

**Deputy United States Trade Representative**

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**Remarks**

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**Brazil and the United States A Continuing Partnership**

Thank you for this opportunity to address the Sao Paulo American Chamber of Commerce. It's a pleasure to visit the Chamber again. You have been a consistent and effective force for trade liberalization in both countries. As we press ahead with negotiations in both the WTO and the FTAA, we are counting even more on your continued support and guidance.

Ambassador Zoellick asked me to extend his thanks for the reception he received when he visited Sao Paulo last March. Your hospitality contributed to the success of his visit and his fond recollection of Sao Paulo. He views his brief stay in Sao Paulo as one of his most important trips. And of course, Ambassador Zoellick sees Brazil as an important trading partner (now our Co-Chair in the Free Trade Area of the Americas and one of the leaders in pursuit of a successful round of multilateral negotiations in the WTO), as a key world economy and as a friend. So on his behalf, I would like to thank you again.

I am happy to be here following the momentous Brazilian election and the successful conclusion of the Quito Ministerial of the Free Trade Area of the Americas (FTAA). I also can report on a very constructive informal meeting of Trade Ministers last Friday in Sydney, where both Brazil and the United States worked to promote the Doha Development Agenda.

The electoral victory of Luíz Inácio Lula da Silva marks the beginning of a new chapter in the historically strong US-Brazil partnership. We were impressed with the electoral process – modern and rapid. This vibrant democratic process in Brazil serves as a model for our hemisphere. We are equally impressed with the provisions made for a smooth transition to the new administration.

The United States has always viewed Brazil as a friend and leader in the hemisphere, and the ties between our two nations have only expanded over the years with increased trade, capital flows, cross-border investment, tourism, and a wide range of educational, health, scientific and other joint activities. We are certainly looking forward to continuation, indeed the intensification, of these ties between us. Brazil and the United State face many common challenges from combating terrorism and money laundering to fighting poverty and stimulating economic growth.

Brazil, as the world's fifth most populous country, a robust democracy, and eleventh largest economy, is a natural partner for the United States.

My visit at this juncture demonstrates the strength of our relationship. I will be participating in the Parliamentary Summit on Hemispheric Integration tomorrow in Brasilia, on Wednesday I will join the rest of my delegation to meet with Vice Minister Clodoaldo Huegeny and his team to participate in the third meeting of the Brazil-U.S. Bilateral Consultative Mechanism. Thursday I will return to Sao Paulo for a seminar on FTAA Options, sponsored by the Getulio Vargas Foundation.

#### NEW BRASILIAN ADMINISTRATION AND THE ROLE OF TRADE

Among the things I hope to take home is a clear understanding of the transition process as it pertains to our mutual interest in advancing trade in the hemisphere, globally, and bilaterally.

The President-elect has made trade an important part of his agenda to address the goal of improving the lives of Brazilian citizens. Indications are that Brazil is ready to move in this direction.

He has expressed a keen desire to deepen and strengthen the ties among the countries of Mercosul. Brazil is also looking at deepening the trade relationship with the European Union, the Andean Community and most recently, I understand, with Central America. Such arrangements can serve to demonstrate the benefits of trade liberalization, whetting the appetite for more. This same perspective has prompted the U.S. to initiate free trade negotiations with Chile, and Singapore and to notify Congress of our intention to do so with Central America, Morocco, the South African Customs Union, and just last week, Australia.

Brazil appears ready to move forward on the trade and economic front. It has made huge strides in the past decade. Inflation, which disproportionately hurts the poor, has fallen from 2500% in 1993 to 6% in 2000 and has been in single digits for seven straight years. This, of course, improves Brazil's international competitiveness.

Labor productivity in manufacturing, which is crucial to competitiveness, has increased 100% in ten years.

The improved investment climate has helped generate over \$153 billion in foreign direct investment in 10 years.

These fundamental changes have set the stage for future growth. President-elect da Silva and Ambassador Zoellick share a common goal in that they both yearn to see the people of the hemisphere move out of poverty that saps the strength of so many. As Ambassador Zoellick mentioned at the Quito Ministerial, trade is a means to create and spread the wealth that will achieve that goal.

For the United States, the change in government in Brazil presents the opportunity to forge new relationships with a new team, but we fully expect our common goals to remain unchanged and the partnership to remain strong.

President Bush has invited President-elect da Silva to visit Washington in December. This is the beginning of our relationship with the new administration. We expect this relationship to deepen as we work together as Co-Chairs to ensure that the final leg of the negotiation of the Free Trade Area of the Americas reaches a successful conclusion by January 2005.

Brazil has a natural role to play in hemispheric and global trade, and of late has been increasingly flexing its muscle as a competitive exporter. We welcome this development, as it inevitably will strengthen the Brazilian commitment to trade liberalization.

Brazil's exports increased to 12% of gross domestic product last year. Monthly exports surpassed \$6 billion in September and October, compared to 4 billion in January and February.

According to the Brazilian Foreign Trade Association, exports are predicted to rise as much as 5% this year to roughly \$61 billion - up from \$48 billion in 1998, and exports could leap another 10% or 15% in 2003 if prices stay stable. Productivity increases have been essential to this performance.

There is room for even greater growth. Of 17,000 companies in Brazil, only 3000 are in the export business, with 1000 responsible for 85% of total volume.

Goods shipped to the U.S. have increased 7.7% so far this year, to \$12.89 billion. That has helped the U.S. nose out the European Union as Brazil's No. 1 export destination, with a 26% global share.

While export growth is important, a challenge lies ahead for the new administration to forge a program that addresses President Elect da Silva's efforts to solve the vexing issues he has identified, such as hunger and poverty.

We understand that he is working to forge a consensus among the stakeholders in Brazilian society to find a path to the future that will allow Brazil to grow in a manner suiting its undisputed potential, and to produce opportunities for broader participation in the world economy.

As an agricultural powerhouse, we hope that Brazil will support our ambitious proposal in the WTO to open markets, eliminate export subsidies and dramatically reduce other subsidies. We will present an equally ambitious proposal for non-agricultural market access in Geneva in a few weeks. And we are preparing service market access offers by the WTO deadline of March 31.

We are eager to work with Brazil to keep up the momentum of the Doha Round, which has rightly been called the Doha Development Agenda, so many of the issues we are working on will have a profound effect on the economic growth of the developing world.

## FREE TRADE AREA OF THE AMERICAS

Of course, the FTAA holds the promise of economic growth for the entire hemisphere. We are pleased to join Brazil as co-chairs for the final phase of the negotiations. This represents a significant collaboration as we join forces to lead the hemisphere on this historic pursuit.

The Quito Ministerial helped us start off on the right foot. In assuming the co-chair with Brazil, we set the tone for our work together – leading the FTAA in a collaborative fashion, rather than two separate consecutive chairmanships. For the FTAA to work, 34 countries will need to come together and work collectively. The manner in which we are working with our co-chair will serve as a model for how all thirty-four countries can work together.

We have agreed to hold the next Ministerial meeting in Miami in late 2003. And, Brazil has agreed to host the following Ministerial in 2004.

In Quito the 34 countries took a number of significant steps toward our collective goal of completing the negotiations of the FTAA by January 2005, the deadline set by our leaders at last year's Quebec City Summit of the Americas. One of those steps was the naming of a strong slate of entity chairs who will be responsible for leading the FTAA negotiating groups and committees for the next 25 months. Their leadership and dedication will be very important to our success. It is noteworthy that the agricultural negotiating group once again will be chaired by a representative of Mercosul.

The Ministers also confirmed a detailed schedule for exchange of market access offers and requests in services, investment agriculture, government procurement and manufactured goods. Countries have already notified our so-called base tariffs, which are the points from which the tariff negotiations will begin. Initial market access offers will be submitted between September 15 2002 and February 15 2003; requests for improvements to offers will be exchanged between February 15 and June 15, with revised offers due by July 15, 2003. This schedule is intended to ensure that we conduct the market access negotiations within a time frame that will allow us to complete the agreement by 2005. This is truly the heart of the negotiation and of tremendous importance to the Brazil as it seeks new markets for its exports.

Our Ministers also launched a hemispheric cooperation program (HCP) to support the smaller less developed economies to participate fully in the FTAA negotiations. The thirty-four governments did so because they recognized that it is important for all countries, regardless of their size or level of development to fully benefit from the FTAA. The HCP is a comprehensive trade capacity building program. The Administration is seeking a 37% increase in the US trade capacity building assistance for the region in fiscal year 2003, to \$140 million. Brazil has indicated its readiness to provide in-kind support to strengthen the trade capacity of the smaller economies. And the IDB is already dedicating substantial resources to this critically important aspect of the FTAA.

Ministers also promoted the transparency of the process of negotiating the FTAA. First of all they released the second draft of the consolidated text of the FTAA to the public and we

did it in record time. It can be found in all four FTAA languages, including Portuguese on the FTAA website. When the first draft of consolidated text was released last year, it was historic; it was the first time that the public had been given access to a draft trade agreement during the negotiations. The FTAA governments felt that it was important to continue this tradition of transparency.

In addition the Ministers met with business and civil society representatives to receive recommendations. Our civil society meeting included representatives from hemispheric environmental groups, labor unions, parliamentarians and indigenous peoples. Like President-elect da Silva, the FTAA process has long recognized the importance of addressing the concerns of those who will be affected by the decisions government officials make in the negotiating process.

As we move forward in the FTAA, I would like to emphasize again that this negotiation leaves nothing off the table. I know that there has been some concern expressed regarding the scope and comprehensiveness of the FTAA. I would like to quell any apprehension you may have regarding the position of the United States on that issue. Everything on the table means everything. We expect our negotiating partners to approach the negotiations in the same spirit. At the same time we also must be mindful that our regional negotiations take place within a global context. As we complete our negotiations we will need to think creatively to ensure that the results in the two negotiations are mutually reinforcing and that the results in the FTAA do not place FTAA countries at a disadvantage vis a vis the rest of the world.

Your presence here today as representatives of U.S., international and Brazilian firms, is testimony to the importance of globalized trade and investment, and the commitment to strong bilateral relations. The WTO and the FTAA are means to increase the benefits of trade for the citizens of the world and the hemisphere. But you, when you seize the opportunities that lie ahead will be the engines of growth. You are the creators of wealth and opportunity. Government must work to create and enforce the rules that will allow the energies of business to create the jobs for the workers and the choices for the consumers.

So we have a new beginning on many fronts. A new Brazilian Administration, a new partnership in the FTAA, a new schedule for completing the FTAA and an ambitious work program. We have hard work ahead of us, and of course a period of adjustment with the President elect's new team. We have a long history of working together, and the United States does not see any fundamental change in our relationship with Brazil. We had been working closely, Quito formalized our partnership.

## CONCLUSION

I look forward to continued collaboration with my Brazilian counterparts. I know I can speak on behalf of the United States when I say this is an exhilarating time in the US – Brazil relationship. A time of change, a time of challenge, but one that moves forward from a foundation of enduring friendship, shared values and common goals.

The Sao Paulo Amcham, of course, will continue to play a vital role in advancing our mutual goals. Again let me thank you for your hospitality and the opportunity to meet with you today.

