

STATEMENT OF
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RUSSIA'S WTO ACCESSION –
IMPLICATIONS FOR THE UNITED STATES

Chairman Baucus, Ranking Member Hatch, and members of the Senate Finance Committee. Good morning and thank you for the opportunity to appear before the committee today to discuss a topic of considerable importance to John Deere and to the American business community.

I am Sam Allen, Chairman and CEO of Deere & Company. I am speaking today on behalf of my company and the Business Roundtable, of which I am a member.

Later this year, Russia will accede to the World Trade Organization, an event that has been many years in the making. The United States business community has long supported Russia's WTO membership, both as a means for accelerating its growth and development, and as a means for strengthening commercial ties between the two countries and creating a business environment where Russia ascribes to global rules and norms.

While Russia's membership in the WTO is a significant achievement, a considerable impediment to expanded U.S.-Russia trade and commercial activity remains -- the U.S. Congress must now pass legislation graduating Russia from the 1974 Jackson-Vanik amendment and establishing permanent normal trade relations (PNTR) with Russia. U.S. companies will not be able to receive the full benefits of Russia's accession, and thus will be unable to compete for Russian customers on a level playing field, until Congress passes such legislation.

PNTR with Russia is, simply put, a benefit to the United States rather than an accommodation to Russia. Here is a concrete example. Russia has committed upon accession to significantly reduce its tariffs on imported agriculture equipment – from 15% to 5%. However, it is possible that Russia would withhold the lower, WTO-negotiated tariff rates from our U.S.-made products until the United States granted Russia PNTR status. That would place U.S. companies like John Deere at a competitive disadvantage relative to our foreign competitors, and with no recourse when disputes arise. And that would negatively impact our U.S. operations because the products we sell in Russia are closely connected to jobs in our facilities in the American Midwest.

Approving PNTR with Russia will:

- Directly benefit U.S. manufacturers, service providers, agricultural producers and U.S. workers as our exports increase, helping to create and maintain good jobs here in the United States.
- Ensure that U.S. companies realize the benefits and protections of Russian WTO membership that our foreign competitors will. Failure to approve PNTR not only will penalize U.S. exporters but could well invite discrimination against U.S. companies with a presence in the Russian market.
- Greatly improve the environment for firms doing business in Russia by increasing certainty through WTO rules ranging from services regulations to agricultural standards to intellectual property rights.
- Subject Russia to the WTO-based adjudication process when trade disputes arise.

There clearly is a strong *business* case to be made for Congressional approval of PNTR. I urge the Congress to carefully consider the matter but then to act quickly to ensure that U.S. companies, their workers and shareholders, receive the benefits from the outset of Russia's long-awaited WTO membership.

Russia is one of the world's largest markets, with a nearly \$2 trillion economy and a rapidly growing, well-educated middle class. The large and growing economy in Russia, coupled with PNTR, presents significant opportunities for many U.S. companies across several sectors to develop a strong market presence in Russia. In addition to the agriculture, forestry and construction equipment sectors, Russia's growing consumer economy will create significant demand for imported products from the U.S., especially agricultural and food products, thus expanding opportunities for U.S. producers to participate.

Brief Introduction to Deere and Deere in Russia

Perhaps I can make the stakes for our company more concrete by providing some additional context. Deere's major product lines are agriculture, forestry and construction equipment, and we operate a financial services company as well as a precision irrigation business. We long have had a presence in the Russian market, tracing our first equipment sales there to more than 100 years ago. In fact, sales to Russia for payment in gold bullion during the Great Depression enabled our company to continue operations and allow American farmers to recover from the turbulent times.

We have greatly expanded our presence in the Russian market in recent years with investments in two factories there, including our newest facility just outside Moscow, which Chairman Baucus recently visited. These facilities primarily use components produced and exported from our U.S. facilities in Iowa, Illinois, North Dakota and other states to produce agriculture, forestry and construction equipment sold in Russia. We also maintain a large spare parts depot near Moscow that serves our customers there and in the broader Eurasian market.

The products from these facilities in Russia utilize components manufactured in Deere facilities in the United States and exported to Russia. This activity directly affects jobs at more than a dozen Deere factories, including eight in the U.S. which are supported by our almost 2,800 suppliers located in 45 states.

It is clear that many Deere jobs in the United States -- including many UAW jobs -- are directly connected to the production of the more than a dozen product lines that are exported for final assembly at our Russian facilities. Some significant examples include large tractors and engines (Waterloo, IA); combine harvesters (East Moline, IL); motor graders, backhoes, 4WD loaders, and skidders (Dubuque and Davenport, IA); planters (Moline, IL); seeders (Valley City, ND); tillage equipment and sprayers (Des Moines, IA); and precision farming components from Iowa and North Dakota. The Business Roundtable has produced state fact sheets that provide additional examples and that show trade ties between each U.S. state and Russia.

Let me also note, Mr. Chairman, that we are also exporting our Deere business values and standards to our Russian operations. Our facilities there are held to the same high standards we require in the United States – the same standards for compliance, integrity, safety for our workers (even using OSHA measurements) and customers, product quality and environmental stewardship.

Significant Potential of the Russian Economy

Our investments to-date reflect the enormous potential of the Russian economy. This potential is especially significant for our business -- Russia will make a very significant contribution to meeting the world's growing demand for food and forestry products as the global population grows and becomes more affluent. But these investments are not just in Russia. In fact, just two weeks ago we announced a \$70 million investment in Waterloo, Iowa to expand our production capabilities for large tractors, with Russia being one of the large export markets driving this investment.

By now, we are all familiar with the challenge of meeting the food, housing and infrastructure needs of a global population growing from seven billion today to well over nine billion by 2050 and becoming more affluent all the while. Experts tell us that we must double agricultural output to meet the needs of this population that will be fully 70% urban by 2050. And, you can imagine the infrastructure and housing needs that this will entail. This is challenge enough, but we also know this must be done in a sustainable way—with

limited arable land and water resources on the planet, ever mindful of our environmental footprint, while taking account of the highly uncertain effects of coming climate change.

Now, against that backdrop, consider that Russia, with but 2% of the global population has:

- 9% of the world's arable land, with a significant amount still unutilized or underutilized;
- 8% of the available freshwater; and
- 23% of the world's forested area.

Russia clearly has enormous potential to significantly and sustainably expand its agricultural and forestry output and to play a much greater role in global markets for those products. This is a stated goal of the Russian government. For example, with rapid modernization, it is not unreasonable to expect significant expansion in grain output and agricultural exports to the world market. Realizing the full potential of the agricultural and forestry sectors will require continued development of the infrastructure including investment in farm-to-market roads, storage, water management facilities, product processing, and rail and port facilities. Thus, the country offers significant near- and long-term investment potential across many sectors of its economy.

The opportunities afforded Deere and many other U.S. companies can be highly beneficial to both our economies—it can be a “win-win” situation. But, the Congress must act quickly and decisively if we are to enable this potentially positive outcome to be realized, or these benefits will accrue only to exporters in Europe, Asia and South America.

The Deere Experience in Russia

Let me close with a few words about Deere's business experience in Russia to date. Our experience has been positive—yes, with frustrations from time to time but little different than in other emerging markets. We understand the challenges of doing business in Russia, but we recognize the enormous opportunity as well. Enhancing trade relations and increasing business connections will certainly improve the business climate, to the benefit of both the American and Russian peoples. And, stronger business ties can well lead to more harmonious relations between our two countries generally.

Thank you Mr. Chairman, for the opportunity to appear here today. I look forward to our discussion and will attempt to answer questions you and the committee may have.

Thank you.