

**U.S. Trade Representative Robert Zoellick's and Chilean Foreign Affairs Minister
Soledad Alvear's Joint Press Conference
Pucon, Chile
3 June 2004**

Foreign Minister Alvear: Good afternoon. I wanted to first mention that we had a very good meeting with Ambassador Zoellick to assess our free trade agreement put into effect just four months ago. At this first meeting--in which we welcome Ambassador Zoellick--we can see that the results are very positive. The expectations that we had have been surpassed. We had estimated that our exports would increase at a pace of 4 percent, and the good news is that we have experienced 11 percent growth in these first three months since the FTA became effective. Exports to the United States have increased by 11 percent. The other piece of good news is that 48 percent of these exports to the United States are industrial goods and therefore carry a greater added value, generating greater returns and more employment for our country. 1,200 companies have exported nearly 1,000 different products to the United States in these first three months, which has meant an important diversification of our exports.

We are sending new products to the United States that have never before been exported. For example, in the agricultural sector, apples, peppers, and strawberries, among other products; industrial goods that had not previously been sent like metal beds and scientific and technical books, among other products. We have verified the technical end has worked according to what we have been able to review this afternoon.

Another piece of good news is that we have agreed to begin discussions with the United States during the second half of this year to move forward with a greater reduction of tariffs than what we had originally set forth in the free trade agreement. Our vision is definitely positive, we are satisfied with what we have been able to accomplish, and we reaffirm that during these first three months of the agreement the liberalization process has translated into an improvement in the welfare of both countries. If we recall the president of the Republic's message this past May 21st, sound macroeconomic policy and liberalization processes with the largest economies have meant a low-risk country rating, with a savings of 1.3 billion dollars. It is because of that that we are satisfied with the recent meeting and with what these first months of the free trade agreement with the United States have brought.

USTR Zoellick: It is a real delight to be here with my friend and colleague Soledad Alvear, and I was particularly appreciative that she would give us an opportunity to visit another beautiful location in Chile. It is a wonderful place to visit. I look forward to getting out and seeing a little bit of it, and maybe going back in the summertime as well.

I also expressed to the minister the pride that we have in the free trade agreement with Chile because Chile is such a strong trading partner, not only bilaterally but in the role that it plays regionally and, indeed, globally. That is represented in practical form by the very fact that Chile is hosting this meeting, which covers countries from North America and South America as well as across the Asia-Pacific region.

That benefit shows up even in the initial results from our free trade agreement, because we have always made the case that trade is a win-win opportunity. Well, somewhat to our surprise, the reduction of barriers to fertilizer has meant we have had great increases in fertilizer sales. That is partly because Chile is such a successful agricultural economy, not only selling to the United States but selling in other locations.

The mining business has been booming in Chile and we have been fortunate to increase the sales of a lot of heavy equipment as part of the FTA. But it is a good example of how these trade agreements end up being important not only for the relationship between the two countries, but as part of the global trading system.

I also mentioned to the minister, Chile's policy on trade--not only with the United States but with others--helps establish it as a particularly strong investment environment. And investment brings new jobs, it brings new technology, it brings new opportunity. The minister referenced a comment by President Lagos about the money saved in Chile because of the lower interest rates. I observed the same point in that, as our economy is starting to grow much more quickly, we are starting to see a slight increase in interest rates around the world. In particular that shows up in what finance ministers call the "spread on debt," the risk factor that people pay for debt compared to U.S. treasuries, which are considered very secure and very liquid. It is striking how tight that debt spread is in the case of Chile. It is about 92 basis points, where for Brazil it's about 700 basis points. A basis point is a hundredth of a percent, so it is about one percent in Chile and about seven percent in Brazil. Now that is a testament to the well-run macro economy, but it is also a testament to the skill of Minister Alvear and her colleagues in making Chile seen as a leader in the international trade system.

So, we discussed some of the implementation matters which we think are going very, very well, and we also had a chance to discuss our common interests in expanding free trade throughout the Western hemisphere and the global negotiations which we are both working on very actively and I think will be a big part of our discussion tomorrow morning.

Question: In what specific areas will there be an accelerated reduction of tariffs, for example, in the agricultural industry, in the case of Chile, or in the sugar industry, what could be negotiated? Perhaps, in this conversation you had concerning investment, the United States addressed the current issue in Chile concerning the imposition of a mining royalty for the largest mining companies, many of which are American?

Alvear: With respect to which products we will examine in the future and where we can accelerate the elimination of tariffs, we have not looked at that. We are both very clear on how we have had to negotiate in our two countries, in such a way that it will be a process upon which we will start soon. With respect to the second question, that is something we did not discuss.

Zoellick: I think that Minister Alvear answered both questions in the same way I would. On the second one I will just say that obviously tax policy is a sovereign decision for each country, so Chile must make its own decisions on that. Obviously, we hope that if it does it considers the effect of those decisions on investors' prospects not only short but long term. So far Chile has done a pretty good job in creating a good climate for investments and businesses so we are hopeful that will work out constructively.

Question: I'd like to know why the commercial exchange between Chile and the United States has not shown the dynamism after the FTA that existed, for example, in the case of Europe. You said that the first three months, even the first four months, marked a small decrease in Chilean exports to the United States with relation to the same time period last year. I would like to know why you think that is occurring and if it is not a sign that things are not advancing as well as planned?

Alvear: I am not sure what statistics you are looking at, but the result of those three months is an increase in Chilean exports to the United States of 11 percent. And, as I have already mentioned, 48 percent of that corresponds to industrial exports, which generate the most employment because they have the greatest added value. In this way, our evaluation is positive in that direction. When we did the evaluation from the first year of the agreement with the European Union, there was an 18 percent increase in exports. Thus, I think, what we evaluate today from Chile's point of view--and Ambassador Zoellick will surely answer for the United States--from Chile's point of view, and we think from the U.S. point of view, the balance is good.

Zoellick: Well, first, the trade numbers are up on both sides and I think that is the important factor. Second, while the trade numbers for the early months are very high, in the case of the United States, up about 28 percent, I would caution against looking at figures over too short a period, because over short periods they can be driven by many different factors. Third, we have always argued the US market is relatively open compared to the European market, so it may not be a surprise that you would get more of an increase in the European context. That takes us to the fourth point. The real benefit in these trade agreements is not going to be found in a month or two months or even in a year. The benefit is more broadly the environment that it creates of reduced barriers and more confidence, ultimately for investors, as much as for people in the trading business. We worked on some very difficult issues with Chile in intellectual property, but we have a world-class agreement in intellectual property. We have world-class standards in terms of transparency. We dealt with environment and labor standards which Chile and the United States can be proud of, so also with government procurement, and services. So many of these items are not going to take place in a matter of months. It is going to take investment and energy, but what I would suggest--if you want to evaluate Chile's policies--is to look at the overall growth statistics over a period of time of Chile compared to comparable countries. What we have seen is that Chile has been one of the great success stories of Latin America and it helps in terms of the financial markets as well as in terms of future trade prospects. So I think, again, I have great respect for our Chilean colleagues, not only because of the agreement that we have done, but, for example, Chile just completed an agreement with Korea, which is one of the first South

American-East Asian agreements. So we hope to learn more from Chile's experience in East Asia so we can work with them and try and open up other markets.

Question: After the ministerial meeting tomorrow, and after the series of talks among senior officials in recent days, what are the areas that where you see progress that seems to have been achieved in terms of the DOHA development agenda and how does it go in giving a push to the WTO talks in Geneva, particularly I mean, it is such a coincidence to represent both the developed and developing countries like the U.S. and Chile?

Zoellick: Minister Alvear is the chair of this APEC session and we think it comes at a very important time and we are absolutely delighted that Chile is the chair because if you recall, after the breakdown in Cancun last September, APEC was the first group of countries that recommended we get back to the table and work off the Cancun graphs. And if my recollection serves me, that was partly an initiative driven by Chile, the United States, and Mexico. So one of the items that I had a chance to talk about with the minister is how we see the Doha situation and how we can use this meeting to give it a push forward and we are very fortunate to have the director general of the WTO, Dr. Supachai here as part of that. Now, on the substance, we have seen some very important movement over the past few months. The first step was the fact that many countries found the so-called "Singapore issues" to be a distraction or a problem. So we learned in Paris, in May, that the European Union was willing to focus solely on trade facilitation, which is probably the one that is most useful, and Japan backed that. That is an important element in doing something that I encouraged starting in January, which is to clear the decks and focus on the core issues of agriculture, goods, and services. Now in agriculture there was another important development. The European Union finally said it would eliminate all export subsidies if others eliminated other forms of subsidized export competition. We have been saying for a long time we would eliminate the subsidies in export credits and discipline credits and discipline food aid and we need similar disciplines on state trading enterprises. So there are many complicated issues to work through in that area but you can start to see how one is coming together. In domestic subsidies, again, there is a framework where there are many complicated issues but I think we are on the edge of being able to have a framework that could have cuts in domestic subsidies, support that is far in excess of what was done in the Uruguay round. The last area, which is the area that still needs the most work, is market access and agriculture. There were some countries that disagreed with the text that Giorgio--who will be at this meeting as well--developed in that area, with his effort at a fair blend of different positions. As I have said on other occasions we are always willing to consider ideas but we need a framework. We are going to have to have something that is comparable in level of specificity and market access for agriculture as we do in subsidies and export subsidies. The framework for market access in goods is, I think, coming together, but we need to kind of hold it so we do not have unraveling of that issue and that is a discussion that is going to be very important for a lot of countries, because we need to maintain a vision--and here Chile and the U.S. also have a very similar view. In the services area we need to get countries to put forward more offers. Now, wrapping this all together for the developing world, eliminating export subsidies, huge reductions in domestic subsidies and substantial opening of market access is the best thing you could

do for the developing world, particularly if you see this as I do, as a moment of strategic economic opportunity. And what I mean by that is that the United States economy is growing quite nicely now, between 4 and 5 percent. You are seeing growth in Asia, you have China, and also Southeast Asia. This is the moment to combine global growth in many areas--not all, but many, areas--with a broad trade globalization which will deepen and widen and extend that recovery in some ways like the Uruguay Round did with the recovery for the early '90s. But the moment has to be seized in the next seven or eight weeks, and that is never easy. That is one reason coming back to this meeting that this gives us an opportunity to bring together a number of countries that we hope will not only send the general message, but help narrow on some of these issues that we will have to resolve over the next seven or eight weeks.

Alvear: I just have a little to add to the response that Ambassador Zoellick gave, perhaps only to mention that we have made a priority for this APEC meeting precisely the WTO's multilateral rounds. We know that we are working only with weeks, in which it is necessary to work. So the political message that should go out from APEC's 21 economies as a result of this meeting, we hope, should be a very evident sign of progress--not thinking of Doha in 2005--but focused more on the necessary tasks we must carry out between now and July to quickly accomplish the final objectives of the development round.

Thank you very much.

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