

MR. ANGELL: Charles Kruse, thank you for your testimony and your finishing right on the nose on the clock.

I'm going to ask the Commissioners to limit themselves to one question in this initial round. We have 16 minutes, and so I'd like to limit it to one. And then, we hopefully will be able to get to another round.

Commissioner Zoellick.

MR. ZOELLICK: Thank you very much, Mr. Kruse, for taking the time to be here with us.

When I'm in Europe, I sometimes press the EU on their farm subsidies, and in recent years, they've been replying by pointing to the total amount of U.S. payments to American farmers, which they say is about the same amount as what they pay to their farmers.

Now, given the fact that the Freedom to Farm Act has been supplemented by some pretty large annual payments, perhaps for understandable reasons -- people are in great need -- what do I answer to the Europeans on their comment that we both subsidize about the same amounts and that before we can press them on

their reduction of subsidies, we have to be willing to cut ours?

MR. KRUSE: Well, with all due respect to the Europeans, you can first of all tell them that they're not quite looking at the facts accurately.

In my judgment, the Europeans are the most difficult, in a general sense, to deal with, both in terms of talking about how they subsidize their farmers and in terms of what they're trying to do to us as we speak in terms of biotechnology.

The Europeans subsidize their farmers to the tune of approximately \$60 billion a year, and I think, even with the supplemental support that our Government has given our farmers, which I very strongly support the last couple of years, we are nowhere near that, probably a third of that.

I think the problems that we have with the European Union are going to continue until and unless we as a country make it very clear to them that, as Mickey Kantor, one of the most recent U.S. trade representatives, said in a breakfast meeting with our Farm Bureau State Presidents -- and I completely support what he said.

We need to tell the Europeans, we'll play by your rules, we'll play by our rules, we'll play by whatever rules we're going to establish, but we're going to beat you at the game you're playing.

And I just think the Europeans are the primary, in a general sense, group of countries that cause us great, great problems when it comes to erecting artificial trade barriers.

MR. ANGELL: Commissioner D'Amato.

MR. D'AMATO: Thank you, Mr. Chairman. Thank you very much for your testimony, Mr. Kruse.

I want to follow up on the question of barriers, both subsidies by the Europeans and nontariff barriers that we've experienced in Asia.

What kind of actions do you recommend? Assuming that our great persuasive talents do not bring them to treat us fairly, what do we do?

Do we work through the WTO and that crowd in Geneva?

Or do we exercise our unilateral leverage, regardless of WTO rules, to bring home the bacon, to get them to play by the rules to reduce their subsidies, or buy or sell bacon, whatever we think we

would like them to do -- remove their subsidies, remove their nontariff barriers?

The question is whether we are more effective using unilateral leverage, or whether we're going to put it all to the WTO, and let's see what happens?

MR. KRUSE: I think that's a very good point. And I think we have to do both. I believe the WTO, though cumbersome and slow, is an effective entity for settling trade disputes.

And I think, too, we can be very proud of the fact that, every time we have taken a dispute to the WTO, we have won, because the facts are on our side and the sound science is on our side.

And so we all get very frustrated at the time that it takes to go through the dispute process, but I think it's necessary, I think it's important. I think it's good that China is going to become a part of the WTO.

But I also think -- as you pointed out in your questions -- I think we also have to unilaterally, in this case, do some things to make the Europeans, for

example, understand how serious we are about selling what we produce.

And make them understand that we are not going to sit idly by when, for example, they raise concerns about genetically enhanced crops that have no basis in fact.

So I think it has to be a combination of the two.

MR. ANGELL: Commissioner Lewis.

MR. LEWIS: Thank you very much for your -- helping educate us. On the issue of exchange rate impacts, could you tell us what your recommendations would be, please?

MR. KRUSE: I find myself agreeing with Harry Cleberg most of the time. Harry and I have been good friends for a long time, and I thought Harry made some very good points.

I think the strong dollar has had a negative impact on our ability, in some cases, to export agricultural products.

Obviously I think this whole issue has to be looked at beyond just agriculture. I understand that. But I think that has been a problem for us.

I think, too, there are a number of things that we can do when it comes to trying to move our products to other countries, regardless of the strength of our dollar or the comparison of our dollar to other currencies.

I am a very strong proponent of PL 480 programs, for example, Food for Peace programs, because, number one, they're not trade distorting. The Europeans can in no way say we're distorting trade by doing this.

The track record of these programs have been that we have benefited longer term by helping countries when they are in need, helping them to get established and grow, and then, the results, I think, longer term, have been very positive. That's just one example of things we can do.

But again, I just would reinforce the fact, we have to be very, very serious. That's one of the things we, as farmers, were promised when the 1996 Farm Bill was put into place.

I like to put it in terms of baseball. We're going to get the biggest bat out of the rack we can find, and we're going to step to the plate, and

we're going to start hitting home runs when it comes to trade.

And I think our track record is mixed. And I would be very quick to say it's not all the fault of our Government, because no one could have predicted the Asian economic problems and others that we've had.

But I think we must have the resolve to understand how important this whole issue is to agriculture, to this country, and to the balance of trade.

MR. ANGELL: Chairman Weidenbaum.

MR. WEIDENBAUM: Thank you, Mr. Kruse, for a very compelling statement.

I think you and Harry Cleberg have really made very convincing arguments on a variety of issues. But I want to focus on one set, and that is bringing China into WTO and granting it permanent normal trading relations.

The critics say, Well, that's just the economic aspect. Of course, I think the economic aspect is kind of important. But how do you answer the concerns about the human rights violations in China?

MR. KRUSE: That's a very good point, Mr. Chairman, and in fact, I had the privilege yesterday to speak to students in some ag classes at Southwest Missouri State University in Springfield, and one of the students asked that very question, which I thought was a very, very good point.

My answer to that is this, and I'm very serious about it: I really, sincerely believe that we have a better opportunity to affect China's behavior, if you will, by being a trading partner with them than by turning our backs on them and walking away from them.

And you know, as Harry said, I'm looking at this as a farmer. That's what I've done, and that's all I've ever wanted to do in my life, and I've been very blessed and privileged to have that opportunity.

As I look at this from an agricultural perspective, we have great opportunities, I believe, to help the American farmers. I think this is the most important issue that could be done for agriculture this year, and that is passing PNTR. And I think if we don't, we have, in effect, imposed the greatest sanction on ourselves that we've ever seen.

But I think we absolutely have a better chance to affect China's behavior, both in areas of human rights and all the other areas that people bring up, if we are a trading partner with them than if we further isolate them from us. Thank you very much. Yes, sir.

MR. ANGELL: Mr. Chairman, I would take the liberty of commenting that a friend in China, who was a professor at the time of the cultural revolution, shared with me the agony of that period.

When President Nixon and Henry Kissinger went to China and the Cultural Revolution was in play families were devastated by separation one from another and were constantly aware of the danger of death.

I don't think there's any realization how far China has come under the opening that the United States initiated.

I think all of us share in the goals of human rights, and that is why we are so proud to be Americans.

I just want to point out that we have made tremendous progress and the people have made tremendous

progress. They're not yet where we want them to be.  
Thank you.

Commissioner Wessel.

MR. WESSEL: Thank you. Rather than engaging on a further debate on PNTR, let me turn to a separate issue for the moment.

Last year, in the lead-up to the WTO Seattle Ministerial, the USTR did a number of listening sessions around the country, and one of them was on agriculture.

And at that session, according to this news article, U.S. farm interests want a mechanism to prevent currency devaluations from effectively negating tariff reductions in foreign markets.

And they referred specifically to the five-, six-, or ten-fold disadvantage they were put at in terms of tariff reductions and the devaluations that occurred as a result of the Mexican peso crisis.

During the Asian crisis, the Chinese indicated that they would not devalue their currency as a way of helping to stabilize and ensure some success in rebuilding those economies, yet we do face that problem if we engage in China's accession.

What should we do more generally about these currency devaluations as part of trade agreements? Do you think we should have some speed bumps that would allow agriculture to ensure that, once we negotiate trade tariff reductions, that devaluations don't wipe the benefits out immediately?

MR. KRUSE: I think ideally it would be good to have those. I think we have to be somewhat careful not to absolutely tie the hands of our trading partners when it comes to their currency.

As I pointed out in my comments, and as you're pointing out, what occurred in Asia, in the Asian countries, has had a very, very big impact on agriculture.

In '98, when our ag exports reached \$60 billion, and then, the following year, they dropped to \$49 billion, we lost billions of dollars in exports that year to the Asian countries.

So if you factor out what we lost to Asian countries, we actually had a very modest gain in ag exports, although we dramatically -- we almost had a free fall just because of that.

I think we have to do what we can in a sensible, reasonable way to try to work with other countries in terms of what they're doing with their currency. I'm not certain it's good idea to absolutely, unequivocally tie their hands in a sense.

So I think we just have to use some common sense and try to make this approach, certainly not disregarding it, because I think it's very, very important, but we might cause a bad problem to become worse if we have some very, very stringent guidelines that don't anticipate what might occur down the road.

MR. ANGELL: Commissioner Rumsfeld.

MR. RUMSFELD: Thank you, Mr. Kruse. You've indicated you're a supporter of the WTO. Do you have any views on the issue that's been raised recently about the desirability or lack of desirability of bringing issues like the environment and child labor issues into the WTO?

MR. KRUSE: Yes, sir, I do. I think, as Commissioner Angell said very eloquently, we are all concerned about these issues.

But I think we need to use the WTO for what its there for, the World Trade Organization. And I

think we need to be careful about bringing in other peripheral issues. There are other means of dealing with those.

And I have a real concern that we can really blur the scene, if you will, in terms of trade negotiations.

I think, for example, one of the issues we are very concerned about that I believe ultimately we will win in the WTO is the whole issue of biotechnology, because we have the facts on our side and we have the science on our side.

And it says nothing about the level of concern that we personally or we collectively have in this country when it comes to human rights, when it comes to labor, when it comes to environment.

But I think we need to negotiate trade agreements in principal and then find other courses of action to resolve these other issues.

MR. ANGELL: Yes. Commissioner Papadimitriou.

MR. PAPADIMITRIOU: Thank you very much, Mr. Chairman.

Thank you very much, Mr. Kruse. I wonder if I, for a moment, can play a devil's advocate.

You seem to be very convinced that, if China is to receive its permanent normal trade relations status, then markets will open. And I think you make a convincing argument, as I understand.

However, if I were to play the devil's advocate, as I indicated, at the present time we know that the U.S. is running a deficit with China, and yet the Europeans are running a surplus.

Is it something that you think the Europeans are doing that perhaps we should be doing?

MR. KRUSE: I think from the standpoint, you know, the Europeans very, very strongly support agriculture and are committed to promoting agriculture and promoting exports. I certainly think that's something we ought to be doing.

I think, too -- and I know this question was asked of Harry Cleberg. And I would be very quick to say, you know, there is no guarantee that we are going to be the trading partner of choice with China if we do grant them permanent normalized trading relations.

I think there is a guarantee, on the other hand, if we don't do this. This is not going to have a negative impact on farmers in this country, you know, for just six months or a year or two years. It's going to be a long-term problem that we have.

Our trading partners around the world are going to very delighted. And that's one of the measurements I've learned to use over the years. I like to look at what the Europeans think about our foreign policy and what they think about what we're doing.

If they like what we're doing, we'd probably better take a hard look at it and maybe change course.

So they would love to see us not grant normalized permanent trade relations with China.

I think there will be a very, very positive long-term impact on agriculture in this country if we do that.

You look at the tariff reductions that are already in place. And I would applaud very strongly the negotiating team for our Government that reached these agreements.

One quick example: Currently, the tariff on beef going into China is 45 percent. This agreement will lower it to 12 percent. That is very substantial and very significant.

And I mentioned in my testimony the 5 and 50 rule. You know, in a general sense, the tariff on imports coming into this country are about 5 percent, the tariffs on what we export to other countries average about 50 percent.

I think, on balance, I absolutely believe this is the most important thing that could be done for agriculture this year.

MR. ANGELL: Commissioner Rumsfeld.

MR. RUMSFELD: You said the only thing you ever wanted to do was be a farmer, and yet you are a retired Brigadier General, I notice.

MR. KRUSE: Yes, sir. That's my other passion.

MR. RUMSFELD: My question is this. You said that you believe that we ought to end all unilateral sanctions in agricultural products. Are there any exceptions to that statement?

Can't you think of a country that's making mischief in the world, where we're engaged in a negotiation, and sanctions might be something that would be part of the negotiation. For example, North Korea?

MR. KRUSE: Absolutely. Yes, sir. I think that's a very good point. And I'll give you a good example.

You know, U.S. rice farmers -- I don't happen to be a rice farmer -- but U.S. rice farmers have lost their largest market three times in the last 40 years, to Cuba, which was the number one rice importer for the U.S., then to Iran, then to Iraq.

And as a farmer, I would sit here and tell you -- and I think it's a very good point that you bring up, and I'm glad you did -- there are times when we ought to impose an absolute total embargo on a country. And those are three examples.

Forty years ago, we should have placed a total embargo on Cuba. We should have placed a total embargo on Iran. We should have placed a total embargo on Iraq at the time we did.

But I think Cuba is a good example. Now, you look at Cuba, the missiles are no longer pointed towards us. I had occasion last May to go to Cuba with some other state Farm Bureau presidents, and I was amazed at how warm the Cuban people are and how genuinely positive they feel about America.

And they made the point, over and over, that it costs 30 percent more to buy agricultural products from Australia, New Zealand and European countries because they can't buy them from the United States, which they would like to do.

But yes, sir. I would absolutely agree that there are times when we should impose a total embargo, depending on the circumstances.

MR. ANGELL: Mr. Kruse, I'm going to declare that you have excessive knowledge on too many subjects, and consequently, our panel should move on.

We appreciate so much your comments and your clear, farmer-like responses.

MR. KRUSE: Thank you very much. Thanks for this opportunity. I appreciate it.

MR. ANGELL: We'll move right into the second panel.

While we're doing that, I would like to thank our guests and our panelists.

I would like to thank Tom Hoenig and the Federal Reserve Bank of Kansas City for their graciousness in working with the Commission in regard to facilities at a period of time at which the Federal Reserve Bank of Kansas City's other responsibilities impose some real burdens.

So Tom, I'll say thank you. And I'll thank you again this afternoon.

Commissioners, we now move to a second panel of four individuals. And so we're going to have to be very careful in regard to following the one question per panelist rule.

And I think probably it would be preferred if we not ask everybody on the panel to answer every question. So we'll direct our questions to specific individuals.

Our first panelist is Neal Fisher, Administrator of the North Dakota Wheat Commission, and also our associate U.S. wheat producer, Neal Fisher.