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COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

REPORT

ON

TRADE AND ECONOMIC GROWTH MISSION TO VENEZUELA, CHILE AND BRAZIL

MARCH 31, 1999

Prepared for the use of Members of the Committee on Ways and Means by members of its staff. This document has not been officially approved by the Committee and may not reflect the views of its Members

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LETTER OF TRANSMITTAL

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE
Washington, DC, March 31, 1999.

Hon. BILL ARCHER,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, DC.

DEAR CHAIRMAN ARCHER: I am pleased to transmit to you the enclosed delegation report on the recent Subcommittee on Trade mission to Venezuela, Chile, and Brazil. The report contains an overview of the mission, summaries of meetings with top trade officials and American embassy officials, and copies of several documents pertinent to our mission. The primary purposes of the trip were to meet with government and business officials in each of the three countries to explore multilateral, regional, and bilateral trade opportunities.

The report describes the issues surrounding the World Trade Organization (WTO) negotiations set to begin in 1999, particularly agriculture, services, dispute settlement, and intellectual property in an effort to find areas of common ground as well as to share views on how those issues should be handled. The delegation also discussed issues in the ongoing negotiation of the Free Trade Area of the Americas (FTAA) and other regional arrangements, including Mercosur (the Southern Common Market).

I hope that this information will be useful to you.

Sincerely,

ANGELA ELLARD,
Staff Director, Subcommittee on Trade.

Enclosure.

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OVERVIEW OF THE MISSION

From January 7 through 16, 1999, a bipartisan delegation of the Committee on Ways and Means led by Chairman Bill Archer visited Venezuela, Chile, and Brazil to conduct a factfinding mission on trade and economic issues. The primary purposes of the trip were to meet with government and business officials in each of the three countries to explore multilateral, regional, and bilateral trade opportunities.

Specifically, the delegation discussed issues surrounding the World Trade Organization (WTO) negotiations set to begin in 1999, particularly agriculture, services, dispute settlement, and intellectual property, in an effort to find areas of common ground as well as to share views on how those issues should be handled. The delegation also discussed issues in the ongoing negotiation of the Free Trade Area of the Americas (FTAA) and other regional arrangements, including Mercosur (the Southern Common Market). The delegation exchanged views concerning bilateral trade disputes between the United States and each of the three countries, particularly in the areas of agriculture and intellectual property. The impact of the financial crisis on trade liberalization was also a primary focus of the mission, particularly in Brazil. In addition, the delegation discussed the likely trade and economic policies of the new Venezuelan Government. The delegation also discussed the prospects for the U.S. administration to obtain trade negotiating authority and whether trade negotiations could proceed without having such authority in place. In Chile, the delegation discussed a possible free trade agreement between the United States and Chile. Finally, the delegation explored the manner in which the three countries have dealt with social security and pension reform. Attachment A contains a press release announcing the delegation's visit.

Caracas, Venezuela

On January 8, the delegation received a briefing from U.S. Ambassador John Maisto and his staff, focusing on political, economic, and trade issues, particularly in light of the new Chavez government set to take office on February 2. The delegation next met with the Venezuelan American Chamber of Commerce to discuss the perceptions of the U.S. business community toward doing business in Venezuela. The group stressed the need to conclude a tax treaty and a bilateral investment treaty with Venezuela. In addition, the group asked the delegation to expedite a visit between President Clinton and President-elect Chavez.

The delegation next had a very cordial meeting with President-elect Chavez. The President-elect emphasized that he is a believer in democracy, and he promised to look into concluding the bilateral investment treaty and the tax treaty currently under negotiation with the United States. Chairman Archer and Congressman Jefferson promised to do everything possible to encourage President Clinton to invite Chavez to Washington. After the meeting, each of the members of the delegation signed a letter to President Clinton asking that he receive Chavez. President Clinton then agreed, and Chavez traveled to Washington later in January. (See attachment B.)

In a meeting with the José Ignacio Moreno Leon, one of the economic advisors to President-elect Chavez, the delegation discussed improving government efficiency. Moreno Leon noted that the tax treaty was currently under review and that there were no substantive problems remaining. Since that meeting, U.S. Ambassador Maisto informed the delegation that the treaty was signed by both parties. (See attachment C.)

The delegation met with the Vice Minister for Agriculture and Livestock, Arnaldo Badillo, and discussed cooperation between the United States and Venezuela in the agriculture area and Venezuelan restrictions on U.S. poultry. With respect to the ban on U.S. citrus, the Vice Minister said that the ban was quite old and was being reviewed.

The delegation then attended a luncheon hosted by the Council of Venezuelan-U.S. Businessmen (CEVEU) and discussed U.S.-Venezuelan issues and the Venezuelan economic and political situation.

After lunch, the delegation met with the Minister of Industry and Commerce, Francisco Astudillo. The discussion touched on the bilateral investment treaty, U.S. preference systems, U.S. trade negotiating authority (fast track), and the Free Trade Area of the Americas (FTAA) negotiations. Chairman Archer also raised the issue of the trademark of Sysco, a Houston company whose trademark had been stolen in Venezuela. The Minister promised to resolve the issue quickly and appeared optimistic of a good result for the company.

President Caldera then met with the delegation and discussed the key accomplishments of his administration and his optimism for Venezuela under the leadership of President-elect Chavez.

In the last event of the day, the delegation was hosted for dinner by the Minister of Energy and Mines and Petroleos de Venezuela S.A. (PDVSA), the state oil company. The group discussed depressed world energy prices, the need for new technologies to enhance production, increased opportunities for U.S. companies to participate, Venezuela's dependence on oil revenues, and the impact of the new Chavez administration.

Santiago, Chile

The Codel then traveled to Santiago. On January 11, the delegation received a briefing from U.S. Ambassador O'Leary and his staff on the political and economic situation in Chile, trade issues between the United States and Chile, recent developments in the Pinochet case, Embassy security, and trade development issues.

The delegation then met with the Chilean Minister of Agriculture, Carlos Mladic, discussing prospects for fast track and further trade liberalization through the FTAA process and the WTO. The Chilean Minister of Finance, Eduardo Aninat, met with the delegation next, again discussing fast track and related trade issues. The Minister noted that negotiating a free trade agreement without fast track would be difficult. He further stated that Chilean standards on labor and the environment are world class and that Chile would support a trade agreement in which Chile was held to its existing standards. Chile would oppose, he emphasized, being forced to put in place even higher standards through trade negotiations.

On Monday, January 11, Congresswoman Thurman addressed in the Conference on Women's Political Participation at the End of the Century, at Valparaiso, Chile. The text of her speech is included as attachment D.

On Tuesday, January 12, the delegation met with the American Chamber of Commerce in Chile, discussing fast track and trade negotiating opportunities. The Amcham participants emphasized that the United States was losing out on opportunities in Chile to its competitors because of the lack of a trade agreement. The Amcham presented the delegation with a report providing some examples of lost opportunities. (See attachment E.)

The delegation met with Dr. José Piñera, the designer of the Chilean pension system. He provided an interesting background on how Chile reformed its pension system as well as advice for U.S. legislators. Chairman Archer invited Dr. Piñera to testify before the Committee on Ways and Means.

The delegation then met with the Foreign Relations Minister, José Miguel Insulza. Issues such as fast track authority, trade with Mercosur (the Southern Common Market), existing strong Chilean protections on labor and the environment, and the FTAA negotiations were discussed. The Minister later hosted a luncheon for the delegation.

President Frei then received the delegation. He described Chile's recent unilateral tariff reduction, social security reform, Chile's labor and environmental protections, and privatization. Next, in a meeting with German Molina, the Chilean Labor Minister, the Members discussed Chile's approach to fixing the pension system. In addition, Minister Molina described Chile's child labor and minimum wage laws. Finally, the delegation met with Juan Gabriel Valdes, Chile's Director General of International Economic Relations, to discuss the FTAA, fast track, and other trade issues. In response to a question from Chairman Archer, Ambassador Valdes agreed to help the United States in seeking EU implementation of the banana and beef hormone decisions. With respect to labor and the environment, Ambassador Valdes reiterated the point made by other Chilean officials that Chile would not want to make changes to its standards in order to qualify for a trade agreement. This view, he noted, is shared by other Latin American countries. The Ambassador and Chairman Archer discussed the possibility of negotiating an agreement between the United States and Chile without having fast track in place, agreeing that such a strategy would pose risks.

Brasilia, Brazil

In Brasilia, the delegation met on January 13 with the U.S. Embassy staff for a country team briefing. The Members discussed with the staff that day's policy change by the Brazilian Government to allow the Brazilian currency to float in a wider band. In addition, they addressed the prospects for Brazil to carry out the reforms required by the IMF.

The delegation then met with Brazilian President Henrique Cardoso. The delegation strongly encouraged the President to continue the reforms to which Brazil had committed. The President reassured the delegation that the reforms were on track, any setbacks were temporary, and that reform was complicated by the fact that Brazil is a democracy and not an autocracy. After the meeting, Chairman Archer issued a press release expressing his confidence in Brazil. (See attachment F.)

On January 14, the delegation continued its meetings, first with Ambassador José Botafogo, the Executive Secretary of the Brazilian Foreign Trade Board. In this meeting, the participants engaged in an extended dialog about trade issues between the United States and Brazil, including protection of intellectual property rights, antidumping and subsidy allegations concerning steel, and trade in orange juice and other agricultural products.

In a meeting with Foreign Minister Luiz Lampreia, the delegation again encouraged Brazil to continue its reforms. The discussion turned to the issue of trade negotiating authority. The Minister emphasized the danger of mixing trade and labor issues, arguing that it could lead to a resurgence in protectionism. The Minister also discussed the FTAA negotiations, noting that it is difficult for Brazil to make further concessions in the current financial environment.

The delegation also met with leaders from the legislative branch of government. First, the delegation had a meeting with Senate President Antonio Carlos Magalhaes, in which the President guaranteed that the Congress will approve the tax increases to which it has committed. In a meeting with leaders from the Chamber of Deputies, the Members discussed a host of trade issues, including steel, orange juice, and sugar. The delegation was hosted for lunch by a group of Members of the Senate and the Chamber of Deputies.

After lunch, the delegation met with Finance Minister Pedro Malan, who emphasized the progress toward reform that the Cardoso government has made. He explained that recent setbacks, such as the failure to pass a government proposal on social security reform, would be overcome. In addition, he noted that the declaration by one governor that his state would not service its debt to the federal government may have been politically motivated. With respect to the decision of the day before to devalue the currency, the Minister reassured the Members that the move was sound and that world financial leaders had been made generally aware of the issue in the past weeks, although not right before the decision because of confidentiality concerns.

In its last meeting in Brasilia, the delegation spoke to Ambassador Celso Lafer, the Minister of Development, Industry and Commerce, about the WTO negotiations, Brazilian protection of intellectual property rights, and agriculture.

The delegation then traveled to São Paulo, Brazil.

São Paolo, Brazil

On Friday, January 15, the delegation was briefed by the U.S. Consulate General about a variety of trade, economic, political, and security issues. The delegation then met with a panel of bankers to discuss the Brazilian financial situation. The delegation then was hosted for lunch by the American Chamber of Commerce in São Paulo to discuss trade and investment issues. Finally, the delegation met with the Industrial Association of the State of São Paulo (FIESP), an organization of Brazilian businessmen about the economic and investment climate in Brazil.

VENEZUELA

Country Team Briefing by Ambassador John Maisto and U.S. Embassy Staff

Caracas, Venezuela; Thursday, January 7, 1999

Ambassador John Maisto began by introducing his country team. On the bus ride to Caracas from the airport, he had described the current political situation in Venezuela, noting that President-elect Chavez had been elected in December by a 57-percent vote and a 67-percent voter turnout in the presence of U.S. observers. A former military official, Chavez led the coup against the government in 1992. After he was jailed, he entered politics and ran for President. It is unclear, however, what policies he will espouse as President.

In the briefing, Ambassador Maisto concentrated on specific issues relevant to U.S.-Venezuela bilateral relations. He spoke of drug trafficking and transshipment, bilateral investments, and intellectual property rights as issues that the Codel should address. From a broader perspective on trade, he mentioned that President-elect Chavez sees himself as a successor to Bolivar, which could mean that his administration will be even more regionally biased than the Caldera administration. Regardless of all these problems and the overarching uncertainties surrounding the new administration, Ambassador Maisto believed there is a positive story to tell in Venezuela. As he stated it, “money can be made” in Venezuela, and the country team is eager to help American businesses and entrepreneurs to tap into the possibilities.

Economic Counselor Perry Ball gave a brief presentation on the relatively weak state of Venezuela’s economy. He blamed the current problem on the low price of oil, and the fact that the Venezuelan economy is almost totally dependent on this one natural resource. He also mentioned a systemic problem, referred to as “Dutch Disease,” which caused an extreme overvaluation of the Venezuelan currency, in turn creating unrealistic exchange rates and making things difficult for businesses trading internationally. He explained that this situation will inevitably force the government to devalue its currency, which he claimed needed to be done now. However, he said that President-elect Chavez would most likely not devalue the currency because it would most hurt those who support him, and he could not afford to lose any political support when he is pushing for constitutional reform.

Commercial Counselor Eric Sletten gave an overview of U.S.-Venezuelan trade. He started out by giving some fact and figures: The United States is the largest importer of Venezuelan products and the largest exporter to Venezuela; Venezuela is the twenty-third largest export market for the United States; 49 percent of its imports come from the United States and 30 percent of those come from the port of Houston; it imports approximately 2 billion dollars' worth of goods per year from Texas and is the second largest export market for agricultural products from Texas; 62 percent of U.S. exports to Venezuela are manufactured goods, the largest class of exports being oil industry related (28 percent), the second largest being telecommunications equipment. He mentioned that the overvalued currency actually helps U.S. exports, and once the currency is devalued one could expect to see a drop in exports back to 1996 levels. Last, he mentioned three items that would help U.S. exports: (1) signing a bilateral investment treaty, (2) signing a tax treaty, and (3) increasing the number of flights by U.S. airlines between Caracas and points in the United States.

With respect to the bilateral investment treaty, the Ambassador pointed to a number of outstanding problems. The first problem is the insistence by Venezuela on a preference for the Andean community. The second problem is the Venezuelan technology transfer requirements.

Breakfast meeting with the Venezuelan American Chamber of Commerce (VENAMCHAM)

Caracas, Venezuela; Friday, January 8, 1999

VENAMCHAM President Jorge Redmond welcomed members of the Archer Codel to Venezuela and quickly touched on the many questions confronting the Venezuelan business community today. Referring to the recent Presidential election and transition to the new administration of Hugo Chavez, Mr. Redmond spoke of a "new era in Venezuelan Government." Mr. Redmond stressed that the U.S. Government's actions toward this new government were of great importance in terms of the tone that is set. In this light, Mr. Redmond stated that the United States could send two very positive signals by (1) expediting an official visit by President-elect Chavez to the United States, and (2) sending a high-level government official to President-elect Chavez's February 2 inauguration. Mr. Redmond also stressed his hope that the United States would maintain pressure on the Venezuelan Government to expedite both a tax treaty and an investment treaty between the two countries.

Chairman Archer responded by first offering a "prospero ano nuevo" and introducing the other members of the Codel. He expressed that the United States has often taken for granted its good relations with Venezuela in the past—and that now we must all work to foster those good relations in the future. Chairman Archer mentioned that the Codel would be meeting with the President-elect later in the day. He also stated his view that the new that the President of the United States should meet with President-elect Chavez as soon as possible and promised to convey that message to the Clinton administration.

Meeting with President-elect Chavez

Participants: President-elect Chavez, Minister of Interior-designate Luis Miquilena, Foreign Minister-designate José Vicente Rangel, and recently appointed Deputy Foreign Minister Jorge Valero Briceno

Caracas, Venezuela; Friday, January 8, 1999

The delegation met for 90 minutes with President-elect Chavez. Chairman Archer began the meeting by congratulating the President-elect on his election and saying that he is looking forward to continuing a strong relationship with Venezuela. The President-elect welcomed the delegation and the opportunity that it presented to deepen the bond between the United States and Venezuela. Chavez noted that he is a "Jeffersonian democrat," who deeply believes in democracy. The Venezuelan people, he stated, have clearly and overwhelmingly proven their strong will for democracy, not only in the electoral process but with respect to ethical, moral, and social issues. He promised to respect human rights, freedom of speech, and the rights of minorities. He remarked that there has been much reported in the press that he would set up a dictatorship or violate human rights. However, he is not a dictator, he said, and he does not intend to revoke democracy, as observers will soon see for themselves. He pointed to his two cabinet ministers-designate as an example of his openness, saying that they are neither "yes-men" nor "subordinates."

The President-elect then began to discuss some of the difficulties that Venezuela faces. The fair and equitable dispensation of justice is one of the most critical elements of a democracy, but the current system is nonfunctional. There are many in jail, especially the poor, who have been denied due process, he said, and even burned alive without anyone being held responsible. He also pointed to the banking crisis, noting that he is left with a $7 billion loss, representing 9 percent of GDP, for which no one is responsible. The government, he concluded, has been corrupt. He continued that the judiciary is infiltrated by drug traffickers, who rule with tremendous immunity. One of his priorities is to transform the judiciary "deep down" to recover the legitimacy of the system. Even the executive branch is unaccountable and governorships corrupt, he said, and many elected leaders are legal, but not legitimate. "We must make our mandates legal," he said, so that we "give the people the democratic power to recall their mandate." The legislative branch, he added, must be legitimized so that the people have true representatives. He pointed to the election for the Latin American parliament, noting that the slate system meant that the people did not know for whom they were voting. Democracy, he said, has been "asphyxiated" here, creating a dangerous social pressure in a country with an 80-percent poverty rate and millions unemployed. There has been a "peaceful and democratic revolution here," he concluded, and he asked for U.S. help.

Chairman Archer said that he, too, hoped to see a strengthening of the bonds between the United States and Venezuela. He remarked that he was pleased with the President-elect's comments, noting that he was not surprised to hear that Chavez was such a strong believer in democracy because he is the "product of one of the most open elections Venezuela has ever had." He pointed to the 57-percent margin of victory as being a strong endorsement of the President-elect and of democracy. "You'll carry the torch well," he said confidently. The beauty of democracy, he added, is the prospect for peaceful revolution, which means that no country can remain isolated. He emphasized that it is important to keep the channels of communication open.

Chairman Archer then turned to the pending bilateral investment treaty and the tax treaty, asking the President-elect to consider them carefully and quickly, if the current government does not act first. The Chairman noted that Chavez has said that he welcomes investment, and these treaties would "give a high degree of comfort" to investors to come in and build, creating jobs and a higher standard of living. He added that it is the shared view of the delegation that Chavez should come to Washington after the inauguration, and he promised to encourage President Clinton to invite Chavez.

Congressman Jefferson noted that he and Chavez have two things in common: they are both Jeffersonian democrats as well as lovers of baseball. He then echoed the Chairman's comments, saying that he is encouraged by the President-elect's remarks. Louisiana, he said, has a strong agriculture base and a natural interest in trade. It is important to both Louisiana and Venezuela to see the price of oil increase. He added that he agreed that President Clinton should meet with Chavez, pledging to request such a meeting—as long as Chavez promised to pitch for the Democrats during the yearly Capitol Hill baseball game.

President-elect Chavez responded that he is ready to go to Washington and recognizes the need to go, pointing to requests from a number of industry sectors. He has talked to a number of investors, he said, and has an "ambitious program" for economic development that he wants to air. Venezuela is in a difficult economic situation, he emphasized, with a deficit representing 10 percent of GDP and a high foreign debt representing 40 percent of the budget. The price of oil, he added, is threatening to go below $7, but the budget was based on a $12 price, meaning that the deficit may worsen. For the first quarter of 1999, he needs $1 billion just to make the payroll. Furthermore, a strike by oil workers could paralyze that industry.

Chavez said that he has received invitations from the heads of state of Spain, France, Germany, Italy, and Canada. It would have been good to visit Washington, he said, but "we will have to wait." In his meetings, he intends to focus on both political issues, especially his commitment to democracy, and economic issues. He said that he will pledge to pay the Venezuelan debt, but because the "present profile is too burdensome," he hopes to reschedule and seek a different formula.

As to the pending bilateral investment treaty and tax treaty, Chavez said that he has already begun to study the agreements. He promised to "energize" the process, to identify the delicate points and reactivate the negotiations. He said that he will look to resolving problems and signing the agreements. He also said that he has a bill almost ready on foreign investment to be submitted to Congress in order to "give safety" to investors. He also expressed enthusiasm about U.S.-Venezuelan cooperation in the areas of anti-corruption, counternarcotics, and extradition.

After the meeting, Chairman Archer held a brief press conference. When asked whether the issue of the constituent assembly was addressed during the meeting, Chairman Archer replied that it was not and that the issue is strictly an internal one for Venezuela that he does not seek to influence. He also said that the delegation would recommend to President Clinton that he receive President-elect Chavez as soon as possible after Chavez' inauguration on February 2.

Meeting with José Ignacio Moreno Leon, Economic Advisor to President-Elect Chavez and Rector of the Metropolitan University

Participants: José Ignacio Moreno Leon and Carlos Tinoco (businessman)

Caracas, Venezuela; Monday, January 8, 1999

Mr. Moreno Leon, the founder and former superintendent of SENIAT, the Venezuelan Tax Authority, commented that the focus of the Chavez government will be to reduce government expenditures. He indicated that the Chavez government is planning to take several steps to achieve this objective, including by improving government efficiency and reducing the number of ministers in the President's Cabinet. For example, he stated that the Interior Minister would likely also serve as the Minister of Justice.

Chairman Archer urged quick approval of the bilateral tax treaty as soon as the new government takes office and asked what problems remained to acceptance and ratification by Venezuela. Mr. Moreno Leon responded that it was his understanding that the final text was being reviewed by the Foreign Ministry and that there were no outstanding substantive problems remaining. He indicated that one reason for the delay in approval might be Venezuela's lack of familiarity with tax treaties, which has caused the ministries involved to undertake a more lengthy review process than might otherwise be the case. Mr. Moreno Leon also indicated that the foreign ministry had already approached key Members of the Senate, which will be charged with preparing implementing legislation for the treaty, to explain its provisions and sound out any questions or concerns. He indicated that there was no reason at this time to expect difficulty in Senate ratification and asked whether any problems were expected in the U.S. Senate with respect to ratification. Chairman Archer indicated that he was not aware of any.

Chairman Archer then turned to the subject of the bilateral investment treaty (BIT) and urged quick approval of that agreement. Mr. Moreno Leon explained that Venezuela has raised new concerns as a result of questions posed by Venezuela's Ambassador to the World Trade Organization (WTO). In particular, Mr. Moreno Leon noted the two points about preserving a preference for Andean Pact country investors and being able to require technology transfer as a condition for making an investment. With respect to the regional preference, Chairman Combest stated that the United

States regarded *all* of South America as important trading partners and was concerned with subregional arrangements that granted exclusive preferences to members. Mr. Moreno Leon took note of the points raised by Chairmen Archer and Combest.

Mr. Moreno Leon mentioned that one potential element of the incoming government's plan for fiscal reform was the institution of a value-added tax. Mr. Moreno Leon explained that the incoming government was considering replacing the existing wholesale/luxury tax of 16.5 percent with a value-added tax that did not include as many exemptions and applied to retailers as well as wholesalers and manufacturers. Mr. Moreno Leon indicated that, given the broader base of the tax, it might be possible to set a lower rate, for example 12 percent. Congressman Shaw questioned whether it wouldn't be simpler to institute a reformed sales tax. Mr. Moreno Leon indicated that one of the objectives of the revised approach was to increase tax revenues to the federal government, which has been downsizing over the last several years even as state governments have been increasing in size. A sales tax might just feed the growth in state governments, he concluded.

Meeting with Vice Minister for Agriculture and Livestock, Arnoldo Badillo

Participants: Vice Minister Badillo; SASA head Dr. Rudolfo Marcano

Caracas, Venezuela; Friday, January 8, 1999

Vice Minister Badillo began the meeting by wishing all attendees a happy new year, and then introduced various representatives of the Ministry of Agriculture attending the meeting including the General Director for Livestock, the Director of Farm Planning, the Director of Farm Extension, the Director of Research, Director of Farm Statistics, and the Director of Marketing.

Chairman Archer thanked the Vice Minister, introduced members of the Codel, and yielded to Chairman Combest.

The Vice Minister spoke of the importance of the Binational Commission for Agriculture made up of representatives of the U.S. Department of Agriculture and the Venezuelan Ministry of Agriculture (MAC) which had originally been established in 1983, and was recently renewed in January of 1998. He noted several agreements that had been produced in the most recent meeting of the Binational Commission in May 1998. In the area of farming statistics, USDA's National Agricultural Statistics Service (NASS) is facilitating the development of a permanent counting system and is funding a scholarship which brings young statisticians to Venezuela to provide hands-on guidance. Also, USDA's Economic Research Service (ERS) has set up a computer model to measure the economic and social impacts of agriculture. Regarding issues of sanitation and control, USDA's Animal Plant Health Inspection Service (APHIS) is providing needed technical expertise. Mr. Badillo mentioned this cooperative effort had proved crucial to the eradication of foot and mouth disease in cattle in some states, as well as in the eradication of a certain fruit fly from the Paraguana Peninsula, enabling the export of melons grown on this peninsula to the United States. He also mentioned cooperative efforts in agricultural extension and marketing programs. Mr. Badillo concluded by saying that the Binational Commission also acts as a productive informal channel for working out disputes and concerns more efficiently, suggesting that it should be even more active in the future.

Chairman Combest stated the Codel's interests—to further cooperation and good relations between the two countries. He then raised some problems between the United States and Venezuela. Chairman Combest focused on the fact that health and food safety concerns are often raised as trade barriers in disguise. He pointed out as an example Venezuela's questionable import restrictions on U.S. poultry and stated it is for problems such as this that cooperation and communication between USDA and the MAC is so important. (According to the USDA, the United States meets conditions set by Venezuela and other Andean Pact countries for poultry because the United States is free of highly pathogenic Avian Influenza and Exotic Newcastle Disease.) He noted how such cooperation had benefited Venezuela in the fruit fly-free designation on the Paraguana Peninsula. Chairman Combest said he understands the political need to protect one's own producers, but that this goal should not compete with the goal of free and fair trade, which can be mutually beneficial for producers and consumers. Chairman Combest concluded in saying that he would like to return to Venezuela with a group from the House Agriculture Committee so as to focus on these issues more and to offer help in facilitating better cooperative work in the future.

Mr. Badillo responded by saying that Venezuela is one of the most open markets in South America and that it had generally been liberalizing its trade laws since 1989. He also pointed out that this is a difficult and sensitive reality from the farmers' perspective, to which Chairman Combest noted "farmers are the same everywhere." He said that while he and other government officials believed it in the farmers' best interests to advance multinational trade agreements, the farmers were very contrary and had actually staged several protests in recent years. However, he mentioned the last year had been almost conflict free, and the Chavez administration would be inheriting a relatively peaceful farming sector.

At this point, Vice Minister Badillo called upon his colleague, Rudolfo Marcano, head of Venezuela's equivalent to APHIS, to address health-related trade problems. Mr. Marcano stated that pest and health issues are of great importance for international trade. Although there are some very difficult challenges which sometimes are no more than simple questions of interpretation, Venezuela is working very hard to promote reasonable actions and response to these difficulties. He noted a great success in Venezuela's continuing to import U.S. wheat throughout the karnal bunt scare after the completion of a quick risk analysis. Regarding U.S. poultry, he noted that the nonpathogenic strain of Avian Influenza that U.S. flocks carry could become pathogenic and so it was still considered an unacceptable risk. He explained, "We know of the U.S. interest (in exporting poultry to Venezuela), but we have to protect our own people." He also noted that Venezuela is working closely with APHIS on this matter. Regarding Florida citrus, he noted that it is a very old and outdated law that prohibits Florida oranges from import. He mentioned that Venezuela is currently working to up-date the law and that he hoped this matter could come to a mutually beneficial end in the near future.

Luncheon Hosted by the Council of Venezuelan-U.S. Businessmen (CEVEU)

Participants: Gustavo Marturet, President, Banco Mercantil; Alejandro Reyes Sabal, Vice President, Venepal; Gustavo Vollmer Acedo, President, Corpalmar; Pedro Carmona, President, Quimica Venoco; Octavio Ázpúrua, Director, Corpbanca; Imelda Cisneros, Partner, Arthur D. Little; Hernando De Castro, Partner, De Castro, Degwitz, Lasry; Oscar Augusto Machado, Director, Sivensa; Luis Hinestrosa, President, Rualca; Rafael Strauss, President, Pequiven; Carlos H. Blohm, President, H. Blohm S.A.; José Rafael Bermúdez, Partner, D'Empaire, Reyna; Ana Teresa Wallis, Executive Director, CEVEU

Caracas, Venezuela; Friday, January 8, 1999

The luncheon began at 12:30 p.m. at the Caracas Country Club. It was hosted by Gustavo Marturet, Executive Director of CEVEU, which is a 10-year-old nonprofit organization whose purpose is to strengthen relations between Venezuela and the United States. The group was divided among four tables, each of which was hosted by a member of the Board of CEVEU.

Mr. Marturet delivered a welcome to the Delegation and addressed both U.S.-Venezuelan relations and domestic Venezuelan economic and political issues. He strongly emphasized his belief and that of CEVEU that the relationship between the United States and Venezuela is taken for granted by both countries. However, his main point was that the private sector in Venezuela (as represented by CEVEU) is important to the economy but small in comparison to the public sector and the many public sector industries. The private sector, though small, reflects needed diversification in the economy away from its petroleum base and enhances an open and democratic society.

CEVEU is committed to Venezuela being a part of the international community. As such, Mr. Maturet listed the main goals of their organization: (1) promotion of trade in general and particularly a preferential relationship with the United States; (2) completion and implementation of both the pending U.S.-Venezuelan bilateral investment treaty (BIT) and the pending U.S.-Venezuelan Tax Treaty; and (3) enhancing the role of the private sector in Venezuelan society.

U.S. Ambassador John Maisto reiterated the U.S. position in support for both treaties as well as the hope that they might be concluded and signed at an early date. In response to a comment by one of the CEVEU members that President-elect Chavez has promoted a law that guarantees the sanctity of foreign investments in Venezuela, the Ambassador pointed out that such a law did not take the place of the BIT.

A discussion followed, led primarily by Pedro Carmona, with regard to the domestic political environment in Venezuela, Mr. Carmona was a candidate for one of the state assemblies in voting that occurred in late 1998. He lost his election by 600 votes out of

26,000 cast. The President-elect has promoted the idea of a new constituent assembly to replace the current Congress. The CEVEU favors reform of the current Congress rather than the replacement favored by the President-elect. If the Congress is a vehicle for enacting changes in the Venezuelan Government, each of the 26 states must ratify those changes. President-elect Chavez says that ratification will not happen if the states must ratify all changes. The current constitution was written in 1961 by the two major political parties in closed door sessions. Venezuela has had 23 constitutions in its history, including 4 this century. Until 2 years ago, when changes were enacted, the President appointed every governmental official, including mayors and governors. The Congress did, however, appoint the Supreme Court.

In commenting on the initial appointment of the Chavez government, Mr. Carmona made the observation that most of the new Chavez team is only now discovering the world that exists beyond Venezuela, highlighting their almost exclusively domestic political focus. He said that the new President's Chief of Staff, in particular, was a surprise. President Chavez appointed a prominent newspaperman to this job, which is ministerial level. The new Chief of Staff was described as a cross between Larry King and John McLaughlin and someone who had not always agreed with Chavez in the past and certainly not during the campaign. Mr. Carmona said that the new President is tentatively reaching out to the business community but that community remains wary given the President-elect's ties to Cuba and the fact that he went to Cuba after his release from jail for leading an abortive coup against the government.

A discussion ensued with regard to business conditions in Venezuela. Oscar Machado, another CEVEU board member, commented that bank loans now carried a 49-percent interest rate. In addition, under Venezuelan law, 70 percent of bank deposits must stay in the Venezuelan Central Bank and that fact severely limits funds available for loans. In particular, he noted that there is no market for small business loans, which hampers promotion and expansion of the private sector. Again, with regard to the private sector, he strongly stressed the importance of continued preferences for Venezuela under the Generalized System of Preferences.

Meeting with Gerencial Maldonado, Minister of Industry and Commerce

Participants: Minister Maldonado and Dr. Astudillo, Director, Venezuelan Trademark Agency (SAPI)

Caracas, Venezuela; Friday, January 8, 1999

The delegation met with Industry and Commerce Minister Maldonado and Dr. Astudillo, the head of the Venezuelan Trademark Agency. The Minister began the meeting by noting that Venezuela is in a time of transition but the change would be peaceful. Although the incoming government has new plans, he expects continuity. The Minister then raised the bilateral investment treaty being negotiated between the United States and Venezuela. He said that the "fundamentals" are done, but there have been difficulties in concluding the agreement. He hopes that concluding the negotiation will be a point of continuity with the new government. The particular difficulties that he pointed to include Venezuelan requirements for technology transfer as a condition for foreign investment. In addition, Venezuela seeks certain exceptions that the United States disagrees with, including an exception for certain "economic integration schemes" to which Venezuela belongs (such as Andean Community members). The Minister also pointed to the issue of compensation for foreign firms in the event that their assets are destroyed by the Venezuelan armed forces during civil unrest, noting that this issue is less difficult to solve. It is in the national interest to conclude an agreement, and all parties must search for flexibility, he said. The "perfect should not be the enemy of the good," he concluded.

The Minister then turned to the issue of U.S. preference systems, such as the Generalized System of Preferences (GSP) and the Andean Trade Preferences Act (ATPA). The Minister noted that half of Venezuela's trade with the United States is through the GSP program. This is an important program, the Minister said, because it allows the development of nontraditional exports. GSP renewal should be "more stable," he said, because the current system creates uncertainty for exporters. As to the ATPA, Venezuela is the only country of the five Andean countries that does not receive preferences under this program. The other Andean countries, he said, support Venezuela's inclusion in the program. The program would be helpful, he said, because Venezuela, a transit country for drugs, must spend resources combating drugs. In addition, not receiving the preference creates disparities in the region as companies relocate in order to take advantage of the benefits.

The discussion next moved to the issue of fast track and the Free Trade Area of the Americas Agreement (FTAA). Congressman Shaw expressed the hope that fast track is concluded quickly, but he noted that it is controversial. Chairman Archer explained the constitutional reasons for the fast track process and noted that there is support in the Ways and Means Committee and in the full House under the right circumstances, but the President "put out no effort" last year and the bill failed. The "overwhelming majority" of Republicans favor free trade, he said, and he promised to "do everything possible" to get fast track passed, hopefully by March. In the meantime, he hopes to enter into bilateral agreements.

Chairman Archer then addressed the unresolved BIT negotiations. With respect to the carve-out for the Andean Community, the Chairman noted that Venezuela would probably object if the United States sought to carve out its own preferential relationships, thus illustrating that "preferences are not acceptable." Nevertheless, he said, he hopes to resolve the negotiations soon. With respect to the GSP program, he said there is strong support in the United States and that he wished the program could be made permanent. U.S. budget rules, however, "score" the bill as spending money. As a result, GSP extension competes with other groups seeking a tax reduction, and an extension only for a limited period of time is all that is possible. As to the ATPA, the Chairman said that he could not fully address the issue at the meeting. He noted, however, that the United States does not "get credit" for all that it does unilaterally in extending benefits without asking for anything in return. He promised further discussion on the issue.

The meeting turned to the issue of the trademark of Sysco, a Houston company that had its trademark stolen by a former Venezuelan distributor, Erasmo Morales de Paz. Sysco's attempts to recuperate its trademark have resulted in a long-running legal case. The Chairman thanked the Minister for his efforts concerning Sysco, noting that although it is only one case, it stands out to the United States and the world as an example of whether Venezuela protects intellectual property rights. Dr. Astudillo reviewed the current status of the case, explaining that SAPI had nullified the Venezuelan pirate's trademark in November, but Morales de Paz appealed the decision. As a result, SAPI cannot issue Sysco the exclusive use of the trademark. SAPI must now respond to the appeal, and he anticipates that SAPI will stand by its initial decision. However, that decision can then be appealed to the Ministry. If that appeal is rejected, then Morales de Paz can appeal directly to the Venezuelan Supreme Court, which could take 6 to 9 months. Dr. Astudillo noted that SAPI cannot grant Sysco exclusive use of its trademark until the entire appeals process is completed. He also noted that Sysco did not challenge the use of the trademark in the time required by law. The United States, however, has claimed that the patent was "well known."

Chairman Archer asked how quickly a decision could be rendered. Dr. Astudillo said that he hoped for a decision during February. Chairman Archer expressed concern that the current leadership in the Ministry could not commit the new government and asked for a decision before the new government took office. Dr. Astudillo responded that the current leadership can make clear that the Sysco trademark was well known, but a decision was not possible until the next Gazette is published in mid-February. The Ambassador expressed frustration with the appeals procedures, observing that the lengthy process gives the pirate more rights than the aggrieved party. The Minister and Dr. Astudillo replied that Supreme Court action would probably be rapid and that the court historically has respected Andean Decision 344, the statute that governs this case. They were optimistic that the case would be resolved quickly in a manner favorable to Sysco.

Meeting with President Caldera

Caracas, Venezuela; Friday, January 8, 1999

U.S. Ambassador Maisto opened the meeting by thanking President Caldera for taking the time to meet with the Codel. Chairman Archer then introduced each member of the Codel and explained that the purpose of the trip was to reaffirm the strong bonds of friendship between the United States and Venezuela. Chairman Archer also explained that the Ways and Means Committee was the oldest committee in the U.S. House of Representatives and that it was responsible for all tax, trade, social security, medicare, welfare, and customs legislation.

President Caldera welcomed the delegation and stated that he considered himself to be a longstanding friend and admirer of the United States. He expressed appreciation for the work of the Codel and the U.S. Congress in strengthening the bonds of friendship between Venezuela and the United States. He said that he understood the congressional perspective since he had been a member of the lower chamber in Venezuela and then a senator, in addition to serving twice as President.

President Caldera stated that as President, he has had his own difficulties persuading his powerful Finance Committee, whose jurisdiction was comparable to that of Ways and Means, to support government proposals. More generally, he stated that he was pleased to say that his government has been able to govern effectively over the last 5 years while holding only 20 percent of the parliament. Governing was not always easy, he said. However, President Caldera stated that the government, by engaging in a dialog has been able to make progress in key areas such as keeping peace with labor unions and advancing more productive labor-management relations, even modifying the social security law through a Tripartite Commission of labor, business, and government interests. One of his key accomplishments was to bring the banking system back to stability, where 5 years before more than 50 percent of the banks were insolvent.

Turning to the just-concluded presidential and congressional elections, President Caldera stated that his role was to ensure freedom and democracy, not to take a role or endorse a particular candidate. He stated that conversations to date between President-elect Chavez and the United States have been very positive and that U.S. Ambassador Maisto was playing an important and constructive role. He stated that he was optimistic for the future of his country and for continued strong Venezuelan-U.S. relations. In this context, he said that completion of the Free Trade Area of the Americas by 2005, as currently planned, would be an important step.

Dinner Hosted by Minister of Energy and Mines Erwin Arrieta

Participants: Minister Arrieta, PDVSA President Luis Giusti, Ambassador and Mrs. Maisto, American Embassy Officials, and more than 20 top officials of Petroleos de Venezuela S.A. (PDVSA)

Caracas, Venezuela; Friday, January 8, 1999

The dinner began at 7:30 p.m. at Hacienda La Estancia in Caracas. The Hacienda is a colonial era home in central Caracas owned by PDVSA. The Hacienda and its grounds are located adjacent to the former headquarters of the foreign oil companies which developed Venezuela's oil industry, prior to its nationalization. In addition to the Delegation, the guests included Ambassador and Mrs. Maisto, American Embassy officials, and more than 20 top officials of PDVSA. The dinner was hosted by Energy and Mines Minister Erwin Arrieta. The dinner was held outside on the Hacienda's patio. In addition to a large head table, the Delegation was divided among six additional tables, each hosted by a senior PDVSA executive. Following the dinner, a tour of the Hacienda was conducted by the Hacienda's staff.

The discussions at dinner were numerous and varied, although primarily concentrated on several points: (1) depressed world energy prices and its impact on Venezuela; (2) the continued need for new technologies (primarily U.S.) to enhance production; (3) increased opportunities for U.S. companies to participate in the Venezuelan oil industry in production, refining and chemicals; (4) the dependence of Venezuela on oil revenues; and (5) the impact of the new Chavez administration on oil policy and relations with the United States and U.S. energy companies.

President Giusti's time as the head of PDVSA has been highlighted by the opening of the Venezuelan oil industry to foreign investment, which has allowed many U.S. companies to bid on and receive interests in the development/redevelopment of many oil fields. The Venezuelan Government has allowed foreign investments in a number of older fields that need extensive new production technology to retain and expand production as well as several new exploratory areas.

President Giusti was at one time rumored to be considering entering the now completed Presidential race. It was widely assumed that President-elect Chavez would seek his replacement as PDVSA's President. However, before Chavez took any action, President Giusti announced that he would not remain as President of PDVSA. It was the feeling of most PDVSA officials at the dinner that, while Mr. Giusti is extremely well-regarded, overall policies at PDVSA will not change as the result of the executive turnover. In fact, most expect that his successor would be appointed from the top executive ranks at PDVSA.

Brief welcoming remarks were delivered by Minister Arrieta following dinner, and Chairman Archer responded on behalf of the Delegation. In addition to thanking PDVSA for hosting the dinner, Chairman Archer commented not only on the historic relationship between Venezuela and the United States in the energy field but also on the specific long-term relationship between his home city of Houston, Texas and Venezuela. Most of Venezuela's oil exports enter the United States through the Port of Houston, and, since Venezuela is one of the top suppliers of U.S. imported oil, he expressed the strong need for a vibrant and expanding U.S.-Venezuelan economic partnership.

CHILE

Country Team Briefing by Ambassador John O'Leary and U.S. Embassy Staff

Santiago, Chile; Monday, January 11, 1999

The meeting was opened at 9 a.m. at the U.S. Embassy by Ambassador John O'Leary. The Ambassador assumed his post in Chile in the summer of 1998.

Ambassador O'Leary's opening remarks for the briefing concentrated on three points: (1) the United States-Chile bilateral relationship; (2) the Pinochet case; and (3) the Crowe Committee Report on Embassy Security.

The Ambassador expressed that at no time have ties between the United States and Chile been stronger. It is a superb bilateral relationship that was solidified by President Frei's visit to the United

States in 1997 and President Clinton's visit to Chile in 1998. He outlined the highlights of that relationship occurring since he assumed his current post: (1) accompanying the Defense Minister to Washington, DC in September 1997; (2) the formation of a new Joint Consultative Commission on Defense issues; (3) formation of the second Joint Commission on Trade and Investment, which has the goal of defining where further progress on trade issues can be made; (4) the Consultative Commission on Agriculture, which has its second Ministerial meeting in Washington DC in September; (5) the signing of the bilateral agreement on labor issues; (6) the beginning of formal talks in Baltimore on January 25 on a Social Security agreement; (7) the inclusion of Santiago in the Department of Energy's Clean Cities program (In winter, Santiago is one of the most polluted cities in the world); and (8) cooperation with the Interior Department's public lands management team (30 percent of Chile is public lands).

With regard to the Pinochet case, the Ambassador believes that Chile appreciates the U.S. position. The United States, while taking no position on the case itself, has stated that it is a matter of extradition between the United Kingdom and Chile. The Ambassador commented that every democracy must reconcile demands for justice with the need for reconciliation and the United States is reviewing its documents with specific references to human rights abuses in Chile under Pinochet and will declassify where appropriate, although most records from 1963 to 1973 are already publicly available. The Ambassador reported that he has unfettered access to Chileans from across the political spectrum, and he believes that, even among the many individuals in the government now who were strongly opposed to the Pinochet government, most Chileans still oppose the proceedings against Pinochet in the United Kingdom by the Spanish Court.

With regard to Embassy security, the Ambassador reflected that the Embassy attacks in Africa were during his first week in Santiago. While 88 percent of State Department overseas facilities do not meet the minimum setback requirements set in 1985, the new Embassy facility in Chile does.

Congressman Jefferson raised the issue of the Chilean reaction to the failure to pass fast track legislation in the United States. The Ambassador stated that the United States has paid an economic price in missed opportunities since the Summit of the Americas in 1995 and that most Latin American nations will not negotiate seriously with the United States without fast track. The Chileans were disappointed by the House vote last fall but still want progress on trade liberalization. They are over their initial disappointment and are ready to move ahead. They have decided that the future of Chile lies in a larger world and would herald the passage of fast track.

Chairman Archer raised the issue of Mercosur and Chile's role. The Ambassador stated the Chile and Bolivia are associate members of Mercosur. Chile continues to talk with Mercosur about expanding its involvement and will explore options as they develop, but Chile is clearly more interested in the long-term with a more global trade opening.

Congressman Watkins raised the issue of current trade/WTO issues with Chile. The Ambassador responded that two issues were currently pending: (1) distilled spirits related to preferential treatment in Chile for the domestic pisco liquor versus U.S. imports; and (2) salmon, where there is talk that Chile may seek WTO dispute resolution over antidumping penalties levied by the United States since there is a feeling among Chileans that the U.S. antidumping regime is protectionist.

Chairman Archer raised the question as to whether Chileans feel that they are being singled out by the United States in trade disputes. The Ambassador replied that, in the popular press, that attitude is prevalent but not among educated Chileans. He cited examples and facts related to several trade cases: (1) the mushroom case is actually against a 100-percent U.S.-owned subsidiary in Chile; (2) in the tempered wood products case, Chile is only one of many countries involved; and (3) Chile is defending the U.S. position on environmental impact statements. The Ambassador added that two issues of current bilateral interest to the United States in Chile were intellectual property rights on pharmaceuticals and the need for lower tariffs on U.S. luxury automobiles.

Congressman Shaw spoke with regard to the dangerous precedents that could grow out of the Pinochet case, and the Ambassador agreed that the unprecedented case could present risk to the United States in the future.

The briefing was then turned over to the Acting Chief of Mission (ACM), who briefed the Delegation on the political situation. The current Government of Chile is a center left coalition, and elections are scheduled for December 1999. The leader of the Socialists (Lagos) was considered the frontrunner until the Pinochet case but the situation has now changed. He believes that there is a lack of other dynamic candidates within the government coalition. Among the opposition, the two leading candidates were not “clicking” with the electorate, and one dropped out on Friday.

In response to a question from Chairman Archer about what issues divide the major opposing political coalitions, the ACM pointed to three primary issues: (1) the size and role of government; (2) appropriate the tax base; and (3) the role of the private sector versus maintaining the social safety net. He added that there were three areas of broad agreement politically: (1) public safety; (2) public education; and (3) infrastructure. He also added that drug policy was not a divisive issue. In response to Congressman Shaw’s question about controlling the export of precursor chemicals for drug production, the ACM replied that, while the Chileans were aware of it, there had not been a lot of progress in that area. Chairman Combest asked if the Chileans follow up on intelligence information that is shared with them by the United States with regard to precursor chemicals. The ACM said that there was not much intelligence information to follow up on. Some precursors originate in the United States, and Brazil is a primary source for Bolivian drug production while Chile is a secondary source.

Congressman Dickey asked the foreign service careerists on the Embassy staff to describe their goals. The ACM replied that his goal was to see Washington decisionmaking become more based on the facts they gather and trying to improve receptivity overseas to U.S. ideas and products. Congressman Watkins commented on the positive work that the Embassy was playing in improving U.S. exports to Chile.

The Economic Counselor then made a slide presentation on Chile, noting Chile had 8-percent annualized growth in this decade and that while growth was down, it would continue. He cited the primary reason for Chile's growth as the focus on exports, which now constitute 20 percent of GDP, including services. In addition, 50 percent of Chile's economy is somehow connected to exports. Chile sees North America and the Europe as providing the greatest opportunities for growth, and currently the United States has a $2 billion trade surplus with Chile. Chile has free trade agreements (FTAs) with every country in the hemisphere, except Central America and the United States. While the growth rate in U.S. exports to Chile has been declining since 1995, Canada's exports are up 50 percent in the first full year (1997) of its FTA with Chile. According to the Economic Counselor, U.S. competitors are growing faster than U.S. companies in Chile, and he cited the recent telephone contract awarded to a Canadian company over a U.S. company as a big part of the growth in Canada's exports to Chile.

Don Carlson asked about specific cases of lost U.S. sales in Chile. The Economic Counselor said such information was difficult to quantify and cited cases in which McDonald's is now sourcing french fry machines from Mexico and another company is sourcing Caterpillar equipment from Caterpillar's Brazilian subsidiary.

The Commercial Attaché explained the role which he and his staff play in assisting U.S. business in Chile. He cited: (1) the opening in Chile of Home Depot's first international location, where company officials saw more traffic in the first 2 weeks that any other store opening; (2) the $350,000 sale of trout eggs from Washington State; (3) Motorola's success in winning a police communications contract over a French bid; (4) 1,596 counseling sessions last year for American businesses; (5) helping U.S. businesses collect bills owed by Chileans; and (6) a commitment to concentrate on helping small U.S. businesses which have a greater need for Embassy services. He described several characteristics of the Chilean market that impact on U.S. sales: (1) young but aging population; (2) generally well-educated consumers; (3) poverty levels that have decreased from 45 percent in 1987 to 23 percent in 1996; and (4) a concentration 40 percent of the population in Santiago. He also cited the fact that there are more ADRs (stocks) from Chile traded on the New York Stock Exchange (26 issues) than there are Mexican ADRs.

The Agriculture Attaché cited the United States as a growing market for Chilean products, noting that 1999 will see some substantial growth in U.S. agricultural exports, particularly feed given the drought in Chile. Areas of big growth for Chile in the United States include seafood, seeds, wine, and forest products. He also cited case studies that point out particular problems for the United States in the Chilean market: (1) U.S. potato exports, which are down 27 percent despite 7-percent market growth; (2) pet food, where the United States is up only 20 percent versus 469 percent for Argentina and 338 percent for Canada and where Ralston Purina is now producing its products in Argentina for Chile; and (3) beer, where the United States is down 30 percent versus 16-percent market growth and where Budweiser is now produced in Argentina for the Chilean market. He further cited the impact of duties and Mercosur in these and other similar cases.

The Defense Attaché cited recent developments in military sales to Chile. The Chilean Air Force is now considering the replacement of 30-year-old A–37 fighters with the choice of: (1) the F16 or F18A from the United States; (2) the Mirage from France; or (3) the Grippen from Sweden. The initial sale will be in the range of $600 million for 20 planes, with a potential total of 60 planes.

Congressman English raised the issues of the labor and environmental regimes as they exist today in Chile. The Embassy staff replied that the recent Chile-Canada FTA contained a side letter to the agreement to maintain the maximum parallel to similar side provisions in NAFTA. The level of environmental protection in Chile was cited as similar to that of the United States. It was described as "not bad" overall but not at current U.S. levels. With regard to labor, no industrywide unions/negotiations are allowed under Chilean law. The labor regime was described as fundamentally satisfactory with labor unions not being a significant force.

Meeting with Chile Minister of Agriculture Carlos Mladnic

Santiago, Chile; Monday, January 11, 1999

Chairman Archer expressed thanks for arranging the meeting and yielded to Chairman Combest for his comments.

Chairman Combest also expressed his gratitude, commented that he sees Chile as very similar to the United States in terms of its advanced agricultural industry and focus on free trade, and stated that the United States regards Chile as a leader among South American countries. He congratulated the Minister for his agency's good and progressive bilateral work with the USDA on agricultural issues and offered the services of the House Agriculture Committee to foster these cooperative relationships in the future. Last, he mentioned that some of the difficult issues involved in the international trade of agricultural goods should be addressed in such a cooperative way. Specifically, food safety and phytosanitary problems should be addressed for the common benefit, with the common goals of ensuring a safe food supply and a viable domestic agricultural industry.

Minister Mladnic began his remarks by giving a brief summary of Chilean trade policy. He explained that agriculture is generally treated the same as other industries, with the exceptions of special price bands for sugar and wheat, which are in place to protect the domestic industry from an erratic and "improperly influenced" world market. He was proud of the fact that Chile has negotiated many regional trade agreements and was considering more, and that it has achieved an overall average tariff of 7 percent. He explained that Chile had begun its work to reduce tariffs in the 1970s, when its own tariffs were as much as 100 percent. "Now," he said, "everyone in the South American region seems to be oriented toward reducing tariffs." Chile was hurt last year by the change in export markets (30 percent of Chile's exports go to Asia), but remained true to its free trade beliefs, which he characterized as seeing, "tariffs as a tax on exporters rather than importers." He described Mercosur as a natural and important political and economic relationship. For several years in the early 1990s, he explained, Chile put off other nations while holding out for a free trade agreement with the United States. However, after 1994, after seeing no promising signs from the United States about working toward an agreement, Chile "quit holding out." "For the last 5 years," Minister Mladnic explained, "the world has seen the United States only *talking* about free trade." As a contrast, during this time, the Latin American region has been progressing. He stated the signs from the United States are confusing and asked the delegates to describe the U.S. position on fast track and the FTAA.

Chairman Combest responded that "it is confusing for us as well" and explained the difficult politics behind the fast track issue particularly. He stated that the delegation will be working to convince a majority of their colleagues in the U.S. Congress of the necessity of fast track and that he trusted a vote would be taken on the issue within the first 4 months of the 106th Congress. Chairman Combest also expressed hope that discussions on striking a free trade agreement with Chile could take place even in the absence of fast track.

Minister Mladnic said that he understood the political difficulties of a free trade philosophy, but he explained that in South American countries, even the farmers see free trade as an opportunity rather than a liability. He went on to say that there are those in Chile who would leave the United Sates behind and concentrate on Mercosur instead. He said he personally believed that the FTAA represented the best interests of Chile for the future, but he was frustrated by the lack of leadership by the United States.

Congressman Watkins asked the Minister if he knew of any particular losses caused by the lack of an agreement; Minister Mladnic responded that Chile loses U.S. markets to Canada and Mexico, while the United States loses Chilean markets to others with whom Chile has agreements. The people in both countries lose, he said, because they are not getting the best possible product at the lowest possible price. The Minister's aide made a particular point about the irony that while the United States has talked of "extending NAFTA to Chile," Chile has struck trade agreements with Mexico and Canada, thus accomplishing its own NAFTA without the United States.

The conversation then shifted to environmental and labor policies as they relate to trade. Minister Mladnic pointed to Chile's relatively high standards. Even so, he said, these politics should not burden trade agreements. Chile might be willing to address the issues in side agreements, as they did with Canada, but the WTO is the more appropriate place to discuss these issues, he concluded.

Congressman Shaw generally agreed with this assessment and explained that the fast track legislation which had been agreed upon by the Clinton administration and considered in the last Congress did not contain such labor and environmental standards.

Chairman Archer affirmed that he would try to pass fast track early this year. He explained the reasons for its failure last year, attributing the loss to the powerful lobbying of organized labor and

President Clinton's lack of leadership on the issue. With that, he called upon Congressman Jefferson to give some further insight from the Democratic perspective.

Congressman Jefferson stated the last vote was "tainted by the election," and now that a new Congress has begun, the United States can pass fast track. He said the President, regardless of his ongoing personal problems, will continue to go about his business and will provide necessary leadership on this issue. Regarding labor and environmental issues, he requested that the Chileans "be willing to be flexible" and allow these issues to be addressed in the body of a free trade agreement. He said such willingness would help many Democrats in Congress as fast track is debated in the future.

As time was running short, Chairman Archer again thanked the Minister, who ended the meeting by again making a plea for the United States to clarify its trade policy and stating his hope that an agreement could be struck in the near future.

Meeting with Minister of Finance, Eduardo Aninat, Santiago, Chile

Santiago, Chile; Monday, January 11, 1999

The delegation met with Chile's Minister of Finance, Eduardo Aninat. Minister Aninat began the meeting by congratulating the United States on the surprise turnaround of the fiscal deficit. He noted that Chile has had 12 years of continuous surplus.

The discussion then turned to trade issues. Chairman Archer asked about Chile's plans with respect to Mercosur, the Southern Common Market. Brazil, Argentina, Paraguay and Uruguay are members, and Chile and Bolivia are associate members. The Minister replied that Chile follows the core principles of free trade and openness but without being tied in to any one bloc because all blocs should eventually converge. Accordingly, Chile is an active participant in Mercosur, the Asia-Pacific Economic Cooperation Forum (APEC), 26 bilateral agreements, and a host of bilateral investment treaties (BITs). In addition, Chile has unilaterally reduced its tariff by 1 percentage point per year, beginning in 1999, to reach 6 percent in 2005. The United States, he noted, is the only major country in the western hemisphere that does not have a trade agreement with Chile.

Chairman Archer stated that he intends to move fast track as a priority item but the votes in the House are uncertain. He noted his intent to bring the bill to the House floor in March or April, and he said that he hopes for the help of the administration to get it passed. Once the administration is committed to "go all out," he added, the bill could go through the Committee quickly. There is only a narrow window of opportunity, he said, because the fall, the eve of the election, would be a more difficult time. If the bill passes the House, it would then be much easier to achieve passage in the Senate. Chairman Combest described the background of the consideration of the fast track bill, mentioning that the bill was ready in November 1997 but that fast track supporters were short by a "handful" of votes. The business and agriculture communities, he said, are strongly supportive. Characterizing his outlook as "optimistic," he expressed his hope that coordination with the administration will be better this year. Congressman Shaw added that the "unqualified support" of the President is necessary to the success of fast track. Congressman Jefferson also noted that he "fully supports" fast track.

Congressman Jefferson then asked the Minister whether he views having fast track as a requirement for concluding a free trade agreement between the United States and Chile. The Minister replied that the issue is a political one. Having fast track is one "key input," he said. Chile "won't not consider" negotiations without fast track, he added, but negotiating without fast track could produce "lots of side noise" in the Chile-United States relationship. There would be considerable lobbying on a variety of issues which, at the end, could "menace the incentive to produce" an agreement. The worst scenario, he said, would be a "stalemate," so proceeding without fast track would be only the third or fourth best approach. The agenda for the negotiation is "straightforward" and not complex, and Chile has signed side agreements on labor and environment with Canada which are similar to the NAFTA side agreements.

Congressman English then followed up on the issue of the side agreements, saying that he had heard that Chile opposes putting labor and environmental issues in the agreement itself and prefers side agreements instead. Minister Aninat said that Chile is more prepared with its own standards than Mexico was, that Chile has a higher percentage of collective bargaining agreements than the United States, and that Chile has a strong environmental law. Chile does not have "complexes" on these issues, and it does not matter whether labor and environmental issues are included in the text of the agreement or in the side agreements as long as Chile is held only to its existing standards, he said. Chile, the Minister added, would "oppose having higher standards placed on us, a small developing country." Chile is not in a position to push up wages while opening trade at the same time. The Canadian Parliament, he noted, did not object to an agreement in which Chile does no more than maintain its existing standards. Enforcement, he stated, is very important, and Chile is among the few countries that enforces its standards. The United States "cannot be threatened by Chile's size," he said, because Chile has high standards and represents an "easy case."

Chairman Archer stated his agreement with the Minister. It is not appropriate, he said, to authorize negotiating authority to "beat up" on small developing countries by forcing them to establish standards beyond their reach. Rather, higher standards come with the development that is created by trade. Chile is a "magnificent example" that every country which opens its borders increases its standard of living. Yet, protectionism keeps its allure, he noted. Protectionism, he concluded, "never dies but only slumbers." Minister Aninat noted his concern that there may be a temptation in Asia to enact protectionist measures as a response to the financial crisis. Such actions, he said, would be "horrible." Because of the danger of returning to protectionism, U.S. leadership is critical and urgently needed. He pointed to APEC as such an example, and there may be fallback in other areas as well.

Chairman Archer then told the Minister that concluding a tax treaty between the United States and Chile would be a positive development. The Minister replied that there have been preliminary discussions on this issue. In 1998, Chile passed a framework allowing for the negotiation of tax treaties similar to the model of the Organization for Economic Cooperation and Development (OECD). Negotiations have been completed with Canada and Mexico, but the agreements have not been passed yet by the Chilean Congress. Chile has a tax treaty with Argentina, but it is not very thorough. Minister Aninat pointed to the 1999 Chilean elections, stating that there is only a small window to negotiate such a treaty with the United States. Furthermore, Chile has been balancing negotiations between developed and developing partners. Chile will negotiate two or three tax treaties this year, and the agenda is too full to add another negotiation, such as one with the United States. There are not many Chilean multinational corporations in the United States, while there are many in Latin America, he noted. Negotiating resources, in addition, are limited. He concluded that a tax treaty negotiation with the United States would be appropriate in the longer term, but not this year.

Congressman English then inquired about the Chilean import ban on used autos. He asked whether Chile would be amenable to modifying the ban because used autos are such a natural export from the United States. Minister Aninat promised to study the issue. He noted that Chile has consistently lowered tariffs on autos, and Chile imports many U.S. cars and car parts. Hardly any cars are produced Chile, he noted. Chile, however, has a "terrible congestion problem," and Chileans perceive that the number of cars per capita is already high. As a result, removing the ban is probably not a high priority.

Chairman Archer then asked the Minister whether he would have the responsibility for negotiating an agreement with the United States should there be an opportunity. The Minister replied that before 1995, he would have been the negotiator. However, because "nothing happened," he lost credibility. Therefore, Aninat said, Minister Insulza (the Foreign Minister) would "set up" the negotiations in the future, but the Finance Ministry would engage in the practical negotiations. He concluded by saying that if the United States has fast track, then the negations could begin in late May and be concluded in approximately 4 months.

Conference on Women's Political Participation at the End of the Century

Panel Participants: Senator Cristina Muñoz of Paraguay, Representative Rosario Machese of Canada, Deputy Ligia Castro of Costa Rica, Ms. Maria José Lubertino of Argentina, and Ms. Helena Reutersward of the Swedish Embassy in Santiago

Valparaiso, Chile; Monday, January 11, 1999

On January 11, Congresswoman Thurman addressed the Conference on Women's Political Participation at the End of the Century in Valparaiso, Chile. The conference was organized by the Congressional Family Commission and the National Women's Service. The purpose of the conference was to commemorate 50 years since Chilean women won the right to vote and to be elected as citizen's representatives in Chile's Congress as well as to explore the experience of women in Chilean politics and compare it to the experience of women in the political systems of other countries in the Western Hemisphere and elsewhere.

Congresswoman Thurman participated in a panel of women legislators and political commentators from different countries, primarily in the Western Hemisphere. The other speakers were: Senator Cristina Muñoz of Paraguay, Representative Rosario Machese of Canada, Deputy Ligia Castro of Costa Rica, Ms. Maria José Lubertino of Argentina, and Ms. Helena Reutersward of the Swedish Embassy in Santiago.

Maria José Lubertino of Argentina opened the panel by recalling that 1987 marked the 50th anniversary of women obtaining the vote in Argentina. She noted that the decision to grant women the right to vote in 1937 was supported by a majority of all the major parties in Argentina at the time.

Ms. Lubertino stated that she would focus her remarks on the period 1985 to 1999, following the restoration of democracy to Argentina. She stated that during this time, supporters of women's rights were able to develop strategies that crossed party lines and got more women involved both inside the Parliament and outside it. As a result of this mobilization, they were able to achieve passage of an important women's rights law in 1988, although it took 5 years to develop enforcement.

In 1994, Ms. Lubertino continued, 30 percent of Argentina's Constituent Assembly were women. Elections in 2001 are likely to provide additional opportunities for women candidates. Issues that many women have supported have included cleaning up government and providing greater transparency in government. In addition, women bring a different *approach* to issues of governance than men. Without the full participation of women in the voting and governing process, democracies lose 50 percent of their potential.

Senator Cristina Muñoz of Paraguay followed next, explaining that the key challenge for the first election where women could run for office in Paraguay was to have women run for *local* offices. In this regard, Senator Muñoz remarked that decentralization of power assisted in promoting changes in the power structure.

In the early 1990s, Paraguay established a Commission for women and passed a landmark law that ensured equal rights, prohibited discrimination against women, guaranteed that protective measures for women would not be considered inconsistent with the Constitution and established a 20-percent quota for women to hold elected office. Senator Muñoz commented that she believed that these quotas were necessary to ensure that women could get sufficient financing for political campaigns. In addition, in the 1998 Presidential election in Paraguay, four women's groups organized and sponsored debates among the candidates.

Finally, Senator Muñoz observed that studies demonstrate a clear correlation between alleviating discrimination against women and promoting economic development of societies. She noted, for example, a correlation between domestic violence against women and lower productivity rates in the workplace.

The third speaker was Deputy Ligia Castro of Costa Rica. Deputy Castro noted that 11 out of 57 Parliamentarians in Costa Rica are women, that the Vice President of Costa Rica is also a woman, and that approximately 40 percent of the elected office holders of her political party, the Christian Democrats, are women. She noted further that women are required by law to be represented in local assemblies, but that more women in Costa Rica than Argentina or Paraguay have been. At the same time, Costa Rica has not yet passed laws that protected women against discrimination and domestic violence.

Representative Rosario Machese of Canada spoke next, commenting that Canada has removed a number of the barriers that had kept women from participating fully in the political system, but that there are still some areas for progress. He noted that women obtained the right to vote in Canada in the 1920s, and that the first woman in Canada's Parliament was elected in 1929. Representative Machese expressed the view that international treaties and conferences have helped to advance the cause of women's rights in various countries, noting the importance of all forms of public education in advancing women's rights.

Helena Reutersward of the Swedish Embassy in Santiago was the fifth speaker, noting that women were accorded the right to vote in Sweden in 1921. She further remarked that the first five women Parliamentarians were elected the following year, and that in 1983, women won the right to serve in Sweden's armed forces.

In 1992 and 1994, Ms. Reutersward noted, Sweden passed equal rights laws. These laws promoted women's rights by advancing the principle of equal rights and responsibilities for women and men, including opportunities in the workplace, shared responsibilities in the home, and freedom from domestic violence. She commented that even these important legal advances have not equalized the distribution in power in government or families. Nonetheless, legal targets requiring the equal participation of women in all councils of government by 1998 have been met. However, women occupied only 43 percent of the senior positions of authority in government, and only 20 percent of senior positions in the business sector.

Congresswoman Thurman opened by stating that the victory being acknowledged at the conference, women's suffrage in Chile 50 years ago, has had implications for every aspect of life: in the home, on the job, in communities, and in government. She added that the women who achieved the right to vote in Chile irrevocably transformed the country of Chile and the world because the effect of women's increased presence in the political process can be seen on all levels—economic, political, social, and legal.

Congresswoman Thurman commented that Chile could be proud of the legacy of the women's rights movement, a legacy that includes a record number of women in the Chilean Parliament. That is true in the 106th Congress of the United States as well, where a record 58 women are serving in the U.S. House of Representatives and there are 9 women senators. Apart from numbers, Chile and the United States share many other similarities in the fight of women to win suffrage and other political gains. Women's movements, both in Chile and in the United States, emerged at a time when women were fighting for equality in education, employment, government, and basic human rights.

Congresswoman Thurman commented that these gains are reflected in the campaigns of Chilean women today for peace, defense of the family, and human rights. For example, creation of the National Women's Service has struck a blow for reducing poverty, particularly for women, eliminating all forms of violence against women, and reducing the pay gap between men and women.

On these points and others, Congresswoman Thurman stated that she honored Chilean women not as members of a women's movement, but as "women in movement." She noted that recently, the United States celebrated the 75th anniversary of women's suffrage, but that event took place 150 years after the signing of the U.S. Declaration of Independence. It took years of organized struggle on the part of many courageous women and men, and there was much work left to be done.

In that regard, Congresswoman Thurman stated that she has learned from the American suffrage movement and her service in the U.S. House of Representatives that the best way to get things done politically on issues of importance to women is by coming together, regardless of party identity. An example of such an effort is the Congressional Caucus for Women's Issues, which recently celebrated its 20th anniversary. In the Caucus, which is comprised of women Members of the House of Representatives, legislators put their partisan differences aside to advance issues of particular importance to American women and families, such as education, health care, teen pregnancy, domestic violence, retirement security, and economic equity.

Further, as the number of Congresswomen has grown, so too has their influence, as they move up the ranks of leadership in both the Democratic and Republican parties. For example, in 1990, when the Caucus launched an investigation into the exclusion of women from clinical trials by the National Institutes of Health, there were no women Members on the Appropriations Subcommittee that oversees NIH's funding. In the past Congress, there were four women on that subcommittee. Similarly, there are now three women on the influential Ways and Means Committee, which is responsible for nearly two-thirds of the federal budget. In fact, women serve on every committee in the House, and they are making a difference, she said.

In addition to championing specific legislative goals, the Caucus has also served as an inspiration and a model for women parliamentarians the world over. In fact, what many governments are learning is that if women are full and equal partners in society, their countries will flourish.

In closing, Congresswoman Thurman borrowed a comment from U.S. Supreme Court Justice Ruth Bader Ginsburg, who is only the second female to be appointed to the Supreme Court and known by many as "the legal architect of the modern women's movement." Upon learning the history of women's rights movements, Justice Ginsburg stated, "I think about how much we owe to the women who went before us—legions of women, some known but many unknown. I applaud the bravery and resilience of those who helped all of us—you and me—to be here today."

Following Congresswoman Thurman's remarks, the panel session was closed by two Chilean legislators, who offered their observations on the panel's comments. The first, Antonella Sciaraffia, a Member of Chile's House of Deputies, stated that equality of participation was important because it would ensure that women's perspective on issues would be reflected in legislative proposals and debate. In addition, the qualities that women bring to decisionmaking would be fully reflected. She stated that, while she understood the desire of some speakers to use quotas to advance the participation of women in the political process, she believed participation by women should continue to grow based on merit.

The second commentator, Adriana Muñoz, observed that there were only 19 women in Chile's Parliament and that if the growth of women's presence in the Parliament grew apace, it would take 500 years to reach equality with men. Due to cultural resistance in Chile to fuller participation by women in the electoral process, quotas are necessary as a tool. Participation by women would tend to humanize the political agenda, bringing a human element to issues like the budget, she concluded.

Breakfast Meeting with AMCHAM Representatives

Participants: AMCHAM President Alex Fernandez and approximately 25 business executives

Santiago, Chile; Tuesday, January 12, 1999

The group of approximately 25 business executives was led by current AMCHAM President Alex Fernandez. He began the breakfast by introducing all present AMCHAM members and staff. AMCHAM represents 525 companies doing business in Chile, which collectively account for approximately 18 percent of the Chilean GNP. Of the companies represented, 25 percent are U.S. companies, 25 percent are Chilean, and 50 percent are joint ventures between United States and Chilean businesses.

AMCHAM's chief mission is to foster trade between the United States and Chile. Second, it seeks to foster U.S. investment in Chile (the United States is the top foreign investor in Chile). Third, it provides consultative help to its members on complicated international business matters and matters of global political interest such as labor and the environment. AMCHAM also publishes a monthly business journal, which is the only Chilean publication in English.

Mr. Fernandez made the statement that it was 7 years since then-President George Bush gave Chile what it considered to be a strong signal that it would be the fourth partner of NAFTA. Now, U.S. companies are losing business in Chile because the United States has not followed through. He cited the fact that U.S. companies such as Burger King no longer buy U.S.-grown and processed french-fried potatoes, which are assessed Chile's standard 10 perent duty, but rather purchase Canadian potatoes which have tariff-free access. He also noted that the United States is not only losing out on product exports, but service exports as well, citing a Canadian engineering firm that recently won a large project bid in

Chile. Mr. Fernandez summed up by saying that “for U.S. business' sake, the United States needs fast track and the United States and Chile need a bilateral trade treaty.” One AMCHAM participant reiterated this point, saying the current duty on U.S. goods simply “makes them uncompetitive.”

Chairman Archer responded by explaining the political outlook for fast track, promising to do everything possible to pass fast track early on in the 106th Congress. Chairman Combest added that the business community must help in the effort to pass fast track by energizing the grass roots, particularly its own employees, who directly benefit from free trade. Mr. Fernandez agreed that the business community can and should do a better job. As another example of how the current situation was hurting U.S. workers, he cited Caterpillar, a U.S. company based in Peoria, Illinois, which now has a plant in Brazil. He stated that Chileans would have a natural preference for Caterpillar's U.S.-made tractors, but the 10-percent price advantage on the Brazil-made tractor will win out every time. Congressman Shaw reiterated the point that, because of the political dynamics of the fast track issue, Members of Congress must hear from their constituents rather than just the business executives, and noted that Chairman Archer's commitment to work toward passage of fast track in the early part of 1999 should energize the business community to energize its grass roots network now.

Congressman Dickey asked why Chile would be so concerned about striking a bilateral free trade agreement with the United States when it already has access to the U.S. market. In response, Mr. Fernandez explained that Chile believes in free trade as a worthy global idea. From a domestic view, he noted that competitive imports make Chilean businesses more competitive and ultimately benefit the consumer.

A General Electric executive in the group rose to note that GE depends upon exporting its products from the United States; in 1997, the company exported approximately 11 billion dollars' worth of products. Due to the fact that export markets are growing more than twice as fast as the U.S. market, the importance of free trade agreements for the United States will only increase. He also noted that GE had lost about 1 billion dollars' worth of business in Chile to Siemens due to the 10-percent tariff advantage. In response, Congressman Watkins again noted that the United States has “some serious educating to do” on the importance of free trade to everyday Oklahomans and the like. He noted that “96 percent of the world's markets live outside the United States; do we want to be a part of the global market or forfeit it?”

Congresswoman Thurman gave the Democratic perspective on the fast track and free trade issues, noting that organized labor is not the only opposition and that environmental issues are very important as well. She also noted, from a Florida perspective, that there are significant agricultural interests that must be addressed. She insisted that labor and environmental issues could not be separated from trade and that other problems such as nontariff trade barriers and the lack of enforcement of trade agreements present difficult political realities that must be handled.

At this point, one participant asked about the prospect of passing a special targeted fast track for Chile. Chairman Archer responded that he would not want to set such a precedent by which a separate fast track would have to be passed for every agreement. He noted that the United States has a great product to sell in free trade because it historically benefits all while protectionism "cannibalizes." Free traders must sell this concept by becoming energized, by being honest in recognizing that with free trade there will be job displacements and change, and by being prepared to cite examples and explain specifics. With that, he thanked members of AMCHAM on behalf of the Codel, and the meeting was concluded.

Attachment E contains "Missing Business Opportunities," a report prepared by AMCHAM Chile which notes U.S. losses attributable to the lack of bilateral trade agreement.

Meeting with Dr. José Piñera, Designer of the Chilean Pension System

Santiago, Chile; Tuesday, January 12, 1999

The delegation met with Dr. Piñera, who is President of the International Center for Pension Reform and Cochairman of the CATO Institute's Project on Social Security Privatization. In addition, Dr. Piñera served as Minister of Labor and Social Security in Chile from 1978 to 1980. At the suggestion of Chairman Archer, Dr. Piñera spoke in detail about the creation of Chile's private social security system, of which he was the primary architect during his tenure as Labor/Social Security Minister. A summary of his remarks is as follows:

> Chile adopted a Social Security system, similar to that of the United States, in 1925. It was a pay-as-you-go system (PAY–GO), the idea for which had started much earlier in Prussia under Otto van Bismark. It provided for an age 65 retirement, while live expectancy was only 48. It is a prime example of the law of unintended consequences and was imitated all over the statist nations of Europe.
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> According to Dr. Piñera, a pay-as-you-go system is basically flawed. In the United States, there were 40 workers for every single retiree at the beginning, and the system was in demographic balance. Two factors, however, changed its future: (1) decline in fertility rates; and (2) extension of life. A PAY–GO system is structurally flawed and doomed. You can prolong the agony of the current system by raising taxes (which is unfair) or cutting benefits (because Bismark was wrong) or increasing national debt.
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> Dr. Piñera became Minister of Labor and Social Security at age 30, motivated by a concern about the poor and particularly the poverty of the elderly. He concluded that the system was wrong and came to the simple idea (but a powerful one) that all workers should invest in an individual retirement arrangement (IRA) during their working lives. The key element of an IRA is compounding where the growth is exponential, not linear. In the United States, 60 percent of the population does not have the access or the money to save. In Chile, the revolution in retirement plan-

ning allows people to divert social security payments from the government to a system of private accounts in a conservative and diversified portfolio of bonds and stocks (with property rights guaranteed by the Chilean Constitution). Dr. Piñera believes in the market but I am not naive. I firmly believe that prudent rules are needed.

Giving people the power and control is at the center of this new system in Chile. Every worker in Chile owns wealth and is a capitalist. The Communists claim that "Piñera has destroyed the revolutionary fervor of the workers." The hidden secret of PAY–GO is that it discriminates against the poor (that is, lower income workers) and minorities, who start work earlier and who die earlier.

The United States should start with at least 5 or 6 percent of FICA taxes diverted to private accounts in conservative portfolios. The current year is the best test of the system in Chile. Pension funds are down 1 percent during the worst year since the system was created due to the Asian crisis. This, however, compares to a 25-percent decline in the Chilean stock market and proves the point that diversification is the key. In Chile, the Congress has determined that no more than 20 to 40 percent of any account may be in stocks. The Central Bank sets the exact percentages within these boundaries. The system is managed by the private sector through a board, the Superintendents of Pension Funds. The rationale for the new system, 19 years ago, was based on a 4 percent return. The real rate of return for 17 years has been 11 percent per year above inflation, even with the 1 percent decline in 1998.

Transition is a major issue to be dealt with in the implementation of any new retirement system. Piñera proposed are three basic rules:

(1) "Do not steal your grandmother's check." You must guarantee benefits to the elderly and make it clear (with no ambiguity) that the elderly will not be harmed. In reality, there is no guarantee in the United States today. The Supreme Court's decision in 1960 in the case of *Fleming* v. *Nestor* held that there are no property rights to Social Security benefits. It further held that Social Security is not an insurance system and taxes are not premiums and the government needs to be able to adjust to changing conditions.

(2) Every worker must have the option to stay in the current government system or to opt out. In Chile, there was no age limit on opting out, and 93 percent of Chileans opted out.

(3) New entrants into the labor system must go into the new system. This is essential to closing the door to unlimited unfunded liabilities in the future. In Chile, in 10 or 15 years, the last person to opt out of the new system will reach retirement and, with everyone else under PAY–GO, then government will see a decline in expenditures.

In closing, Dr. Piñera proposed eliminating income taxes in Chile and using a VAT, once the decline in the old retirement system's expenditures begins. Doing so will increase and create wealth and will restore privacy, the emerging threat of the 21st century. He believed that in the United States, new budget surpluses should not be used to prolong the agony of the current system but to begin the movement to a new system of private individual accounts.

Meeting with José Miguel Insulza, Foreign Relations Minister

Santiago, Chile; Tuesday, January 12, 1999

The delegation next met with Foreign Minister Insulza. Chairman Archer began the meeting by stating that fast track is a top priority and that he intends to begin work immediately so that it can be passed by April at the latest. Minister Insulza mentioned that he is negotiating a trade pact with Bolivia. In addition, Chile is working on a trade agreement with Europe, although it was "not easy." Chile is also active in APEC and Mercosur, as well as with the Andean countries. With respect to Mercosur, the Minister said that Chile is interested in further negotiations with Mercosur for strategic reasons, and negotiations have sped up after the failure of fast track. U.S. leadership, he noted, is important, and only the United States can keep trade negotiations worldwide moving forward. Chile is in an awkward position, he added, because the United States is its largest trading partner, but Chile has an agreement with every major economy in the Western Hemisphere except for the United States. Latin America is a growing market for the United States. It is becoming as big a market for goods as Europe, and it is already larger than China and Japan. In fact, he said, Brazil buys more U.S. products than China.

Chile is "very flexible," he said, about the form of an agreement with the United States. There have been discussions in Chile concerning whether an agreement would involve joining NAFTA or negotiating a bilateral agreement. The agreements that Chile has with Canada and Mexico are similar to the NAFTA, so the form of an agreement with the United States is not as important as before. He would prefer NAFTA accession to a bilateral agreement, but Chile would not reject a bilateral agreement, he promised. He added that Chile is also open to hemispheric trade through the FTAA, but he expressed concern that countries may "opt out" of such a pact, particularly smaller economies, making such an agreement difficult to accomplish. With respect to labor and environment issues, he mentioned that Chile has a good environmental agreement with Canada. He again expressed his eagerness to negotiate with the United States, noting that discussions about an agreement began with President Bush.

Chairman Archer responded by agreeing with the Minister's support for a trade agreement between the United States and Chile. He said that delegation's visit to is a recognition that South America is a natural market for the United States. He expressed no preference for a NAFTA accession or a separate bilateral agreement, saying that what is important is to "keep the ball moving." He noted that U.S. Ambassador Derham is willing to work with the White House to get it done.

Congresswoman Thurman noted that there is considerable bipartisan support for trade in the United States. She also discussed briefly the international conference on women's issues that she had attended the day before in Valparaiso.

Minister Insulza noted that Chile is in transition. More developed than many developing countries, it was invaded by Asian exports but still lowered its tariffs unilaterally. Its views on labor issues are moderate, and while Chile has been reluctant to include certain issues, such as labor, in trade negotiations, Chile did not rush to support India and Brazil when they opposed raising labor issues. Chile, in short, believes that there should be some regulation on labor issues at some point.

Congressman Shaw told Minister Insulza that he is gratified by the Chilean support that he has seen and expressed his support for fast track. He is happy to see the decrease in skepticism and the increase in attention in the Chilean press concerning fast track.

Minister Insulza described that 1994 and 1995 were years of high expectations within Chile for an agreement with the United States. Chile is still eager, he added, but there will not be much discussion in Chile until fast track authority is granted to the President. Chileans are cautious, he noted. However, it is necessary to move quickly because Chile wants to negotiate with the United States before increasing its role within Mercosur. The Minister said that Chile is not in a position to join the Mercosur common market, and Mercosur, not an integrated process or union, does not cover issues such as services and investment. Chile is not interested, he said, in joining a common market for goods only. However, although Mercosur is far from forming a union now, it may be in the future, and Chile would rather conclude an agreement with the United States first.

Meeting with President Eduardo Frei

Santiago, Chile; Tuesday, January 12, 1999

Chairman Archer began the meeting with President Frei by commending Chile as a marvelous example to the world in having unilaterally decreased its tariffs. "We are in 100-percent agreement" on trade issues, he said.

President Frei responded by saying that despite the Asian crisis, Chile sought an opportunity to liberalize trade. Congress passed legislation allowing a 5 point total reduction in tariffs, from 11 percent to 6 percent, he explained. The average tariff rate paid is approximately 8 percent, and that average will drop to 4 percent by the end of the tariff reduction period. Free trade within Chile, he said, has been very positive and has had a good impact on the economy, particularly in creating more jobs. Although Chile is a small country, 50 percent of the GDP is related to trade, he noted. Accordingly, trade is an important pillar of the Chilean economy, and Chile aggressively is seeking new trade agreements. For the first time, he noted, Chilean firms are becoming internationalized and going abroad to invest, having invested $14 billion, although mostly in Latin America. Chile has invested $7 billion in Argentina alone. There is extensive U.S. investment in Chilean services. The U.S.-Chilean relationship, he stated, is important for the medium to long term. Accordingly, Chile is very interested in agreements beyond Mercosur and seeks an agreement with the United States.

Congresswoman Thurman thanked the President for his hospitality and spoke briefly about the international conference on women's issues that she had attended the day before.

Chairman Combest then told President Frei that he knows that the United States has been sending mixed and confusing signals concerning trade. This message is primarily political, he emphasized, and is not an indicator of the true U.S. trade policy. The agriculture community is very supportive of moving forward on trade agreements with Chile and other Latin American countries. President Frei responded by pointing to U.S.-Chilean working committees, especially in the area of agriculture, as a positive development, creating a close relationship. Chairman Combest agreed and urged the continuation of these committees.

Congressman Shaw noted to the President that Chile has fixed social security before the United States, and he is in Chile to learn from the Chilean example. Such reform, he noted, has contributed to social growth and the development of a world class capitalist economy. He asked the President whether the success of trade has been a political benefit and how trade factors into the 1999 elections. President Frei responded that Chile made a choice of openness, and, at this point, it is difficult to go back because Chile is so dependent on trade. Candidates for political office have, in general, expressed the desire to expand trade and seek further agreements because they view trade as a pillar leading to economic progress. Trade, like the privatization of the pension system, has influenced Chilean development. Before the pension reform, the investment rate was 14 to 18 percent of GDP, while last year the rate climbed to 30 percent. Congress is now debating a second pension fund, he explained. With $3 billion in pension funds, more funds must be invested abroad—only 5 percent is invested abroad today. By 2005, the President noted, the pension fund will match the size of the economy. The pension system changed overnight 17 years ago, and many people could not join the new system if they had been working too long. The cost to finance the transition amounted to 14 percent of the Chilean budget, which meant more taxes, but a positive outcome overall, President Frei stated.

The President then brought up the subject of labor and environmental protection. He had just signed a law making Chile the first Latin American country to ratify seven agreements of the International Labor Organization. Chile, he said, maintains an international standard. In addition, a number of bills are pending in Congress to improve labor laws, and he recently sent a bill to Congress concerning unemployment assistance. In addition, the President said that he has signed legislation to create a basic environmental law. That law, he stated, is in full operation and requires every project to provide an environmental impact assessment. Canada reviewed Chile's environmental standard, President Frei said, and agreed that Chile has world class regulations. Small developing countries must first solve the problem of poverty, he said, but

Chile has made progress in the labor and environmental areas. Accordingly, Chile is ready to sign additional agreements as it did with Canada and Mexico.

Congressman English expressed the strong sense that the United States and Chile must strengthen their trade relationship and create more opportunities. Congressman Watkins stated that he has a strong, positive impression of President Frei's leadership. Congressman Dickey cited Chile's commitment to capitalism and asked President Frei to be patient with the United States. President Frei responded by noting that the Chilean economy has been hit by the Asian financial crisis, reducing income to the state by $2 billion, or 8 to 9 percent of the treasury. Chile, however, has been able to adjust, and President Frei noted that there has been no deficit while he has been President. He pointed to Chile's lowest level of inflation ever and a high savings rate. Chilean reserves exceed 1 full year of imports, and practically all foreign debt has been paid, leaving only $4 billion. Chile, he said, has been able to weather the Asia storm. In fact, the economy grew 4 percent last year. He also pointed to the decline in the Chilean poverty rate, from 45 percent to 20 percent in a decade. President Frei stated that he hopes to end poverty in the beginning of the next century. Chile has only 15 million people, he said, but has expended tremendous efforts to reach development. Education, stated the President, is the top priority and is a pillar for development. His government has made profound reforms in education, doubling investment. He pointed to the fact that 70 percent of schools will have extensive telecommunications capability.

He then spoke about the extensive privatization in Chile, noting that deep-rooted change has occurred in infrastructure and transportation. New social programs in housing, which include the private sector, have been implemented. A full 72 percent of the budget is dedicated to social programs, he said. The President also pointed to judicial reform, noting that Chile is changing to oral public trials in criminal cases. "Internally," he said, "we are progressing and surmounting."

President Frei concluded by saying that it is important to have a good relationship with the United States, its neighbor. A trade agreement between the United States and Chile would be a "powerful signal" to Latin America. Chairman Archer responded enthusiastically, committing his efforts to pass fast track so that the United States and Chile will have an agreement in place before President Frei leaves office.

Luncheon Meeting with Foreign Minister Insulza

Santiago, Chile; Tuesday, January 12, 1999

Foreign Minister Insulza hosted Chairman Archer and the other members of the delegation at a lunch at the Foreign Ministry. Foreign Minister Insulza again welcomed the Archer delegation and indicated the importance of the delegation's visit from the point of view of reinforcing strong and positive ties between the United States and Chile. Chairman Archer indicated that the meetings that the delegation's meetings in Santiago, including the session with President Frei, had been very positive and that there were many areas of common interest and agreement—in fact, far more areas of agreement, especially with respect to trade, than points of disagreement.

Chairman Archer asked Minister Insulza what he considered to be the major problems before Chile at the current time. Foreign Minister Insulza mentioned that the question of how the matter of General Pinochet should be handled was the most prominent issue in Chile currently. He said that more than 70 percent of the Chilean people wanted the matter resolved through a trial, but that the overwhelming percentage of those wanted that trial to occur within Chile. There was broad agreement that Chile should handle this matter itself. Minister Insulza indicated gratitude for the support that the United States had provided to date in seeking to bring the matter to a successful and early resolution. He indicated that the key point for Chile was preserving the sanctity of its sovereignty. He also stated that the episode had strained relations with Spain, more so than with the United Kingdom.

Foreign Minister Insulza continued that there were a number of border matters that Chile was attempting to resolve with its neighbors. These included matters with regard to Argentina, Bolivia, Peru, and Venezuela. However, for the most part, Minister Insulza said, President Frei had completed the foreign policy agenda he had set for himself upon being elected, with only one major exception—completion of a free trade agreement with the United States. Chairman Archer responded that he hoped to be able to work in the United States to promote that objective, which he indicated he and many others share.

Meeting with German Molina, Labor Minister

Participants: German Molina, Chile Minister of Labor; Vice Minister Patricio Tombolini

Santiago, Chile; Tuesday, January 12, 1999

Minister Molina commented at the outset that Chile had been waiting a long time for the U.S. Congress to renew so-called “fast track” trade negotiating authority so that Chile could negotiate accession to NAFTA. He welcomed the Codel’s visit as a sign of the commitment of its members to work on the passage of this important legislation, even though he understood that they could not guarantee swift passage. He commented that in his view, Chile’s labor standards are already adequate to withstand U.S. scrutiny in the context of a NAFTA agreement and that the bilateral agreement with Canada, modeled on NAFTA, is working well. On a separate subject, Minister Molina commented that the Vice Minister would be visiting the United States in the coming months in order to explore concluding a bilateral Social Security Treaty. Chairman Archer expressed support for concluding such an agreement.

Congressman Shaw expressed interest in a dialog over Chile’s approach to fixing its social security system in light of the steps the United States will have to take in the coming years to shore up the U.S. system. Minister Molina indicated that the Vice Minister could help the Codel understand the strengths of Chile’s system as well as ways that the government was addressing its weaknesses.

Vice Minister Tombolini stated that the key transitional issue was finding an acceptable mechanism during the process of replacing the pay-as-you-go system with the individual capitalization system. In Chile, he explained, the government required tight controls over the investment of funds provided by individual workers. Minister Molina added that currently, the system contains $31 billion, approximately one-quarter of Chile's GNP. These dollars are working for the country and luring additional foreign investment. The two key problems the system has faced have been: (1) absence of universal coverage, because some workers are not included in the system; and (2) situations in which workers' salaries are too low and their retirement savings require supplementation by the government. On the whole, however, the system is working well.

Chairman Archer asked what other problems the system has encountered—for example, the cost of transition.

Minister Molina replied that the cost of administering the system is somewhat higher than it should be, namely that the average administrative expenses are higher than comparable private funds. He noted that eight firms compete for the right to manage the funds of each employee: that is, each employee can choose from eight different plans. Congressman Shaw asked whether the higher administrative costs are because the individual accounts, some of them very small, perhaps only $5,000 or so, are too small to manage economically. Minister Molina noted that this is not a particular problem because the funds are pooled, albeit accounted for individually.

Vice Minister Tombolini explained that at retirement, an employee has three options for how the proceeds of his or her retirement fund would be paid: (1) annuity; (2) "planned withdrawal"; or (3) planned withdrawal with an annuity. He stated that the system has solved the problem of declining birth rates with rising life expectancy rates. However, he added that the system lacks adequate transparency.

Chairman Combest asked whether the employer contributes to the individual retirement accounts. Vice Minister Tombolini stated that under the old system, the employer, employee and the government each contributed to the system. However, he added, under the current system, only the employee contributes, with two exceptions: (1) where an employee's contributions fall below a certain level, the government makes a contribution; and (2) in certain "very heavy jobs" or in the case of jobs with occupational accidents, employers pay a premium as well to cover accidents and earlier retirement. In this case, the contribution level of the employer depends on the risk of injury of the activity in which the employee is engaged.

Mr. English inquired whether Chile has a child labor law. Minister Molina responded that Chile does and that it was the first country in South America to have signed all of the basic seven ILO covenants. Chile's child labor provisions provide that: (1) in general, children under the age of 18 cannot work; (2) children between the ages of 15 and 18 may work with the written permission of their parents; and (3) children between the ages of 14 and 15 may work only in some special activities related to the work of the family, such as on a family farm.

Mr. English also inquired whether Chile has a minimum wage law. Minister Molina responded that it does of approximately 87,000 pesos (approximately $210) per month, with a 48 hour work week.

Meeting with Juan Gabriel Valdes, Director General of International Economic Relations

Santiago, Chile; Tuesday, January 12, 1999

Ambassador Valdes began by thanking members of the Archer Codel. He noted that he had just come from Valparaiso, where he had been working on a trade pact with Bolivia. His division, which was organized just a few years ago, is in charge of negotiating, administering and enforcing all trade agreements. In addition to continuing work toward a Free Trade Area of the Americas (FTAA), he mentioned they are currently working on a bilateral agreement with the EU, that they would be traveling to South Korea in March to discuss a potential free trade arrangement, and that they would be closely following the coming WTO round negotiations on agriculture.

Regarding United States and Chilean interests, Ambassador Valdez noted three points of work that had been established by the Joint Commission on Trade when it last met in October of 1998. They are: (1) to work on business facilitation measures; (2) to strike a mutual recognition agreement on standards and technical norms; and (3) to exercise transparency on issues related to labor and the environment, which he termed "the two most controversial issues in the Western Hemisphere." With respect to labor and environmental standards, he plainly stated Chile does not support the use of trade sanctions to enforce international standards but will respect its own laws. He went on to explain that it was in its own interest to have relatively high standards.

Ambassador Valdes concluded his statement by saying that the FTAA was not progressing as Chile had wished. He noted his concern over the failure by the United States to pass fast track trade negotiating authority and stated that Chile, with clear signals from the United States, was ready to provide needed leadership among the South American nations.

Chairman Archer thanked Ambassador Valdes for his thoughts and for agreeing to meet. He expressed understanding of Chilean frustrations, explained the importance of fast track authority in the U.S. Government, and expressed his hope that fast track would be passed and that the United States would have a free trade agreement with Chile by the end of the current administration.

Regarding the WTO, he cited the EU banana and beef hormone cases and stated that we must "give it teeth." He explained that if problems such as the EU's failure to implement were simply allowed to persist, then support for the WTO in the U.S. Congress would likely wane. Ambassador Valdes contended that the WTO is a sound international body and is especially important for smaller countries like Chile, but agreed that it needed to be strong. He told Chairman Archer that he can depend on his help.

Ambassador Valdes then sought to clarify his point (3) from above. The free trade agreement with Canada, he said, makes no reference to or establishes any preconditions for so-called international environmental and labor standards. Chile did not, and in no case would it want to make legislative changes to its existing laws and standards in order to "qualify" for a trade agreement. He noted that they are important issues, but they should not burden trade negotiations. Also, he mentioned that he does not favor arbitrary trade sanctions based on compliance with environmental or labor standards established in an agreement. He added that the Latin American countries are fearful and mistrustful of U.S. "objectives" for increasing these standards.

Mr. Shaw asked the Ambassador how long it would take, beginning today, to negotiate a free trade agreement between the United States and Chile, and if negotiations could begin working to get some issues out of the way. He also asked if Chile would be willing to begin negotiating if President Clinton showed a serious interest.

Ambassador Valdes responded saying there are some very difficult issues that will need to be worked out particularly in the areas of agriculture, financial services and antidumping. With respect to anti dumping issues, he mentioned the Chilean agreement with Canada allows no antidumping suits once tariffs go to zero, a position Chile would presumably seek in any negotiations with the United States. He mentioned that Chile took 9 months to negotiate with Canada and stated his opinion that 6 months would be sufficient with the United States. Regarding the possibility of beginning negotiations, he said, "Chile has been very straightforward about its desire to craft a free trade agreement and has actually committed many resources to begin thinking about a proper negotiations framework." He mentioned that Chile has even looked at the possibility of negotiating with the United States in the absence of fast track. He asked if and how it would be possible for the United States to negotiate without fast track. Chairman Archer responded "anything is possible," and asked if Chile would truly be willing. Ambassador Valdes said "officially no," but if it was a possibility, Chile might be "open to the idea."

Chairman Archer explained that this scenario would pose many risks. While he, as Chairman of the House Ways and Means Committee, which has jurisdiction over such matters, could probably shepherd a clean agreement through the House, the Senate has different rules, which would allow any of the 100 Senators to seek to amend the agreement. He mentioned that lobbyists from every different interest group would each have something special needed in the agreement so that implementation would not be impossible, but extremely risky.

Regarding fast track, Chairman Archer discussed the political difficulty of passing the authorizing legislation through Congress. He explained that the major difficulty centered around the labor and environmental issues. He then affirmed that he would not preside over a bill which makes labor and environmental standards a part of the agreement and therefore subject to sanctions. Ambassador Valdes responded, adding that "Chile would not negotiate such an agreement."

Congresswoman Thurman next brought up the issue of sanitary and phytosanitary standards, saying that any agreement would need clear and enforceable standards. Ambassador Valdes agreed and mentioned that Chile is working with USTR and USDA/APHIS on these issues. He also mentioned the work being done by USDA and the Chilean Ministry of Agriculture through the Consultative Committee on Agriculture. Congresswoman Thurman then stated that these agreements need to be established early, to which Ambassador Valdes quipped, “we wouldn’t want to solve all the problems too early—we would forfeit our ability to bargain.” The meeting then came to a close.

BRAZIL

Country Team Briefing James M. Derham, Chargé d’Affairs, and U.S. Embassy Staff

Brasilia, Brazil; Wednesday, January 13, 1999

The meeting was opened at 4:15 p.m. at the Kubitscheck Plaza Hotel by James M. Derham, Chargé d’Affaires at the U.S. Embassy in Brasilia. The Chargé’s opening remarks reflected on the fact that this would normally be a very quiet time in Brasilia. Following a Presidential election like the one that just occurred with the re-election of President Cardoso to a second term, personnel changes would be minimal and new legislation would normally await the installation of both the returning President and a new Congress. However, the financial crisis with today’s decline in the value of the Brazilian real, the fact that Brazil is losing its foreign exchange reserves, and the sharp decline in the stock market bring an aura of crisis. The big questions, according to the Chargé, are what will be the new economic plan and what will be the central government’s role and responsibility. Since the United States took the lead in putting together the IMF response to earlier economic problems in Brazil, this new crisis requires the attention of the U.S. Government. The importance and potential of Brazil are key factors for the United States to consider as it formulates its response.

The Economic Counselor then took over the briefing. In his opinion, Brazil is still recovering from 25 years of protectionism characterized by heavy reliance on state enterprises and state control of the economy. There was 1,500-percent inflation per year for the 5 years leading up to 1994, when then-Finance Minister and now President, Enrique Cardoso, implemented the Real plan. Since then, tariffs are down from 34 percent to 14 percent and there have been $81 billion in privatizations with $25 to $35 billion in further privatizations to go. The current economic problems began in late 1997 with the Asian meltdown and the September 1998 Russian default. Interest rates have doubled to a 42-percent overnight rate, with the resulting huge increase in the funds needed for debt service.

President Cardoso’s Economic Stabilization Plan, under IMF auspices, includes several key features: (1) $9 billion reduction in central government spending; (2) increasing taxes by $15 billion; and (3) the establishment by the IMF of a $41 billion line of credit for Brazil. To accomplish the domestic Brazilian component of this plan requires significant action by the lame duck Congress, which has been called back into session in Brasilia.

The Economic Counselor reported that Brazil made a significant change in monetary policy the night before. The new policy provided for a 9-percent devaluation of the real with up to 12½ percent over the coming year. The actual market experience during the day amounted to an 8.7 percent 1 day devaluation. The current crisis was, in part, precipitated by the declaration by the Governor of Minas Gerais State of a moratorium on the repayment of debts owed by his State. In order to address the problem of state debts, the central government has renegotiated the debt of 24 of the 27 Brazilian states.

The Embassy staff then provided a short description of the current political situation. As a result of the recent election, the government coalition will have 378 out of 513 seats in the new Chamber of Deputies and 60 out of 81 seats in the new Senate. Similar numbers exist in the lame duck Congress, which is currently sitting. In addition, 20 out of 27 state governors are at least nominally associated with the government coalition. The staff characterized the political landscape in Brazil as unpredictable.

The meeting was then adjourned in order for the Delegation to go to the Presidential offices to meet with President Cardoso.

Meeting with President Henrique Cardoso

Brasilia, Brazil; Wednesday, January 13, 1999

The delegation met with Brazil's President Cardoso. Earlier in the day, Brazil made the surprise announcement that it would permit the Brazilian currency, the real, to float in a wider band than had been previously permitted.

Chairman Archer began the meeting by congratulating President Cardoso on beginning to implement the reforms Brazil had pledged in its agreement with the International Monetary Fund. "The world is watching," Chairman Archer said, because what Brazil does during this crisis will have a "ripple effect all the way to the United States." He strongly encouraged President Cardoso to continue implementing the reforms.

President Cardoso responded by saying that he intends to continue with the basic reforms in an effort to reduce monopolies, increase competition, reorganize the government, and open the economy. He pointed to the $25 billion in foreign capital in Brazil as a sign of confidence. The next reforms to be implemented, he noted, are more difficult, and many require amendments to the constitution. There have only been 14 amendments to the constitution in the last 4 years, and they are difficult to do, he noted, requiring a three-fifths majority in each House. However, initial reforms have been approved, he said, and several important bills will be considered shortly. Congress has already approved basic social security reform, giving the executive more freedom to make complementary changes. With respect to fiscal adjustment, the President said that 70 percent of what was required has already been done.

What is missing, he said, is only one tax (on check transactions), which is very difficult to do. The Senate has approved this tax by a 61–12 vote, but the Senate must vote again on this proposal on January 16, and then the House must act. The President noted that he sent additional executive orders to Congress at the end of December, and he expects that the last ones will be approved by Congress the day of the delegation meeting, to raise $4 billion, which makes up for the delay in the implementation of the check tax. Brazil is making progress, he said, and all that still needs to be done besides the check tax is legislation Congress will take up in February concerning taxes on retirees.

The President said that he spoke to the head of the IMF, who said that Brazil "must be tougher." This is so difficult, the President said, because Brazil is a democracy and Congress "likes to be independent." He has the cooperation of the Congress, the President added, but change takes time. In September, the government made a decision to achieve a $5 billion surplus, and Brazil has been able to achieve this goal. Now, the President said, he must convince the market "to be informed about social and political realities."

With regard to the change in the band for currency fluctuation, the President said that the change was "reasonable" and not a surprise, and Brazil has ample foreign reserves. He said that he is optimistic because Brazil has the instruments and the determination to succeed. He added that the United States has been very helpful throughout the crisis, even when the change in the currency band was announced.

The discussion then turned to other matters. Congressman Shaw noted that social security is in a global crisis. The U.S. system is "solid" until 2013, he said, so the United States is in a better position than the rest of the world. President Cardoso noted that it is always difficult to cut privileges.

Congresswoman Thurman then asked how the United States can be of assistance. The President responded that it is important to explain that Brazil is acting in good faith. Congressman Watkins added that he appreciated the President's positive attitude, but he also noted that Brazil is key to preventing Latin America from becoming another Asia. He said that he hoped that Brazil can successfully implement the IMF reforms because it is unclear whether the world economy can stand another Asia. President Cardoso noted in response that the reforms are Brazilian, not IMF reforms, and Brazil itself made the determination to make the necessary changes.

Congressman Dickey then asked how Brazil has been able to cut expenses. The President replied that Brazil has expanded its tax collection from $120 billion to $200 billion, creating a surplus of $5 billion last year. However, he pointed to social security and debt interest as being very real problems. Debt interest alone, he said, amounts to 7 percent of GNP (with 6 points being interest and only 1 point capital). He said that Brazil pays retirees $20 billion, while it only collects $2 billion. The bill that he sent to Congress would make additional cuts of $8.7 billion, and it is impossible, he stated, to cut any more. He pointed to the flowers in the office, noting that he pays for them personally. Education, health, roads are all impossible to cut. The World Bank, he said, has told him that social programs must be cut, but he does not know how such cuts can be achieved.

Congressman English noted his strong sense that the United States has a great stake in Brazil's success. He expressed his hope that the United States and Brazil can partner together, and he wished the President luck. The President responded that relations with the United States have never been better, and he wishes to continue such an strong and important relationship.

Breakfast Meeting with Ambassador José Botafogo Goncalves, Executive Secretary of the Brazilian Foreign Trade Board

Participants: Ambassador Botafogo and five members of his staff

Brasilia, Brazil; Thursday, January 14, 1999

The breakfast meeting with Ambassador Botafogo and five members of his staff began at 8:30 a.m. at the Kubitscheck Plaza Hotel in Brasilia. The Ambassador is a career diplomat and is the trade advisor to President Cardoso. The Ambassador began the meeting by commenting on the fact that the Codel had visited with President-elect Chavez in Caracas and asking for the Members' impressions. Chairman Combest responded with a detailed account of that meeting with particular emphasis on how personable the new President was and how open-minded he appeared on many of the issues that he must confront in Venezuela, as compared to how he has been quoted and described in the U.S. press. Congressman English commented that many of the problems that President-elect Chavez faced were structural in nature and would require substantial governmental changes to effect. He speculated that how he deals with the oil industry and, particularly, how he deals with succession at PDVSA should indicate how pragmatic he will be. The Ambassador responded that it is common in Latin America for the new "caudillo" or leader to have his rhetoric and actions tempered by the business community.

Shifting back to Brazil, the Ambassador commented on the continued stability of the Constitutional processes. The 1988 Constitution allowed for 5-year revisions but there have been no major revisions since it was implemented. He commented that time is needed to consolidate real change.

Chairman Archer extended the thanks of the delegation for the Ambassador's willingness to meet and entered into an extended dialog with the Ambassador about specific trade concerns between the United States and Brazil. He first commented, however, that he was glad to come to a country where the United States had so few major trade complaints. He noted that enforcement of intellectual property rights (IPR) was a continuing major concern. While the law is Brazil is good, its enforcement is the issue. The Ambassador replied that it is primarily an issue for Brazilian enforcement authorities and that failure to enforce IPR also hurts Brazilian companies. The Chairman stated that it is the U.S. position that it loses $125 million per year in Brazil due to IPR violations. Both the Chairman and the Ambassador agreed that it is a serious problem and also results in a significant loss of tax revenues to Brazil. The Brazilian IRS has had several operations on the border with Paraguay to attack counterfeit goods entering from that country, and Brazil believes that piracy is taking place both within and outside Brazil. The Ambassador cited Asia as the main external source of pirated goods in Brazil but also noted the need to renegotiate the pact with Paraguay which gives them inspection-free access of a Brazilian port (Managua) since Paraguay is a landlocked country. He agrees that improvements in IPR protection/enforcement are needed. The Chairman asked if there has been any prosecution of violators, and the Ambassador responded that there probably have been but that he was not positive. He did note that seizures at the borders were on the increase.

Ambassador Botafogo then moved the discussion to other trade issues, such as steel antidumping. It was his contention that the way the United States calculates antidumping margins is wrong. In the case of Brazil, where the government has privatized the steel industry over the last 10 years, the antidumping regime looks back farther to calculate margins. Since 1990, he said Brazil has unilaterally dropped its tariffs and other import controls. He cited the Brazilian belief that talks with the USTR have been disappointing and that the lack of fast track negotiating authority for the Clinton administration is hindering Brazil's interest in negotiating the FTAA with the United States. Furthermore, Brazil still faces high tariffs on key potential exports to the United States, such as textiles, orange juice, and sugar.

Congressman English responded with regard to steel, citing that Brazilian exports of steel to the United States increased 50 percent in 1 year while Japan's export increased 100 percent in that same year. He said he believed that Brazil is less of a focus of U.S. concern than Japan, Russia, and Korea. The U.S. steel industry needs time to adjust to new world market realities in steel, citing the potential risk of the loss of 100,000 of the 160,000 U.S. steel jobs. The Ambassador responded that Brazil has only 2 percent of the U.S. steel market and that industries in both countries should meet to resolve their mutual problems.

Returning to antidumping issues, Chairman Archer said that the U.S. Congress sets the standard with respect to antidumping, permitting suits to address whether any product has been sold at a price less than that in its domestic market. He said it would be difficult as a practical matter to believe that the United States will ever rid itself of antidumping laws. The Chairman said that he will the moratorium on imports sought by U.S. steel producers. He also stated that he "hates" quotas (for example, sugar or textiles) but the reality is that WTO rules permit it. Continuing on with regard to fast track, Chairman Archer said that he would make a very strong push to secure it. The Ways and Means Committee has negotiated language with the administration and he pointed out that Ways and Means Trade Counsel, Angela Ellard, who accompanied the delegation, was the Committee negotiator with the administration. An FTA, unfortunately, only remains talk without fast track negotiating authority, in the Chairman's opinion.

Ambassador Botafogo declared that there is a strong level of common interest between the United States and Brazil, and that the two nations should talk more. He is of the opinion that there is not enough knowledge in the United States about the progress that is being made in Brazil on both its economy and trade. He then indicated that Brazil has problems with the language already negotiated on fast track and would like to see changes before it is enacted. At the Chairman's request, he promised to communicate those concerns in writing.

Congressman Shaw responded to earlier comments with regard to orange juice. He said that weather and supply issues are powerful political realities, and he acknowledged that flexible tariffs are indeed protectionism. He indicated his agreement with the Ambassador's statements on sugar quotas.

In closing, the Ambassador spoke briefly about the lost opportunity for Brazilian alcohol fuels in Florida and expressed his belief that there is a possible market for such products in California as that state seeks to meet its new air pollution rules.

Meeting with Foreign Minister Luiz Felipe Palmeira Lampreia

Brasilia, Brazil; Thursday, January 14, 1999

The delegation next met with Foreign Minister Lampreia. Chairman Archer began the meeting by noting that the relations between the United States and Brazil are "incredible" and that any frictions are inevitable. He encouraged the Minister to continue Brazil's reforms, stating that what Brazil does has an impact on the world. Minister Lampreia responded by pointing to the level of mutual respect and understanding between the United States and Brazil. The relationship, he added, is full and balanced. During the financial crisis, he said, Brazil has seen the capacity of the United States to lead. The "bitter medicine" of the fiscal package has created some resistance; it is difficult to make cuts because the needs are so pressing. Brazil had been postponing fiscal adjustment for some time, but now the "hour of truth has arrived." The President, he said, has been able to pass 14 constitutional measures and other measures to open the economy, but these reforms take time because the President has to put together a Congressional majority for each vote. But there is a sense of urgency now, he said. Congress approved two measures the day before and will approve the tax increase promised.

Congressman English said that many in Pennsylvania are interested in the Brazilian market. Steel, he said "may divide us for a time," but the United States has a stake in Brazil's success. Trade, he added, improves the relationship. In response, the Minister pointed to the $100 billion in foreign investment in Brazil, with half of that coming in the last 6 years. Mercosur, he said, has become an important center for trade—for example, FIAT now produces more cars in Brazil than in Italy. He also noted that he understands how sensitive the steel issue is in Washington. However, Brazil believes that it is being "targeted without justification" because it is "not in the same league as Russia and Japan," whose imports have surged while Brazil's have remained small. The International Trade Commission, he added, has found "no injury." (It is possible that the Minister meant that the Commerce Department has not made a "critical circumstances" finding with respect to Brazil, because the ITC has indeed preliminarily found injury or threat of injury by Brazilian imports.) Brazil fears, he said, an increase in protectionist policies in the United States.

Congressman Watkins added that he knows Brazil must make difficult decisions now, but he said that the United States "is counting on you" because "we cannot afford another Asia." The United States has had to make difficult decisions in the past, he noted, and he hopes that Brazil can also make the difficult decisions to "shore up" the reforms. The Minister responded that some states feel that the "medicine is too bitter" and try to challenge the federal government. However, Brazil does not have much choice, and the government will impose strict discipline. When one state did not cooperate, the federal government responded by threatening to withhold tax benefits to that state.

Congressman Dickey noted that his Appropriations subcommittee had to make painful cuts in social security programs, but Congress was somehow able to make the point to Americans that such cuts were the best for the United States. He hopes that Brazil can bring the necessary discipline to bear. The Minister agreed. He noted that inflation has masked Brazil's debt in the past, but the social cost of inflation is "terrible."

Chairman Combest then asked the Minister his impression of Venezuela's President-elect Chavez. He responded that he is "well-meaning" and has a "strong sense of duty." His ideas have been general, and it is unclear how policy will be affected, the Minister said. His personal view is that Chavez could easily become either a very important leader (like Argentine President Menhem) or entirely the opposite. Venezuela, he noted, is plagued by low oil prices, a weak political system, and economic troubles.

Congresswoman Thurman mentioned that she was encouraged by the delegation's meeting with President Cardoso, noting that he had told the Brazilian people of the reforms he intended to implement before the election so that it would not come as a surprise. The Minister agreed, stating that he is among the first politicians to announce in advance of the election that he intends to increase taxes but to win nevertheless. Congresswoman Thurman continued that the United States has increased taxes on the elderly and has made other difficult reforms, and as a result the United States now has a surplus. "Pain," she said, "gives us gain." She pledged to continue giving Brazil support.

Congressman Dickey asked whether Brazil would devalue again if "the world lets you do this (devaluation) smoothly." The Minister responded that there is "no reason" to devalue again. The currency, he said, has been overvalued but should now be adequate.

The delegation and the Minister then began to discuss trade issues because the Minister has responsibility for running trade negotiations. Chairman Archer asked the Minister his view on the relationship between labor and environment issues and fast track, particularly the use of trade sanctions in this context. With respect to labor issues, the Minister responded that "we all favor core standards." However, Brazil "has problems" with the use of trade sanctions to enforce these standards. It is "difficult and dangerous," he said, "to mix trade and these concepts." An "intrusive policy," he noted "runs the risk of a resurgence of protectionism in the guise of protecting such standards." He raised the issue of differences in wages across countries, asking rhetorically whether a country should be penalized for having lower wages. Linking trade and labor issues “introduces confusion” and could lead to “misuse and distortion.” With respect to the environment, the Minister said that it is “hard to see” how Brazil and other countries can have the same environmental standards as the United States. Brazil has environmental concerns, he added, and there are areas in which countries can make progress on a multilateral basis. Environmental issues, therefore, are different from labor issues, which can create “distortions.”

Chairman Archer noted that he is committed to bringing fast track out of the Ways and Means Committee as soon as possible, but there are not now sufficient votes in the full House. He pledged to work with the administration to pass fast track early this year, noting that he hopes to have the bill on the floor no later than April. The Minister mentioned that he is concerned about the FTAA process. It is “hard to see how we can liberalize further in the midst of this storm,” he said, but the United States should have the ability to lead the trade debate, particularly in agriculture. Brazil and the United States, he concluded have much in common with respect to agriculture and must work together in the face of Europe.

Meeting with the President of the Senate, Senator Antonio Carlos Magalhaes

Brasilia, Brazil; Thursday, January 14, 1999

The delegation next met with the President of the Senate. Chairman Archer began the meeting by saying that the delegation came to Brazil because of Brazil’s importance to the world. He complimented the Senator on what Brazil has done with respect to structural reform and fiscal adjustments. He encouraged the Senator to keep to the package Brazil agreed to with the IMF because the “world is watching.” The Senator responded that he was grateful for the interest of the delegation, noting that the United States and Brazil share an interest in ending the crisis. He pointed to the deep economic and cultural ties between the two countries. He recognized the support that the United States has given, stating that he knows that the United States “sometimes looks with doubt” on Presidential and legislative actions, but there has been an “unmistakable demonstration of Brazil’s commitment to all that it has promised.” Brazil, he said, is on the “right path.” He pointed to the fact that the day before, two-thirds of the Senate passed an essential measure and promised to be finished with legislative action on all reforms by March. No one, he said, likes to help those that do not do their part, but “we will do our part.” He also mentioned that the United States and Brazil should increase cooperation between its Congresses.

Congresswoman Thurman stated that she was very encouraged by the action that the Brazilian Congress has taken. She noted that the United States has taken difficult measures to make the economy sound and to end the deficit. The Senator pledged to continue his efforts to reach a fiscal balance with social justice.

Chairman Combest noted that U.S. support for the IMF is easier when it is obvious that governments are serious in making sure that promised reforms are imposed. He commended the Senator for the actions already taken and encouraged expeditious consideration of actions that are left to be undertaken. The Senator responded by thanking the delegation for U.S. support, which has been important to Brazil. Congressman Shaw mentioned that he was impressed that the President said that he was going to increase taxes. He asked the Senator whether the President had the necessary votes in Congress. The Senator responded by "guarantee(ing) that the Congress will approve" these tax increases. The only defeat, he noted, has been regarding one social security measure, but this measure will pass during January or February because the current social security system is not acceptable. He stated strongly that "I guarantee that it will pass." Brazil, he said, is on its way to collapse otherwise, and "we can't let this happen." Congressman Shaw said that the United States is reforming as well, although it is not in a crisis yet. The Senator said that Brazil has "eliminated the excesses of the retirement system for Congressmen," so Congress has led by example. He concluded by saying that he hopes in April to say that Brazil has fulfilled its commitments.

Meeting with President of the Chamber of Deputies, Deputy Michel Turner

Brasilia, Brazil; Thursday, January 14, 1999

Approximately 20 members of the Chamber of Deputies were in attendance, including the Chairmen of the Foreign Relations, Economic, and Agriculture Committees.

Deputy Turner gave a warm welcome to members of the Codel, stressing the good relations that the two countries have. He boasted that the legislative body of Brazil was modeled, both structurally and idealistically, after the legislative branch of the U.S. republic. He said the greatest battles of the Brazilian Republic occurred in the efforts to reproduce the federative system of the United States. He said the writings of Madison had been very influential, "like the Bible," and again expressed his great satisfaction in hosting the delegation.

Chairman Archer responded that the United States is still but a young democratic experiment, and made the additional key point that "the House of Representatives is by far the most important body in this experiment," to which there was unanimous agreement in the room. Chairman Archer proceeded to introduce the members of his delegation, and then began to address the economic situation in Brazil. He congratulated the group on the courage they had shown in making some strong reforms and encouraged them to work to complete the reforms called for under the IMF package. He expressed hope that they would resist any pressures to slide back to "economic protectionism" during these times of difficulty and pledged to continue his fight to reduce barriers to trade from his position in Washington.

To respond, Mr. Turner yielded to the Chairman of the Foreign Relations Committee, who noted that there are a number of "sensitive" subjects that needed to be addressed. He explained that he had received complaints from many sectors of Brazilian industry about protectionist measures espoused by the U.S. Government. He complained that these send a very confusing message. Specifically, he mentioned that only 48 hours before, President Clinton had expressed what they considered to be protectionist ideas regarding steel imports. He compared this to the barriers that are prevalent in agricultural trade.

Chairman Archer responded that we may never be rid of all the protectionist measures, but that the United States is the most free market in the world today. He touched on the political difficulties of the steel issue and yielded to Congressman English, who represents an area of heavy steel production.

Congressman English stressed the difficult nature of this issue, saying the United States stands to lose over 100,000 jobs in its basic steel industry. He mentioned that the U.S. industry had filed an antidumping petition, and that while President Clinton has resisted becoming very involved, he had addressed some of the most pressing issues particularly with respect to Japan. With Brazilian imports having increased by 50 percent, Brazil should also be aware of these political sensitivities and respect the U.S. industry, he said. "We should all be playing on a level, subsidy-free, playingfield," he concluded. The Foreign Relations Committee Chairman responded he does not have an interest in dumping but does have an interest in establishing new and fair markets.

Congressman Shaw interjected his view that while there are industries worth protecting (such as steel from a national security interest), others, like sugar, are less defendable. However, he contended, the U.S. tariffs are generally low, about 2.5 percent across the board, whereas Brazil's are high, approximately 17 percent. We must work together to lower these tariffs, he said, but we must also respect each other's interests.

Chairman Archer stated that the United States, as the world's leading economy, must set an example for other countries. He then contended that the United States is doing so by adhering to the rules of the WTO. In sugar, steel, or any other commodity where one might argue that the United States is being protectionist, the United States is at least being consistent and abiding by the agreements which have been made. Chairman Archer said he too does not like quotas or other protectionist measures and he hoped that one day the world would be rid of them. Until then, he said, the United States will continue to lead by honoring the agreements it makes and understanding and respecting the interests of others. He mentioned that there will be significant political pressures in the United States to close U.S. borders to steel imports, but he pledged to fight these pressures.

Congresswoman Thurman specifically addressed agriculture, saying that United States and Brazilian farmers could both agree to work to expand into areas that neither country currently has access to. She mentioned that if farmers from both countries see and experience progress in this regard, then the whole concept of free trade is easier to sell. A Member of the Chamber's Committee on Agriculture took the opportunity to speak and sharply criticized the U.S. tariff rate on frozen concentrated orange juice, which he considered to be far too high.

Lunch with Members of Senate and Chamber of Deputies

Participants: Deps. Werner Wanderer, Roberto Balestra, Abelardo Lupiao, Rubens Medina, Lael Varela, and Paulo Delgado

Brasilia, Brazil; Thursday, January 14, 1999

Deputado Werner Wanderer, who hosted the luncheon, commented that the eyes of the world are on Brazil to see whether Congress will do its job to address the key problems Brazil faces. He stated that he was confident that Congress—the Senate and Chamber of Deputies—would do its job. He stated that Brazil asked the United States for help in putting together an aid package because the United States is Brazil's largest partner. Representatives from the Congress were scheduled to travel to the United States shortly and they want to be able to say that they have taken the necessary steps. Brazil understands the seriousness of the commitments it has made and will do its part. In addition, Brazil is anxious to work out the few areas of trade friction with the United States.

Chairman Archer responded that the bonds between Brazil and the United States have never been stronger, but that they could be made stronger still. He indicated that he believed that the problems can be solved by people of good faith with an honest dialog. Chairman Archer complimented Deputado Wanderer on the progress to date in addressing the important problems. Chairman Archer quoted Congresswoman Thurman as saying that the Members of the U.S. Congress understand the problems that Brazil's Congress faces in addressing problems with government spending. It is not easy to make the tough decisions, he said. However, Chairman Archer concluded, it is true that the eyes of the world are on Brazil, and, he is confident that Brazil would respond appropriately.

Meeting with Finance Minister Pedro Malan

Brasilia, Brazil; Thursday, January 14, 1999

Chairman Archer opened the meeting by saying that a key purpose of the Codel's visit was to emphasize the importance of U.S. relations with the countries of South America. Chairman Archer added that he wanted to compliment the tough measures that Brazil had already taken and those for which it was in the process of seeking approval from the Congress. He stated that he was encouraged to hear that the expanded currency band for the real, which had resulted in a devaluation of approximately 9 percent over the previous day and a half, had focused attention on pressing problems in Brazil and mobilized governors to urge legislators to support the government's package of reform measures. He asked Minister Malan to address the particular concern expressed by some senior U.S. Government officials that Brazil had taken the step suddenly and without prior consultation.

Minister Malan opened by stating that this was the sixth year that some in President Cardoso's Cabinet had been working with him. When Malan joined Cardoso in 1993, when Cardoso was Finance Minister, inflation was running at 30 percent per month. Already at that time, they were aware that keeping a lid on inflation on a sustained basis would require an ongoing program of reforms. In a democratic society, that means having to work with Congress to get those reforms enacted into law.

Minister Malan stated that the reform program has made substantial progress. In 1997, inflation was 2 percent, and the economy was 25 percent larger than it had been in 1993—the fifth largest economy in the world. Brazil is attracting substantial amounts of foreign private investment, in part due to Mercosur (the customs union comprising Argentina, Brazil, Uruguay and Paraguay), which constitutes a market for goods and services of approximately $1.3 trillion.

Minister Malan stated that Russia's crisis in the summer of 1997 has catalyzed the Cardoso government's reform program. In the 1998 election, Cardoso's platform included unpopular provisions such as raising domestic interest rates and announcing 3 more years of fiscal austerity reforms. Malan stated that the data will show that the government met its fiscal targets for December 31, 1998, and will do so in 1999 as well. Just today in the Congress, he stated, agreement had been reached on increasing the contributions of retired and active government employees to social security and pension programs, and he promised that the agreement will be voted on early next week.

In addition, Malan added, there were several reasons why the press had a more negative perception of the government's reform program. For one thing, the press has tended to focus on a vote in the Chamber of Deputies in December 1998 defeating a government proposal on social security. However, this vote was not put into context of other measures that were passed and the possibility, now seemingly a likelihood, that this element of the program would be passed this month, he said.

In addition, the declaration by the Governor of Minas Gerais that the state would not continue to service its debt to the central government was given greater credibility abroad than in Brazil. In Brazil, Malan explained, the move was seen as largely political in nature by a former president who may well be a candidate again in 2002. By contrast, Malan pointed out, the press has not reported that the federal government has negotiated binding contracts with 24 of the 27 states in Brazil concerning debt repayment to the central government, or that 18 of the 26 states have expressed strong support for the Cardoso government's reform program and that the remaining 6 are not sharply divided on the question.

Turning to the international dimension of Brazil's approach to the current crisis, Minister Malan stated that in the fall, he had met in Washington with the nine largest Central and South American countries together with World Bank, International Monetary Fund and U.S. Treasury leadership to discuss the response of Brazil and South America to the Russian crisis and the best approaches to it. He had suggested that the U.S. Federal Reserve Bank should lower interest rates and the IMF should develop preventive measures. For Brazil, the IMF package of preventive measures amounted to $41 billion from various sources, including key IMF members such as the United States, the World Bank, and the Interamerican Development Bank. Brazil has received $9 billion to date of that amount, and Malan stated that it was his intention and hope that Brazil would not actually have to use the capital. At the same time, Malan stated, new foreign direct investment in Brazil in 1998 totaled $25 billion—and this is not volatile foreign capital.

Finally, Minister Malan directly addressed the Cardoso government's decision the previous day to allow the currency to devalue by 9 percent. Malan stated that the move was prompted by the view within the government that the real was overvalued and in need of correction. He rejected some public estimates that the currency was overvalued by 20 to 25 percent and saw the overvaluation being in the single digits. For example, in 1998, the real devalued 8 percent against all other currencies; similarly in the period 1997 to 1998, the currency devalued approximately 12 percent against the U.S. dollar.

Responding to Chairman Archer's expressed concern that the Cardoso government's action was not predictable, Malan asserted that the shift of the band from a ratio of 1.12 : 1.21 real/dollar to a ratio of 1.20 : 1.32 real/dollar, was foreseeable. On the question of specific prior consultation and notice to the U.S. Government, Malan stated that he had discussed the move conceptually with various officials, including U.S. Treasury Secretary Rubin, Deputy Secretary Summers, and Stanley Fisher (Deputy Director of the IMF) over the previous months. However, more specific consultation would have been difficult and not necessarily advisable. He explained that in the day or so prior to the devaluation, rumors began circulating about the possible move, in turn roiling currency markets. So, more specific consultations were not possible in the days leading up to the decision, and delay might have made the situation worse. However, Malan assured the Codel that there was no intentional surprise in the move and, in fact, President Cardoso had spoken the day before with Secretary Rubin and that day with Deputy Director of the IMF Fisher.

Finance Minister Malan closed with a related point, on which he asked the Codel for their assistance. The point related to Brazil's transparency on the amount of the public debt in the country. Unlike many other countries, Malan explained, the figure for Brazil's public debt includes not just central government debt, but also the debt of the 27 states and 550,000 local governments. Malan expressed his view that Brazil is often penalized in comparisons of the size of public debt in different countries because its debt figure includes many more items than other countries and, therefore, is not a fair basis for comparison.

Congressman English asked Malan whether, in view of the financial crisis that had affected so many countries in Asia, Russia and other countries, the international financial system needed to restore a restructured Bretton Woods system. Malan replied that he agreed that more structure was needed in light of the Asian and Russian examples. He noted that a process was underway in the Bank for International Settlements (BIS) to address problems such as regulation of leveraged funds. In addition, a proposal for a lender of last resort should also be considered. Such a lender could be the IMF or BIS or another entity. With respect to exchange rates, Malan foresaw the development in the longer term of three essential currency blocs, one each built around the yen, dollar, and euro.

Congresswoman Thurman asked Malan about the composition of the new Congress that would be seated in February 1999—whether it would make the government's job harder in getting its reform plan enacted into law. Malan responded that approximately 200 of the 513 legislators in the new Congress would be new, but that this would not present "a major discontinuity." Moreover, the Cardoso government was seeking institution of a procedure that would speed up voting in the Chamber of Deputies, thereby facilitating passage of the program.

Meeting with Minister of Development, Industry and Commerce, Ambassador Celso Lafer

Brasilia, Brazil; Thursday, January 14, 1999

Ambassador Lafer welcomed the delegation and thanked them for positive statements made to the press with regard to Brazil's recent currency devaluation. He expressed the Ministry's interest in issues of international trade and mentioned his personal involvement in recent WTO meetings in Geneva. He stated that while an interagency council of the Brazilian Government will ultimately make the decisions in future WTO rounds, his ministry will be heavily involved in the negotiations.

Chairman Archer returned the thanks, and stated that while the United States supports the WTO, there are certain aspects that must be improved. He added that the current framework needs more teeth and that it currently allows countries to delay compliance with their agreements by questionable means. As an example, he cited the European Union's actions with respect to imports of beef and bananas. He stated that the U.S. Congress will have to reaffirm the WTO in Congress next year and that he fears support is eroding. Last, Chairman Archer mentioned that any help Brazil could provide to persuade the WTO to take strong stands on such compliance cases would be good for everyone's sake.

Ambassador Lafer responded that he had served on a WTO dispute resolution panel in the past. He described these particular cases as "sensitive" but stated that he too believed it important to resolve such issues for the credibility of the organization. In essence, he agreed that the WTO needs more teeth but defended the process and structure, stating "we are better served with it than without it."

Shifting issues, Chairman Archer congratulated Ambassador Lafer on Brazil's passing a stronger intellectual property rights (IPR) law but stated it needs greater enforcement. He cited an estimated $125 million in U.S. products being pirated each year. To this, Ambassador Lafer responded that the Brazilian patent office is within his ministry and that he would investigate the issue of implementation.

Ambassador Lafer then asked the group what the outlook of the United States would be for the WTO negotiations on agriculture. Chairman Combest expressed the priority of trade issues to the agricultural industry in the United States adding that strengthening dispute settlement and enforcement authorities would be high on the list of topics for negotiating. Congresswoman Thurman asked Ambassador Lafer what potential problems he saw in the agricultural negotiations. He responded "many," citing problems with the EU because it cannot maintain its Common Agricultural Policy (CAP) at its current rate of subsidization; Japan and Korea have a similar problem in their rice and sugar programs; India has its food security issue; and Egypt will hold fast to its export promotion programs. The Ambassador concluded, however, that "with cooperation, there is room for much progress." Congresswoman Thurman pressed him on phytosanitary issues, to which he answered the science is complicated, but often the complaints are nothing more than trade issues. He went on to say that the Cairns Group (of which Brazil is a member) of developed and underdeveloped nations will push for and give much legitimacy to trade liberalization.

Chairman Archer asked Ambassador Lafer if the development of Mercosur helped or hindered an FTAA. The Minister answered that "it helps," explaining they are complementary efforts of a different nature.

Congressman Shaw brought up the issues of drug trafficking and trade in precursor chemicals. He noted that Brazil has a close proximity to some heavy drug producing regions and asked if there was anything the U.S. Congress could do to help Brazil in its efforts to stem these problems. There was too little time left to get into a complete discussion of these problems, and so Ambassador Lafer simply noted that it is a difficult and complex problem for Brazil, that compounded by the length of the inland border. Chairman Archer commented that "one area where the United States does not support free trade is in drugs," and the meeting came to a close.

The delegation then traveled to São Paulo, Brazil.

Consular Briefing by the U.S. Consul General Gwen Clare and Staff

São Paulo, Brazil; Friday, January 15, 1999

The meeting was opened at 9:30 a.m. at the U.S. Consulate in São Paulo, Brazil by Consul General Gwen Clare. In her opening remarks, she stated that it was difficult not to be impressed by the commitment and talent represented by the Brazilian Government team in addressing Brazil's economic problems and the current crisis sparked by the devaluation of the real. In her opinion, the real question is how the private sector reacts. She further commented that there was ongoing international criticism of the lack of international consultation leading up to the most recent devaluation and that the government's credibility as well as international confidence were critical (along with the reaction of American bankers) to a solution. She also noted that the Consulate's commercial office is the third largest in the world.

The Security Officer for the Consulate provided a confidential briefing on terrorism and terrorist threats in the region.

Congressman Watkins stressed his belief that the United States needs to encourage investment in Brazil, and the Consul General responded that Brazil was a huge market but not a cheap one in which to operate. Furthermore, she cited the government's continuing focus on public works projects.

The Labor Officer at the Consulate briefly commented on the unemployment rate, which he believes is understated. The lowest rate cited by government statistics is 8 percent, and that figure applies only to urban areas. Labor costs are 100 percent of wages compared to 40 percent in the United States.

Congressman English expressed his concern about the assistance that is available to small and medium size U.S businesses that are seeking to break into the Brazilian market. The Commercial Officer of the Consulate said that the level of services was good and said that 7,000 U.S. firms do business in Brazil. He has further been emphasizing distribution of information on the Y2K problem and has implemented a computer system to track all commercial cases or inquiries that the Consulate is handling.

The Agricultural Officer cited Brazil as both a supplier and competitor to U.S. companies and as a huge market for U.S. products. He said that Brazil supplies the United States with large quantities of coffee, citrus, and oilseeds. As an export market, Brazil is the top U.S. market for soybeans (raw). Many U.S. companies are now producing in Brazil versus 1990, and those companies, as well as the Consulate staff, are continually looking at new products and niche markets that can be opened to U.S. companies.

The U.S. Information Agency officer commented further on the Y2K issue. He made the observation that business in Brazil is far more concerned with addressing potential Y2K problems than is the Brazilian Government.

Congressman Shaw observed that, since arriving in Brazil, the delegation has heard that everything is being done right but it is clear that the economic problems and economic hysteria is shaking current confidence. It was the opinion of the Consular staff that Brazil is at a crossroads. It is spending too much and the federal deficit is growing. Thus far, it has been unsuccessful in its efforts to cut spending. It is concentrating on raising taxes which, in turn, is anathema to business. The consensus furthermore was that the next week in the Congress was critical. While the Congress has suspended a 60-percent increase in their own pay, the staff was skeptical of success in the effort to pass government pension reform.

Meeting with Panel of Bankers

Participants: P.J. Garrido, Senior Vice President, Bank America of Brazil; Geraldo José Carbone, President for Brazil and Northern Latin America of Bank Boston; Gustavo Marin, Global Corporate Bank Business Manager for Brazil of Banco Citibank; Alfredo Gutierrez, Managing Director for Brazil and Mercosur of J.P. Morgan; and Bernardo Parnes, Managing Director and President, Brazil of Banco Merrill Lynch.

São Paulo, Brazil; Friday, January 15, 1999

The Codel's questions and ensuing discussion focused on: (1) the impact of the Cardoso government's decision 2 days earlier (Wednesday, January 13) to replace the existing exchange rate band for Brazil's currency (the real) with a broader band that effectively allowed the real to devalue by approximately 9 percent in 1 day; (2) prospects for addressing the consequences of the devaluation, including a 23-percent decline in the stock market on Thursday, January 14; (3) possible next steps by the government and private sector in reaction to the unfolding situation; and (4) overall views by the banks represented of Brazil's economy and the likely effectiveness of the Cardoso government's efforts to reform and curtail government's involvement in the economy. Shortly after the meeting adjourned, the bankers and Codel learned of the Cardoso government's decision announced just that morning that the Central Bank would not intervene to purchase reais at the 1.32 real/dollar rate, thereby effectively allowing the real to float freely against other currencies, including the dollar. Following that decision, the stock market increased more than 30 percent that day. In the days and weeks that have followed, Brazil's stock market, exchange rate markets and other aspects of its economy have continued to experience sharp fluctuations in reaction to the developing economic situation and political efforts by the Cardoso government and the Congress to address Brazil's problems.

Chairman Archer opened the meeting by asking the panel what it anticipated for Brazil's stock market that day and beyond. Garrido responded that the market had fallen to an index level of 4600 earlier in the year in reaction to the Russian crisis and reached 5000 the day before (January 14), so it remained above its low for the year. Parnes said that he thought it could go as low as 3600.

Chairman Archer explained that the Codel had strongly emphasized in meetings with Brazilian Government officials the previous day the urgent need to continue implementing the Cardoso government's Real Plan. Now, it seems that more is needed. Gutierrez responded that the issue now is how quickly measures can be taken in a credible way to convince the markets that the government measures will be effective. Basically, he continued, the government has run out of time. The government's efforts over the last several months have disappointed the market, and the Cardoso government's decision this week to allow the currency to devalue has only played into the market's reaction. Garrido added that even if the Congress passes additional Real Plan measures this month, the new laws will have to be approved by the new Congress, which would mean waiting until June or July. Congressman Shaw interjected that the President of the Senate had told the Codel that all the measures would be in place by April. Garrido conceded that could happen. But, Marin commented that April could be too late. There was a $1.8 billion capital outflow yesterday, and a further outflow of $2.0 to $2.2 billion is expected today. That is not sustainable.

Chairman Archer asked the panel's view of the degree to which the real is overvalued. Parnes responded that valuation is not the key. The key is Brazil's ability to be front line to prevent spread of Asian financial/economic crisis. Carbone commented that one of two things will have to happen: controls imposed by the government on outflow of capital or a free float of the currency. Marin agreed that those were the only alternatives and added that the degree of devaluation is irrelevant. Gutierrez warned that neither step would be a panacea and each would bring its own set of problems. Carbone said that rumors were circulating that morning that the government was not intervening to sustain the new currency band, suggesting that it might allow a broader band or a float. The estimated value of the currency as of that morning was approximately 1.45 real/dollar (exceeding the 1.32 real/dollar upper limit of the band established 2 days earlier).

Chairman Archer commented that the political reality is that Brazil is a democracy not a dictatorship and that all the changes were not going to happen in the next 10 to 60 days. He asked, given that reality, how the private sector sees the situation unfolding and options for the government to manage the economic situation effectively. Marin said that the government had to take some steps immediately to begin to restore confidence.

Chairman Archer followed up to ask what would happen to interest rates if the currency were allowed to float freely. Gutierrez responded that interest rates would rise sharply, serving both as a tourniquet on the outflow of capital and a tourniquet on the lifeblood of the economy. Gutierrez added that, in his estimation, the government had committed a major, major mistake with its January 13 devaluation. Parnes responded that in Mexico's case, capital flowed back within 9 to 18 months. Chairman Archer commented that Mexico had NAFTA, whereas Brazil does not. Carbone interjected that Brazil, like Mexico, has a solid and major industrial base. The two challenges for Brazil will be to avoid returning to the indexed inflation of the early 1990s, which led to soaring rates of inflation, and to continue reforms. He said there was a very high probability in his view that the government would allow the real to float freely.

Garrido said that her principal concern was indexation. Under that system, everything in the economy—prices, salaries, interest rates—all were indexed to inflation. This system hurt Brazil's poor the most, since others could put their money in bank accounts, which would earn interest also indexed to the rate of inflation. This system created a vicious inflationary cycle. But, while the country suffered as a whole and the poor in particular, rich and middle-income individuals were effectively protected, so there was little pressure to reform. Gutierrez agreed and added that the government now has to do more than it announced in November in order to restore confidence because expectations have grown.

Chairman Archer said that some U.S. policymakers have raised the possibility that if the devaluation had been greater, then interest rates could have actually gone lower. He asked for the panel's reactions. Gutierrez agreed. The broader currency band is the worst of both worlds since it creates uncertainty over the ultimate value of the currency. Once the real finds a new level in the market, then interest rates can begin to adjust and fall. Until then, rates will need to remain high in order to continue to attract capital. Marin added that, with respect to inflation, there are two ways the situation could evolve: (1) indexation; or (2) the Argentine model—essentially, allowing a recession to occur.

Congressman English asked whether the new President of the Central Bank was a good appointment—whether he enjoyed the respect of the business community and others. Gutierrez responded that he was a solid man but added that in the current crisis, that would not be a major factor in helping to calm and resolve the situation.

Congressman Shaw asked the participants what they thought the impact of the Brazil situation would be on the rest of South America. Garrido said that the key players are Argentina, which holds a presidential election in 2000, and Mexico. Marin commented that Argentina is doing well—with good liquidity, little movement in the Argentine peso against the U.S. dollar, and stable interest rates. He said that overall Argentina is in good shape to weather the current situation, much better shape certainly than in 1995, because it had sustained a recession and economic transformation. He expected a market contraction over the next year of approximately 1 to 2 percent, but that the government's mind set is to retrench and defend the currency, not inflate the economy.

Carbone interjected that some assume the devaluation of the real would be the end of the world, but he disagreed. He sees Brazil as undergoing a 10-year process of transforming its economy. If the current situation is handled well (that is, not return to the inflationary indexation system), Brazil will be in much better shape a year from now. The problem, he said, is that the week's devaluation occurred in the middle of a difficult situation—the government's ongoing attempt to make painful adjustment. Gutierrez commented that the problem in his view is that the government put the cart before the horse. The government helped to create a panic because it attempted to lower interest rates at a time when rates should remain high, since the government has not taken the steps necessary to put its fiscal house in order.

Chairman Archer asked if there is anything he, the Codel, or the U.S. Congress back home could do to help bring the current situation to a sound and positive conclusion. Marin stated that the situation has to be resolved by Brazil. Garrido said that the world, including Brazil, believes that the only country that can really affect change is the United States and that the U.S. Congress and President are distracted with the impeachment debate. Chairman Archer commented that on the trip the only issues that the Codel discussed were issues of trade and economic relations and that the Ways and Means Committee will continue to focus on those issues and other issues within its jurisdiction.

Congresswoman Thurman asked whether there are particular messages the members of the Codel and Members of Congress should send to businesses and foreign government officials in meetings in the United States and elsewhere, in addition to the points the Codel has already been raising. Gutierrez commented that he and his clients are focused on Brazil's strong potential over 10 years, not focused as much on the current situation. Garrido commented that, although she often sounds a cautious note, she would point out that she came to Brazil as a skeptic but believes that Brazil has privatized to the extent no other country has done so.

Chairman Archer asked what, if anything, is different in Brazil's market fundamentals today as compared with a year ago that would precipitate the current economic problems. Garrido responded that there is nothing in Brazil's fundamentals; rather, it was the international situation that had changed and helped to precipitate the current situation. Carbone added that Brazil is exposed to the global financial/economic problems because it is a net borrower. Marin added that international investors' appetite for risk has changed dramatically because of the Asian crisis.

Luncheon Hosted by the American Chamber of Commerce

São Paulo, Brazil; Friday, January 15, 1999

The luncheon began at 12:30 p.m. at the new headquarters building of the São Paolo-American Chamber of Commerce. The Amcham have recently relocated to its own building in which it offers space for American businesses to operate, in addition to Chamber activities.

Chairman Archer was introduced by the President of the Amcham. In his remarks, the Chairman stressed that impeachment is not going to dominate the agenda of the new Congress. He stressed his belief that the Amcham and its member companies should always remember that their success in operating overseas was America's success. Export jobs in the United States are far better jobs and pay more than jobs for the U.S. domestic market. Unfortunately, in his opinion, there is a disconnect between Americans and international business. He stressed his commitment to replacing the U.S. income tax system with a consumption tax in order to give America a fair advantage in international markets, rather than the disadvantage U.S. tax laws currently place on all American business activity overseas. He detailed the interrelationship between tax policy and success in international business.

Congressman Dickey raised the issue as to whether Brazil will face up to the need to cut its spending. The Amcham President responded that, for the first time, the government is debating new issues of critical economic importance. It is a democracy, but a young democracy. There is no voting by individual voting districts but rather through slates of candidates by city or state. He explained that the country is being run by professors who are not responsive to the Congress but that the Congress is learning and Brazil is more democratic than the world gives it credit for being. At this time, the populace is more concerned about fiscal stability, which is what it voted for in the recent election. Tax revenues are now going to support a bloated bureaucracy. Further, there is no institutionalized system for business to influence government or seek redress of its grievances. The Brazilian business community is very concerned as to what will be the reaction of the United States to the latest devaluation of the real. Chairman Archer relayed that the U.S. State Department was shocked at not receiving advance notice of the devaluation given the IMF package. Congressman Watkins added in response to earlier comments that companies need to get involved at the grassroots to have an impact on Brazilian Government policies.

Roger Blacker, an economist, commented that Brazil did not know that it was going to have to devalue and the situation had gotten out of hand. A protest by Ford Motor workers and the Minas Gerais debt suspension added to the uncertainty, along with a substantial capital outflow. The real fear, he believes, is hyperinflation if the new exchange rate fails. He noted that Brazil is the only nation that declares all debt (federal, state, and municipal) as part of the national debt.

Mr. Marcello commented that the profitability of U.S. companies in Brazil has been outstanding. At this moment, Brazil's national position is vulnerable and it needs U.S. support politically. In addition, Brazil's private sector needs U.S. support.

P.J. Garrido, Managing Director and Country Manager for Bank of America, commented that the IMF is crucial because there is no substitute for its role. She declared that the United States must stand by democracies and that Brazil's democracy works best when it is under pressure. She believed that Brazil will pass the necessary reforms and that pain is being felt here. Observers should look for layoffs in state jobs and whether the Congress makes the government workers pay into the social security system as indicators of the commitment to reform.

John McCarter of GE Latin America insisted that, in his opinion, Brazil is indeed making the changes it needs but the Constitutional process is difficult. He made the point that the Congress is feeling the pressure to act for the first time in a long time. He reflected that the government that privatized has been re-elected, is an important sign of change. In addition, he pointed out that a large part of the public debt is attributable to the former public sector that has now been privatized.

Congresswoman Thurman added that Americans are supportive and that the delegation's meetings in Brasilia and São Paolo have been positive. Furthermore, she cited Chairman Archer's press release on the delegation's positive impressions.

Chris Lund, an American who has been in Brazil since 1962, related his own history and how he had seriously considered giving up his U.S. citizenship over tax issues but decided, in the end, that no price could be placed on American citizenship. He felt that in looking at Brazil, the delegation's personal observations will be critical. The dimensions and problems of Brazil's democracy are tremendous but he will always be biased for democracy and for Brazil. He believes that there is a danger in grouping Brazil with every other country. He declared that Brazil is not Russia or Indonesia; No longer do private interests control Brasilia. There has been a profound cultural change in Brazil. Ten years ago, the reaction would have been "IMF go home." Now the reaction is "IMF Welcome." Furthermore, Brazil's banking system is not like Thailand and is now sound without a property or asset bubble.

Congressman English asked if the IMF prescriptions or solutions are right for Brazil. A clear majority of the Amcham members present said yes, noting that the reality is that Brazil wrote its own plan after learning the lessons of earlier IMF bailouts.

Meeting with the Industrial Association of the State of São Paulo (FIESP)

Participants: Carlos Roberto Libone, First Vice President; Roberto Faldini; Luiz Fernando Furlan, Second Vice President and Director of International Relations

São Paulo, Brazil; Friday, January 15, 1999

The delegation then met with FIESP, an organization of Brazilian businessmen. Mr. Liboni began the meeting by pointing to the "wrong actions" that the Brazilian Government has taken in the past, recognizing that the Brazilian currency has been overvalued. The recent exchange rate devaluation, he said, allows the market to determine the true value of the currency. Brazil, having devalued, is now in a better position. He stated that he looks to the future with optimism. Mr. Furlan pointed to some common misconceptions about the Brazilian economy. The first is that something must be wrong because prices are so high. Mr. Furlan stated that the problem has been the overvalued currency, which caused Brazil to lose market share. He said that the Brazilian stock market has responded favorably to the devaluation and that exporting companies will benefit from the change. Industries that depend on credit have suffered because of high interest rates, amounting to 9 percent per month. He pointed to a segmentation phenomenon within Brazil in which several industries are doing well despite the crisis but on average Brazil is not growing. However, he concluded that Brazil will be able to implement its fiscal adjustment.

Mr. Faldini stated that he believes the press coverage of the crisis has been unbalanced. Brazil has actually opened its economy considerably to world markets and has abolished uncompetitive policies. Tariffs have been reduced from 32 percent to 17 percent, and industrial production has grown 7.5 percent per year for the last 8 years. Privatization has raised $16 billion and has been successful in the areas of steel, petrochemicals, telecommunications, rail, and electricity. Subsidies are disappearing. The banking system has been "cleaned up" so that weaker banks have been bought and state banks are no longer used for "pet projects." Inflation has decreased from 50 percent per month in mid-1994 to below 2 percent in 1998. Brazil, he said, is in a period of stability. President Cardoso will be in office for 8 years, and his economic team has an international reputation of competence, quality, integrity, and experience. There are still problems, he said, but the trend is upward. Brazil has been in transition to democracy, and democracy "makes it harder to get things done." It is important to have U.S. support, he concluded.

Chairman Archer responded that the delegation came to South America because of its importance and not because of the crisis. Too long, he said, the United States has been complacent about South America. He promised to report back that he is confident that Brazil will keep its commitment to the IMF package and that all structural reforms will be put in place as rapidly as possible given that Brazil is a democracy. He stated that he realizes the process will be slow. He also said that often change is not made until real pressure is brought to bear. Perhaps the recent devaluation, he stated, might help to spur Congressional action. He asked the participants whether they believed that the IMF reforms would be enough, saying that they may need to be increased, but he felt confident that Brazil would do its part. He also emphasized that Brazil must resist the temptation to slide into protectionism. He then spoke about fast track, promising to put fast track before the U.S. Congress shortly. He noted that he could not guarantee the outcome of the House consideration, but he noted that fast track is important to U.S. negotiators in eliminating foreign barriers, particularly in agriculture. The United States, he said, is afraid to "unilaterally disarm" in the area of agriculture and needs trade negotiations to bring about such reform. He concluded by pointing to the opportunity that trade negotiations present, adding that when one "starts with South America," one must "start with Brazil." Chairman Archer noted that agriculture is always the most sensitive issue. The key to reducing barriers, he said, is Europe. If the United States obtains fast track and begins negotiations to reduce agriculture barriers, particularly with Europe, then the United States will systematically reduce its barriers, benefiting Brazil.

Congresswoman Thurman agreed, noting that Europe is not the only country with barriers. She pointed to the need to remove nontariff barriers to trade all over the world, particularly in the area of sanitary and phytosanitary barriers. She pointed to citrus trade as an example where the United States thought that it could open markets in Mexico but has sold no oranges and where Japan refuses U.S. grapefruit. The United States, she added, opened its market to foreign tomatoes and lost $850 million.

Chairman Archer noted that he does not like quotas, but the United States does resort to them, such as in sugar and textiles. As a result, U.S. consumers suffer. Although such quotas are WTO-legal, the United States must lead in changing the rules of the WTO and implementing the new rules, leading to a much more open market.

A FIESP member asked whether fast track would be broad or limited to specific negotiations. Chairman Archer responded that fast track could take any form. He then explained the constitutional reasons for fast track, noting that the President cannot negotiate trade agreements without authority from Congress. As a result, he said, only trade issues should circumvent the normal legislative process, and in his fast track bill he has limited fast track to those issues directly related to trade. He expressed his fear that the administration will disregard to economic costs of linking nontrade issues to trade agreements. The Democrats, he said, are insisting on broadening fast track to include such issues, but to do so would lose Republican votes. Congressman Dickey added that Congress is not giving up its legislative responsibility because it must still vote on the agreement after it is negotiated. Organized labor, he added, does not support fast track because it does not want to open the U.S. market. More support from business, he said, is necessary for fast track to be successful. When asked about timing on fast track, Chairman Archer said that he hoped to report fast track out of the Ways and Means Committee within 2 to 3 weeks, but that full House consideration was less certain.

Attachment A

NEWS

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
January 7, 1999

CONTACT: Ari Fleischer or Trent Duffy
(202) 225-8933

Archer to Lead Congressional Delegation on South America Trade Mission

WASHINGTON -- Rep. Bill Archer (R-TX), Chairman of the Committee on Ways and Means, announced today that he will lead a Congressional Delegation to Venezuela, Chile, and Brazil to promote bilateral trade and to study the retirement security system in Chile. The delegation departed on January 7th and is scheduled to return January 16th. The specific itinerary cannot be released due for security purposes.

The purpose of the mission is to explore bilateral, regional and multilateral trade opportunities, including specific opportunities for the U.S. agriculture industry in South America. The delegation will meet with top trade officials and American embassy officials to discuss the Free Trade Area of the Americas (FTAA) agreement and the upcoming World Trade Organization (WTO) negotiations.

General areas of interest for each country include:

Chile: Explore the potential for free trade agreement with Chile and study the retirement security system.

Venezuela: Discuss the effects the Chavez government will have on trade liberalization in Venezuela.

Brazil: Study the impacts of the financial crisis in Brazil and assess the reform measures that have been implemented to address the crisis.

The Congressional Delegation is comprised of the following Members of Congress:

- Rep. Bill Archer (R-TX)
- Rep. Larry Combest (R-TX)
- Rep. Jay Dickey (R-AR)
- Rep. Phil English (R-PA)
- Rep. William Jefferson (D-LA)
- Rep. E. Clay Shaw (R-FL)
- Rep. Karen Thurman (D-FL)
- Rep. Wes Watkins (R-OK)

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Attachment B

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515–6348

January 12, 1999

The Honorable William J. Clinton
President
The White House
Washington, D.C. 20500

Dear Mr. President:

We are currently in South America as an official Congressional delegation to explore bilateral, regional, and multilateral opportunities for expanding markets for U.S. goods and services. Last week, we traveled to Venezuela to meet with senior officials of the Venezuelan government, including President-elect Chavez, because of our interest in examining the likely trade policy of the new government.

We were very impressed with President-elect Chavez's comments to us, which showed his strong belief in democratic principles and processes and in trade liberalization. He faces a daunting task in reforming the troubled Venezuelan economy, but he appears ready to accept the challenge. As you know, President-elect Chavez was chosen by the people of Venezuela in a peaceful, democratic election. We have high hopes that he will be able to maintain stability in Venezuela and pursue policies friendly to the United States.

The success of U.S. investors and U.S. companies in Venezuela, and our workers employed by those companies back home, is dependent on his ability to succeed. We firmly believe that the United States should provide as much support for Venezuela as possible at this critical point in its history.

Accordingly, we urge you to receive President-elect Chavez in Washington as soon as possible and to engage in a dialogue with him to reinforce the value of democratic institutions and an open, liberalized economy. Such a visit would encourage the trade liberalizing endeavors that are so important to us and would send a significant signal to Venezuela, and to President-elect Chavez in particular, that the United States strongly values its relationship with Venezuela.

With best regards,

Bill Archer	Larry Combest
E. Clay Shaw, Jr.	Jay Dickey
Philip S. English	Wes Watkins
William J. Jefferson	Karen Thurman

THE WHITE HOUSE

WASHINGTON

February 3, 1999

Dear Mr. Chairman:

Thank you for your letter concerning your trip to Venezuela. I appreciated your assessment of President-elect Chavez and your recommendation that I meet with him.

I am pleased to report that I had a good meeting with President-elect Chavez on January 27 during his trip to Washington. Like you, I was impressed by his enthusiasm for tackling the challenges facing Venezuelan society, and I assured him of our support for political and market-oriented economic reforms carried out in a democratic and constitutional framework.

Again, thank you for writing. I look forward to working with President-elect Chavez following his inauguration.

Sincerely,

Bill Clinton

The Honorable Bill Archer
Chairman
Committee on Ways and Means
House of Representatives
Washington, D.C. 20515-4307

Attachment C

Embassy of the United States of America
Caracas, Venezuela

AMBASSADOR

February 8, 1999

The Honorable Bill Archer
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515-6348

Dear Chairman Archer:

President Hugo Chavez was inaugurated on February 2 as Venezuela's new president. Your thank you letter to Chavez arrived last week and it was delivered today.

President Chavez traveled to Washington on January 27 to meet with President Clinton, Secretary Richardson, Secretary Rubin, and IMF Managing Director Michel Camdessus. The January 12 letter that you and the members of your delegation sent to President Clinton urging him to meet with President-elect Chavez was instrumental in helping this meeting take place.

You will also be pleased to know I was able to sign our Bilateral Tax Treaty with Foreign Minister Miguel Angel Burelli Rivas on January 25. Once again your interventions during your January 7-9 visit to Caracas were instrumental in getting this agreement signed during the final week of the Caldera government.

President Chavez plans to return to Washington on February 24 to participate in Vice-President Gore's Anti-Corruption Conference. We understand that he hopes to meet with members of the U.S. Congress at that time. I hope that you will be able to meet with him to urge continued progress on our bilateral economic agenda. Of particular interest are the signing of our bilateral investment treaty and the early ratification of both the tax and investment treaties.

As you can see, your most recent visit was very productive. Please extend our thanks and appreciation to the other members of your delegation.

Sincerely,

John F. Maisto

P.S. President Chavez also plans to be in Houston on February 25-26 following his Washington visit. I'll provide you his Houston program as soon as we get it.

Attachment D

STATEMENT OF CONGRESSWOMAN KAREN THURMAN
A CELEBRATION OF WOMEN'S RIGHT TO VOTE IN CHILE
JANUARY 11, 1999

I would like to thank you for inviting me to celebrate with you this momentous and exciting occasion. This is truly a celebration-a celebration of a woman's right to vote. A celebration of a victory that has implications for every aspect of life: in the home, on the job, in communities and in government.

It is also a coming together, much the way Chilean women came together to win the right to vote fifty years ago. This year represents the tremendous positive changes brought about by countless number of women who planned, organized, lectured, wrote, marched, petitioned, lobbied, paraded, and broke new ground in every field imaginable. These women have irrevocably transformed the country of Chile and the world.

Let those who question whether the lives of women matter to political and economic progress around the world look at the women gathered here. I commend all of you for pressing governments and people everywhere to listen and look at what happens when women's voices are allowed to be heard.

This country has much to be proud of in the legacy of the women's rights movement, and a great deal to celebrate today. Women will have their greatest representation on the Chilean Parliament when Congress resumes in March. As a Member of the House of Representatives in the United States, where women will also be marking their largest representation this year, I know how remarkable and important this achievement is. This increased presence will be seen on all levels--economic, political, social, and legal.

Chile and the United States share many similarities in their fight to win suffrage for women. Women's movements, both in Chile and the United States, emerged at a time when women were fighting equality in education, in employment, in government and in basic human rights. In both countries, women braved enormous challenges to change our world for the better.

You have fought long and hard for the right to vote. That is why this celebration today is so very significant--it brings attention to the importance of women's accomplishments and provides a tool for learning about the history of women's action and participation in Chilean life.

Chilean women, from their early struggles for better labor conditions and more general equality for women, developed a great sense of organizing themselves within

Chile's political structure. I applaud and appreciate these contributions that transformed the Chilean political landscape.

Today, still, I am encouraged to see that Chilean women are involved in campaigns for peace, defense of the family and human rights. Through the creation of the National Women's Service, you are working to reduce poverty, particularly for women, and to eliminate all forms of violence against women. You acknowledge the need to foster better employment opportunities for women and reduce the pay gap between men and women. You understand the importance to work within political parties in order for more attention to be placed on gender issues within the media and the government.

I would like to honor you all today not as members of a women's movement, but as "women in movement." I think this is a much more fitting description of the flow of activities and ideas that are mobilizing women in Chile and around the world.

In my country we recently celebrated the 75th anniversary of women's suffrage. It took 150 years after the signing of our Declaration of Independence for women to win the right to vote. It took years of organized struggle on the part of many courageous women and men and we are still learning from this lesson. There is much work left to be done.

What I have learned from the American suffrage movement and throughout my service in the House of Representatives is that the best way to get things done politically is by coming together, regardless of party identity.

Recently, the Congressional Caucus for Women's Issues celebrated 20 years of leadership. The Caucus is an organization of women Members of the House of Representatives who have put their partisan differences aside to advance issues of particular importance to American women and families, such as education, health care, teen pregnancy and economic equity.

The Caucus is an excellent example of bi-partisan advocacy that has been responsible for changing the daily rhythms of American life.

Since 1997, Caucus members have worked together on 14 legislative teams sharply focused on issues pending before Congress. In July 1997, the Caucus held its first-ever hearing. It examined the educational needs of children from 0-3. A second hearing examined the financial needs of women businessowners.

Over the years, Caucus members have championed issues that are important to groups of people from across the political spectrum. From health care to domestic violence, child care, retirement security, and equitable pay, the Caucus has improved the lives of Americans by abandoning their partisan differences.

As the number of Congresswomen has grown, so too has their influence. Members of the Caucus are moving up the ranks of leadership in both the Democratic and Republican parties. In 1990, when the Caucus launched an investigation into the exclusion of women from clinical trials by the National Institutes of Health, not one woman sat on the appropriations subcommittee that oversees NIH's funding.

In this past Congress, four women served on that subcommittee. The influential Ways and Means Committee, which is responsible for nearly two-thirds of the federal budget, currently includes three women Members. I am proud to be one of these women and the only female Democrat on the Committee. Women now sit on every committee in the House and they are making a difference.

The Caucus has also served as an inspiration and a model for women parliamentarians the world over--whose image of American democracy is shaped in part by the example of women from different political parties working together to improve the lives of all women and families.

Women must enjoy the right to participate fully in the political lives of their countries if we want freedom and democracy to thrive and endure.

The international attention being placed on gender issues is giving women around the world a new voice for democracy. Another historic breakthrough for electoral rights of women will be taking place this year on March 8th. On this date, the country of Qatar will become the first country in its immediate region to institute electoral rights for women. The country of Qatar has recognized that the push for democracy cannot be fully accomplished without the inclusion women.

Indeed, what many governments are learning is that if women are full and equal partners in society, their countries will flourish. That is why every woman, every man, every child, every family and every nation has a stake in the discussion that takes place here. When barriers to political participation are torn down, the rights of all citizens can be better protected.

Someone for whom I hold tremendous respect as an individual who takes, very seriously, her position of interpreting the law and equally protecting the rights of all is United States Supreme Court Justice Ruth Bader Ginsburg. Only the second female to be appointed Supreme Court Justice, Ruth Bader Ginsburg is considered by some as "the legal architect of the modern women's movement." Upon learning the history of women's rights movements, she stated, "I think about how much we owe to the women who went before us-legions of women, some known but many unknown. I applaud the bravery and resilience of those who helped all of us- you and me- to be here today."

I am inspired and proud to be here today, to share my experiences and to represent women's participation in democracy. Thank you all for your hard work and thank you for paving the path for women to walk down the road of democracy.

Attachment E

MISSING BUSINESS OPPORTUNITIES

Testimonials, August 1998

This document has been produced by the Research Department at Amcham-Chile. For any further comments, inquiries, or other documents on the Chilean - US business relation please contact Florencia Möring at (562) 290 – 9733 or fmoring@entelchile.net

EXECUTIVE SUMMARY

Continuing Amcham-Chile's efforts to promote free trade, our Research Department interviewed several companies giving concrete examples as to the implications for the business community of not having a free trade agreement between Chile and the US.

Bellow fourteen testimonials are being presented. This small number of businesses account for over US $200 million lost in 1998 by US enterprises to companies with production in other countries that have a free trade agreement with Chile. Furthermore, Amcham's research stipulates that so far, over US $2 billion have been lost since the invitation of Chile to join Nafta in 1994. However, none of these numbers take into account further anecdotes and situations that are not able to be quantified as the decision of a company to enter Chile's market due to a tariff.

In general, US products are always preferred due to their established quality standard, innovative leadership, and other logistic matters such as punctual delivery. However, without a free trade agreement between Chile and the US, American products, having an 11% tariff, are less competitive than other countries' products.

Since Chile's structural adjustment was implemented in the early 80's, exports have become one of the fundamental pillars for Chile's economic growth, Chile has unanimously seeked to establish free trade with the world. Today, Chile has free trade agreements with all the countries of the hemisphere with the exemption of two, the US and Cuba. Still, with Cuba Chile is starting to negotiate an agreement. Furthermore, Chile has signed NAFTA like agreements with two of the NAFTA members, Canada and Mexico. Moving on to other parts of the world, Chile is a member of APEC, an associate member of MERCOSUR, and is in the process of strengthening its commercial relations with the European Community. Thus, the US is diminishing it's leading role as Chile's main trade partner and foreign investor, opening a door for other countries like Canada and Japan to become influential partners.

Not having a trade agreement has consequences other than just diminishing trade, such as loosing the opportunity to further technical assistance and training that many products entail. Furthermore, margins for US products are made smaller costing US businesses the opportunity to expand in the Chilean market or forcing them to swallow the price difference just to be competitive, two measures that damage American companies performances. Additionally, companies establish relationships with manufacturers and suppliers, making it harder for US industries to regain their lost share of the market. Today, US products have for some become the exemption, not the rule when they need to import products. As a result, the US labor force loses out on significant manufacturing opportunities.

Over the three years that NAFTA has been in effect, US exports have increased 37%, which implied one third of the economic growth of the country. Last year alone US exports to Mexico grew 23%, implying 175,000 new high- wage jobs. To remain competitive in the international marketplace, the US, must work towards the further elimination of trade barriers. As stated by Mr. Rodrigo Infante from the Asociación de Productores de Salmon y Trucha de Chile, "a free trade agreement with the US is a win-win situation for a larger flow of products and enhanced relations between both countries". In conclusion, This report demonstrates that a Chile-US Free Trade Agreement, or Chile's accession to NAFTA, would benefit both the US and Chilean economies.

COMPANIES
MISSING OPPORTUNITIES

COMPANY	INDUSTRY	AMOUNT OF BUSINESS AFFECTED (US$)
Asociacion de Productores de Salmon y Trucha de Chile	Fisheries	$100 million
Burger King	Fast food	$ 900 thousand
Cariola Abogados	Legal Services	Undetermined
Carr & Co.	Industrial Equipment	$3 million
Carrier Chile	Air-conditioning	$4 million
Eimco/Wemco	Mining equipment	$35 million
Eli Lilly de Chile	Pharmaceuticals	$3 million
Esso Chile	Fuel	Undetermined
Lubrizol de Chile	Lube Oil Additives	Undetermined
Methanex	Methanol	$17 million
Oxychile	Chemicals	$15 million
Procter & Gamble	Cosmetics and Health Products	Undetermined
Showorks	Trade Shows	Undetermined
Southwestern Bell, SCBI (VTR)	Telecommunications	Undetermined
XEROX	Business machinery and supplies	$30 million
15 companies	**15 different industries**	**Over US$ 200 million**

TESTIMONIALS

ASOCIACION DE PRODUCTORES DE SALMON Y TRUCHA DE CHILE (APSTC)
Rodrigo Infante Varas, General Manager

While they mainly import from Norway and Scotland, at present, APSTC also imports US products worth approximately US $100 million each year – including salmon eggs, incubators, tanks, oxygen meters, computers, and software. However, the potential to import more exists and, were there no tariffs on US products, greater influx of US expertise in aquaculture would certainly develop. Without the 11% tariff, US machines and equipment, as well as training courses would be much more affordable and accessible to the Chilean fishing industry.

Furthermore, while the lack of a bilateral agreement doesn't necessarily interfere with APSTC's exports per se, it does raise some important issues with respect to the recent dumping litigation. "If we would have had NAFTA," notes Rodrigo Infante, "the anti-dumping case might have avoided the lengthy and expensive litigation in the US Department of Commerce, being settled instead, more efficiently and at a lesser cost, by the dispute settling agency that NAFTA specifically provides for. This would have saved both sides time and money. Alternatively, Chile's free trade agreement with Canada specifically bans dumping suits. Such a provision in a bilateral agreement with the US would have made the present anti-dumping litigation altogether moot. With respect to the big picture, Rodrigo Infante adds, "A free trade agreement with the US is a win-win situation for a larger flow of products and enhanced relations between both countries."

BURGER KING
Santiago Padilla, Manager of Acquisitions and Foreign Trade

Burger King imports approximately US $75 thousand per month in potatoes to supply its restaurants in Chile. Because of the 11% tariff on US goods, however, Burger King has decided to purchase its potatoes from Canada instead of the United States.

CARIOLA ABOGADOS, LTDA.
Francisco Illanes, Partner

The lack of a bilateral free trade agreement with the US also has an effect on the service industry. As a leading international law firm in Chile, Cariola Abogados represents many foreign business interests. Were a NAFTA-like agreement in place, Chile would be an even more attractive place for Americans to do business. More Americans doing business in Chile would mean more clients in need of the kind of legal services that Cariola Abogados provides. Secondly, as a result of the trade agreements that Chile has with other countries, such as Mercosur, law firms in corresponding nations have formed alliances to better facilitate the international business transactions that their respective clients wish to perform, or they more actively market their legal services. In this respect, American as well as Chilean law firms are losing out on the possibility of jointly assisting clients. Businesspersons also lose the chance to have their situations handled more efficiently from both the States and Chile.

CARR & CO.
Derry U. Shaw, Managing Director
Carlos Cartagena, Engineer

Carr & Co. operates as a manufacturers' representative and/or exclusive distributor for several important US companies supplying mining, mechanical and electrical equipment. Annual turn over reaches the several million-dollar mark. As importers/distributors of US products into Chile, Carr & Co. suffers from a disadvantage because of local tariffs imposed on goods imported from the US that increase costs by 13% to 15%, as opposed to other countries that have reciprocal trade agreements with Chile. Profit margins for Carr & Co. are fairly modest due to worldwide competition (especially from Europe and Japan) so the elimination of current tariffs would make their products more competitive. The Free Zone of Iquique has been a help as stocking equipment there creates the advantage of fast deliveries and postpones the tariff payments until the date that sales are actually made.

CARRIER CHILE
Alfredo Rodriguez, General Manager
Jorge Eduardo Uribe, Finance Manager

Carrier Chile is a subsidiary of United Technologies, the largest worldwide manufacturer of air conditioners and air conditioning equipment, with worldwide sales of approximately $6 billion a year. Operating independently since January 1996, Carrier Chile is the largest supplier of such equipment in the country, designing projects and supplying equipment for clients such as the Sheraton Hotel, the Hyatt Hotel, and others. At present, approximately one half of Carrier Chile's imports come from countries outside of the US, due to the lack of a bilateral trade agreement. Because of US manufacturers' commitment to quality, reliability, punctual delivery, as well as their geographic location, Carrier Chile prefers to import from the US. Punctual performance is critical for many of Carrier Chile's projects, but the 11% tariffs mandate that they look elsewhere for suppliers, in order to minimize costs. Another problem that faces Carrier Chile, whose chiller factory is based in the US, is that its chief competitor has a chiller factory in Mexico. Carrier Chile oftentimes cannot compete with them, due in part to the 11% tariff, so their US manufacturer lose the opportunity to sell chillers, and Carrier Chile loses the opportunity to sell their services in both the short and long term (providing equipment and controls, replacement parts, and future maintenance contracts).

EIMCO/WEMCO
Juan Carlos Kovacic, Regional Manager

Specializing in mining equipment (such as flotation cells and filter presses) and water treatment facilities, EIMCO/WEMCO handles approximately US $35 million a year in business in Chile. Up to now, they feel that they have been able to maintain a competitive place in the market, successfully winning both municipal and private projects. On average, EIMCO/WEMCO imports $15 million annually in products, mainly components and gears, mechanisms, valves, and instruments. Although EIMCO/WEMCO is a US-owned company and has a manufacturing plant in Salt Lake City, they are constantly having to evaluate the trade-off between having imports from the USA, where they have quality control and respected expertise, and other countries, such as Canada, that lack the technical expertise they prefer. Unfortunately, in such a competitive market, oftentimes it makes more sense to simply buy from countries where no duty exists. Thus, in the short term, importing US products without a tariff would make them more competitive in bidding for projects. In the long term, a US-Chile free trade agreement would also make after sales technical support, such as engineering and drawings, labor and maintenance, a more affordable option.

ELI LILLY DE CHILE
Edvard Philipson Morales, General Manager

Having reentered the Chilean market in 1996, Eli Lilly de Chile sells approximately US $3 million annually and its business is still growing. A subsidiary of US-based Eli Lilly and Company, Eli Lilly de Chile imports almost 50% of its pharmaceutical products from the United States. However, given the 11% tariff on US imports, Eli Lilly de Chile is ready to increase its sourcing from Mexico. "A global company with alternatives to importing from the United States, Eli Lilly worldwide is not losing," notes Edvard Philipson. "However, the US is losing out as more and more imports are sought from elsewhere."

Chile's continued exclusion from NAFTA has affected Eli Lilly de Chile, and the pharmaceutical industry in general, in other significant ways. Chilean patent law does not provide the same level of pipeline protection as NAFTA. Consequently, it is estimated that Eli Lilly de Chile lost more than $24 million over a five-year period, due to copies of Prozac. Unsurprisingly, after doing business in Chile during the early 80's, Eli Lilly shut its doors until 1996. An important incentive for reentering the Chilean market has been the possibility of Chile's inclusion into NAFTA. The intellectual property rights afforded in the NAFTA agreement include protection for pharmaceutical patents that have already been granted if the product has not yet reached the market (pipeline protection). This would allow the research based pharmaceutical industry to operate with less risk of loss due to copies of their products being manufactured and sold.

ESSO CHILE
Mark Pettersen, Supply Manager

By the year 2003, Chile is expected to have a fuel demand of 280,000 barrels a day and will probably only produce 220,000 barrels daily. The other 60,000 will need to be imported. Some fuel is already imported, approximately 30,000 barrels a day in 1997. Most of these imports come in from Argentina, Venezuela and the United States. At present, fuel being imported from Venezuela and the United States is subject to an 11% tariff, but there is talk of reducing the Venezuelan tariff to the same as Mercosur countries, ranging from 4.95 to 7.7%. Furthermore, shipping from the US is more expensive, due to its geographic location as well as the fact that US legislation mandates the use of more sophisticated and expensive ships. As a result, importing from Venezuela and Argentina becomes a more attractive option, even for Esso which would prefer to buy more from Exxon's US based refineries.

LUBRIZOL DE CHILE
Eduardo García, General Manager

Lubrizol de Chile is a branch of Lubrizol International, one of only six or eight companies in the world that specialize in the production and distribution of lube oil additives. Since Lubrizol de Chile does not have a local plant, it imports and distributes approximately $15 million worth of additives each year. Prior to Mercosur, these imports were supplied almost exclusively by Lubrizol's Houston-based plant. Since Mercosur, however, Lubrizol de Chile has begun to import about 5% of its needs from Brazil for several reasons. First, Mercosur has a 1.65% tariff on lube oil additives, as compared to the 11% tariff placed on US imports. Importing from a Mercosur country also has its advantages on the export side. Raw materials, such as lube oil additives that originate in Mercosur countries are considered "regional components" of the finished products that they are used to create. The resulting finished products, such as motor oil, containing such "regional components" are granted a reduced tariff (3.6% as opposed to 7.7%) when exported from Chile to other Mercosur countries. As a result, without a free trade agreement between the US and Chile, Lubrizol expects that there will be even more business diverted from the US to Brazil. As a subsidiary of Lubrizol International, Lubrizol de Chile would certainly prefer to purchase exclusively from the US. Lubrizol's plant in Houston is the largest of its kind in the world, and the scale of its production enables it to sell lube oil additives at very competitive prices. The quality of its products is respected, and the relative ease of transporting from Houston to Chile is another plus. Despite this, however, the present 11% tariff makes importing from Brazil a growing temptation. "A free trade agreement between the US and Chile would be good for everybody", remarks García. "It would be healthy for the market, and encourage competition."

METHANEX CHILE
Alvaro Darrigrandi, Finance Director

Upon completion of its third plant, Methanex Chile will be the world's largest producer of methanol. In a five-month period, Methanex Chile sold $83 million worldwide, $17 million of which is exported to the US. Methanol is a component of hundreds of finished products, including paints, stains and fuel additives. Methanex sells 95% of what it produces to foreign countries. In determining to which markets it will sell in any given year, Methanex must respond to various tariffs. Exported to the United States, for example, methanol is usually given a duty-free status under the "General System of Preference." However, classification under this system is not guaranteed, and each year Methanex is faced with uncertainty as to whether or not its product will be subject to the 13% tariff in the US. As a result, Methanex is often tempted to sell to countries in Asia and Latin America, which do not tax methanol. While some methanol is produced in the US, it is not nearly enough to satisfy demand. So, many American producers of household and automotive finished products must often purchase materials comparable to methanol. One methanol substitute, produced from corn oil, is as much as three times more expensive. This increased cost is then passed on to American consumers.

OXYCHILE
Michael Hassett, General Manager

A wholly owned subsidiary of an US-based Occidental Chemical, Oxychile is the sole producer of certain chemicals in Chile. To satisfy the demands of the Chilean market, however, it imports a total of about US $12-15 million worth of materials from its parent company. While the 11% tariff is not a major problem for Oxychile at the present time, it does make it difficult to compete with respect to certain chemicals. This inability to compete will probably only become more significant as competitors begin to import from other countries. While the US is right now the primary producer of the chemicals that Oxychile produces and distributes, other South American countries, including Brazil, Peru and Venezuela have increased their production of the same. The 3-4% difference in the tariff rates between these South American countries and the US is still manageable for Oxychile, but long-term fears exist as Mercosur tariffs decrease, and as Argentina (with whom Chile has a free trade agreement) begins to export to both Brazil and Chile. Consequently, faced with both a high tariff and expensive freight costs, Oxychile will have a difficult time being price competitive in the Chilean market. They will have to choose between giving up the market or swallowing the price difference to be competitive, two measures that would be unnecessary if a free trade agreement between the US and Chile were established.

PROCTER & GAMBLE
Jorge Moreno, Legal and Corporate Affairs Manager

"With lower or zero tariffs, we could save significantly on imports of final goods and raw materials, especially for our paper products factory in Chile. We could bring products that could be much more competitive, like snack foods. There are thousands of US products, including P&G products that could be more competitive. I'm sure the US is losing an opportunity considering that Mexico and Canada have already signed agreements with Chile..." says Moreno.

US products in Chile would be able to compete with products coming in from Argentina, Brazil, and Mexico. For example, one of P&G's competitors produces finished products in Mexico and exports to Chile at 0 duty. Meanwhile, P&G is importing raw materials from the US at an 11% duty, and producing locally at higher costs.

As the world economy becomes more and more global, at an ever-increasing pace, companies must produce at competitive prices. The trend, as evidenced by Chile's trade agreements with Canada, Mexico, and Mercosur, is to reduce trade barriers. In order for the US to remain competitive in the international marketplace, they too, must work towards the elimination of trade barriers. Establishing a bilateral free trade agreement with Chile would be a step forward for both countries.

SHOWORKS CHILE
Paul Fischer, Executive Director

Besides affecting business interests already established in Chile, the lack of a free trade agreement has negative repercussions for US companies that are looking to start doing business in Chile. With offices in both Spokane, Washington and Santiago, Chile, Showorks has been helping US corporations to find distributors and representatives, as well as direct sale opportunities by participating in annual and biannual trade shows. Representing all kinds of industries, US exhibitors are surprised and frustrated by the lost opportunities due to the 11% tariff, as they exhibit alongside competitors from Mexico and Canada. Given that local distributors and end-users are looking to buy comparable products at the lowest prices, many US companies find that they cannot even enter the market in order to compete. Paul Fischer also noted that while the upcoming reduction of the tariff to

8% in Jan. 1999 is a sign of progress, it still poses a significant barrier to US businesses that are trying to enter the Chilean market.

SOUTHWESTERN BELL, SBCI (VTR)
Wayne Alexander, President

In addition to the US $200 million contract awarded to Nortell, which was influenced by the tariff differential advantage that Canada enjoys vis a vis the US; the U.S. company, SBCI, which is part owner of VTR S.A., also continues to purchase other equipment for its operations that are not burdened by tariffs and frequently buys from countries like Canada and Mexico that have a bilateral trade agreement with Chile. By sourcing more material from Canada and Mexico, VTR reduces costs, saving thousands of dollars annually in tariff payments. While US products are preferred by VTR, the 11% tariff keeps them from being a viable option. Until some sort of bilateral trade agreement is formed between the US and Chile, buying American products will be an exception to the norm for VTR. Because of the high tariff, VTR mainly purchases American products only when what they need cannot be found elsewhere.

XEROX
Juan Enrique Tocornal, General Manager

A large number of XEROX's imports are affected by the lack of a free trade agreement between Chile and the United States. Annually, XEROX brings into Chile some $30 million worth of American-made copiers, printers, parts and supplies – almost all of which are subject to the 11% tariff. As a result, XEROX suffers a loss of approximately $2-3 million, and has a difficult time competing with similar products produced in Asia. With the possibility of a trade agreement between Chile and Asia on the horizon, a zero tariff would not only enable US products to fairly compete with Asian models, but would also make manufacturing in countries outside of the US unnecessary. At the present time, XEROX also imports from its plants in Mexico and Brazil. The US can only win by creating a free trade agreement with Chile. First, it would allow the US to maintain a competitive place in the market. Second, it would ensure the option to manufacture and export directly from the US.

Attachment F

NEWS

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
January 14, 1999

CONTACT: Ari Fleischer or Trent Duffy
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Archer Encouraged by Brazil's Commitment to Economic Reform and IMF Package

BASILIA, BRAZIL -- The Chairman of the Ways and Means Committee of the U. S. House of Representatives, Rep. Bill Archer (R-TX), leading a delegation of senior House Members, just concluded a series of high-level meetings in Basilia, Brazil. Yesterday, January 13^{th}, the delegation met with Brazil's President Fernando Henrique Cardoso to discuss recent developments relating to the devaluation of the Brazilian currency as well as Brazilian structural reforms and fiscal adjustments.

Chairman Archer expressed to President Cardoso, senior Ministers and Congressional leaders his recognition that Brazil has already made tremendous progress in implementing the difficult reforms necessary to put Brazil on sound economic footing. He stressed the need for Brazil to continue on this path while maintaining an open and liberalized trading regime.

"I am encouraged by President Cardoso's strong commitment to me that Brazil remains serious in imposing the reforms it pledged in its agreement with the IMF. I am also pleased that the Brazilian Congress appears ready to take on expeditious considerations of legislation necessary to implement these reforms. The world is watching what Brazil does because what happens in Brazil may have a ripple effect throughout South America and on to the United States," said Chairman Archer.

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