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Fast Track - File Created 8/12/97: Representaitve Gephardt

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Rep. Gephart

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M E M O R A N D U M

To: Mack McClarty

From: Democratic Leader Gephardt

Subject: Fast Track

Date: August 24, 1997

CC: Sec. Albright, Amb. Barshefsky, Sandy Berger, Erskine Bowles, John Podesta, Jay Berman

OPTIONAL FORM 89 (7-90)

FAX TRANSMITTAL

of pages = 4

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NSN 7540-01-317 7368 5099 101 GENERAL SERVICES ADMINISTRATION

Per our recent conversation, I wanted to provide you with a report on my trip to South America: Chile, Argentina and Brazil.

Although it was a quick trip resulting in roughly 2 days of discussions in each country, I was able to meet with a broad cross-section of public and private individuals. The Presidents of each country as well as many of their principal ministers met with me. As well, I met with the American Chamber of Commerce in each country and their labor leaders. I also had lengthy discussions with environmental ministers and NGOs. Finally, in Chile and Brazil I was able to visit local neighborhoods and factories to have discussions with average citizens.

As a first point, Chilean arms sales and the granting of non-NATO ally status to Argentina were part of every discussion I had with the Presidents and the foreign ministers. President Frei was deeply concerned about the status of Argentina - you are well aware of the relations between the two countries. As Ambassador Guerra said, in all of his meetings with President Frei, he had never seen him as direct as when the question of arms sales arose. I know that the Embassy has provided a briefing to the Administration on this issue.

I came away with a much greater appreciation for the vibrancy of South America's markets. Sitting in traffic jams one quickly understands that the markets are growing at a tremendous pace. Traveling through communities, one understands that if their wages and living standards can be improved, there would be tremendous markets for our products and the gradual reduction in the downward wage and job pressures in the U.S.

The trip also highlighted the fragility of the political systems in these countries having rejected military rule only in the recent past. The former political systems did little or nothing to address the deep economic disparities in these countries. Our goal must be to promote and enhance democracy and the equitable distribution of economic growth. We must avoid rapid change that does not allow these countries to adopt transitional policies to ensure that all their people benefit, not just the privileged few.

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I also came away with the clear understanding of the tremendous economic difficulties that face the people of these countries. Chile ranks as number two, right behind Brazil, in terms of income inequality in South America. In one of my meetings in Chile, I was told that the top 20% of Chileans control 54% of the GDP. The bottom 20% controls only 4% of the nation's GDP. This is despite the tremendous expansion of trade in the region. It's clear to me that the benefits of more open trade has not trickled down enough to middle class citizens and those struggling to get into the middle class. In many ways, it is analogous to the challenges that we faced during the NAFTA negotiations.

President Frei pointed out that the Chilean-Canadian FTA includes provisions on labor and the environment that are stronger than those contained in the NAFTA. While this language is limited in scope (it only covers child labor, health & safety and the minimum wage), the President appeared willing to include language that required enforcement of domestic laws. This is similar to the discussion I had with President Frei in 1994 at the Blair House which prompted then Congressman Richardson (now U.S. Ambassador to the UN) and I to jointly introduce a Chile-only fast track.

Indeed, President Frei said that the Chilean-Canadian FTA went farther than the NAFTA by allowing the imposition of fines in these two important areas. That is movement in the right direction although the failure of these issues to be included in the core agreement, the arbitrary cap on the level of fines and the failure to have an enforcement mechanism for collection are serious flaws, in my opinion.

I should also point out that the Chilean Labor Minister indicated that the official position of Chile is that labor and trade issues are linked. He said it is "reasonable to develop a road to improvement that is gradual and measurable."

As you well know, prior to entering into negotiations with the U.S. for the NAFTA the United States demanded that Mexico enhance its intellectual property laws. I believe that President Frei's commitment to the package of labor law reforms that he has offered could serve as a similar sign of commitment by Chile to its readiness to engage in trade negotiations with the U.S.

The Argentines were also very supportive of an agenda that included labor and the environment. The pressure of increased competition in the region is putting pressure on them to liberalize their laws. They would welcome, in my opinion, an ability to provide a backstop to their laws so that they can continue to maintain, as well as increase, their standard of living.

The Brazilians appear more focused on deepening Mercosur. They clearly are in the drivers seat in this effort in the region and would prefer to continue to drive the process.

Both Argentina and Brazil want more time to move from Mercosur to the FTAA. They need time to adapt to a more open trading system.

As I indicated to you and the President, I believe that we should discuss the possibility of providing fast track for trade negotiations with Chile alone. If the final agreement includes full

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coverage of labor and environmental issues in the core agreement, with full enforcement, I believe that that would serve as a model for future agreements. I would find it difficult to believe that, at the end of the day, Republicans and the business community would oppose the requirement that our trading partners enforce their domestic laws and the development of a growing middle class for our products as well as the protection of the environment. At every American Chamber of Commerce event I attend in other countries, our companies indicate that they are abiding by the same standards in all their worldwide operations - the provisions that I am arguing for could only stand to enhance, not undermine, their competitive position.

I have now met privately with the President on two occasions to indicate that I want to unite Democrats on this issue. In 1991, I negotiated for many months with President Bush and his Administration to allow him to receive fast track authority. I want to work with President Clinton to give him fast track authority as well.

But, I am unwilling to abandon the principles and outlook that I have developed over my 20 years in Congress. I do not believe that the NAFTA has been a force for progress. We can, and should, do better.



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