

**U.S. Trade Representative Robert B. Zoellick's
Roundtable with Ecuadorian Media
in Quito, Ecuador
Tuesday, June 8, 2004**

ZOELLICK: One of the reasons why I wanted to come to Ecuador is to meet a broader cross section of people so I can listen and learn more about how Ecuadorians view some of the economic and trade issues. So in addition to meeting the President tomorrow and a number of the Ministers today, I had a chance to meet some of the members of the Congress and then I will be meeting some members of the business community and civil society. I also had the chance to visit a very small and interesting business –Yachana— and then of course I have the opportunity to talk with those of you who cover some of these economic issues.

The major point that I am relaying is that from our perspective the free trade agreement should be seen as an opportunity. It is of course Ecuador's choice and we think it will provide the greatest benefits to Ecuador if it is integrated with the development planning of the country. Because the purpose of trade is obviously not just to exchange goods, but also to try to create jobs and opportunity and hope for people that have felt left out. Of course it is important to do this in the framework of your constitutional democracy so that is why I meet with both the Executive Branch and the Congress because political stability is an important aspect of creating economic opportunity.

Now the starting point for our work is something called the Andean Trade Preference Act, which was a law passed by our Congress in 1991 and then it was renewed in 2002 and expanded. This opens up much, but not all of the U.S. market, to Ecuadorian products. Just to give you a reference point, last year Ecuador exported some 2.7 billion dollars of goods to the U.S. and for those who worry about Ecuador's ability to compete with the U.S., that was about twice as much as the U.S. exported to Ecuador. Interestingly, it was more that Peru exported to United States. Moreover, those exports represented about a 27% increase after the expansion of the Andean Trade Preference Act. That compares with an increase of other countries' trade with the U.S. last year of about 8%.

Now the next question your readers may be interested in is if the ATPA is a good thing, why should we go beyond it to a free trade and there are a number of reasons. First, and most important, the ATPA expires in December 2006, because our Congress' idea was that it should be a transition to free trade agreement. The second reason is that what our Congress grants it can take away and so if you have a law that grants certain market opening, our Congress can change the law, whereas a mutual agreement locks in the benefits. And it locks in the benefits for perpetuity and that helps create better business and economic climate because people know they can rely on an open market.

Third, a free trade agreement is much broader and more comprehensive than the ATPA so the goal is to cover all goods, agriculture, services, government procurement, customs

administration, investment, intellectual property rights, basic requirements to enforce your labor and environmental laws.

That leads to the fourth benefit. What we have seen globally is that when countries can arrange or agree to a free trade agreement with the United States, international investors see it as a very positive sign about the country's economy. It tends to increase the investment they draw, not just from U.S. investors, but from investors around the world.

Fifth, as I also discussed with the members of Congress and some of the Ministers, the trade openings will be most effective if they are linked to domestic reforms. You need a good telecommunication system; you need good energy policies. We have provisions in these free trade agreements that fight corruption, because corruption is a terrible cancer on economies. We have provisions that encourage the transparency of the regulatory process so people know how the rules are being made and for what reason.

Sixth, and I think this is an important element, we try to combine the trade with various aid programs that focus on developing the capacity of countries to trade, so some of these programs come through our AID mission, we sometimes work with the IDB. These programs range from helping countries develop the expertise to negotiate while negotiations are being prepared, to the implementation of technical subjects, to issues of strengthening the capacity say for the labor and environmental laws or some of the structural ones.

In the last point that I have been mentioning, which I find important, is that while many people in Ecuador will look at this simply as a question of Ecuador and the United States or maybe the Andean countries and the United States, one has to keep in mind that Ecuador and the United States are both part of a global economy. I just came from Chile where I attended a meeting of the Asian Pacific Economic Cooperation, so this includes a number of Western Hemisphere countries, but also Asia-Pacific countries -- China, South East Asia. Much of the competition that Ecuador, Mexico, and Colombia or Chile are going to face will be from producers in China or India. A free trade agreement can try to give an advantage because you get special access to United States that China or India will not have.

The final point I make is that our real interest is in trying to help Ecuador's success as democracy and as an economy. People ask why are you interested in smaller economies. We hope to be able to trade more. We hope our businesses can invest here. But frankly, we want to try to support those that are committed to reforms, because it is not in our interest to have political instability, to have governments that are overthrown, to have people that cannot get out of poverty, because that becomes a source of instability and problems in the world. Whether that is in Asia or Latin America or Africa, if we can use trade to help with development, it is a win-win prospect.

I apologize for going on so long, but I thought it might give you a good context for this and sometimes in a session like this we can have a fuller discussion than in a press conference. I will be pleased to answer your questions.

QUESTION: (inaudible)

ZOELLICK: I just had the opportunity to speak with three members of Congress and I told them that I was very pleased that they could take the time to come to talk to me, because I understand your Congress is in session right now. But I think they agreed and we feel that it is very important to have a dialogue about these issues to improve the understanding. I hope these members of Congress will be able to not only talk to their colleagues, but also to explain their ideas to their constituents. I think in all countries, and this includes the United States as well, people are uncertain about what are all of the details of these agreements and that is one reason why in addition to talking to the members of Congress, I am meeting with the business community and members of the civil society, because I said that in the United States we find that having an ongoing dialogue with Congress and various constituency groups helps people deal with their anxieties and helps us learn the problems we have.

I will make one more point on this. I was in Quito for the ALCA meeting in 2002 and my sense is that since that time there is greater interest in the possibilities of these free trade agreements. I think some of this is because people have seen some of the benefits of the ATPA, but people still have a lot of questions. That is reasonable. Per the nature of our countries, we believe that the best antidote to fears and anxieties is by being open and discussing the problems. I also find that when I come to a country and talk to a variety of groups, I learn some of their sensitivities and that helps us in the negotiations. Many governments know the benefits of opening markets, but they have political sensitivities. When we understand the problems better, we can work together to solve them more effectively.

QUESTION: One of the major concerns about an FTA is the issue of intellectual property rights. There is much fear, especially over some parts of Article 8, if I am not wrong, in the sense that it includes plants and animals. There is concern about who is going to patent that? Would it only favor the U.S., or would we benefit effectively by some of it? As a country, we have already had some experience, including the ayahuasca, which is a traditional beverage from here. Nevertheless, it was patented in the U.S. Is that going to happen with other products, for example, cut flowers, roses, and certain seeds that have been biologically improved? I'm making reference to the lawsuit Monsanto won over a Canadian farmer. There is a lot of concern around the issue of intellectual property.

ZOELLICK: Intellectual property has a number of elements. One also hears concerns about pharmaceuticals. As I mentioned briefly, the U.S. and all other countries have agreed in the WTO to allow developing countries to have access to medicines to deal with essential problems they have to address, like HIV/AIDS, malaria, tuberculosis, other contagious diseases. There is nothing in our agreements that overcome that. But the other side of it is that, if countries do not protect intellectual property they will fall behind in developing knowledge industries. This deals with copyright laws, for example. If you

don't develop laws that would protect software, you are not going to have software development.

Let me give you an example from two developing countries, one big, one small. China has a very big problem with intellectual property rights enforcement, but they are working very hard with us to upgrade their laws and their enforcement because they want to be able to development knowledge industries. In the case of Jordan, which has a free trade agreement with the U.S. since 2001, they had been able to get Microsoft to invest in some software. They have also had pharmaceutical companies invest and create jobs.

The other aspect in pharmaceuticals is that in most of the Andean countries you don't have many patented pharmaceuticals on the market. You primarily have what are called generic drugs. The good news is that generic drugs have lower prices. And that is good. But the bad news is that companies won't bring their patented drugs here and who suffers is the health care. You have to find a balance to try to make sure you can cover the health care protection you need while also encouraging the protection of innovation.

That brings me to your particular point about some of the development dealing with biotechnology. What we have to try to do there again is try to balance. How do we encourage the innovation that can help Ecuador and other countries in the Amazon to develop medicines that can help save lives or have other benefits, and do so in a way that is fair towards the countries that are the source of development? That is part of the discussions we have and the terms vary in some of our free trade agreements. Singapore actually wanted to include a number of these provisions because they wanted to help develop biotechnologies, but so you know, all of our agreements are on a website so they are easy for people to check to see how they vary from each agreement.

One of the topics we talked about in Peru is traditional knowledge and that is a complicated one because we could see some of the benefits it could offer to be able to protect traditional knowledge, but we also have to do so in a way that does not impede the development of that knowledge and the ability to try to use it. One of the things I learned when I was in Lima was that there seemed to be some efforts within the Andean Community, which we will try to learn more about.

QUESTION: The concern exists because we have the feeling that you have placed the bar too high. Is there going to be room for negotiation? Or will the three countries simply have to accept that bar?

ZOELLICK: Of course I am not going to negotiate with you. (Laughter). But I would say this in the spirit that we described, that we want to understand the other parties' perspectives. I really do see that many of these as problems can be solved. We do not accept the view that leaving some of these potential innovations on the trees in the Amazon is necessarily a good thing for Ecuador or the world. We want to encourage innovation, but obviously we want to do so in a way that is fair to all parties involved. We will listen to our counterparts and their particular interests and try to work together to find that balance.

QUESTION: In November of last year, within the framework of the FTAA meeting in Miami, I listened to you say, among other things, that the free trade negotiations were going to start basically with Peru and Colombia, leaving Ecuador behind in this process. However, some months later, Ecuador entered into the dynamic of simultaneous negotiation with the other two countries. Please tell us what prompted this change, despite the fact that Ecuador was not prepared in terms of having a working team, did not have a clear strategy and did not have a clear policy on the subject. It appears to us that Ecuador entered into the process of negotiation when it was yet ready to do so.

Another question, a little disconnected from that one, has to do directly with the negotiations. I am very concerned about the Ecuadorian legislation on child labor where Ecuador apparently had not undertaken sufficient steps, particularly since this is legislation that has to pass through Congress. It is not easy to get a law approved swiftly in Congress. I would like your insight on both issues.

ZOELLICK: Those are very good questions. The basic answer to the first one is that Ecuador's government demonstrated to us that they were very serious about taking part in a free trade agreement, so our including Ecuador in the negotiation is really a testament to the work of the people in the Ecuadorian government. Because these are complex negotiations, we wanted to be sure they were ready. But the Ecuadorian team studied our other agreements and came up to Washington and talked to some of my people that better understand the detail, so we have a good sense that they know what the process involves. In part because the Ecuadorian government sees how this could be used with the overall reform process, we want to give them the opportunity. We thought that given all the efforts of Ecuador to try to have a good macro economic policy, to have finance ministers who can make some tough decisions, that the President is supportive of what we know are not easy decisions, that if we could be supportive through this, that would be the best way to help reform. It really underscores one of my first points, which is we said we respect Ecuador's decision; this is Ecuador's choice. But if Ecuador is willing to work hard in trying to deal with these issues then we want to try to help Ecuador.

The other aspect of the decision relates to your second question, because under the ATPA we have some requirements that Ecuador and the other Andean countries needed to meet about labor conditions and investment disputes. We had concerns about some of the violence that had taken place on the banana plantations. We had a concern about child labor, but your Minister of Labor has done a very good job. He has expanded the enforcement of labor inspectors. He is committed to put one on each province by the end of the year to focus on child labor. He has already hired a number of them and today he told me he has money in the budget by the end of the year to hire all of them. He told me he has already reviewed conditions in the cut flower industries to ensure that there wasn't a problem with child labor there.

This is a good example of how this stronger trade can help improve working conditions in Ecuador. Your cut-flower industry now sells over a hundred million dollars a year in cut flowers to U.S. That is the same size of all of our agriculture exports to Ecuador, so

they want to keep that market. Colombia's industry is even bigger and it is probably a growing market. So to keep the market, they have agreed to upgrade their standards of treating their labor, particularly child labor, so that helps Ecuador grow and it helps make sure that it is better labor here. That is what we want to try to do throughout the economy.

There are some other labor issues we are still working in relation to the ability of people to form unions. We made some good progress on some of the investment issues, but we still have some of those to solve. Again, as I explained to my ministerial colleagues, to help Ecuador we need to make sure that foreign investors see Ecuador as good and safe place to invest. I gave them this example, last year China had 52 billion dollars of foreign investment. Ecuador has throughout the years about 1 billion dollars of U.S. investment. I told them the story about how capital is a coward. Capital does not go where it is afraid. So again, by trying to solve investment disputes we also hope to make Ecuador a stronger economy.

QUESTION: Mr. Ambassador, I would like to ask you a triple question around a core matter that is the sincerity of free trade negotiations. Firstly, there is the issue of agricultural trade. I refer to the impossibility of negotiating the elimination of U.S. subsidies, while a sector in Ecuador has already proposed a protection of 25 years for corn growers. This shows a lack of sincerity on the part of the U.S. and on the part of Ecuador. Secondly, the classic theory of international trade suggests that this is a win-win business. If we have free mobility of all the productive factors, such as capital and goods, there is still one lacking - labor. While capital and goods can flow, the third cannot. Thirdly, the Ecuadorian press has stated that the information about negotiations will be restricted, and that affects another of the pillars of the capitalist economy, which states that all agents should have total information. How will these issues be solved in order to provide sincerity to the negotiations?

ZOELLICK: Let me take your last question first. As I said, we have been very open in the way we conduct negotiations. I can give you a website and you can check all of our agreements with Chile, CAFTA and others. This agreement will follow the same structure. When we have negotiating rounds, we have to give briefings about what is happening. Of course, the press does not sit in on our negotiations but we try to be open. But that is not surprising because people are dealing with sensitive topics and sometimes they have to discuss various ideas in order to solve problems. I do not know what you are referring to as not having open information, but for our part we have a very open process. I expect your Congress will also engage with your Executive about trying to have an open process. As I mentioned to your Congress for example, we do environmental reviews and labor reviews of the negotiations, and we put them up for public comment. We try to encourage our trading partners to do similar things and we try to help them.

As for your second part about labor, my Congress thinks I am already negotiating too many sensitive topics. They are not going to let me negotiate immigration, so sometimes the real world does not match economic theory, but we do the best we can. Again, if we

create more jobs and more opportunities in Ecuador, then people can have their jobs here with their families. It looks like a beautiful place, so if people have job and work and hope and opportunity, maybe they will want to stay here.

As for your first point about agriculture, I understand the sensitivities on agriculture subsidies, but here is the problem we face in the U.S. Some other countries have much bigger agricultural subsidies than we do, like Europe and Japan. We are willing to cut our subsidies very substantially. In fact, we have publicly said we will cut them about half if we can get Europe and others to cut theirs.

QUESTION: But we are negotiating with you.

ZOELLICK: Yes and I am doing a global negotiation at the same time. Part of the question is if Ecuador wants to wait to do a free trade agreement until we finish the global negotiations, that is Ecuador's choice, but I think there is a better way to deal with the problem. As opposed to just talking about all products that have subsidies, it is important to focus on those that are of greatest sensitivity, and that is where we can use some longer phase outsourcing guards. In the meantime, some of these products can actually help the Ecuadorian industry because, remember, some of the products that we sell actually become inputs. For example, they become feed grains for poultry industry or other types of livestock.

Let me turn the question back on you. My Congress says wages are so low in Ecuador, how can we compete? They say, maybe we should wait until their wages levels are the same as ours. That is going to be a long wait. What we have seen around the world is that developing countries that play a more active role in trade tend to grow faster. They tend to have a faster reduction of poverty as Chile has had, and the income distribution is at least as good and often improves, but it does not solve all problems.

I will be the first to say that trade has to be connected with other policies. If you do not have a good macroeconomic policy, trade alone won't help. Particularly if you have a dollarized economy, like Ecuador has. If you have major problems of diseases, as some African countries have, it is going to be very hard to grow. You need basic health policies and you certainly need education policies so in order to take advantage of the skills of all the people.

I will share one story I learned today. When I visited Yachana, I learned about their operations in the Amazon and the man who runs it told me a story. He said in Ecuadorian society you normally would have to be a university graduate to run a business operation, but the person in the Amazon region who is running their operation has a seventh grade education. He said he does a great job. They are trying to create an opportunity. He mentioned that at the eco tourism lodge they run, all the people are from the area, not just the workers, but also the managers and the supervisors. So, of course, one needs to have a society where you broaden the opportunity for people. That is why I said part of this is how trade can fit into a broader economic reform program, including small business development.

One last observation on this, you know the unfortunate thing about trade barriers is that they often hurt the poor the most because it's the oligarchies and the oligarchs that have some special privileges and have had it for centuries. They want to hold on to it. They do not want competition, so people in Ecuador have to pay less, and that is true in United States too. The lower income people pay a higher percentage of their family budget for food and clothes. One needs to remember that trade is not only about exports. It is about imports, too. I can tell from your question, you know those issues well and it is certainly the case that we cannot make the markets as free as the textbooks might love, but we can get a lot closer.

QUESTION: (inaudible)

ZOELLICK: We have solved some for example, one with IBM and one with Duke Energy, and we made some progress with Bell South, but we still have some issues related to a tax assessment that they won in arbitration and that still hasn't been solved.

What we really have been trying to do is to make sure there is a fair process that leads to a resolution. It is important that you understand, we haven't said it has to be a result that favors the companies, we just want a fair resolve. Because some of them have been going on for long time. Some of the companies have said we will be willing to stand by arbitration.

Going back to Mr. Ramos' question, we have made some progress on these and it has not been easy and we appreciate the commitment of the President and his ministers to help solve, but we still have some more work to do.