beneficial over the long term.

MR. BECKER: So your opposition to sanctions, or unilateral sanctions, is related only to medical and agricultural? You're not talking about arms control or other areas?

MR. CLEBERG: Well, again, I'm speaking as someone that's spent his entire lifetime working in the agricultural sector, and I'm obviously more interested in agricultural products.

But my perception, and what I've read, is that, on agricultural products and medical products, sanctions and depriving countries from having the opportunity of having them have been negative is the outgrowth rather than positive.

MR. BECKER: The countries that you name, North Korea, Libya, Iran and Iraq, these have all been charged by our Government for spreading terrorism and other acts against the United States. Is this right?

CHAIRMAN ANGELL: Mr. Becker, I'm running out of time.

MR. BECKER: That's fine.

CHAIRMAN ANGELL: I appreciate your comments. Harry Cleberg, thank you so very much for taking the time to be with us and to let those 22 farmer directors of yours go without your leadership.

We now release you to go back to be sure that your presence is there. So thanks very much for being here.

MR. CLEBERG: Thank you much for allowing me to be here. As your fellow Commissioners can see, I tend to be somewhat direct and outspoken.

But I hope that you do understand that I'm here representing that farmer-owned community that ultimately makes up the company that I'm employed for. And as I look at things, I look through those sets of eyes, speaking on behalf of them rather than on behalf of just me.

CHAIRMAN ANGELL: Thank you. President Kruse, I'm guessing that you will be happy to yield your time -- your platform. And we'll have you right back after the Governor. So thank you for yielding to the Governor of Missouri.

Governor, Commissioner Weidenbaum, who is our Chairman of our Commission, wishes to extend a welcome to you.

MR. WEIDENBAUM: As a Missouri member of this Commission, I'm delighted to welcome the Honorable Mel Carnahan, the Governor of the State of Missouri. We very much appreciate your presence here.