102D CONGRESS
1st Session

COMMITTEE PRINT

S. PRT.
102-57

TRIP REPORT ON CONGRESSIONAL DELEGATION BENTSEN

(Latin America Visit of Monday, August 12, 1991 Through Sunday, August 24, 1991)

Prepared by the Staff for the Use of the

COMMITTEE ON FINANCE
UNITED STATES SENATE

LLOYD BENTSEN, *Chairman*

DECEMBER 1991

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE
49-561 WASHINGTON : 1991

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-037062-0

COMMITTEE ON FINANCE

LLOYD BENTSEN, Texas, *Chairman*

DANIEL PATRICK MOYNIHAN, New York
MAX BAUCUS, Montana
DAVID L. BOREN, Oklahoma
BILL BRADLEY, New Jersey
GEORGE J. MITCHELL, Maine
DAVID PRYOR, Arkansas
DONALD W. RIEGLE, Jr., Michigan
JOHN D. ROCKEFELLER IV, West Virginia
TOM DASCHLE, South Dakota
JOHN BREAUX, Louisiana

BOB PACKWOOD, Oregon
BOB DOLE, Kansas
WILLIAM V. ROTH, Jr., Delaware
JOHN C. DANFORTH, Missouri
JOHN H. CHAFEE, Rhode Island
DAVE DURENBERGER, Minnesota
STEVE SYMMS, Idaho
CHARLES E. GRASSLEY, Iowa
ORRIN G. HATCH, Utah

VANDA B. McMURTRY, *Staff Director and Chief Counsel*
EDMUND J. MIHALSKI, *Minority Chief of Staff*

LETTER OF TRANSMITTAL

United States Senate
COMMITTEE ON FINANCE
WASHINGTON, DC 20510-6200

November 18, 1991

Committee on Finance
United States Senate
Washington, D.C. 20510

To the Members of the Senate Committee on Finance:

In August 1991, I led a United States Senate Delegation to Latin America to discuss with Latin American government officials, business leaders, and other individuals important trade and economic issues. This visit was particularly important in light of the ongoing negotiations with Mexico over a North American Free Trade Agreement, the Uruguay Round, and the Administration's Enterprise for the Americas Initiative.

The following report sets forth the substantive matters that were taken up during the visit. As we proceed this year with continued consideration of these trade initiatives, I hope this report will be helpful to you.

Sincerely,

Lloyd Bentsen
Chairman

CONTENTS

TRIP REPORT ON CONGRESSIONAL DELEGATION BENTSEN

I. INTRODUCTION

Between August 11 and August 24, 1991, a Delegation of three Members of the United States Senate travelled to Latin America to discuss various trade and economic issues. The Delegation was led by Senator Lloyd Bentsen, Chairman of the Committee on Finance (the "Finance Committee" or the "Committee"). The Delegation also included Senator Max Baucus, Chairman of the Finance Committee's Subcommittee on International Trade, Senator David Durenberger, a Member of the Finance Committee, and Commissioner Don Newquist, a Commissioner with the United States International Trade Commission.

Travelling with the Delegation were Mrs. Bentsen, who accompanied Senator Bentsen (at the Senators' expense) for protocol purposes; Vanda McMurtry, Staff Director of the Committee; Robert D. Kyle, Chief International Trade Counsel of the Committee; Dee Bartley, Professional Staff Member, Office of Interparliamentary Services; and necessary military personnel.

Treatment of classified information.—During the period when the travel covered by this report occurred, the President and his U.S. Trade Representative (USTR) were engaged in trade negotiations on subjects within the scope of this travel. It has long been the convention of the Committee that the trade strategy and tactics of the United States with respect to pending negotiations was not discussed publicly where it had been classified by the Administration. This practice protects the U.S. position in pending negotiations, while allowing the Executive Branch to consult fully with Congress on trade policy and trade negotiations. In accordance with this practice, this public report does not discuss sensitive negotiating strategies of the United States which have been classified, even though these were the subject of discussions with Administration officials in Washington before the group left and after they returned and with the staffs of U.S. embassies and missions abroad.

Purposes of the travel.—This trip occurred at a time when major trade and economic liberalization was occurring throughout much of Latin America. In many of the countries that the Delegation visited, the governments had already taken substantial efforts to reduce trade barriers, control inflation through monetary discipline, and reduce fiscal spending and foreign debt levels. The trip permitted the Delegation to discuss these developments with senior officials in Latin America and to explore what further steps could be taken to liberalize their economies.

The trip was particularly timely because it related to several trade initiatives that are currently under consideration by the

United States. The United States currently is engaged in negotiations with Mexico as part of the North American Free Trade Agreement (NAFTA) talks. In addition, the United States is negotiating with most of the countries visited in the context of the Uruguay Round of trade negotiations under the General Agreement on Tariffs and Trade (GATT). Finally, President Bush has proposed the Enterprise for the Americas Initiative and the Andean Trade Preferences Act, both of which are intended to assist countries that the Delegation visited. The trip therefore gave the Delegation an important opportunity to assess the merits of these initiatives generally and with regard to specific countries.

The trip also gave Delegation Members an opportunity to discuss a number of bilateral trade issues that had developed between the United States and the countries visited, including inadequate protection of U.S. intellectual property rights in some countries, Latin American investment and market access restrictions, health and safety standards imposed by the United States on some Latin American imports and issues involving the U.S. antidumping and countervailing duty laws, among others.

II. GENERAL BACKGROUND ON THE TRIP

A. Economic Issues in Latin America

This section reviews the Latin American development strategies that set the stage for the economic crisis of the 1980's, and reviews the measures taken by the Latin countries and the United States to address the debt crisis and promote economic reforms in Latin America.

1. LATIN AMERICA'S DEVELOPMENT STRATEGIES

Until the depression of the 1930's, economic development in Latin America had largely been based on exports of primary commodities to more developed regions of the world. Some of the countries enjoyed particularly rapid export expansion (*e.g.*, Argentine and Uruguayan meat and cereals, Chilean copper, Venezuelan oil). By 1929, these leading exporters boasted levels of development almost on a par with France.

During the depression and World War II, however, world trade contracted sharply. Latin America's primary commodity exports fell, and its access to foreign manufactured goods was limited. Latin America no longer saw substantial economic opportunities in export trade, causing it to adopt inward policies that focused on the development of its own internal market.

These developments led to a policy termed "import substitution," which characterized Latin American development strategy from the 1950's through the mid-1980's. Import substitution was premised on the belief that Latin America's growth would falter because of slackening demand in the industrialized countries for the region's primary commodities exports, the risk of wide swings in commodities prices, and the Latin Americans' inability to develop high quality, competitive manufactured goods. As a result, these countries heavily protected domestic industries from foreign competition, sometimes by imposing very high tariffs on imports, but more frequently by imposing quotas or even outright bans on imports once domestic manufacturing capacity was in place. Rather than developing manufactured goods for export, most countries relied just on their captive domestic markets to spur growth in manufacturing output. In short, import substitution assumed that long-term growth could occur if domestic production was simply "substituted" for imports.

This strategy generally resulted in the development of low-technology manufacturing sectors that were not competitive internationally. In addition, the emphasis on manufacturing put Latin America's traditional primary commodities exports at a relative disadvantage. Not only were resources drawn toward the protected manufactured goods sectors, but export taxes and sometimes export bans were imposed on primary commodities to ensure that domestic demand for those raw materials was satisfied. Overvalued exchange rates—designed to keep the prices of any necessary imports relatively low—also meant that the prices of the traditional export commodities were artificially high, thus reducing their competitiveness in world markets.

Moreover, import substitution was generally accompanied by a policy of active Government involvement in the economy. The number of state enterprises grew sharply, more funds were pumped into existing state enterprises, and private business activities were heavily regulated. For example, in 1990, when Brazil's President Collor was inaugurated, state-owned businesses accounted for almost half of the nation's industrial output. Most of the now heavily indebted countries of the region ran sizable deficits from the 1960's through the 1980's to finance large-scale public sector investment programs.

To finance these programs, Latin America resorted increasingly to borrowing on international capital markets, thus setting the stage for the debt crisis.

2. GENESIS OF THE DEBT CRISIS

The rapid increase in oil prices in the 1970's was a key factor in the emergence of the debt problem. Rising oil prices dramatically increased the oil import bills of the non-oil producing Latin American countries, who were left with the option of borrowing or cutting back on their economic growth. At the same time, large-scale borrowing was made possible because Western banks were eager to "recycle" the petro-dollars deposited by the newly-rich OPEC countries.

Even the oil-exporting Latin American countries—particularly Mexico and Venezuela—borrowed considerable funds in an attempt to speed their economic development and to improve their standard of living. They believed that oil prices would remain high and yield sufficient revenues to service their debts without problem.

By the early 1980's, however, most of the Latin American countries were particularly vulnerable to external economic shocks because of the volume and nature of their debt. After the 1979 oil price hike, U.S. monetary policy tightened and interest rates climbed, effectively increasing the debt payments for debtor countries. Rising interest rates also slowed economic growth in the

United States and most of the other OECD countries, bringing on the 1981-1982 recession. The recession depressed demand and prices for many of Latin America's most important non-oil commodities exports, making it more difficult for them to raise the foreign exchange needed to repay their debt. The price of copper, for example, which accounts for 50 percent of Chile's exports, plummeted by 32 percent in the 1980-1982 period, falling from an average price of 99 cents per pound in 1980 to 67 cents per pound by mid-1982. Each one-cent drop in price meant over a $20 million drop in Chile's national income.

Instead of trimming borrowing plans, many of the Latin American countries continued to tap credit markets because they were reluctant for political reasons to squeeze domestic consumption. However, most of the large-scale borrowing that continued in the 1980-1982 period was mostly to permit the debtor countries to continue to service their existing debt. In other words, they paid off their existing debt with new loans; the money was not channeled into productive investments.

Finally, in 1982, Costa Rica declared a moratorium on payments. But the debt crisis did not really begin until one of the region's major borrowers—Mexico—declared its inability to service its debt (*i.e.*, make its annual principal and interest payments) in August 1982. Brazil, Argentina, and most of the rest of Latin America followed suit. New credit flows to the region came to a virtual halt and commercial banks ceased rolling over existing debt obligations.

3. SCOPE OF THE DEBT PROBLEM TODAY

At the time of the Delegation's trip, Latin American debt stood at about $429 billion—over $100 billion more than the level of the region's debt at the onset of the debt crisis in 1982. Interest payments alone on the outstanding debt amount to over $35 billion a year. There has been some improvement—total long-term debt has been reduced from its peak level of $445 billion in 1987—but most of the countries in the region are still plagued by heavy debt burdens. Access to private capital markets has dried up for most of the countries in the region, inhibiting economic growth.

Brazil and Mexico alone hold over half the region's debt, with total debts of $111 billion and $96 billion, respectively. Those two countries, together with Argentina ($65 billion) and Venezuela ($33 billion), account for three-quarters of Latin America's debt. Chile's debt totals about $18.2 billion, and Ecuador's debt adds another $11.3 billion to the total.

The bulk (82 percent) of Latin America's debt is long-term debt (*i.e.*, maturities over one year), and almost all (93 percent) is debt owed or guaranteed by a national government. On the creditor side, the vast majority (68 percent) is owed to private creditors, with U.S. banks accounting for some $57 billion, or one-third of the region's long-term debt. The rest of the debt is owed to official creditors—foreign governments and multilateral lending institutions. The region owes about $12 billion to the U.S. Government.

The mix between debt owed to commercial bankers and debt owed to governments or multilateral lending institutions varies from country-to-country within the region, and dictates a different approach by each country to the debt crisis. Of the countries the Delegation visited, commercial bank creditors were the most important single source of the debt, accounting in Argentina for 51 percent of total long-term debt; in Brazil, for 55 percent of the total; in Chile, for 40 percent; in Ecuador, for 51 percent; in Mexico, for 62 percent; and in Venezuela, for 69 percent of total long-term debt.

More recently, however, multilateral lending institutions and governments have begun to play a more prominent role as commercial bankers have largely steered clear of the region. In 1984, only 20 percent of the region's long-term debt was owed to official creditors, but by 1989, that amount had grown to 32 percent. Thus, it is argued that a comprehensive approach to the debt crisis requires that each country negotiate not only with its commercial bank creditors, but also with the governments and lending institutions that represent increasingly important sources of new capital.

4. RESPONSE OF THE LATIN AMERICAN COUNTRIES TO THE ECONOMIC CRISIS OF THE 1980'S

The debt crisis triggered a wave of economic reform programs throughout the region. The response to the crisis varied from country to country, of course, but the chief elements of reform were common to most countries. These elements included:

(a) *Restrictive Monetary Policies.*—Faced with hyperinflation of nearly 1,800 percent in 1989, Brazil's President Collor, for example, last year imposed an 18-month freeze on 80 percent of all bank deposits to rein in the money supply.

(b) *Reduce Government Spending.*—Of the 1,100 entities owned by the Mexican Government in 1982, nearly 700 have been sold. Mexico has reduced its budget deficit from 16 percent of the Gross Domestic Product in 1987 to four percent today. The comparable figure for the United States is five percent.

(c) *Trade and Investment Liberalization.*—Although many protectionist policies remain, many Latin countries have unilaterally opened their economies. For example, Argentina has dropped its average tariff from 29 percent in 1989 to just over nine percent today, while Chile maintains a uniform tariff rate of 11 percent. Mexico has reduced its maximum tariff from 100 percent in 1986 to a trade-weighted average of only 10 percent, and Brazil has announced a timetable to reduce tariffs from the 1990 average of 32 percent to an average of 14 percent by the end of 1994. At the time of the Delegation's visit, Venezuela maintained a 50-percent tariff but planned to decrease that to 20 percent by 1993. Other barriers have been removed. Of the 4,500 import licensing requirements Mexico imposed five years ago, only about 200 remain today. Foreign investment liberalization is progressing less rapidly, but changes have been made, even in the sensitive oil sector. Venezuela, which nationalized its oil industry 16 years ago by ousting Royal Dutch/Shell and Exxon, is now in partnership with the two ousted companies, and Argentina has welcomed back foreign investors to its oil industry.

(d) *Rescheduling/Forgiveness of Debt.*—The progress countries have made in this area is a reflection of the depth of the problem they face and the outlook for each country's economy. Mexico and

Chile—two of the strongest economies—have rescheduled a total of $53 billion worth of debt in the last two years. However, even Brazil and Argentina—two of the more troubled economies in the region—have resumed payments on the interest owed on their debt, after falling into arrears. This change in approach makes them hopeful of rescheduling or reducing their debt with commercial bank creditors in the near future.

(e) *Regional Integration.*—More outward looking policies have rekindled an interest in regional integration that had gone out in the 1980's. The Southern Cone countries—Argentina, Brazil, Uruguay, and Paraguay—have agreed to form a common market called Mercosur, which will be formed by 1995. Mexico hoped at the time of the Delegation's visit to sign a free trade agreement with Chile by September 1991. In November 1990, five Andean countries—Bolivia, Colombia, Ecuador, Peru, and Venezuela—signed an agreement to lift tariff barriers among them, forming an Andean free trade zone by 1992.

The results of these reforms have been mixed. The countries that have undertaken the most far-reaching economic reforms—Mexico and Chile—have made the most progress. Venezuela has also begun to attract new capital as its economic reforms start to take hold. At the time of the Delegation's visit, Brazil and Argentina, on the other hand, were still battling hyper-inflation, and thus focusing on shorter-term solutions to grapple with the inflation problem, making it more difficult to emphasize long-term structural adjustment measures to spur growth.

5. U.S. RESPONSE TO THE DEBT CRISIS

The U.S. response to the economic crisis in Latin America has evolved substantially over the decade. It has culminated in the recognition that the problem is not just a short-term liquidity problem. Rather, the U.S. Government and commercial creditors have recognized that the solution to the debt problem will require that banks and governments write off a substantial portion of the outstanding debt, and restructure the remaining debt to dovetail with realistic projections of economic growth. This section reviews the evolution of the U.S. response.

(a) *Debt Restructuring.*—At first, commercial banks and creditor governments viewed the debt crisis as a lack of liquidity (*i.e.*, there was a shortage of foreign exchange to service the debt—that is, to pay the principal and interest on their loans), rather than a problem of insolvency (*i.e.*, inability to amortize the debt at all). International debt strategy was thus based on providing new financing for and rescheduling existing debt in order to buy time for the debtor countries to earn sufficient foreign exchange to meet their payment obligations. Debt was restructured on a case-by-case basis, and the 1982–1985 period was characterized by a sharp drop in the volume of new loans as creditors focused on restructuring existing loans.

(b) *The Baker Plan.*—By 1985, however, it had become apparent that restructuring alone would not address the debt problem. Commercial banks, trying to reduce their exposure in the region, were not providing new funding to foster growth, but were merely trying to ensure that existing debt service obligations were met. The Latin American economies, in turn, were stagnating and not earning the foreign exchange they needed to dig themselves out of the debt hole.

The goal of the Baker Plan, which surfaced in 1985, was to slow the rate of debt accumulation of the debtor countries while they built export capabilities. This was to be achieved, in effect, by encouraging the banks to give the countries *new loans*, which would be used in part to help meet their current debt obligations. Under the plan, the debtor countries were to implement far-reaching structural economic reforms, including trade and investment liberalization, price decontrols, the elimination of subsidies and privatization of state-run enterprises. In exchange, they would receive new financing from the World Bank, the Inter-American Development Bank, the International Monetary Fund (IMF) and the commercial banks. Fifteen countries were designated as participants in the Baker Plan, including all of the countries the Delegation visited.

However, by the end of 1988, it had become apparent that the Baker Plan had not yielded the expected results. The financing made available under the Plan was not sufficient to offset the region's continued heavy debt service obligations. Further, although economic reform was a key element of the Baker Plan, many of the Latin countries—with the notable exceptions of Mexico and Chile—were not successful in implementing reform programs.

(c) *The Brady Plan.*—The Bush Administration's review of U.S. debt strategy culminated in the March 1989 announcement of the Brady Plan. That Plan retained many of the features of the Baker Plan—structural reforms in the debtor countries, new external financing, and the goal of stimulating economic growth in the debtor nations. But it also added a new element—the recognition that the debt crisis was a solvency crisis and that debts would have to be written off if the debtor nations were to resume economic growth.

In effect, the commercial banks had already acknowledged that they were going to have to recognize losses on their outstanding loans to Latin America. By 1983, commercial bank creditors had already begun to look for ways to minimize their likely losses. A secondary market for commercial debt had emerged, in which banks could trade or sell their commercial foreign debt to third parties at a discounted rate. Lending institutions began to use this secondary market to convert debt into equity investments in the debtor country. More recently, debt has also been purchased on the secondary market to fund other types of debt conversions, including debt-for-environment swaps, where a debtor country's debt is purchased on the secondary market to fund environmental protection projects in the debtor country.

The Brady Plan offered commercial banks an additional option: The plan suggested that commercial banks work with debtor nations to write off existing debt or provide new loans. In order to entice commercial banks to participate, the Brady Plan provides for IMF or World Bank repayment guarantees of principal or interest on the restructured debt. However, as a precondition to receiving new money under the Plan, the debtor country must have in place a sound structural adjustment program. The World Bank and the IMF have indicated that together they expected about $20 billion in lending to support debt reduction packages, and Japan has said that it will support the program with up to $10 billion in cofinancing. The Inter-American Development Bank has also announced plans for lending to support debt reduction.

By the time of the Delegation's visit, four Latin American countries—Mexico, Costa Rica, Venezuela, and Uruguay—had negotiated debt reduction agreements with the commercial banks under the Brady Plan. All four arrangements were based on a "menu" of options from which each participating commercial creditor could choose: They could either (a) reschedule the face value of their existing loans (with repayment guarantees) *and* provide new loans to the debtor country; (b) reduce the face value of the outstanding debt by letting the country buy back its loans at a much-reduced face value (for example, a number of Costa Rica's creditors let it buy back its debt at 15 percent of face value); or (c) they could exchange existing loans for other financial instruments like low-yielding, non-tradable bonds. The options available were negotiated between each of the four countries and its bank advisory committee, and each of the participating commercial banks was permitted to choose from the agreed upon "menu" the option that best suited its lending strategy.

By the time of the Delegation's visit, neither Argentina nor Brazil—the region's biggest debtors—had negotiated a Brady Plan arrangement with its creditors. Brazil had held preliminary discussions with its creditors, but at the time of the visit, the talks had focused on its arrearages and not on restructuring the stock of its debt. Argentina's President Carlos Menem had said that Argentina would be in a position to negotiate a Brady Plan agreement sometime in 1991, but by the time of the Delegation's visit, no steps had been taken, and some suggested that negotiations might slip to 1992. Ecuador had also indicated that it hoped to negotiate a Brady Plan agreement in 1991. (In 1990, Chile negotiated a traditional debt restructuring agreement with its creditors that also provided for new loans: Chile is financially sound enough not to require a debt write-off from the commercial banks.)

(d) *Enterprise for the Americas Initiative (EAI).*—The EAI is intended to be the Administration's comprehensive strategy to deal with the economic situation in Latin America, and to promote the democratic reforms underway in most of the countries of the region. The EAI is described more fully in the next section, but the Initiative generally has three separate sections, as follows:

> *Trade.*—The long-term objective of the EAI is the negotiation of a hemisphere-wide free trade agreement, at least with regard to those countries that have undertaken serious market-oriented reforms. The Administration has indicated that the current fast-track authority (which expires June 1993) would probably permit it only to negotiate a free trade agreement with Chile, at best.
>
> *Investment.*—Under the investment part of the EAI, the United States would provide funds (channeled through the multilateral Inter-American Development Bank) to pay for technical assistance to help countries privatize government

industries and revamp their fiscal and monetary policies (*e.g.*, money would be provided to pay for consultants to help countries privatize government industries efficiently). Funds could also be used for worker retraining or to provide loans to small start-up companies. The Administration has requested an authorization of $100 million a year for five years. Japan has agreed to put up $500 million over five years; contributions are also being sought from European participants and from Canada.

Debt.—Whereas the Brady Plan is aimed at reducing the debt owed to commercial banks, the EAI is aimed at restructuring or selling the debt the region owes the U.S. Government. The total value of the loans eligible for restructuring or sale under the EAI is just under $12 billion, which represents 3.5 percent of the value of Latin America's external debt. The President's budget estimates this part of the EAI will cost a total of $714 million through FY 1994, with the actual cost depending on which countries reschedule.

More detailed information on the EAI—including the status of the Initiative in Congress—is provided in the next section.

B. Enterprise for the Americas Initiative

1. Description of the Initiative

The President's Enterprise for the Americas Initiative (EAI) was announced on June 27, 1990. The EAI represents the Administration's attempt to develop a coherent economic policy toward Latin America. The policy was prompted by the need to reverse the nearly decade-long period of sharp tensions between the United States and Latin America. Within the Administration, there is a strong view that the willingness of the Latin American countries to pursue economic and political liberalization presents a window of opportunity for reform that America should encourage.

Generally, four factors are thought to have contributed to the formulation of the EAI: Latin America's debt burden of some $429 billion had become unsustainable and a continued drag on economic growth; the mushrooming drug traffic flowing from Latin America had become a serious economic and political problem; the democratic openings that had emerged in Latin America during the 1980's were extremely fragile; and the Bush Administration needed to chart a Latin American course that looked beyond the Reagan Administration's preoccupation with Nicaragua and Panama.

Indeed, the President has stated that the EAI is designed to acknowledge the gains made for freedom in the Western Hemisphere and to support the economic reforms and growth policies that have paralleled the resurgence of democracy. The EAI rests on three pillars—trade liberalization, investment reform, and debt reduction.

(a) *Trade Liberalization.*—The President's ultimate, long-term goal in the trade realm is a comprehensive free trade agreement with Latin America. The Administration views the North American Free Trade Agreement (NAFTA) negotiations with Mexico and Canada as the first step toward a hemisphere-wide agreement.

As might be imagined, the prospect of free trade with the United States has prompted many Latin American countries—including several the delegation will be visiting—to express an interest in negotiating a free trade agreement with the United States. Many believe that continued access to the U.S. market—which last year absorbed over $64 billion of Latin America's exports ($34 billion excluding Mexico)—is critical to their economic recovery: Over half of Latin America's exports are destined for the United States. However, it is not likely that such agreements can be negotiated in the near future.

The President did indicate in his request for an extension of the fast-track procedures that it might pursue an agreement with Chile prior to June 1993. However, even an agreement with Chile before the June 1993 expiration of the fast-track is by no means a certainty. The controversy raised over the fast-track extension for the Mexican free trade negotiations suggests the controversy that would arise when free trade is sought with all of Latin America. Mexico's population is 85 million, and the rest of Latin America has a population of over 363 million. The entire region has almost twice the population of the United States. The anticipated controversy therefore could slow the pace of any post-NAFTA negotiations.

The Administration is moving ahead on another element of the EAI trade package that the President announced last June—the negotiation of framework agreements as an interim step toward a free trade agreement. These framework agreements set out basic *principles* of trade relations (including commitments to work toward a successful completion of the Uruguay Round and strengthen intellectual property protection) and establish a formal mechanism for *consulting* on trade issues and cataloging trade and investment barriers. By the time of the Delegation's visit, 29 Latin American countries had entered into framework agreements with the United States—some signing as individual states and some signing as parts of regional groupings, such as the "Mercosur" bloc of countries (Brazil, Argentina, Paraguay, and Uruguay) which have agreed to establish a common market by 1994 and the 13-nation "Caricom" (Caribbean Community) group. Because these groups of countries are negotiating free trade areas among themselves, the Administration has preferred to negotiate framework agreements (and any eventual free trade agreement) with the groups rather than with the individual countries.

In addition, the President's EAI trade package called on the Latin American countries to work toward a successful outcome of the Uruguay Round of trade negotiations, and promised that the United States would offer deeper tariff reductions on items of interest to the countries of the region.

(b) *Investment Reform.*—The "import substitution" policies of the Latin countries in the post-World War II era caused these countries to restrict foreign investment severely, in part to reduce foreign influence in their economies. However, as the debt crisis of the 1980's contributed to retard growth and to encourage capital flight, it became increasingly obvious that these countries very much needed foreign investment to spur growth. The EAI's investment program is intended to provide assistance to countries seeking to liberalize their investment practices.

Specifically, it envisions that the United States would provide funds—channeled through a multilateral development institution—to give technical assistance to countries wishing to liberalize their investment practices. For example, funds might be used to provide technical assistance on privatization programs or train displaced workers who lose their jobs as a result of privatization.

The linchpin of the EAI's investment program is the President's proposal to create a new Multilateral Investment Fund that would be administered by the Inter-American Development Bank (IDB). The IDB, founded in 1959, provides loans and technical assistance to Latin American governments and companies for specific development projects. More recently, the IDB has also begun to provide general "policy-based" loans, *i.e.*, general purpose loans that a government can use as it sees fit as long as the country continues to implement the economic policies laid down in the loan agreement and meets specific economic targets (*e.g.*, targeted reductions in inflation and/or public sector spending). The new Fund, in effect, would support more of these "policy-based" loans.

The Fund would be capitalized at $1.5 billion, with one-third contributed by the United States. The Administration has asked Congress to authorize $100 million annually for the next five years. The Administration is seeking contributions for the remaining two-thirds from Japan, the European Community, and Canada. At the time of the Delegation's trip, the Japanese had agreed to provide $100 million a year for five years in grant resources for the Fund. The Europeans had not yet agreed to participate, but several countries, including Spain, Portugal, France, and Canada had expressed interest.

The Fund would extend up to $300 million annually, mostly in grants, to supplement programs that the IDB has underway. Eligible countries (*i.e.*, those agreeing to investment sector reforms, including modernizing their financial markets and privatizing state-owned enterprises) could use the money for technical assistance, worker training and relocation expenses, and other programs that would help ease the transition to a more market-oriented, private sector-driven economy.

In addition, the EAI proposed that the IDB use its current resources to establish an investment sector loan program that would provide both technical advice and financial support for privatization efforts and the liberalization of investment regimes. As noted above, the IDB has, in fact, established such a program and has begun evaluating individual countries' investment regimes. The IDB approved its first loan in June 1991—a $150 million loan to Chile to promote private enterprise.

(c) *Debt Relief.*—The debt pillar of the EAI is aimed at reducing Latin America's *official* (*i.e.*, government-to-government) debt. This distinguishes it from the Brady Plan, which focuses on the reduction of *commercial debt.* The EAI distinguishes between two types of official debt, as follows:

> *Concessional Debt.*—These are loans that were provided at a below-market rate, such as Agency for International

Development (AID) or Public Law 480 (PL-480 or Food for Peace) loans. The EAI envisions that these loans would be reduced or forgiven. The Administration favors this form of debt relief in part on the theory that most new foreign assistance and food assistance programs are given in the form of grants, rather than in the form of loans as in the past. Therefore, reduction or forgiveness of the old debt comports more with this practice.

Non-Concessional Debt.—This is U.S. Government lending that purports to be given at a market rate. The EAI proposes that between 10 and 20 percent of the non-concessional debt extended by the Export-Import Bank (ExIm-bank) and the Commodity Credit Corporation (CCC) be sold to purchasers who agree to use the proceeds to finance debt-equity, debt-for-nature or debt-for-development swaps. In a debt-for-nature swap, for example, the Sierra Club would agree to buy a portion of Brazil's debt owed to the United States (*i.e.*, the Sierra Club steps in the shoes of the United States as creditor) and use any payments made on the debt to fund environmental programs in Brazil. With regard to non-concessional debt, the Administration chose this method of debt relief—rather than outright forgiveness—because selling the debt at a (discounted) market rate for swap purposes arguably maintains the financial integrity of these programs.

The Administration estimates that the debt restructuring portion of the EAI will cost $714 million over three years. The actual costs will depend on which countries' debts are rescheduled.

The total value of the loans that might be eligible for restructuring or sale under the EAI is just under $12 billion—about three percent of total Latin American external debt. Although the program would affect only a small portion of overall debt, it could significantly reduce the debt burdens of countries like Costa Rica, El Salvador, Bolivia, and Colombia which are more dependent on official U.S. Government credits than other Latin American countries. The debt program would provide relatively fewer benefits to the countries the Delegation visited, because the bulk of their debt is owed to commercial banks, not to the U.S. Government.

One of the unique features of the EAI loan restructuring program for concessional (PL-480 and AID) debt is that it would also provide potential environmental benefits. As noted above, the old loans would be reduced substantially by exchanging old debt for new, reduced obligations. The principal on the new debt would be paid in U.S. dollars, but interest payments could be made in local currency if an eligible country has entered into an Environmental Framework Agreement with the United States. The Agreement would establish an EAI Environmental Fund which would be used to support environmental projects identified by local committees comprised of public and private sector experts and representatives of the U.S. Government. The 101st Congress authorized the reduction and restructuring of PL-480 loans, and approved the establishment of an environmental fund from the interest payments on the restructured PL-480 debt.

2. CONGRESSIONAL CONSIDERATION OF THE EAI

Congress would have a role in implementing all three parts of the EAI. The Congressional role in each part—plus the steps taken by the time of the Delegation's visit—are discussed in this section.

(a) *Trade Liberalization.*—The Congress would play a substantial role in Congressional approval of any free trade agreements negotiated under the EAI. Before negotiations begin, the President is required to notify the Congress of his intention to negotiate a bilateral trade agreement, and the Senate Finance Committee and House Ways and Means Committee then have 60 legislative days following notification to deny fast-track authority for those negotiations. As the negotiations proceed, the Administration consults closely and regularly with the Finance and Ways and Means Committees, in particular, as well as with other Committees, on specific issues that arise during the negotiations. Then, as the negotiations draw to a close, the President must notify the Congress 90 days before *entering* into an agreement and consult with every Committee that will have jurisdiction over legislation implementing any part of the agreement. The Congress, consulting with the Administration, would than draft the implementing legislation, and finally, of course, the Congress must approve the final product.

(b) *Investment Reform and Debt Relief.*—The investment reform and debt relief portions of the EAI program also would require Congressional approval to authorize either the forgiveness and/or reduction of debt and to authorize funds to assist countries in investment reform.

The 101st Congress approved only one aspect of the EAI: It authorized the reduction of the PL-480 debt of eligible countries and the establishment of the environmental program proposed by the President. At the time of the Delegation's trip, the Senate, in the foreign assistance authorization bill, had just approved, with some modifications, the other elements of the EAI program—the reduction or restructuring of AID, ExImbank, and CCC obligations and the establishment of the associated environmental funds, and had authorized the new investment fund to be administered by the IDB.

The Senate's authorization for the EAI in the foreign assistance authorization bill included several modifications to the President's program. First, although the bill authorized the appropriation of $500 million over the next five years to fund the Multilateral Investment Fund to be administered by the IDB, it conditioned the authorization on the negotiation and Congressional review of a written agreement with the IDB as to how it would administer the Fund *and* on the participation of at least two other countries. (As of the time of the Delegation's trip, Japan was the only other country that had agreed to participate, but Spain, Portugal, France, and Canada had expressed interest.)

Second, the bill made the government of any country whose debts have been reduced under the EAI ineligible for U.S. loans under the Foreign Assistance Act for five years from the date the debt reduction takes place. Finally, the bill established the account for the local currency interest payments on the restructured loans, but did not limit the uses of the money in that account to environmental purposes. The interest payments could also be used to fund activities to support child health care, education and alternative development programs to reduce the dependence of local farmers on the production of coca and other illegal substances. Legislation passed by the House tracked the President's proposal more closely than the Senate bill.

The President's budget projects a total cost for the EAI of $410 million in FY 1992, $363 million in FY 1993, and $241 million in FY 1994, for a total cost of $1.014 billion through FY 1994.

C. The NAFTA Negotiations

1. STATUS OF THE NEGOTIATIONS

Since the initial announcement in June 1990 by Presidents Bush and Salinas of the two Presidents' mutual goal of concluding a comprehensive free trade agreement, the NAFTA process has dominated the U.S.-Mexican bilateral relationship. The NAFTA negotiations are central to the Salinas Government's entire economic reform program. President Bush has also indicated they are an important part of his trade agenda.

At the time of the Delegation's trip, the negotiations had been underway for about two months. On June 12, 1991 Carla Hills met in Toronto with her Mexican and Canadian counterparts, Jaime Serra Puche and Michael Wilson, to formally begin the negotiations. At that ministerial meeting, the three countries agreed to establish 17 negotiating groups and establish a schedule for the first phase of the negotiations, from June through August. Since the Toronto meeting, most of the negotiating groups had met at least twice and the three countries' deputy trade ministers had held two sessions (including one in Mexico City the week before the Delegation's arrival) to review progress in the negotiations as of the time of the Delegation's trip. The three trade ministers were scheduled to meet again August 18-20 in Seattle to discuss the status of the negotiations and plans for the next phase.

By September 19, the three countries were to present initial offers on the tariffs each was willing to phase out, and a list of requests concerning the types of non-tariff barriers (such as quotas and licensing requirements) each would like the others to eliminate or reduce. It was anticipated that draft texts would be developed to guide the negotiations in most other areas of the negotiations—although unlike the schedule established for tariff offers and non-tariff requests, no deadlines for submission of the other texts had been established.

2. KEY ISSUES IN THE NEGOTIATIONS

Although the formal NAFTA negotiations have been under way only since June, even at the time of the Delegation's visit, it had already become apparent that the two most sensitive issues in Mexico would be energy and foreign investment generally. Article 27 of the Mexican Constitution expressly forbids foreign control of natural resources and other parts of the "national patrimony," and a highly-restrictive 1973 investment law still provides the framework for foreign investment in Mexico. Ownership and control of energy resources by the Mexican energy monopoly PEMEX have been viewed as central to Mexican sovereignty ever since current opposition leader Cuauhtemoc Cardenas' father nationalized the oil industry half a century ago. And while the Salinas Government has made great strides in opening up foreign investment by executive decree, it has not yet changed the underlying restrictive investment law.

(a) *Energy.*—As noted above, the Mexican Constitution prohibits foreign ownership of energy resources. However, the Constitution forbids only foreign equity ownership of the oil in the ground. As a result, many other energy-related business opportunities in Mexico (such as service contracts to drill for oil and the sale of oilfield equipment) could be opened to foreign trade and investment without creating a constitutional problem.

Mexico should have strong economic reasons to liberalize in this area because it badly needs capital and technical assistance to build its energy industry. Mexico's crude oil reserves are larger than those of the United States, but last year Mexican oil production was far less than the U.S. rate. Since the recession of the early 1980's, PEMEX's production has either stagnated or declined—until 1990, when its production rose one percent. And even before the recent shutdown for environmental reasons of the largest oil refinery in Mexico City, Mexico was a net importer of refined petroleum products because it lacked sufficient domestic refining capacity. Recent studies by PEMEX itself and by the State Department both concluded that, without an influx of capital and new technology, Mexico actually could become a net oil importer in the next 15 years.

Therefore, the United States and Mexico should have a mutual economic interest in opening Mexico's energy sector: Mexico needs the investment and the United States sees opportunity in supplying capital and technology to Mexico. (The United States also obviously is interested in ensuring that Mexico remains a stable supply source: At present, Mexico is the United States' fourth largest supplier of oil, accounting for $4.8 billion in sales last year.)

(b) *Foreign Investment.*—Since 1989, the Salinas Government has liberalized Mexico's foreign investment rules, opening up most sectors to 100 percent foreign ownership—include areas like steel, cement, and glass for the first time. Still, some significant barriers remain; for example, foreigners may hold only a 30 percent share in banks and a 49 percent share in insurance companies operating in Mexico.

Mexican officials have stated that Mexico will make any foreign investment reforms based only on its own needs and timeframe—not under outside pressure. However, further liberalization is in Mexico's economic interests. Attracting more foreign capital is central to the Salinas economic reform program, and many U.S. firms have said that despite last year's executive decree liberalizing much of Mexico's investment regime they will not make major financial commitments until the restrictive 1973 foreign investment law itself is changed. Therefore, the United States intends to press in the negotiations for further liberalization by Mexico.

(c) *Rules of Origin.*—The market access negotiations also cover rules of origin: the rules that determine how products can qualify as "made in North America" and therefore eligible for preferential tariff treatment within the free trade area. Rules of origin are especially important in areas like auto, textiles, and chemicals in light of concerns that without strict and well-enforced rules Mexico could simply become a conduit for foreign producers seeking "back door" entry into the U.S. market.

These negotiations are expected to be contentious, because U.S. insistence on strict rules of origin could conflict with the Mexican goal of encouraging more foreign investment not only from the United States but also from Japan and other Asian countries.

(d) *Tariffs and Non-Tariff Barriers.*—Another set of critical issues to be addressed in the negotiations are tariffs and non-tariff barriers, part of the market access negotiating group. Both the United States and Mexican already have taken important steps to open their markets to the other's products. Mexican tariffs have been reduced dramatically in recent years, and many non-tariff barriers (such as numerous licensing requirements) also have been dismantled. At the same time, the United States has increased Mexico's access to its market by significantly expanding the quota on imports of Mexican textiles and apparel products, twice broadening the list of Mexican products eligible for duty-free treatment under the Generalized System of Preferences (GSP), and increasing imports of certain steel products under the Voluntary Restraint Agreement (VRA) program that will expire next year.

Still, a good deal remains to be done through the NAFTA market access negotiations. At the time of the Delegation's trip, each country was preparing offers relating to tariff reductions. Certain industries in each country would prefer to be exempted from any tariff removal, but at this point the goal of the three trade ministers is to work for a list that includes all products. Tariffs on the products that are most sensitive to import penetration will be subject to the longest phase-out periods (likely to be at least 10 years), while others will be phased out either immediately or under an intermediate timeframe.

Each country also was preparing to identify the non-tariff barriers that it wants the other two countries to eliminate or scale back. This is likely to be a controversial area for several reasons. First, remaining non-tariff barriers tend to protect some of the most sensitive sectors in each country, such as textiles in the United States and grain farmers in Mexico. Second, Mexico still maintains import licensing requirements on many key U.S. agricultural exports—including apples, grapes, peaches, corn, wheat, and poultry. (While Mexican licensing requirements now affect only about seven percent of all products, they still cover nearly 40 percent of farm imports from the United States.)

Finally, Mexico views certain U.S. environmental and health laws (such as the restrictions on certain infested Mexican fruits and vegetables) as disguised non-tariff barriers that it wants to remove, while the United States sees these as legitimate since they are based on sound health and safety standards.

(e) *Agriculture.*—U.S. farm exports to Mexico have almost tripled since 1986. Today, a third of all soybeans and sorghum and a quarter of all corn and rice consumed in Mexico comes from the United States. But U.S. exporters should be able to do even better. Mexico still maintains its highest tariffs (20 percent) on several of these agricultural products. And as noted above, a broad range of U.S. farm exports—almost 40 percent by value—still face restrictive licensing requirements.

In turn, Mexico wants greater access into the U.S. market, especially for its citrus fruits and winter vegetables, several of which currently are subject to U.S. seasonal tariffs in the range of 30-40 percent. On both sides of the border, agricultural producers are among the most sensitive to increased import competition.

In addition to dealing with tariffs, licenses, and other restrictions on farm trade, the agriculture negotiations will address disparities in pesticide regulations among the three countries. Mexico sees U.S. pesticide controls and other health regulations as trade barriers. The United States sees them as legitimate health and safety standards.

(f) *Antidumping and Countervailing Duty (CVD) Laws.*—Following the pattern set by Canada during the U.S.-Canada free trade negotiations, Mexico will seek to use the NAFTA talks to gain changes in how U.S. antidumping and CVD laws apply to its producers. In August 1990, an International Trade Commission determination of injury to the U.S. industry, following a Commerce Department determination that Mexico was dumping cement in the southwestern United States, has kept this issue at the forefront of Mexican trade concerns.

U.S. negotiators say they have made clear that the application of these laws will not be modified as part of any NAFTA agreement. They argue that these laws enforce fair trade and therefore are fully consistent with a free trade agreement. In addition, they note that the U.S. laws are applied fairly and openly, and that if any changes would be appropriate they should be made in the Uruguay Round so that all countries will be bound by them.

(g) *Services.*—The services negotiations will address those *financial* services sectors, including banking and insurance, where U.S. firms have faced significant barriers to access in Mexico. For example, foreign insurance firms now may own only 49 percent of an insurance business in Mexico, while foreign banks may own up to only 30 percent of a Mexican bank. While this is much better than the rules in place before January 1990, most U.S. financial services firms are pressing for the right to majority ownership, noting that as a practical matter 30 or 49 percent control is not likely to stimulate much new U.S. investment.

The working group on *transportation* services will cover land transport issues, in particular possible means for expanding the access of each other's truckers in a defined "frontier zone" extended a defined distance from the border. Maritime and civil aviation services, however, are not part of the NAFTA talks.

In addition, the U.S. motion picture industry continues to press for removal of Canada's "cultural exemption," which was not dealt with in the bilateral free trade agreement. Based on recent statements of SECOFI Minister Serra, it does not appear that the "cultural" issues will present a problem with Mexico.

(h) *Intellectual Property.*—In the weeks prior to the Delegation's visit, Mexico had enacted two major new laws protecting intellectual property rights (IPR) that greatly improved the protection of patents, copyrights, sound recordings, and other forms of intellectual property. With these new laws in place, the NAFTA negotiations are likely to focus on further steps the United States would like Mexico to take—especially on improving the enforcement of its laws—as well as on improvements in Canadian law.

3. PARALLEL TALKS ON ENVIRONMENTAL AND LABOR ISSUES

The NAFTA process also presents an opportunity for long-term cooperation between the United States and Mexico on other common concerns. When President Bush presented his "action plan" to Congress on May 1, he committed to a series of measures to address environmental and labor concerns with Mexico—saying that these would be pursued on a parallel track but would be completed in the same timeframe as the NAFTA negotiations.

On the environment, the Environmental Protection Agency (EPA) and its Mexican counterpart SEDUE currently are developing a joint environmental plan for the border area, expected to be finalized late this year. In addition, as part of the President's commitment to Congress in the May 1 "action plan," USTR is developing an environmental review intended to examine the possible effects of a NAFTA accord on the environment.

U.S. officials hope that these projects, by identifying the serious environmental problems—ranging from air pollution to water contamination to inadequate methods of solid waste disposal—that must be dealt with, will stimulate greater bilateral cooperation on the environment. The key test, however, will be whether once the problems are identified, both countries will devote more resources to dealing with them. In particular, it will be imperative that Mexico build on the initial positive steps it has taken to address its massive pollution problems.

These steps have included enactment of a comprehensive environmental law in 1988 (a law that sets high standards that to date have not been adequately enforced), increasing SEDUE's funding from $4 million to almost $40 million in two years, closing several major polluters including the largest oil refinery in Mexico City (costing almost 5,000 jobs), enacting new rules to reduce auto emissions by requiring catalytic converters and unleaded gasoline, and adding 100 new environmental inspectors for plants along the border and in Mexico City.

Progress on labor issues will also be important. As of the time of the Delegation's trip, the cooperation between the two countries' labor departments pursuant to the "action plan" had been limited mainly to initial exchanges of information, the signing of a bilateral Memorandum of Understanding, and meetings on technical labor issues.

D. URUGUAY ROUND NEGOTIATIONS

1. STATUS OF THE NEGOTIATIONS AT THE TIME OF THE DELEGATION'S VISIT

The Uruguay Round formally began in September 1986, when ministers from most member countries of the General Agreement on Tariffs and Trade ("GATT") agreed in a meeting in Punta del

Este, Uruguay to launch the eighth round of multilateral trade negotiations conducted under the auspices of the GATT.

At Punta del Este, ministers agreed to conclude the Round by the end of 1990. The final package of agreements was to be approved in Brussels during the week of December 3-7, 1990. However, the effort to reach final agreement failed in Brussels, primarily due to fundamental disagreement regarding agricultural trade reform.

Following the breakdown, the Uruguayan Foreign Minister who heads the Trade Negotiations Committee (TNC) of the Round, Dr. Hector Gros-Espiell, instructed GATT Director General Arthur Dunkel to seek through consultation to establish a basis for concluding the negotiations. By February 20, 1991, following two months of intensive consultations, including bilateral consultations between the United States and European Community (EC), the basis for continuing was found. Mr. Dunkel stated in Geneva that, with respect to agriculture, his consultations had confirmed that participating countries agreed to conduct negotiations to achieve specific binding commitments in each of the following areas: domestic support; market access; export competition; and to reach an agreement on sanitary and phytosanitary issues. This agreement cleared the way for the resumption of negotiations.

Between February and the time of the Delegation's trip, technical meetings were held in Geneva in those negotiating groups where technical work could usefully further the negotiating process, *i.e.*, agriculture, services, tariff and non-tariff barriers, and intellectual property. Bilateral negotiations on specific market access commitments in services and market access also continued.

At the London Economic Summit, held in July 1991 the leaders of the G-7 reaffirmed their commitment to the Uruguay Round and stated their aim of completing the Round before the end of 1991. This commitment was similar to the commitment made at the 1990 Summit in Houston. The G-7 leaders did however, make a commitment to remain personally involved in the process. At the concluding press conference, British Prime Minister John Major suggested that, if there is no result in the Uruguay Round by December 1991, he would consider reconvening the G-7.

2. PROFILE OF KEY NEGOTIATIONS

The Uruguay Round negotiations have been conducted in Geneva under 15 negotiating groups, which may be broadly categorized as follows:

- Market Access (tariffs and non-tariff measures; natural resource based products; tropical products; and textiles);
- GATT Rules (rules necessary to protect and guarantee market access and concessions negotiated: dispute settlement; safeguards; GATT Articles, including balance of payments reform; and the non-tariff measure Codes, including subsides and antidumping);
- The "New" Areas (services; trade-related intellectual property rights (TRIP's); and trade-related investment measures (TRIM's); and
- Agriculture.

Those issues most relevant to the Delegation's trip are discussed below:

(a) *Agriculture.*—Three previous GATT rounds of trade negotiations have failed to liberalize agricultural trade, largely because the EC was unwilling to negotiate modification of its domestic agricultural policies. The question today is whether the Uruguay Round can reverse this historical pattern.

The United States began the Uruguay Round seeking the elimination of all trade distorting agricultural policies. Agricultural trade liberalization is also a priority for a number of developing countries, particularly in Latin America. Their interests have been actively represented by a coalition of agricultural exporting countries, known as the Cairns Group, (including Argentina, Australia, Brazil, Canada, Chile, Colombia, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and Uruguay). Ambassador Carla Hills has repeatedly emphasized that, to get the concessions the United States wants in the Round otherwise, meeting their desire for a good agricultural agreement is a necessity. The United States and the Cairns Group are specifically seeking reforms in four areas: export subsidies, market access (*e.g.*, quotas, tariffs), internal support measures (*e.g.*, support prices, target loans), and health and sanitary measures.

At the December Brussels meeting, the Chairman of the Agricultural Negotiating Group, Swedish Agriculture Minister Mat Hellstrom, tried to move the Round forward by setting forth a compromise framework for negotiations on agricultural reform. The Hellstrom text provided for specific commitments to reduce export subsidies, internal support and barriers to market access. It was accepted as the basis for negotiations by all countries except the EC, Japan, and Korea. Once those three countries rejected the text, it was clear no agreement would be reached in Brussels. Developing countries that place a priority on agricultural trade reform, particularly Latin American countries, withdrew from the negotiations.

Despite the supposed breakthrough in the negotiations in February 1991, the negotiations have moved forward only at the technical level as of the time of the Delegation's trip. Prospects for movement on the agricultural negotiations have been linked to the EC's commitment to overhaul its Common Agricultural Policy (CAP). While the EC has repeatedly delinked its CAP reform efforts from the Uruguay Round, declaring the former to be an internal matter, the general consensus internationally is that the success of the efforts to overhaul the CAP is key to success in the Uruguay Round.

(b) *Market Access.*—The main focus of market access negotiations is on the "traditional" trade barriers: tariffs and non-tariff measures (such as quotas and import licensing restrictions). While these negotiations are not as high profile as either agriculture or the "new" areas of the negotiations, they are arguably the most important to the United States economically, given the fact that manufactured goods account for 80 percent of U.S. exports. In particular, these negotiations offer the opportunity to open markets of developing countries, including Latin American countries, that have not made those commitments in prior rounds of trade talks.

The parties have already agreed in principle at prior ministerial meetings that the target for the tariff negotiations would be a one-third reduction in each country's average trade-weighted tariff. The United States is also negotiating to reduce non-tariff barriers, like quotas and import licensing, and to persuade countries to "bind" more of their tariffs, preferably at lower levels.[1] U.S. negotiators are proceeding in the negotiations on an "integrated" basis (*i.e.*, requesting the elimination of product-specific tariff and non-tariff barriers on specific products at the same time). This approach is more likely to result in meaningful access for U.S. exports—otherwise, a tariff concession might be negated by imposing a non-tariff barrier, such as restrictive import licensing.

In these negotiations, the United States has put on the table an offer that reduces the U.S. trade-weighted tariff by nearly 40 percent. This offer went beyond the one-third target because it included the United States' "zero-for-zero" proposals, which essentially propose the elimination of U.S. duties in exchange for reductions to zero tariffs by our trading partners. The focus of the proposal is primarily on beer, fish, construction equipment, electronics, pharmaceuticals, paper, wood, non-ferrous metals, and steel. The proposal has strong private sector support, demonstrated by the formation of the Zero Tariff Coalition, a private sector group representing over 130 U.S. companies.

As of the time of the Delegation's trip, the United States was still looking for a more positive position from most Latin countries in these negotiations. For example, Brazil's pending tariff offer represented only a six percent cut in its trade-weighted tariff; Chile had offered to reduce its ceiling binding of 35 percent only to 32 percent; and Venezuela had not submitted any offer. Moreover, since the Uruguay Round negotiations are based on 1986 tariff rates, and most of these countries have already reduced their tariffs from those high levels, the proposed cuts would not have real effect. They have also resisted the U.S. zero-for-zero proposals.

(c) *Services.*—The United States pushed for GATT rules to cover services in the Uruguay Round because of that sector's importance to the U.S. economy. (U.S. exports of services reached $120 billion in 1990, yielding a $23 billion surplus in services trade.) Globally, services industries now account for about 25 percent of total world trade each year, none of which is covered by the GATT. The U.S. goals have been to negotiate (i) a framework agreement setting forth general principles governing trade in services, and (ii) specific commitments by individual countries to liberalize their services sectors.

At the December meeting in Brussels, a basic problem with the services negotiations arose relating to the general MFN principle and market access commitments by specific countries. Prior to Brussels, only three countries had put specific market access offers on the table in the services negotiations. At the same time, most countries expected a services agreement to require countries to include a general principle of MFN treatment. In Brussels, the United States took the position that no framework agreement

[1] Under the GATT, if a country "binds" its tariff, then it must pay compensation (*i.e.*, give greater market access in some other area) if it raises that tariff, or otherwise face retaliation.

could go forward with an MFN requirement until countries had made commitments to liberalize their services market.

Between the Brussels meeting and the time of the Delegation's trip, negotiations on specific liberalization commitments had advanced; 31 countries had put specific offers on the table regarding services trade, including most of those visited. Again, the United States would like to see more from the Latin countries. Brazil's offer fell short because it included nothing on the telecommunications and financial services sectors; Venezuela had not yet put an offer on the table; and Chile has put an offer on the table that actually proposed restrictions on services trade completely inconsistent with Chile's currently open services policy.

(d) *Intellectual Property Rights.*—In 1987, the ITC estimated that poor intellectual property protection abroad costs U.S. interests as much as $61 billion annually. The causes for such losses are wide-ranging. Some countries, such as Argentina and Brazil, have not provided patent or process protection for specific products such as pharmaceuticals. In Venezuela, trademark pirates may identify foreign products without a Venezuelan trademark, register it in Venezuela, and then sue to stop the mark from being used by the prior bona fide user. Chile provides copyright protection only for the author's life plus 30 years, whereas the internationally recognized Berne Convention standards protect a work for the author's life plus 50 years.

The Administration began the Uruguay Round on trade-related aspects of intellectual property rights (TRIP's) focused on securing greater patent, trademark and copyright protection in developing country markets. The negotiations have broad support in the private sector, particularly from such industries as the motion picture, pharmaceutical, and computer industries, which fear having their products unfairly pirated when selling them abroad.

(e) *Balance of Payments Rules.*—Article XVIII of the GATT, the "balance of payments" article, allows developing countries wide latitude to restrict imports for balance of payments purposes. In practice, developing countries have used Article XVIII to justify highly restrictive import regimes. Balance of payments difficulties are used to justify more than 85 percent of the non-tariff barriers that GATT members report to the GATT by its members. Reforming Article XVIII, and thereby limiting its use by developing countries, is an important objective for the United States in the Uruguay Round. Without it, concessions gained at the negotiating table can too easily be lost as a practical matter through the balance of payments loophole.

As might be expected, developing countries have generally resisted any changes that would limit their flexibility under Article XVIII. As of the time of the Delegation's trip, there had been no commitment reached even to negotiate on the issue, although Administration officials and other GATT participants suggested that an agreement reforming the balance of payments rules was likely to fall into place once the developing countries see progress in areas of interest to them.

III. SUMMARY OF VISITS

The schedule of visits on the trip and a summary of these meetings are as follows:

A. MONDAY, AUGUST 12—MEXICO

1. MEETING WITH FERNANDO SOLANA MORALES, SECRETARY OF FOREIGN RELATIONS

Senator Bentsen began the meeting by noting that these were exciting times for relations between the United States and Mexico. He explained that the Committee on Finance has jurisdiction over trade agreements, including any negotiated trade agreement between the United States, Canada, and Mexico. He explained that Congress approved the extension of fast-track negotiating authority earlier this year by a good margin, but he also noted that the Uruguay Round added strength to that vote. Therefore, he emphasized that the United States, Mexico, and Canada will need to negotiate an agreement that benefits all three countries.

Regarding the Uruguay Round, he noted that the United States needed to work with Mexico to reach a successful conclusion of the Round. He stated that he was anxious to work with Mexico and other countries to seek to eliminate agricultural export subsidies, particularly by the EC.

Minister Solana responded that the Mexican Government agreed with the importance of both the NAFTA negotiations and the Uruguay Round. He then pointed to two examples where Latin American countries and other countries are working together for better relations. The first example related to the Ibero-American Conference in which the heads of states of all the Latin American countries plus Spain and Portugal met for the first time in history to discuss joint means of cooperation. The countries accepted President Salinas' offer to congregate because of Salinas' prestige and because of the momentum that Mexico had shown. He noted that there would be a second meeting in Madrid in 1992. In prior times, he noted this meeting would be difficult for many Latin American countries because of former colonial rule. However, he noted that Latin American countries now feel free to do this.

Senator Durenberger then asked Minister Solana how he saw the relationship between Mexico and the Central American countries progressing in the next few years. Minister Solana responded that Mexico is helping Central American and Caribbean nations in a number of ways. He noted that Mexico is a creditor to many of the Central American governments, particularly Nicaragua, and he elaborated on the steps Mexico has taken to work out debt rescheduling arrangements with Nicaragua and other countries. Finally, he noted that Colombia, Venezuela, and Mexico have recently formed a group of three which have the dual objectives of (a) fostering economic cooperation among themselves, and (b) helping the Central American countries. The core of the strategy with regard to the Central American countries was to help those countries to help themselves.

Senator Baucus then noted that this was the first time that he had been in Mexico in 15 years, and that he saw tremendous change. He noted that approval of any NAFTA agreement would be extremely controversial in Congress. He then asked Minister Solana what Mexico could do to demonstrate tangible progress in the area of the environment. Minister Solana responded that current Mexican regulations regarding the environment are strong but that enforcement of the law has not been as strong as it should be. He noted that the Mexican Government has taken some spectacular moves to improve the environment, citing the closure of PEMEX's "18th of March" oil refinery in Mexico City as one prominent example.

2. MEETING WITH PEDRO ARMELLA ASPE, SECRETARY OF FINANCE AND PUBLIC CREDIT

Secretary Aspe began the meeting by outlining a number of reforms that Mexico has taken in recent years. He noted that this year Mexico would continue to have a deficit if privatization efforts were not taken into account, but would have a surplus if privatization efforts were counted. He also indicated that they hoped to finish the privatization program this year. Further, he indicated that the Mexican Government will not spend 100 percent of the revenues gained from the privatizations. Instead, it will put some money into a contingency fund while spending some of the revenues on less fortunate citizens in Mexico.

He also noted the Mexican Government is working on deregulating industries. He noticed that between 1952 and 1988 the Mexican Government built only 800 kilometers of roads. In each of the next two years, 1,000 kilometers of roads will be built. The reason for this is that the Mexican Government has permitted private sector financing and construction of some of this activity.

With regard to fraud, he indicated that between 1921 and 1988 only two individuals were punished for tax evasion. Since 1988, 183 individuals have been put in jail for tax evasion. Secretary Aspe also noted that the economy is recovering. He indicated that Mexico currently has a growth rate of about four percent per year and indicated they cannot grow faster at present because of the failure of past Mexican Governments to invest in infrastructure. He indicated that when infrastructure reforms are in place, Mexico might be able to grow faster, perhaps at a rate of about six percent.

Secretary Aspe then indicated that when the Mexican economy recovers the United States benefits. He indicated that 90 percent of the increased U.S. exports in the last few years were sent to Mexico. He also indicated that 75 percent of Mexico's imports come from the United States. In contrast, he indicated that when U.S. investment goes to Europe, the Europeans buy only 12 percent of U.S. products.

Regarding the inflation rate, he indicated that the Mexican Government hopes the rate will be 16 percent this year with a hope that next year they might reach one-digit inflation. The following year they hope inflation will be down to six percent.

Senator Baucus asked whether the Government is making conscious efforts to narrow the income disparity in the country. Secretary Aspe indicated that they have lowered taxes but that this has been offset by an effort to make wealthy individuals pay more. In addition, the Mexican Government is spending more on water drainage, sewage, health, education, and other social services which disproportionately assist the poor.

Senator Baucus noted that in the United States the gap between the rich and poor is getting larger partly due to tax law changes and other reasons. He asked whether there was a conscious effort to try to narrow this gap. Secretary Aspe answered that with regard to the privatization efforts, the Mexican Government had established a rule that no more than five percent of the ownership of any of the privatized companies may be owned by any one family. He indicated that this forces the new owners to compete, since they did not have effective control of the company and could be voted out by the shareholders.

Senator Durenberger asked whether a substantial amount of the water and other social services could also be privatized. Secretary Aspe answered that it is most appropriate to begin the privatization effort in high income areas. It is not possible to charge the poor for these services, although—in order to establish a principle—the Government has established a rule that the poor must pay five percent of the cost of such projects. Payment may be in kind or through volunteer services.

Commissioner Newquist asked whether the Mexican plan with regard to reform of Mexico's Customs Service has been successful. Secretary Aspe responded that the trend is toward improvement, but that absolute quality of the Customs Services remains below levels they deem acceptable. He indicated that revenues are up 112 percent, even correcting for increases in trade. That revenue increase accounts for an additional $118 million per month in revenues for the Mexican Government. He also indicated that there were 16 percent fewer employees in the Mexican Customs Service today and that the Salinas Government had taken steps to stop the practice of Customs individuals buying their posts.

Senator Baucus then asked what have been the enforcement problems in the tax area. Secretary Aspe indicated that the first challenge was simply to demonstrate the resolve to go after individuals who commit tax fraud. He indicated that President Salinas had shown a firm desire to do this. Second, he indicated that the Mexican Government audited more people now than in the past with audits rising from two percent of the population in earlier years to 15 percent of the population this year. He also indicated that there has been a general increase in resources devoted to tax collection.

3. MEETING WITH PATRICIO CHIRINOS, SECRETARY OF URBAN DEVELOPMENT AND ECOLOGY

Secretary Chirinos began the meeting by indicating that Mexico had been working on environmental problems; they have made some progress, particularly along the border and also in Mexico City. He expressed the view that they had received considerable support from both the U.S. Embassy and the U.S. Environmental Protection Agency. He indicated first that the Mexican Government had closed some facilities in extreme cases where the companies refused to comply with environmental laws. He indicated that the mere system of threatening closure also has had some effect. He also indicated that there was a developing private sector that assisted companies in complying with the environmental laws. Finally, he noted that all companies now must perform an environmental assessment before they proceed with major projects that might have adverse environmental consequences.

Secretary Chirinos also indicated that Mexico was seeking a $100 billion loan from the World Bank in order to improve its environmental enforcement capacity. They hope to have an answer with regard to the World Bank loan by November 1991. He also indicated that they needed additional employees at the state level to enforce environmental laws. He noted that 18 out of the 31 Mexican states have their own environmental laws, including all states on the border with the United States, except Chihuahua. However, these states did not have sufficient staffing. He also indicated that the World Bank loan, mentioned above, would be used to help train state enforcement people.

Chairman Bentsen indicated that during the fast-track debate in Congress earlier this year the central environmental issue was the extent to which U.S. businesses might leave the United Sates to take advantage of lax enforcement of environmental laws in Mexico. He indicated that when the agreement returns to Congress it would be important to cite strong improvement by the Mexican Government in the environmental area.

Senator Baucus asked two questions of Secretary Chirinos: (a) What are the most pressing environmental problems that Mexico faces and (b) what are the priorities and timetable of the Mexican Government with regard to environmental issues? Secretary Chirinos responded that the big environmental priority is Mexico City. He indicated that it was a metropolitan area where there are 35,000 industrial establishments that contains 44 percent of the industrial production of the country; the city houses 2.6 million cars which have an average age of 11 years. He also indicated that Mexico City physically is located in a closed valley 2,200 meters above sea level with 30 percent less oxygen than locations at sea level.

He indicated that the Government submitted a plan two years ago to improve the environment in Mexico City. He discussed some of the elements of that plan. First, the Government has closed all munitions production connected with the military within Mexico City. Second, the Government has required that all cars be inspected. Third, 1991 and later year cars are required to have catalytic converters. Fourth, the Mexican Petroleum Institute is developing the technology to install catalytic converters in older cars. He believes that project will be finished by the end of the year. Fifth, the Government is improving the quality of fuel by reducing the lead content in the fuel substantially. Sixth, he indicated that a new gas has been introduced which is almost as good as the quality used in southern California, and that 1991 cars will be able to use this. Seventh, with regard to ozone, he indicated that the big problem is pollution from cars and that fuel prices need to be increased. He indicated that prices should be allowed to rise. However, he indicated that this would have to be balanced against the goal of combatting inflation. Eighth, with regard to pollution from public transport, he indicated that it was very bad in Mexico City but improving. He indicated that new taxis are required to have improved engines and new buses will use new, cleaner gasoline.

With regard to the border, he indicated that in the last 10 years the number of people living on the Mexican side of the border has doubled, so the problem is not only pollution, but also growth. He indicated that ordered growth must be part of that solution.

Senator Baucus then indicated that it was very important to the Senate and to the Congress as a whole to see specific demonstrable action that Mexico is taking in the environmental area if any U.S.-Mexican free trade agreement is to be approved by Congress.

Senator Durenberger stated that he wanted to reinforce three points. First, he reinforced what Chairman Bentsen and Senator Baucus said about the importance of environmental improvement to ratification of any agreement. Second, he asked that all three Senators in the Delegation be kept informed of progress in the environmental area. Third, he stressed the importance of internalizing environmental costs on each new project. Secretary Chirinos indicated that this last point, in particular, was important. He indicated that this is what the Mexican Government is trying to do. He indicated that they needed industrial reconversion to require the environmental cost to be internalized.

4. LUNCHEON AT THE AMBASSADOR'S RESIDENCE

Chairman Bentsen began the discussion at the luncheon by reviewing the history of the fast-track extension in Congress. He indicated that there had been a good affirmative vote in favor of the fast-track extension. However, he indicated that extension of negotiating authority for purposes of the Mexican negotiations was assisted by the fact that the Uruguay Round was also at issue in the vote. He indicated that any agreement reached between the United States and Mexico must be beneficial for both countries, or it could not be approved by the U.S. Congress.

Senator Baucus emphasized the point that any agreement must create jobs in the United States if the agreement were to be approved by the Congress. Senator Durenberger indicated that his discussions in Mexico thus far had raised the issue of the proper role of government in stimulating an economy. With regard to approval of any free trade agreement in Congress, he indicated that there is considerable populist sentiment in the United States currently. He indicated that responsible Senators could overcome unconstructive populism, but only if a good agreement was reached between the two countries.

Herminio Blanco, Mexico's chief free trade negotiator, emphasized the point that free trade between the United States and Mexico would help make most countries competitive against increasing production alliances along the Pacific Rim and in other regions of the world. With regard to rules of origin, Mr. Blanco indicated that tough rules are required, but the rules must also be sufficiently simple to help keep most companies competitive. He indicated that a "substantial transformation" standard might be appropriate. Jose Angel Gurria, Under Secretary of Finance, indicated that the EAI by the United States is not moving fast enough. He indicated that Mexico is making reforms already so it does not need the EAI as much as other countries, but that the EAI was a positive development for other Latin American countries and all efforts should be made to speed its implementation.

Chairman Bentsen responded that it would be difficult to implement the EAI fully, particularly with regard to the trade agreements envisioned under it. He emphasized that Latin America has a population twice the size of the United States, which would raise substantial policy issues within the United States with regard to those agreements. A variety of other subjects were also discussed at the lunch, including Mexico's efforts toward financial stability, the problems encountered within Mexico City with regard to the reforms, and the growing cooperation between U.S. and Mexican companies as a result of the mere announcement of negotiations on the free trade agreement.

5. MEETING WITH JAIME JOSE SERRA PUCHE, SECRETARY OF COMMERCE AND INDUSTRIAL DEVELOPMENT

Chairman Bentsen began the meeting stating that he was impressed with the array of talent on both sides working for a free trade agreement. He made several points: First, he indicated that it would be very difficult for the United States to change its antidumping/countervailing duty laws because those laws were legitimate mechanisms for enforcing fair trade and because it would cause a serious political backlash in the United States. Second, he indicated that Mexico needs to permit investments in its energy sector as part of the agreement. He cited a PEMEX study indicating that Mexico would become a net importer of oil within 15 years if it did not modernize its energy infrastructure. Third, he indicated that any agreement would need to contain tough rules of origin so that Mexico and Canada would not become conduits for third countries to sell their products into the U.S. market.

Secretary Serra responded to all three points. First, he indicated that antidumping and countervailing duty rules should be used to protect against unfair trade, not fair trade, and that they should be used only in exceptional cases of unfair trade. Second, he indicated that the energy issue was an extremely sensitive political issue in Mexico. Third, he indicated that any rules of origin agreed to as part of a free trade agreement must be strong enough to avoid mere "screwdriver" assembly plants in Mexico, but not so strong as to limit competition. With regard to the Uruguay Round, Secretary Serra mentioned that Mexico is interested in having a successful negotiation because it has already opened unilaterally and it therefore wishes other countries to do so.

Senator Baucus asked whether it would be possible in any agreement to go above a 50 percent North American content rule in auto rules of origin. Second, he indicated that failure in the Uruguay Round would spoil the U.S. view toward a NAFTA agreement in Congress. Third, he encouraged Secretary Serra to push his country to do as much as possible in the area of environmental protection so that any agreement would be easier to accept in the United States.

Secretary Serra responded to all of these points. First, with regard to the auto rules of origin, he expressed the view that the Auto Pact had worked successfully. He indicated that strong rules of origin would be possible, given the strong regional production that exists in the United States, Canada, and Mexico. Second, he indicated that if the Uruguay Round failed, the free trade agreement with Mexico would make even more sense. (Senator Baucus reiterated, however, that failure of a Uruguay Round would make it more difficult to persuade Congress to approve a Mexican free trade agreement.) Third, with regard to the environment, Secretary Serra indicated that Mexico has now established a rule that any new firm operating in Mexico must fulfill 100 percent of the environmental requirements imposed by Mexico. He indicated that this should deflect arguments that American companies will move to Mexico simply to avoid environmental laws and regulations.

Senator Durenberger asked what the timing of the negotiations might be. Secretary Serra responded that it is very difficult to determine the pace of the negotiations because Mexico is not in a hurry, but rather sees the agreement as a long-term strategy. Therefore, he indicated that the negotiators should take as long as is needed. Senator Durenberger also asked what is happening with regard to labor issues between the United States and Mexico. Secretary Serra responded that the United States and Mexico had established a Memorandum of Understanding with the Department of Labor and that they were exchanging information and providing education to each other with regard to Mexican labor practices. He indicated that in some respects Mexican labor practices were even more stringent than in the United States, citing the example of profit sharing between Mexican companies and their workers.

Commissioner Newquist indicated that the antidumping/countervailing duty laws would be critical in these negotiations. He indicated that it would be extremely difficult for the United States to make any changes in this law, and that this requires that there be a solid dispute settlement agreement between the two countries.

6. MEETING WITH PRESIDENT CARLOS SALINAS DE GORTARI

President Salinas began the meeting by indicating that a NAFTA agreement would help the United States and Mexico compete better against the other countries of the world, including Japan and the EC. Chairman Bentsen noted that competition in the future will be more economic and less militaristic than in the past. He also indicated that NAFTA can help all three countries create a region that is able to compete better with the world.

Chairman Bentsen then asked President Salinas about the upcoming elections. President Salinas responded that he felt good about their prospects for victory. He indicated that the Mexican growth rate is up while the inflation rate is down. He indicated that his Administration had provided running water to three million Mexicans and had up-graded 20,000 schools, which creates a different political climate than had existed in 1988. He also indicated the opposition parties were somewhat divided and unable to develop a coherent message on which to oppose the Salinas Administration reforms.

Turning to the fast-track, Senator Bentsen indicated that the fast-track extension was approved by a good margin in Congress. However, he indicated that there was still opposition to it, and that the strength of the vote benefitted by the fact that the Uruguay Round was considered on the same vote. He emphasized the strong need to get the Uruguay Round moving again. He spoke approvingly of Mexico's support, but indicated that it would be tough to get the negotiations moving quickly. President Salinas responded that both countries must push for a success in the Uruguay Round. He indicated the Round was the only way to avoid trading wars, and he was determined to give all of his support to it.

Senator Baucus strongly urged President Salinas to tell the Mexican story in the United States so that when any free trade agreement is presented to Congress more people will know of the tremendous progress Mexico has made. President Salinas responded that in order to continue the reforms in Mexico, a free trade agreement was needed. He indicated that in recent years Mexico had experienced four percent growth, but that Mexico adds two million individuals to its population each year. To continue growing at the current rates, Mexico needs a free trade agreement. He also indicated that they want to have an economic recovery that is characterized by environmental cleanliness. He stated that he was convinced that countries can grow and still create a clean environment. President Salinas then indicated that when he talks to children in Mexico, nine out of 10 speak of the need to clean up the environment. He indicated they talk about the things they cannot see, such as the volcanos in Mexico or the sky. Senator Durenberger told President Salinas that his success was personal, but that he has also infected others to continue and promote his reforms.

President Salinas indicated that he is confident that a free trade agreement with the United States would be approved by Mexico because the Mexicans have changed their attitude toward the United States—at one point, they preferred to remain as distant as possible from the United States but they now have a different view. He indicated that two-thirds of the Mexican population supports a free trade agreement.

Chairman Bentsen outlined the purpose of the Congressional Delegation's trip; he then reviewed the jurisdiction that the Committee on Finance has over trade agreements and trade matters generally. With regard to the timing of the negotiations, President Salinas indicated that the negotiations must take whatever time they require. However, he indicated that the countries involved have also learned from the Canadian experience and that the two countries should not wait too long because the world is not waiting to advance. He also indicated that he was surprised at the favorable attitude by Mexican-Americans toward a free trade agreement. Chairman Bentsen indicated that at first many of these groups were apprehensive because of fear of lost jobs and the need for infrastructure improvements. However, Mexican-Americans also took some pride in the advances being made by Mexico.

B. Wednesday, August 14—Ecuador

MEETING WITH PRESIDENT RODRIGO BORJA CEVALLOS

Chairman Bentsen began the meeting by indicating that the principal objective of the trip was to examine trade issues. He indicated that the Congressional Delegation had just come from Mexico and was heading to other Latin American countries. He also congratulated President Borja for reducing Ecuador's tariffs from a range of 100 to 300 percent to a range of five to 35 percent. He also congratulated him on cutting back on mandatory import licensing. He indicated that the Committee on Finance has jurisdiction over the Andean Trade Preferences Act, and he was hopeful that Ecuador could go further in its reforms since passage of any Andean Trade Preferences Act would be extremely controversial in Congress, particularly because it gave one-way trade benefits to Ecuador and none to the United States.

Chairman Bentsen also indicated that Ecuador needed to make further trade progress in other areas. In particular, he said he was concerned that Ecuador was not a member of the GATT. He indicated that President Borja had one four-year term in which to serve, and he hoped that Ecuador would lock in as many reforms as possible during that time. Finally, Chairman Bentsen indicated that Decision 85 of the Andean Pact falls short of the needs of U.S. exporters in terms of intellectual property protection. He indicated that the term of licensing is too short, and that it still permits some compulsory licensing.

President Borja made several points. First, he indicated that he was the first President in South America to talk to President Bush about the Bush Initiative (*i.e.*, the Enterprise for the Americas Initiative). He had indicated that it was very interesting and that Ecuador should try to seize the initiative. He indicated that the Initiative today is not well defined but does demonstrate a changing mood between Latin America and the United States. President Borja then indicated that his reforms are making progress. He indicated that Ecuador has no problems with narco-terrorism or drug trafficking. He also indicated that Ecuador had faced huge economic problems when he took power. There was a Federal deficit of over 13 percent of the GDP, whereas today, three years later, Ecuador has a surplus of 0.2 percent. He indicated that exports have also increased to lower Ecuador's balance of payments and that economic indicators now look positive. However, he indicated that it was important to maintain the stability of Ecuador and that certain reforms pressed by international lending institutions could break the peace and upset that stability. He indicated that he has explained this to the World Bank, the IMF, and other institutions.

Chairman Bentsen responded that President Borja has made great progress but that the United States would hope for more. He cited the example that the Soviet Union was one of the large powers of the world but with a third class economy which did not permit it to sustain its leadership. He indicated that the EC and Japan are growing in power and that the confrontation in the future will be more of an economic nature, less of a militaristic nature. He indicated that it is important for Latin American countries to join the movement toward free trade and integration in the world economy.

Senator Baucus echoed the sentiments of Chairman Bentsen. He indicated that Americans see the world changing and that they are engaged in a fierce competition with Japan and the EC. When American citizens consider the Enterprise for the Americas or the Andean Trade Preferences Act, U.S. citizens will ask what the Latin American countries are doing to reform before those initiatives would be permitted to proceed. Senator Baucus indicated that he had been struck yesterday by President Salinas' comment that "for Mexico to remain the same, it must change." He felt this was true of many countries, particularly those in Latin America.

President Borja responded that there are many opportunities for production in Ecuador but that what is lacking are more fully educated and trained workers. Ecuador desperately needs more individuals at the administrative level who can lead the privatization efforts his country is pursuing as well as the privatized companies. He indicated that several months ago he had expressed his interest in entering the GATT and believed that it was important for Ecuador. He confirmed that he favors a free trade zone within the Andean Pact, which is a reversal from the situation two years ago when the Andean Pact was dying.

He indicated, however, that he does have certain differences with other Presidents within Latin America. He indicated that he is a social democrat and therefore does not as strongly favor entirely dismantling the state. He indicated that the state must remain in certain areas, citing the example that Ecuador has only one beer and one tire manufacturer. He concluded, therefore, that Ecuador must control prices so that those monopolistic producers cannot gouge consumers.

Chairman Bentsen responded that if Ecuador opened its markets, it would be able to force the beer and tire manufacturers to become more competitive, thereby creating more jobs.

Senator Durenberger indicated that the purpose of the Congressional Delegation's visit was to help the Senators and Commissioner Newquist learn. However, he indicated that they must share the realities of the U.S. Congress with you. He expressed the view that it is fortunate that President Bush is such a genuine friend of Latin America. He indicated that the United States has received leadership from President Bush and that we now need leadership from Latin America as well.

C. Thursday, August 15, and Friday, August 16—Brazil

1. MEETING WITH PRESIDENT FERNANDO COLLOR DE MELLO

President Collor began the meeting by stating that he had fond memories of the meeting he held with Chairman Bentsen and other Senators in Washington. Chairman Bentsen responded by congratulating President Collor on the progress that he had made thus far in reducing compulsory licensing and some progress on intellectual property rights protection, although he also indicated that there is much work yet to be done. He indicated that President Collor was at the helm facing a tough job, and he wished him well.

President Collor responded that in Brazil, they are attempting to make serious reform efforts to thrust Brazil into world trade. At the same time, however, Brazil is concerned about stability. President Collor related that during Vice President Quayle's recent visit, Malcolm Forbes, Jr. told President Collor that Brazil could become as strong economically as the nations of the Pacific Rim. However, President Collor questioned how that would be possible with global capital being as scarce as it is today. President Collor related that the decade of the 1970's had been a period of growth for Brazil; the decade of the 1980's had been a stagnant economy, although Brazil experienced growth in democracy. The challenge of the 1990's would be to consolidate democracy while continuing growth. He indicated that to achieve this Brazil must cooperate with the United States if it is to achieve this.

He reminded the Delegation that past "litigations" between the United States and Brazil had been reduced, citing past differences over intellectual property, informatics, the environment, and nuclear cooperation.

Chairman Bentsen indicated that the most important trade issue for both countries is the Uruguay Round. He indicated that Brazil could play a leading role and that the United States and Brazil can cooperate, particularly in eliminating EC agricultural subsidies. However, he noted that often countries wait until the end of negotiations to make concessions. He hoped that Brazil could show more movement in the services negotiations in order to secure additional concessions from the EC on agriculture.

He also indicated that in the coming years it would be important for countries like Brazil to attract scarce capital. He indicated the reductions in Brazil's tariff structure and intellectual property liberalization would help attract capital to Brazil.

President Collor responded by thanking the Delegation for its attitude of trust and cooperation. However, he indicated that it is necessary to create economic opportunities in the third world. He indicated that there are mass migrations from the developing to the developed world occurring today, citing Eastern Europeans migrating to Western Europe and Latin Americans moving to the United States. He indicated that it is difficult for the developed countries to absorb this new wave of immigrants. He also noted that this problem is tied to the environment since the problems of the environment are often caused because three-quarters of the human population lives in the developing world. He closed by indicating that the developed and the developing countries must work together to solve this global problem.

Senator Baucus indicated that this was his first visit to Brazil and that he was very impressed by the opportunity existing in Brazil, but also by the enormous challenges facing Brazil in the form of inflation, debt and decentralized political control. President Collor responded that he was not at all concerned about the future of Brazil, despite not having a majority in Brazil's Congress. He indicated that that question was simply one of time and that Brazil is making progress is that area. He indicated that his principal concern was one of world stability. He mentioned that he believed the world was at the end of one cycle and yet world leaders are not yet able to envision the new cycle.

Senator Durenberger indicated that President Collor expressed himself in ways few are able to express themselves. He indicated that the meeting was being held on the day of Feast of the Assumption and that trusts and relationships would be critical to solving world problems. Further he indicated that "the greatest problem with not trusting is not knowing," and that the lack of not knowing hurts relationships. He wanted to affirm that the Bush Administration cares about the relationship between the United States and Brazil. He closed by noting that he hopes that both countries would seek new solutions to existing problems.

2. MEETING WITH MARCILIO MARQUES MOREIRA, MINISTER OF ECONOMY

Chairman Bentsen began the meeting by indicating that Brazil was beginning today to release the bank deposits of Brazilian's citizens, which had been frozen by the Brazilian Government. He asked how the Brazilian Government would deal with the inflationary effects of this change. He also asked how the Brazilian Government would justify rescheduling by the commercial banks.

Secretary Moreira responded that they would be presenting an encompassing debt proposal in New York City the following week to deal with the commercial bank debt problem. A menu of options would be presented. He indicated that it would be similar to the proposals made by Mexico and Venezuela but with many enhancements. He also indicated that Brazil faced a special debt problem in that 90 percent of its foreign debt is owned by the Government, whereas public companies export less than 20 percent of Brazil's goods. This stands in contrast to Mexico and Venezuela where the Federal Government owes most of the debt but also produces most of the exports. With regard to the inflationary effects of loosening the freeze on bank deposits, Secretary Moreira noted that surveys had shown that individuals who had already received funds back kept more than 80 percent of those funds in financial institutions. (Some people received money before the general release of bank deposits due to litigation.)

Senator Baucus remarked that originally President Collor proceeded with the privatization of public entities quite quickly, then met political resistance. He asked what the privatization plan for Brazil is now. Secretary Moreira indicated that to get acceptance for his privatization bill, President Collor had to compromise with Congress by giving them a fast-track procedure, which meant that a commission would make recommendations and would have the authority to privatize, but the Congress would have the authority to approve the commission's rules.

Secretary Moreira listed two outstanding bilateral disputes between the United States and Brazil. First, he indicated that orange juice tariffs remained high, preventing Brazilian orange juice exports to the United States. Second, he indicated that the U.S. voluntary restraint agreements on steel limited Brazilian steel exports to the United States.

Chairman Bentsen indicated that Brazil had been reluctant to bind its tariffs in the Uruguay Round. Secretary Moreira responded that that was true but that they were reviewing that decision, and that their goal now was to bind "the most" tariffs possible.

Secretary Moreira also indicated that Brazil had forsaken the balance of payments exceptions in the GATT. Chairman Bentsen responded that this was a favorable move from the U.S. perspective.

Chairman Bentsen indicated that to the extent that Brazil would be able to help move the Uruguay Round to a successful conclusion, it is a good objective. He indicated that countries like Brazil should not wait until the last minute to put offers on the table. If they did, other countries, like the EC, would not show movement. Senator Baucus expressed his support for this view.

3. MEETING WITH THE AMERICAN CHAMBER OF COMMERCE OF SAO PAULO

Chairman Bentsen began the meeting by reviewing the purpose of the trip and the itinerary of the Congressional Delegation. He indicated that the fast-track extension was won by a substantial vote, but that many Member of Congress felt that jobs would move to Mexico under a U.S.-Mexican free trade agreement. He expressed the belief that an agreement could benefit both countries. He also indicated that that is the general attitude in Congress, as evidenced by the fast-track vote.

Chairman Bentsen then spoke of the many barriers that American businesses can face while doing business in Latin America. He particularly referenced the situation of Texas Instruments, which has had difficulty importing capital equipment to keep its plants in Brazil competitive. It also has had difficulty securing approval for a $133 million investment plan in Brazil from the Brazilian Government.

Senator Baucus asked what Congress can do to help businessmen in Brazil compete. He also asked what other countries do to help their businessmen compete. Several responses were given. First, one businessman indicated that the Enterprise for the Americas Initiative had already provided benefits regarding Mexico, and he expressed hope that it could be successful regarding other countries in Latin America. Second, businessmen expressed the hope that there would be more awareness and interest in Latin America of the same type that was reflected by the visit of the Congressional Delegation. Third, one businessman indicated that a group has been formed entitled "The Foreign Investors Work Group" to work with the Collor Government to develop legislation to facilitate foreign investment. He indicated that it was composed of businessmen from the United States, Germany, Japan, and other countries. He offered to sound out this group as to their views as to what should be done and offered to report back to the Congressional Delegation. Finally, one other businessman indicated that U.S. ethics rules hurt U.S. businesses relatively to other nationalities. He indicated that businessmen from other nations engage in worse practices than U.S. businessmen, and this puts the United States at a competitive disadvantage.

Chairman Bentsen then remarked that the Senate recently passed legislation relating to tied aid, which both Chairman Bentsen and Senator Baucus had cosponsored in the Senate. He indicated that the law would increase the percentage of foreign aid directed toward capital projects in order to encourage countries to spend more money on U.S. goods. He indicated that the United States engages in this practice far less than other countries and that the United States tried to negotiate the elimination of these practices, but without affect.

One member of the Chamber asked whether a failed Uruguay Round would lead to more protectionism worldwide. Chairman Bentsen indicated that the EC has been far too resistant in the Uruguay Round negotiations. However, he also indicated that Brazil and other countries must put services and other offers on the table in order to get the negotiations moving. Otherwise, there would be a failure that could lead to rising protectionism.

Senator Durenberger indicated that there was little partisanship left in making U.S. trade policy. Beginning with the U.S.-Canada free trade agreement, he indicated that there had been a general partnership between the Congress and the Administration. He indicated that he believed in free trade and that many Minnesota companies also support free trade, citing the examples of 3-M, Cargill, and H.B. Fuller. He said that he believed in the value of democratizing the political systems and liberalizing the economic systems in Latin America. He indicated that there are many opportunities for U.S. companies to compete in this hemisphere, and hoped that the U.S. Government could assist those companies in achieving their objectives.

4. MEETING WITH THE CHIEF EXECUTIVE OFFICERS OF MAJOR AMERICAN BANKS IN SAO PAULO

Chairman Bentsen began the meeting by describing the purpose of the trip and reviewing the fight over the fast-track extension in Congress. He mentioned that as the Delegation visits these countries, they are concerned about the status of the Uruguay Round and concerned about the reforms efforts in each country.

This led to a discussion of the Brazilian debt issue. One of the bankers indicated that most of the U.S. banks are very positive toward the recent determination by the Brazilian Government to open negotiations with the commercial banks, scheduled for the following week.

One other banker cautioned that the Delegation should not underestimate the role that the Brazilians Congress will play in approving any debt agreement. He indicated that there are numerous veto points in the Brazilian decisionmaking process and that a small number of Congressmen might be able to block an agreement. Another banker indicated that many states within Brazil still have substantial debt. He indicated that President Collor is trying to gain their support by forcing the commercial banks to rollover the debts of the states.

Another banker indicated that the next six to eight months in Brazil will show whether the Government is engaging in true market-opening reforms or whether the reform process will stall. He indicated that there is a new economic team headed by Moreira, but that the jury is still out. Other bankers disagreed, saying that President Collor's direction is irreversible and that even Secretary Moreira's predecessor, Zelia Cordoso de Mello, took steps that cannot be reversed.

Another banker analogized this situation to Mexico where former President de la Madrid laid the foundation for the reforms that President Salinas has not undertaken. He indicated that President Collor is playing the same role as de la Madrid. He indicated that the main political battles in the coming years will relate to the Congress and the approval of any bank and IMF arrangements.

Chairman Bentsen asked what had happened to the Brazilian stock market this year. One banker responded that there has been significant growth as investors look for alternative investments and find few that are as attractive as the stock market. Other bankers indicated that most of the money being invested in the stock market is speculative, not real investment.

On another subject, another banker made the point that 90 percent of Brazil's foreign exchange capacity is generated by the public sector, but that most of Brazil's debt is in the public sector, thereby making it difficult for the Government directly to earn foreign exchange to retire its debt. This distinguishes it from Mexico and Venezuela, which can earn substantial foreign exchange through state-owned oil companies. This makes Brazil's challenge even more difficult.

Senator Durenberger asked whether this discussion indicated that the solution to Brazil's problems must through necessity be a long-term solution. The bankers generally agreed, stating that there have been some setbacks, but that this is a dynamic economy that is moving forward. They also indicated that it is a very diverse economy with two-thirds of Brazil's exports being manufactured products. This distinguishes it from Mexico or Venezuela, which are more dependent on oil exports.

Chairman Bentsen recalled the problem of Texas Instruments, which was not able to make a $133 million investment in Brazil and finally decided to remove some of its operating facilities from Brazil. The bankers indicated that President Collor is responsive to those complaints. The group discussed whether Brazil, in the end, would continue its reform because of a fear of falling behind other Latin American countries, like Mexico and Venezuela. One other banker suggested the change would not occur because of reference to other countries, but rather because of lack of sustained growth in Brazil itself.

There was a general discussion of the problems caused by population growth in Brazil. One banker indicated that a population the size of Portugal is born every three years in Brazil. Commissioner Newquist indicated that there is a genuine focus on the Mercosur Pact in the United States, and that the focus has been on that Pact rather than on trade agreements involving Brazil individually.

D. Monday, August 19—Argentina

1. BREAKFAST MEETING WITH THE AMERICAN CHAMBER OF COMMERCE OF BUENOS AIRES

Chairman Bentsen began the meeting by describing the jurisdiction of the Committee on Finance over trade issues and reviewing the purpose and itinerary of the trip. He indicated that while bilateral agreements were important, the most immediate need of

American trade policy was for a successful conclusion of the Uruguay Round. He reminded the group that the United States agreed with Argentina in the Uruguay Round with regard to the need to liberalize agricultural trade, but that the United States also wants to see progress in services, intellectual property, and other areas. He also discussed the reported coup in the Soviet Union. [That morning, press reports had indicated the beginning of the coup in the Soviet Union.]

Senator Baucus indicated that it was important to press for a successful conclusion of the Uruguay Round. He indicated that it was the linchpin for other trade initiatives by the United States. Senator Durenberger indicated that Congress had become a major player in trade policy beginning with the U.S.-Canada free trade agreement and he expected it to continue regarding trade relations with Latin America, particularly in the context of the Enterprise for the Americas Initiative. Commissioner Newquist indicated that the ITC plays an important role in conducting investigations and reports for Congress on various trade initiatives. As an active former member of the Chamber of Commerce of Denver, he indicated to the audience that he knew how important the input of business can be.

One member of the Chamber complained that U.S. companies must put up high reserves to lend to Argentina because of perceived risks in lending to Argentina. However, he indicated that the impaired section in Argentina is the public sector, not the private sector, and therefore it was important to find ways to distinguish between them when establishing lending rules.

The Delegation was also asked what the U.S. position was with regard to agriculture in the Uruguay Round. Chairman Bentsen responded that he met with EC officials last year, and indicated that the MacSharry proposal is not satisfactory to the United States in part because it did not at all seek to limit the use of export subsidies. He indicated that EC subsidies are 24 times U.S. levels. He also cited various other deficiencies in the MacSharry proposal.

The Delegation was asked whether U.S. textiles quotas would be eliminated in the near future. Commissioner Newquist responded that the ITC does not make that decision and that it is being addressed in the Uruguay Round, but he indicated that he did not expect there to be any clarity until the United States is able to see where the Round is headed. The Delegation was then asked whether regional agreements within Latin America could be alternatives to the Uruguay Round for countries during this transitional period in Latin America. Senator Durenberger responded that there is no other alternative other than the Uruguay Round for persuading the EC to reduce its agricultural subsidies. He indicated that after this trip, he was impressed that agriculture was not sufficiently high on the agenda of many world leaders.

Senator Baucus indicated that one must simultaneously pursue several options, both bilateral and multilateral negotiations. He indicated that it is important to press for a conclusion of the Uruguay Round and that more attention is required by heads of state. If the Uruguay Round is not succeeding, he indicated that the United States should pursue other negotiations with other countries.

Commissioner Newquist was asked what the policy would be with regard to the antidumping/countervailing duty laws in the Enterprise for the Americas or the Uruguay Round. Commissioner Newquist responded that under the U.S.-Canada free trade agreement the antidumping/countervailing duty laws remained intact. He advised the audience that they should assume that no changes will be made in any other agreements. Chairman Bentsen indicated that the antidumping/countervailing duty processes are transparent. He indicated that the United States uses them to enforce fair trade when unfair trade practices hurt U.S. companies.

Ambassador Todman asked the businessmen to answer two questions: (a) What are the obstacles to foreign investment in Argentina and (b) what are the obstacles to U.S. exports? The group gave several responses. One member indicated that the failure of the Mexican Senate to pass a labor law for over a year deterred foreign investment. Another indicated that corruption in government deterred foreign investment. A third indicated that lack of intellectual property protection was a problem. With regard to obstacles to exports, one member indicated that a lack of financing of exports was the chief problem.

2. MEETING WITH DOMINGO FELIPE CAVALLO, MINISTER OF ECONOMY

Chairman Bentsen began the meeting by reviewing the jurisdiction of the Committee on Finance over trade matters within the Congress. He indicated that the United States was interested in a free trade agreement with Mexico, but even more interested in securing a successful agreement in the Uruguay Round. He indicated that the United States was happy to work with Argentina in the Uruguay Round with regard to agricultural issues, but that the United States also needed to see progress in services, intellectual property, investment, and market access generally.

Minister Cavallo responded that Argentina's economic reforms have been important but that Argentina's political reforms are equally important. He praised the political leadership of President Menem, particularly since he gave his Cabinet members the authority to conduct the reforms that have been successful. In addition, he indicated the Argentine people have been very supportive, a view which he hopes will be reflected in the election results on September 8. He agreed that multilateral negotiations were the most important, particularly the negotiations on agricultural export subsidies.

Minister Cavallo then reviewed many of the reforms that Argentina has undertaken. He reviewed the intellectual property reforms to date and promised more reforms in the future. With regard to foreign investment, he indicated that Argentina was making progress and that it was important to change the dispute settlement provisions regarding foreign investment that now exist. Specifically, he indicated that Argentina would be willing to permit foreign companies to choose an international arbitration panel to decide disputes rather than being forced to accept the decisions of the Argentine judiciary.

With regard to debt, he indicated that the IMF has approved a stand-by loan for Argentina, conditioned on targets that he believes

Argentina will be able to achieve. Argentina hopes to get an extended fund facility (*e.g.*, medium-term loan) to help improve their debt situation in the future. By mid-1990, their goal is to be in the position Mexico was in shortly after it restructured its debt. Finally, he indicated that the attitude of the Argentine people has changed—they are far more willing to reform today.

Senator Durenberger asked the status of the Government's attempts to stabilize the austral, the Argentine currency. Minister Cavallo indicated that stabilizing the austral involved more than fixing the exchange rate. It also required a commitment by the Government to full convertibility in order to discipline the public sector. With a strong convertibility rule, he indicated that there was no opportunity for the Government simply to print australs to fund public sector activities. He also indicated that the Government has eliminated some taxes which hurt Argentine competitiveness (*e.g.*, export taxes), but they have also increased tax enforcement in order to raise revenues and avoid causing a budget deficit. He indicated that the convertibility law imposes strict disciplines at the state level as well.

He indicated that the only difficulty in the reform program is that many believe Argentina has already done enough to reduce inflation and to spur growth. He indicated this would be a substantial mistake; he indicated that continued reforms are required to ensure that economic confidence continues. Minister Cavallo then made a presentation to the Delegation with various charts showing improvements in the inflation rate, unemployment, consumption of basic food stuffs, deposits of dollars in Argentine banks, etc.

3. MEETING WITH EDUARDO MENEM, SENATE PRESIDENT

Senator Menem began the meeting welcoming the Delegation and indicating that it was important to determine how foreigners view the Argentine economic reforms. He indicated the Delegation was visiting on a special day because this was the second day of the coup in the Soviet Union. Senator Bentsen responded by indicating that the United States was anxious to continue working with Argentina on agricultural reform in the Uruguay Round as well as making progress in other areas, such as intellectual property, services, investment, and market access generally. Mr. Menem responded that he was concerned about the slow progress of the Uruguay Round. He indicated that the United States was concerned with intellectual property and that Argentina was concerned with agricultural subsidies. Therefore, he concluded that both countries had room for agreement. He further stated that Argentina's negotiations with the IMF show that it will be permanently monitored as to what Argentina performs in the economic field. He indicated that Argentina has a strong commitment to meet their international obligations but that, of course, Argentina expects reciprocity from the developed world as well.

He observed that Congress is likely to support every measure to move ahead in economic reform, especially the Senate. He indicated that the ruling party has control of the Senate, but not the House. However, he indicated that up until now Congress has supported all the major reforms proposed by President Menem.

Senator Baucus repeated the words of Minister Cavallo, that some in Congress believe Argentina's economic reforms had gone far enough. Senator Baucus expressed support for Minister Cavallo's view that the reforms need to continue. He also asked Mr. Menem about the importance of the Mercosur Pact. Mr. Menem responded that he shares Senator Baucus' position that Argentina still has a long way to go with regard to the economic reforms. He indicated the next steps will be to deepen the change in Argentina. He indicated that if Argentina does not do this, it runs the risk of running backwards. With regard to the Mercosur Pact, he indicated that the integration process will not be easy because the countries are not the same. He indicated that the countries should begin by trying to match their economic policies (*e.g.*, reducing some tariffs). However, he indicated that the more substantial task of integration will take time.

Senator Durenberger asked whether there is a close relationship between the President and Congress in Argentina. Mr. Menem responded that in general there is a close relationship. However, in Argentina the members are elected by provincial congresses, and therefore, the provinces often determine the views of the Senators. He indicated that 26 of the Senators are Peronists, 14 are Radicals and six belong to various provincial parties. In the House, he indicated that the Peronists have a majority only of 50 percent plus one. However, he indicated that it is difficult to get a "quorum" with only those Peronists because many of the reforms are not adhered to by all the Peronists Congressmen.

Chairman Bentsen urged Argentina to make greater efforts in the area of intellectual property. He cited the example of Italy which liberalized its intellectual property regime for pharmaceuticals in the 1970's, then watched Italian pharmaceutical companies gain market share. Italy also saw research and development within Italy increase by 20 percent. He indicated that Argentina has advanced companies that can become world class competitors.

4. LUNCHEON MEETING AT THE AMBASSADOR'S RESIDENCE (BUENOS AIRES)

Chairman Bentsen began the discussion explaining the purpose of the trip and the itinerary. With regard to the Uruguay Round, he indicated that it was necessary to curb agricultural subsidies. He indicated the United States uses the Export Enhancement Program (EEP) for defensive purposes only. He indicated a strong view that the United States and the EC should stop the costly game of subsidizing agricultural exports.

Argentine Agriculture Minister Regunago emphasized how much American subsidies affect Argentina's farmers. He indicated that the manner in which the EEP is managed does not sufficiently take into account the effect on countries like Argentina. He believed several reforms would be useful. First, he indicated that the United States should consult with Argentina and other countries before it uses the EEP. Second, he felt that countries should agree not to buy products from countries that subsidize their exports. Third, he hoped that certain cooperation programs between the United States and Argentina could be continued and expanded.

Specifically, he indicated that by the end of the month a joint research project between the United States and Argentina would be finished which would be intended to conclude that meat with a lower cooking temperature will be accepted in the U.S. market. He also indicated that there is another study indicating that Argentina be declared free of foot and mouth disease. He hoped that the United States would make this certification.

Chairman Bentsen responded that the United States is willing to work with Argentina on agricultural issues. He earlier had indicated that the United States had recently made a subsidized sale to Brazil under the EEP in order to prevent the EC from getting the sale. The Argentine Agriculture Minister had indicated that he believed Brazil would not have bought from the EC in any case. Chairman Bentsen disputed this claim saying that the EC would have made the sale were it not for the U.S. response.

With regard to the Uruguay Round, Chairman Bentsen agreed that the heads of state themselves must become involved in order to reach a successful conclusion of the Round. However, he also argued that the developing countries must also put offers on the table regarding services, intellectual property, and other areas. Senator Baucus said he understood some of the proposals regarding consultation prior to the use of the EEP, but he did not feel this was a long-term solution in any case. He said the United States' first concern is to reduce the subsidies and that this was dealt with most properly in the Uruguay Round.

Minister Cavallo indicated that Argentina was willing to work with the United States on agriculture, but that an equally important goal was to restructure Argentina's debt. He hoped that the United States would provide assistance in the form of a Brady Plan restructuring in the first six months of next year. He indicated that the key to this was to get the commercial banks to discuss the restructuring of their commercial debt. Chairman Bentsen indicated that five years ago he had made a recommendation at a Davos conference along the lines of the Brady Plan. It was roundly denounced at that time, but now was accepted by the Administration as their established strategy.

The President of the Argentine Cattlemen's Association then emphasized that there is a human aspect to the agricultural subsidy problem. He indicated that the delay in reaching a successful conclusion of the Uruguay Round has hurt Argentine farmers. He expressed support for Chairman Bentsen's desire to reach an agreement within the GATT, but he also recommended establishing a committee between the U.S. Department of Agriculture and the Argentine Agricultural Agency to mitigate the effects of agricultural subsidies.

E. Tuesday, August 20, and Wednesday, August 21—Chile

1. Meeting with Alejandro Foxley Rioseco, Minister of Finance

Chairman Bentsen began the meeting reviewing the trip and the itinerary. He indicated to Minister Foxley that there had been a difficult fight in Congress over the fast-track extension. He indicated that the major argument against the fast-track extension for the Mexican negotiations was that low wages in Mexico would lead to an exodus of U.S. jobs to Mexico. He stated his belief that a well negotiated free trade agreement with Mexico could create net jobs for both countries, arguing that the United States could sell more to a rich country than to a poor country. However, he indicated that approval of subsequent free trade negotiations, if pursued, would be extremely difficult.

Minister Foxley responded by observing that Chile is one of the most open economies in the world. He stated it has virtually no non-tariff barriers and had just reduced its uniform tariff rate from 15 percent to 11 percent. He stated that the Chilean Congress had passed the legislation reducing tariffs very quickly and that the Administration had sent the Congress legislation on Monday afternoon and it had been fully approved by Thursday morning. The Chilean Government wanted the legislation to be a fiscally neutral bill because of its commitment to a balanced budget. Therefore it had raised offsetting taxes on gasoline.

Minister Foxley continued that Chile is now exporting one-third of its GNP and that it hopes to export 35 to 38 percent of its GNP within three years. He indicated that non-traditional exports had grown at a 22 to 23 percent rate this year.

With regard to the capital account, he indicated that the Government allows Chilean companies to invest abroad with virtually no restrictions. He expected that there would be further liberalization in investment rules, and he noted that most countries attract about two percent of their GNP in foreign investment, while Chile attracted four to five percent last year.

He further noted that Chile is about to sign a free trade agreement with Mexico in September, indicating that by 1996 most products would enter both countries duty free, with several exceptions. With regard to the Enterprise for the Americas Initiative, he noted that Chile was the first country to sign a debt reduction scheme under the Enterprise for the Americas Initiative. Further he noted that Chile is ready to enter negotiations with the United States with regard to a free trade agreement.

Senator Baucus responded that he hoped Chile would take even more of a leadership role with regard to economic liberalization for three reasons. First, he indicated that a successful conclusion of the Uruguay Round would help set the stage for free trade agreements with Mexico and possibly Chile. Second, he indicated that improvements in Chilean intellectual property rights would benefit both Chile and other countries. Third, he indicated that Chile and all of South America experiences a window of opportunity at this point that Chile and other countries should seize.

Senator Durenberger emphasized the significance of having the Chairman of the Committee on Finance and Chairman of the International Trade Subcommittee of the Finance Committee visit Chile. He stated that the importance of that kind of trip cannot be overestimated. Further, he indicated that only a substantial amount of time and education could lead to acceptance of Chile as a possible free trade partner.

Commissioner Newquist asked what the product exemptions might be under the Chile-Mexico free trade agreement. The Chilean officials responded that the two exceptions are, first, oil and derivatives and, second, certain agricultural commodities. However, fruit and vegetable trade would not be exempted. Commissioner Newquist asked what the agreement provided with regard to dispute settlement. Minister Foxley responded that the dispute settlement mechanism would be similar to the mechanism used under the GATT.

Senator Bentsen indicated that in the Uruguay Round, Chile had made offers that envisioned binding tariffs at higher levels than the levels that Chile has already implemented. He indicated that countries could not afford to hold back on their offers because the agreement is too complex. He stated that Chile, with its reputation, should lead in the Uruguay Round. He also indicated that he hoped Chile would make more progress on the intellectual property negotiations, both with regard to improvements in the duration of protection and for additional pipeline protection.

Mr. Foxley indicated that Chile was a small country and that he did not believe it could carry much weight in the GATT, but that he knew Chile could lead by example. With regard to intellectual property, Chilean officials indicated that the newly passed Chilean law met many important criteria. They indicated that the only basis on which it is deficient was with regard to duration and pipeline protection. With regard to duration, they indicated that the Aylwin Administration had originally proposed a duration of 18 years for patent protection but that Congress had cut this period back to 15 years. They also indicated that the 15 years run from the date of registration which they argued is the equivalent of the U.S. rule, which provides protection for 20 years from the date of filing. With regard to pipeline protection, they indicated that this issue was extremely sensitive politically and that the pipeline period in any case is very short, lasting only about two to three years. With regard to services, the Chilean officials indicated that Chile is the leader among Latin American countries in binding its tariffs at 32 percent.

2. MEETING WITH THE AMERICAN CHAMBER OF COMMERCE OF SANTIAGO

Ed Tillman, the head of the Santiago American Chamber of Commerce, began the meeting by indicating that the American Chamber of Commerce there had 400 members representing 70,000 employees. The organization has existed since 1972 and is growing at a 10 percent rate per year. He indicated that it includes a broad spectrum of companies, including 40 percent American affiliated companies, 40 percent Chilean companies, and 20 percent companies affiliated with other countries.

He expressed satisfaction that Minister Foxley has received support from the political wing of the Aylwin Government. He indicated that the American Chamber of Commerce supports a free trade agreement as one of the key elements in the Chilean reform effort.

With regard to Chilean labor laws, he indicated that the labor laws generally are good, the safety standards are not up to par, but they are better than in most Latin American countries. With regard to intellectual property, he indicated that the American Chamber of Commerce had worked closely with the Aylwin Government to approve Chile's intellectual property law, although they were not entirely satisfied with the content of the law. Senator Bentsen indicated that the 15-year patent protection in the new Chilean intellectual property law was not sufficient, and that there was still a lack of pipeline protection in Chilean law.

Mr. Tillman indicated that the American Chamber of Commerce realizes the free trade agreement will not happen quickly. They also realize that the United States has various trade restrictions that will be sensitive politically in any negotiations.

Senator Bentsen responded that the United States would not reduce its health and safety standards. He indicated that this issue was contentious in the Mexican negotiations and that the United States sees them as legitimate restrictions.

Senator Baucus asked how Chile compares with the United States with regard to environmental standards. The group indicated that Chilean environmental regulations more or less conform to U.S. levels, but have not been enforced. Senator Baucus urged them to press for greater environmental protection, that this would be important to favorable approval of any future U.S.-Chilean agreements.

3. MEETING WITH PRESIDENT PATRICIO AYLWIN AZOCAR

President Aylwin began the meeting by indicating that Chile is interested in a policy of opening its markets and exploring a free trade agreement with the United States. He indicated that this policy has the support of Chile's major parties, and therefore there is a national consensus in favor of opening the Chilean market and forming agreements with other countries in the Western Hemisphere.

He indicated that Chile also wants to press other countries to open their regimes in the context of the Uruguay Round. However, he indicated that Chile is not a large country and its ability to influence other countries is not substantial.

Senator Bentsen responded that he believed Chile underestimated its power of leadership and that it could lead in the Uruguay Round. Senator Durenberger indicated that he admired the way in which the Chilean Government has made the transition from the Pinochet Government to the Aylwin Government and the transition to a more free market economic policy.

President Aylwin then gave a description of Chilean history from the early 1960's. He indicated that it was necessary to get a full accounting of wrongdoings during the Pinochet period and that his Government was moving in that direction. He indicated that he was optimistic about Chile's future. He stated that sectors of Chilean society do not seek confrontation but would rather seek to work together to make society better.

President Aylwin ended the meeting by indicating that it is a great challenge for Chile as a developing country to apply more intelligence to its production and overcome the stage of production where Chile's production involves the generation of raw materials only. He indicated that this is one of the major challenges for Chile today.

4. MEETING WITH THE PRESIDENTIAL ADVISERS IN CHILE

Foreign Minister Enrique Silva Cimma began the meeting by indicating that he had just learned through official information that efforts to overthrow President Gorbachev had failed in the Soviet Union. He reviewed the most recent developments with regard to the attempted coup in the Soviet Union.

After a brief discussion of these developments, Senator Bentsen indicated that the events in the Soviet Union and across the world today shows that it will not only be military power, but that it will also be economic power that increasingly makes the difference in the status of nations. He applauded Chile for its recent efforts toward reform and pressed them to go even further.

Foreign Minister Silva Cimma thanked the Senator for his comments. He indicated that Chile has a strong economy. However, he indicated that five million Chileans still live in a state of extreme poverty, earning less than $200 per month. He indicated this is why Chile supports an open economy—to stimulate even more jobs and prosperity for these individuals.

Senator Baucus pressed the Chileans to liberalize further on trade, but also to make progress in areas of social justice, particularly areas of environmental concern. He indicated that this would be important if the United States were to proceed with any free trade agreement with Chile.

Senator Durenberger indicated that the joining of foreign relations and economic relations are increasingly important. He argued that if we are to develop strong economic relations, free traders must seek to decrease protectionism. He then discussed EC agricultural subsidies, arguing that Chile and the United States need to seek to reduce these subsidies.

Foreign Minister Silva Cimma agreed with Senator Durenberger's views. He also indicated that Chilean farmers still complain about the temporary embargo the United States placed on grapes several years ago. Senator Durenberger responded that the United States imposes legitimate health restrictions not only for the benefit of its consumers, but also for producers. He indicated that both Chile and the United States have legitimate health restrictions. Senator Bentsen indicated that these health restrictions apply to U.S. producers as well.

Chilean officials had complained that Chilean fruit sent to the United States is not inspected until it reaches the U.S. port and then could be denied entry. Senator Bentsen responded that this is a hazard of the business. While the United States does have an inspection station in Mexico, permitting some Mexican exports to be inspected prior to entering the United States, he indicated that this difference is a function of geography, not discrimination against Chilean exporters. However, he indicated that the United States will not relax its health standards.

With regard to the Uruguay Round, another Chilean official at the meeting indicated that when the differences in the negotiations are large the scope of the agreement tends to be small. He also indicated that in past Uruguay Round agreements, there tended to be many free-riders. Therefore, he argued that more ambitious bilateral agreements were necessary as well. Senator Bentsen responded that in the past GATT rounds there had been many free-riders, citing the case of India which has duties exceeding 100 percent. He expressed hope that in the Uruguay Round all countries would be able to reciprocate fully. Foreign Minister Silva Cimma indicated that he would take these views into account.

F. Friday, August 23—Venezuela

1. BREAKFAST MEETING WITH THE VENEZUELAN AMERICAN CHAMBER OF COMMERCE AND INDUSTRY

The breakfast began with a presentation by John Werner, President of the Venezuelan American Chamber of Commerce and Industry, regarding the status of the Venezuelan reform efforts. Senator Bentsen responded that the exchanges with the American business community in these various countries is very helpful in terms of formulating U.S. trade policy. Mr. Antonio Herrera-Vaillant then reviewed bilateral trade issues in U.S.-Venezuelan trade relations.

The Delegation was then asked whether the United States would make reciprocal trade concessions in response to the trade concessions that Venezuela had already made unilaterally. Senator Bentsen responded that the United States has already reciprocated. He indicated that Venezuelan tariffs averaged 20 percent, whereas U.S. tariffs were below five percent. He noted that Venezuela's non-traditional exports to the United States have doubled between 1984 and 1989. With regard to the antidumping/countervailing duty laws, he indicated that the United States enforces these laws to enforce fair trade. He indicated that in these cases, both the petitioner and the respondent have an opportunity to present their side of the case. Regarding U.S. health restrictions, he indicated that the United States will continue to enforce those restrictions, and he emphasized that the United States enforces them against U.S. producers as well.

The Delegation was asked how the events in the Soviet Union will affect investment in Latin America. Senator Bentsen responded that he believed it would increase investment in Latin America because businessmen want certainty and the upheavals in the Soviet Union created uncertainty. The Delegation was then asked whether Congress will pass legislation to encourage a shift in investment from Asia to Latin America. Senator Durenberger responded that the solution is to remove impediments to investment in Latin America and that this would encourage a shift in investment toward Latin America.

2. MEETING WITH DR. ANDRES SOSA PIETRI, PRESIDENT OF PETROLEOS DE VENEZUELA, S.A. (PDVSA)

Dr. Pietri began the meeting by indicating that Venezuela and PDVSA have a strong commitment to the United States. He indicated that the company must be operated in such a way that it helps the United States and that this would not only help Venezuela, but would also help garner support for the Enterprise for the Americas.

Senator Bentsen then asked Dr. Pietri to provide information on the new gassification project that PDVSA is undertaking. Dr. Pietri continued with a lengthy description of the strategy behind the effort and the corporate structure of the effort. He emphasized that PDVSA felt that there is a substantial future in gassification projects, although there is still a great deal of work to be done before it could become a reality.

Senator Baucus asked about the relationship between OPEC, Venezuela, and other oil-producing nations. Dr. Pietri provided a description of these entities and the current dispute within Venezuela as to what Venezuela's policy should be vis-a-vis OPEC. He did mention that when Saddam Hussein invaded Kuwait, President Perez authorized a 400,000 to 500,000 barrel per day increase in Venezuela's oil production. He indicated that this would help increase revenue to finance PDVSA's increased production plan and that the additional barrels are still being produced.

3. MEETING WITH PRESIDENT CARLOS ANDRES PEREZ

President Perez expressed relief over the positive turn of developments within the Soviet Union. [By this point, it had become clear that the military coup in the Soviet Union had failed]. However, he expressed concern about how the situation will develop now. He indicated that the future would depend heavily on the steps Europe, the United States, and Japan were willing to take to assist the Soviet Union.

Senator Bentsen then indicated that the Delegation is seeing dramatic changes in Latin America and that President Perez is furthering that effort in Venezuela. President Perez responded that Latin America now realizes the mistake of protectionism and realizes the importance of integration of markets and open trade policies. He also indicated that the Venezuelan business sector has changed, that they realize that they cannot always have state protection and that it is not possible to revert to state protection. He also indicated that Venezuela had received the Enterprise for the Americas Initiative with sympathy and interest, even though Venezuela realizes it is a long-term program.

Senator Baucus stated that he was impressed with the action Venezuela had taken to date. He urged additional movement in areas like intellectual property rights, liberalization of investment and privatization. He also indicated that there was an additional list of environmental and social issues that would inevitably arise in the context of a free trade agreement. He indicated that many U.S. businessmen believe that higher environmental standards in the United States put the United States at a competitive disadvantage compared to other countries.

President Perez responded that Venezuela had implemented a firm environmental policy. He indicated that in his first year in office he had implemented a new environmental law.

Senator Durenberger made four observations. First, he indicated that the United States and Venezuela must band together to stop protectionism, particularly agricultural protectionism, by the EC. Second, he indicated that Venezuela and the United States have a mutual trading interest in that they are close to each other and are familiar with each other's markets. He indicated that this would help shift investment to Venezuela. Third, he indicated that the United States and Venezuela must work together on energy policy. Fourth, he indicated that both countries share health care problems in that there exists a challenge for both countries to improve the quality and access to health care while decreasing health care costs.

President Perez responded that Venezuela has been receptive to more open trade with the United States, but he also indicated that there are areas in which Venezuela has concerns with U.S. trade policies, including antidumping and countervailing duty laws and health restrictions by the United States. Senator Bentsen responded that with regard to health and safety standards, the United States puts the same limitations on its own producers. He also indicated that U.S. health restrictions are not likely to be reduced. With regard to U.S. antidumping and countervailing duty laws, he reminded President Perez that Venezuela has received a favorable ruling in one aspect of the recent cement case. He indicated that Venezuela will not win all antidumping/countervailing duty cases in the United States but it may win some, and the procedure is fair and transparent.

President Perez responded that Venezuela is only asking for some flexibility on these issues and that there is a need for standardization of rules and regulations. He expressed a desire to work with the United States for stronger trade relations.

4. MEETING WITH ENRIQUE RODRIGUEZ MENDOZA, TRADE MINISTER

Senator Bentsen began the meeting by congratulating Venezuela on its accession to the GATT. He indicated that he believed Venezuela could be a leader in more open trade in the Uruguay Round negotiations.

Minister Mendoza stated that there is a revolution occurring in Latin America. He made two general points. First, he indicated that Venezuela has taken substantial trade policy reform. He stated that in 1989 Venezuela had an average tariff of 34 percent. It is now 10 percent. He indicated that maximum tariffs generally had been reduced to only 20 percent. He also indicated that the private sector has become very supportive of these reforms. Second, he indicated that President Bush's Enterprise for the Americas Initiative is playing an important role in encouraging reform. He noted that it is easier to liberalize if it appears that Venezuela subsequently would be able to negotiate a free trade agreement with the United States. He also indicated that Venezuelan officials will have a meeting in September with representatives from the U.S. Department of Commerce and the USTR to discuss bilateral trade issues. Venezuela will be bringing private sector individuals to participate in that meeting, having learned the importance of private sector participation from the United States. Senator Bentsen responded that the Congress by law created the private sector adviser groups that advise the U.S. Administration during trade negotiations.

Minister Mendoza mentioned the recent GATT panel ruling relating to tuna import restrictions by the United States. He asked whether any Member of Congress would support legislation to adjust the ban. Senator Bentsen responded that the GATT panel also ruled in favor of the United States with regard to its ability to impose labelling requirements on imported tuna. He also indicated that the United States imposes even tougher requirements on its own producers. He suggested that the labelling requirements will remain and that U.S. consumers will not buy tuna that is not dolphin-safe, so that Venezuela should change its practices in any case.

Senator Baucus responded that this raises the general issue of environmental protection. He indicated that Venezuela should pay attention to these issues because they would arise in the context of any free trade agreement negotiations that might occur.

Minister Mendoza mentioned that Venezuela has a number of concerns regarding U.S. trade policy, particularly its antidumping and countervailing duty laws. He indicated that they were concerned with the application of the antidumping/countervailing duty laws on a regional basis as has occurred in the case of recent cement dumping cases. Commissioner Newquist responded that the ITC uses regional industries analysis very rarely. He indicated that during the time he has been on the Commission it has been used only in the cement cases. He also indicated that the U.S. Government imposes a very high standard on the petitioner when applying the antidumping laws on a regional basis only. Therefore, it is an extremely difficult standard to meet.

Chairman Bentsen added that the Congress feels very strongly about the antidumping/countervailing duty laws, stating his belief that those laws are used to enforce fair trade. He indicated that Venezuela would find great resistance within Congress—including by Senator Bentsen—to eliminating the antidumping/countervailing duty laws.

Minister Rodriguez indicated that Venezuela was concerned with these laws because small exporters are severely disadvantaged. He stated there was a prevailing view that these laws are too favorable to U.S. petitioners and that small exporters cannot afford to fight a case. Commissioner Newquist noted that these cases are expensive for both respondents and petitioners because of the high costs involved.

O

49-561 (56)

ISBN 0-16-037062-0

9 780160 370625 90000