FOIA Number: 2017-0401-F

FOIA MARKER

This is not a textual record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

Collection/Record Group: Clinton Presidential Records

Subgroup/Office of Origin: Policy Development

Series/Staff Member: Jason Berman

Subseries:

OA/ID Number: 10603

FolderID:

Folder Title:
Trade Agreements Information [Fast Track]

Stack:	Row:	Section:	Shelf:	Position:
S	100	2	3	1

Jay: FYI,
Steve Rand

U.S. seeking role as free trade grows in Latin America

The Dallas Morning News
Monday, August 4, 1997

JIM LANDERS
WORLD VIEW

WASHINGTON — House Minority Leader Richard Gephardt's August vacation plans take him to Brazil and Argentina.

The White House wishes him well, hoping the trip yields more for Mr. Gephardt than relaxation. President Clinton wants a yes vote this fall when Congress is expected to decide whether to extend him the authority to negotiate trade agreements.

Mr. Gephardt already has been briefed by Mack McLarty, special White House envoy to the Americas.

The trade agreement legislation, called fast-track, would ensure that any agreement would face a straight up or down vote in Congress, no amendments allowed. It's a power Mr. Clinton has lacked since 1993. Without it, there will be no more free-trade agreements. Not with Chile, nor the rest of South America, despite the promises of Mr. Clinton's Summit of the Americas in 1994 in Miami.

Free trade is spreading rapidly in South America. Under the tutelage of Argentina and Brazil, a regional trading bloc known as Mercosur has drawn together most of the continent, and it is helping spur economic growth rates of 5 percent, 6 percent and 7 percent.

At Miami three years ago, Mr. Clinton promised the United States would lead and participate in this trend. The North American Free Trade Agreement

Please see LATIN on Page 5D.

Continued from Page 1D.

between the United States, Canada and Mexico was just completing its first year, and Chile was promised it would be next to join.

Nothing came of Mr. Clinton's promises because Mr. Clinton could not win fast-track authority from Congress. Standing prominently in the way was Mr. Gephardt.

Mr. Gephardt shares the skepticism of labor unions toward free trade with low-wage countries. Given the opportunity afforded by zero tariffs and favorable investment climates, he fears U.S. employers will invest where workers cost less, further eroding the U.S. manufacturing base.

As U.S. environmental requirements get even tougher, manufacturers also may be tempted to move abroad to take advantage of lower anti-pollution costs. So, if there is to be free trade, Mr. Gephardt and many other Democrats say, it must be accompanied by strict labor and environmental protections.

NAFTA was approved with labor and environmental side agreements that today are unpopular with free-trade advocates within the Republican Party. Party leaders such as House Speaker Newt Gingrich of Georgia and House Ways and Means Committee Chairman Bill Archer of Houston view these side deals as intrusions that hamper trade and business.

Mr. Gingrich and Mr. Archer have urged Mr. Clinton to seek fast-track legislation free of labor and environment pacts.

The votes needed to pass fast-track legislation must come from these two opposing camps because plenty of Democrats and Republicans are opposed to any expansion of free trade. Mr. Clinton is unlikely to get even half the Democrats in the House to support fast-track legislation, even if it promises ironclad protections for labor and the environment.

With this impasse in place, Latin America has forged ahead. Chile joined Mercosur, then struck a free-trade agreement with Canada. Mercosur is now talking with the European Union about free trade.

These developments have consequences for U.S. companies, what Mr. McLarty calls opportunity costs. Canadian telecommunications equipment is cheaper in Chile than U.S. gear is because of free trade. Chile's tariffs are falling for Canadian manufacturers, but they are static for U.S. companies. Opportunities to sell U.S. goods are being lost.

This matters greatly to Texas companies, which are natural sellers into Latin America. NAFTA has allowed Texas trade with Mexico to flourish. Trade with South America is growing as well, but not as fast as South America's trade with Europe.

In Brazil, Mr. Gephardt may hear a bit of determined nationalism from his hosts. Brazil has been pursuing a strategy for uniting South America under Mercosur's banner before talks with the United States about a broad free-trade agreement.

John Biehl, Chile's ambassador to Washington, said the Brazilians warned Chile not to negotiate alone with the United States. "They'll crush you," Mr. Biehl remembers the Brazilians saying.

Chile is ready to move ahead, but Mr. Biehl sometimes complains to Mr. McLarty that a bride will wait at the altar only so long for a groom.

There are bigger concerns for Mr. Gephardt. As he weighs a fight for the Democratic Party's presidential nomination in 2000, trade has been a major issue setting Mr. Gephardt apart from Vice President Al Gore. Mr. Gore is closely associated with NAFTA, which Mr. Gephardt opposed.

Despite such complications, Mr. McLarty says he hopes Mr. Gephardt will be a "yes, but ..." vote on fast-track authority. Mr. McLarty expects the Clinton administration's record on the environment and labor will overcome hesitating Democrats. That, and the opportunity costs starting to appear throughout Latin America.

Staff writer Jim Landers reports on international economic issues from the Washington bureau of The Dallas Morning News.

Trade Agreements
Info

Any examples of Japan in Asia & EU meeting Place

DEPARTMENT OF STATE

TRADE POLICY AND PROGRAMS

ROOM 3831A
Washington, DC
(202) 647-2532
Fax: (202) 647-1537

FAX TRANSMISSION

Date: July 28, 1997

To:	Fax:	Phone:
Bob Kyle	456-9280	
Vicki Radd	456-2883	
Bob Novick	395-4549	
Jay Ziegler	395-6121	

Pages including cover sheet: 12

From: David Marchick

Subject: Trade Agreements with Foreign Countries

Comments: Don't know if you seen this. It contains some good information that could be incorporated into Talking Points for individual member meetings based on industries/commodities in their district.

DISADVANTAGES TO U.S. BUSINESSES OF NOT HAVING PREFERENTIAL TRADE AGREEMENTS WITH FOREIGN COUNTRIES

Country	Preferential Agreement	Disadvantages to US Businesses
Argentina	**Mercosur:** 85% of goods made in Argentina, Brazil, Uruguay, and Paraguay trade tariff-free within bloc.	-- Mercosur's common external tariff (5-20%) disadvantages US-based exporters and favors Mercosur producers, many of which are subsidiaries of US companies. -- IBM Argentina considering importing equipment from IBM Brazil rather than the US to avoid Mercosur's 16% common external tariff on infomatics (not yet fully implemented in Argentina).
Bolivia	**Mercosur:** Bolivia became Associate Member of Mercosur in March 1997. Approximately 30% of the 7,000 goods listed in the agreement enter duty free. The vast majority of products will be traded at a zero tariff rate after 10 years.	-- Elimination of tariffs on wheat flour imports from Mercosur member Argentina will make US wheat exports to Bolivia less attractive. -- Brazil is expected to emerge as a more important supplier of manufactured goods, including machinery and aircraft, where the US now has a predominant market share.
Brazil	**Mercosur:** 85% of goods made in Argentina, Brazil, Uruguay, and Paraguay trade tariff-free within bloc.	-- Firms from Mercosur countries have an advantage over US-based firms in terms of lower tariffs. -- Tariffs on US wheat and rice exports to Brazil are 10% and 20% respectively. Zero or close to zero tariffs are applied to Argentine, Chilean, and Uruguayan products entering Brazil.

Country	Preferential Agreement	Disadvantages to US Business
Chile	**Chile-Canada Free Trade Agreement**: Beginning in June 1997, 80% of Canadian products will enter Chile duty free. Prior to Canada's FTA with Chile, all Canadian exporters paid standard 11% Chilean import tariff.	-- $180 million US telephone equipment order lost. Southwestern Bell/VTR Communications joint venture in Chile opted to go with Canadian supplier because it will save almost $20 million in customs duties when Chile-Canada FTA goes into effect in 1997. -- Canada will benefit from immediate duty free access to Chile for exports such as: -- durum wheat -- barley -- lentils -- canary seed -- seed potatoes -- malt -- beer -- raspberries -- maple syrup -- mustard products -- mineral waters and various fruit juices -- quantities of beef, pork and Canola oil -- FTA is expected to enhance commercial opportunities for Canadian service providers in mining, forestry, construction, engineering, consulting services, specialty air services, education and training, and tourism. -- Canada expects excellent opportunities in several sectors in Chilean market: -- mining and forestry machinery equipment -- telcom equipment -- fertilizers -- metallurgical and thermal coal -- pharmaceuticals -- chemical and glass products -- aircraft -- rail and urban rail equipment -- autos and auto parts -- health and medical equipment

Country	Preferential Agreement	Disadvantage to US Businesses
Chile	**Chile-Mexico Free Trade Agreement:** Mexican exporters face no tariff on almost nine-tenths of their exports to Chile. (Standard Chilean 11% import duty applies to US goods).	-- **Goodyear** is sourcing its raw materials and intermediate products from Mexico instead of from US. -- **McDonald's** is sourcing its food processing and handling equipment from Mexico (previously from the US). -- **IBM** imports $35 million worth of personal computers annually from Mexico to avoid 11% tariff on US goods. -- **Ford** brings to Chile Escorts, Contours, and Fiestas manufactured in Mexico and Brazil instead of from the US to take advantage of lower tariff rates.
	Chile-Venezuela Free Trade Agreement	-- **Exxon** supplies its lubricant production facilities in Chile with raw materials from Venezuela to avoid 11% tariff.
	Mercosur: Chile became Associate Member of Mercosur in 1996. Chile does not impose Mercosur's common external tariff on goods from third countries, which is higher than Chile's standard 11% import duty.	-- **General Motors** brings in Chevy Cavaliers from Brazil to take advantage of lower tariff rates. -- **Ford** brings to Chile Escorts, Contours, and Fiestas manufactured in Brazil instead of from the US to take advantage of lower tariff rates. -- **Exxon** supplies its lubricant production facilities in Chile with raw materials from Argentina to avoid 11% tariff. -- **Caterpillar** plans to produce some of its lines of earth moving equipment (used heavily in Chile's mining industry) in Brazil rather than US to avoid 11% tariff. -- **Clorox** imports into Chile raw materials, such as polyethylene, from Argentina and Brazil to avoid 11% duty.

Country	Preferential Agreement	Disadvantages to U.S. Business
Colombia	**Andean Community (formerly Andean Pact)**: Most of Colombia's imports from Andean partners (Bolivia, Peru, Ecuador, Venezuela) enter Colombia duty free.	-- Oilseeds and oilseed products from the Andean Community enter Colombia duty free. The zero duty is spruing investment in oilseed crushing in Bolivia. Bolivia soybeen meal quality may improve and thus supplant U.S. exports to Colombia.
	Colombia-Chile Free Trade Agreement	-- US fruit imports are assessed a 15% duty. Imports of Chilean fruit are duty free. This has contributed to fruit imports from the US amounting to only about 20% of total fruit imports, while those from Chile average 60%. Were it not for the fact that the availability of Chilean fruit is limited during their winter period, Colombian imports from the United States would probably be even smaller. Apples, pears, and peaches are the main fruits imported from Chile and the US.
	Latin American Integration Association (ALADI): Colombia, a member, participates in tariff reduction accords that provide other members preferential access to Colombia's markets.	-- US wine imports are assessed taxes (import duty, and sales and consumption taxes) ranging from 50-65%, depending on the kind of wine. Wines from ALADI member countries (including Chile) or Andean Community are duty free and pay only 24% for the sales and consumption taxes. These tax preferences have contributed to Chile's supplying about 60% of Colombian wine imports and the US providing only 5% of them. About half of the wine consumed in Colombia is imported.

Country	Preferential Agreement	Disadvantages to US Businesses
Peru	**Andean Community (formerly Andean Pact)**: 85% of Peru's trade with its Andean partners (Bolivia, Venezuela, Ecuador, Colombia) is tariff free because of **bilateral agreements** and Peru's partial integration into the Andean Community Free Trade Area.	-- Andean integration appears to have lowered US exports of crude oil and diesel fuel to Peru in favor of Andean Community producers, particularly Venezuela. US exports of US crude oil and diesel fuel to Peru declined from $85 million to $24 million between 1994 and 1995; Andean Community exports grew from$103 to $425 million during same time frame. -- US exporters of inputs for packaged foods and beverages, including gum bases and beverage bases, have indicated that they are adversely affected by tariff preferences Peru has granted to Venezuela in its bilateral trade accord. US exporters pay 15% tariff for these products while Venezuelan exporters pay no tariff. (US exporters have only $2 million of the total $50 million market for these products).
	Peru-Bolivia Free Trade Agreement	-- US exporters of US soybean oil and meal contend they could be more competitive in Peru if Bolivia did not have an effective 15% price advantage over US competitors. Bolivian soybean oil and meal enter Peru duty free. (In 1996 US exporters had only $17 million of the total $115 million Peruvian market for these products).
	Until Peru temporarily suspended Argentina's preferential access in 1996 under the **Latin American Integration Association (ALADI)**, Argentine wheat entered at a reduce rate (7.5% instead of regular 15%).	-- US wheat exporters had been adversely affected by tariff preferences granted to Argentina until 1996. The tariff preference can be reinstated, however. US wheat exports grew to about half of $235 million market during 1996.
	Peru is negotiating **bilateral free trade agreements with Chile and Mexico** and participates as part of the Andean Community in free trade negotiations with **Mercosur**.	-- Such agreements would provide market access in Peru not currently enjoyed by US competitors and potentially disadvantage US firms.

Venezuela	**Andean Community (formerly Andean Pact)**: Most of Venezuela's imports from Andean partners (Bolivia, Peru, Ecuador, Colombia) enter duty free.	-- US bread, pastry, cakes, and biscuit products assessed 20% tariff. Duty-free access from Andean Community nations, particularly from Colombia, has made it difficult for US to compete in this market. If US products were accorded the same preference given Colombia, US market share could grow from its current 14% to 33%, according to Embassy estimates. -- US-based auto firms are subject to a 35% tariff on assembled cars imported from outside the Andean bloc of Colombia, Ecuador and Venezuela. The Andean's common automotive policy allows the free circulation of locally produced passenger cars among the three countries. As a result, several foreign car companies have established assembly plants in Venezuela. US subsidiaries are the ones largely taking advantage of the policy. -- US-based tire companies pay 20% import tariff, while tires locally produced in Venezuela can enter Colombia and Ecuador duty free. While this puts exports from US-based plants at a disadvantage, it is US subsidiaries, like **Goodyear** of Venezuela, which are benefiting.
	Bilateral trade agreements with Brazil, Argentina, Paraguay, Uruguay and Chile provide them with preferential tariffs in Venezuelan market.	-- Tariff on US soybeans is determined by Andean Community variable levy system, but is usually 15%. The tariff for Paraguay is 9.9% and 13.2% for Argentina and Brazil. If US soybeans were accorded the same preferences given our competitors, US market share could grow from its current 76% to 90%, according to Embassy estimates. -- Base tariff on US soybean oils is 15%. Paraguayan, Argentine, and Brazilian soybean oils pay tariffs of 1%, 8% and 10% respectively. If US soybean oil was accorded same preferences given our competitors, US market share could grow from its current 9% to 30%, according to Embassy estimates. -- Base tariff on US soybean meal is 15%. Bilateral trade agreement with Paraguay allows its soybean meal to be assessed a tariff of 3.75% upon entering Venezuela. If US soybean meal was accorded the same preference given Paraguay, US market share could grow from its current 35% to 75%, according to Embassy estimates.

Venezuela	**Venezuela-Chile Free Trade Agreement**	-- 15% duty applies to fresh fruit imports from countries not part of Andean Community or bilateral trade agreement. Andean Community fresh fruit enters duty free. Chile pays 2% duty on fresh fruit imports. If US fresh fruit were accorded same preferences given our competitors, US market share could grow from its current 39% to 67%, according to Embassy estimates. -- Dried fruit imports from Andean Community countries enter duty free. Chilean prunes, dried pears, dried apples, dried apricots and other dried fruit imports enter duty-free; Chile pays 2% duty on raisin imports. If US dried fruit were accorded the same preferences given our competitors, US market share could grow from its current 24% to 50%, according to Embassy estimates.
	Venezuela-Argentina bilateral trade agreement	-- US wines must pay entire duty of 20%. Chilean wines enter duty free, while Argentine wines enter at half the normal duty. If US wine were accorded same preferences given our competitors, US market share could grow from its current 5% to 33%, according to Embassy estimates.

Czech Republic	**Czech Republic-EU Association Agreement**	-- **Thermo-King** (US company) forced to cut back on use of US components in the manufacture of industrial refrigeration due to elimination of duty drawbacks for non-EU products.
Hungary	**Hungary-EU Association Agreement**	-- **Edwards** (US smoke detector company) complained in 1996 of higher tariffs on its US-made products relative to tariffs on competitors' products made in EU. -- **Mars** candy company reoriented sourcing from the US to its EU operations. It noted in 1994 reverse tariff preferences favored EU-sourced material.
	Hungary's elimination of duty drawbacks per the Pan-European Customs Zone Agreement	-- **General Electric** representative expressed concern in late 1996 that the elimination of duty drawbacks would impact capital equipment imports from the US. -- **Alcoa Aluminum** complained in 1996 that the elimination of duty drawbacks would cost the firm about $6 million yearly in its importation of raw materials, mostly from Russia.
Ireland	**Customs reclassification**: EU decision to effectively increase tariffs on US-produced Lan products through customs reclassification has diminished the competitiveness of Cabletron's US product line in Europe.	-- **Cabletron** has spent $500,000 in legal fees appealing the customs reclassification of its Lan equipment to the Irish Appeal Commissioners. (Cabletron maintains its European distribution center in Ireland for US-made products.) A preferential agreement between the US and EU, such as the ITA, could have helped if it had been in place.

Poland	**Poland-EU Association Agreement**: creates a tariff differential in favor of EU-origin exports to Poland. Agreement cut tariff rates for 247 agricultural commodities of EU origin by 10%.	-- US rice is strongly affected by a 10% differential. Key alternative suppliers, such as Thailand, benefit from LDC concessional tariff rates. -- US peanuts face a 7.5% tariff on a $750/ton item. EU product has zero tariff. Majority of Poland's ground nuts are imported from China, an LDC tariff beneficiary, but Netherlands is an EU-source country. -- US soy products face a 7.5% tariff on a $200/ton commodity; EU products have no duty. US has high sales of soybeans to EU countries, which process it for oil. Tariff differential allows EU countries to sell the byproduct soybean meal more cheaply; sales of US soy meal in Poland remain flat. -- **Westinghouse** -- which faces stiff EU competition for Polish boiler turbine contracts -- finds tariff differential places company at a significant competitive disadvantage. In a current $40 million turbine refurbishment bid, the 6% tariff differential creates a $2.4 million gap for Westinghouse in comparison to EU-based competitors (bid outcome uncertain). -- **Westinghouse** on two occasions resorted to subcontracting a European firm to gain the EU-based price advantage, even though Westinghouse prefers US products. -- **Atlas Copco Wagner** (Hdqrs: Oregon) has consistently reported that its mining equipment cannot overcome the tariff disadvantage vis-a-vis European equipment. In 1996, its $340,000 scoops faced a 20% duty, while EU products faced no duty. -- **Vanguard Supreme** (Hdqrs: N.Carolina) has reported that the tariff differential makes its textile knitting machines uncompetitive compared to European equipment.

Romania	**Romania-EU Association Agreement**	-- **IBM, Blue Ridge International, Romsys-Sun Microsystems, Total Technologies-Packard Bell, Salient-Salient International (USA), Lucent Technologies, Logic-Telcom** (US-Romanian Joint Venture) are subject to Romanian 15-20% tariff on US computer hardware and peripherals. EU-sourced products pay 0-5% duty. U.S. companies claim lost bids because of higher tariffs. -- **Motorola** is subject to 8% Romanian tariff on cellular and mobile telephones (assembled in UK); tariffs on products that are 60% EU-content are imported duty-free. -- **Wente Brothers**, California wine exporter, subject to 144% import tariff on US wine; tariff on EU wine is 108%.
Slovenia	**Slovenia-EU Association Agreement**	-- **Chrysler** motor vehicles with less than 60% EU content are subject to 27% tariff; hurts sales of Chrysler minivans (also in Visegrad countries: Poland, Hungary, Czech Republic, Slovakia). -- Tariffs on US electrical and telecommunications equipment are as high as 20%; tariffs on EU industrial products are being reduced to zero.
Turkey	**Customs Union with EU**	-- In 1995, the weighted average Turkish tariff for EU/European Free Trade Association (EU/EFTA) industrial products was 5.9%, while the average weighted tariff on US industrial products was 10.8%. Tariffs on EU/EFTA products are dropping to zero. Turkey will adopt the EU common external tariff in 1999, which will lower average tariffs on US industrial products to 3.5%.
Ukraine	**Agreement on mutual recognition of certificates** signed by CIS countries	-- To make entry and access of US goods into Ukrainian market easier, US could sign an agreement on mutual recognition of certificates with Ukraine. Currently, US pharmaceutical firms have to apply for corresponding Ukrainian certificates while CIS companies just have to re-register their certificates.

Jordan	**"Partnership Agreement" with EU:** Jordan expected to sign soon. Ultimate objective is EU-Jordan FTA by 2010. By 2005, EU countries will be able to take advantage of virtually free movement of goods, services, capital, and people.	-- Implementation of the agreement will disadvantage US light industrial input products, including some chemical and telecommunications products, which will remain subject to Jordan's prohibitively high customs duties. By the second year of the agreement, import duties for EU light industrial products are to decline sharply.
Morocco	**Free Trade Agreement with EU**	-- Average tariff on US industrial products is 24.6%, while tariffs on EU industrial products are being reduced to zero. US products will also be disadvantaged by Moroccan adoption of EU regulations limiting duty drawbacks.
Tunisia	**Tunisia-EU Free Trade Agreement**: Recent exemption for EU-origin computer products is in keeping with first-phase implementation of the Tunisia-EU FTA that removes duties on certain (EU-origin) raw materials and capital goods not produced in Tunisia.	-- **Microsoft** computer software subject to higher tariff. Import duties on computer software of non-EU origin increased from zero to 10% in January 1997.

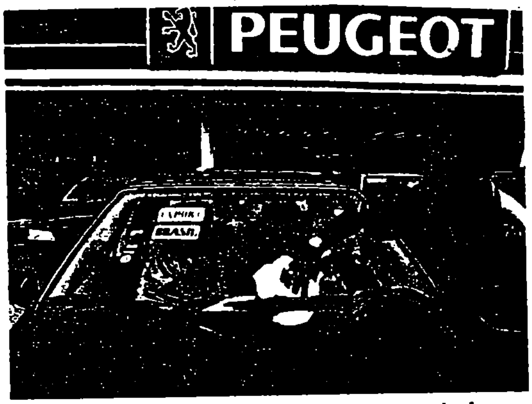
EDITED BY JOHN TEMPLEMAN

IS EUROPE ELBOWING THE U.S. OUT OF SOUTH AMERICA?

The U.S. has long regarded South America as its business backyard. But while Congress and the Clinton Administration dither over moves to create a free-trade bloc covering the hemisphere by 2005, the European Union is barging in and bolstering its economic links with the region.

Europeans have won many of the top privatization deals since the early 1990s, when governments in South America began opening their markets. Now, they are swooping into private-sector businesses from banking to food. "We can't be left on the sidelines," frets U.S. Commerce Secretary William M. Daley.

FREE-TRADE FACTIONS. While Washington is focused almost exclusively on the 2005 deadline to create the Free Trade Area of the Americas (FTAA), the EU is adopting a piecemeal approach that is winning friends. By 1999, the EU and Mercosur, led by Brazil and Argentina, are expected to begin talks that could lead to a free-trade area. The U.S., meanwhile, hasn't yet agreed with Latin American nations on the objectives, structure, or approach of the FTAA talks scheduled to start next year.



IN RIO: *Europe's corporate presence is huge*

Europe is making diplomatic gains, too. While President Bill Clinton will not make his first trip to South America until October, European and Latin American leaders visit each other often. French President Jacques Chirac and Spanish Premier José María Aznar both toured the region this year, and Argentine President Carlos Menem went to Germany in May and invited German companies to take part in Argentina's remaining privatizations.

Chile, for one, seems close to throwing in the towel with Washington. Its bid to join NAFTA has been stalled for more than two years while Clinton tries to get fast-track negotiating authority from Congress. Fed up with the wait, Chile has moved closer to Europe and its own neighbors. It has now joined Mercosur as an associate member. And in June, it started formal talks on a separate trade deal with the EU.

Of course, the U.S. is still Latin America's biggest overall trade and investment partner because of Mexico's NAFTA membership. But Europe is pulling ahead in Mercosur, which excludes Mexico. Mercosur's two-way trade with the EU totaled $43 billion in 1995, vs. $29 billion with the U.S.

Europe is winning the race for megabuck contracts to rebuild South America's infrastructure. Spain's Telefónica de España, for example, has spent $5 billion buying telephone companies in Brazil, Chile, Peru, and Argentina, where France Télécom and STET of Italy are active, too. France's Electricité de France and Lyonnaise des Eaux have taken over state-owned utilities. And Spanish energy company Endesa owns electric companies in Argentina and Peru.

SUPERMARKETS. In some countries, Europeans have built enormous power bases in the corporate sector. In Brazil, South America's biggest market by far, 7 of the 10 largest private companies are European-owned, while just two are controlled by Americans. Europeans dominate huge swaths of the economy, from auto makers Volkswagen and Fiat to French supermarket chain Carrefour and Anglo-Dutch personal-care products group Gessy Lever.

Not everything between the EU and Latin America is hunky-dory. Brazil, for example, is complaining about European barriers to its coffee exports. But the EU has laid enough groundwork to protect its interests if the U.S. and South America ever succeed in setting up a trade bloc.

By Ian Katz in São Paulo

GLOBAL WRAPUP

MOSCOW POWER STRUGGLES

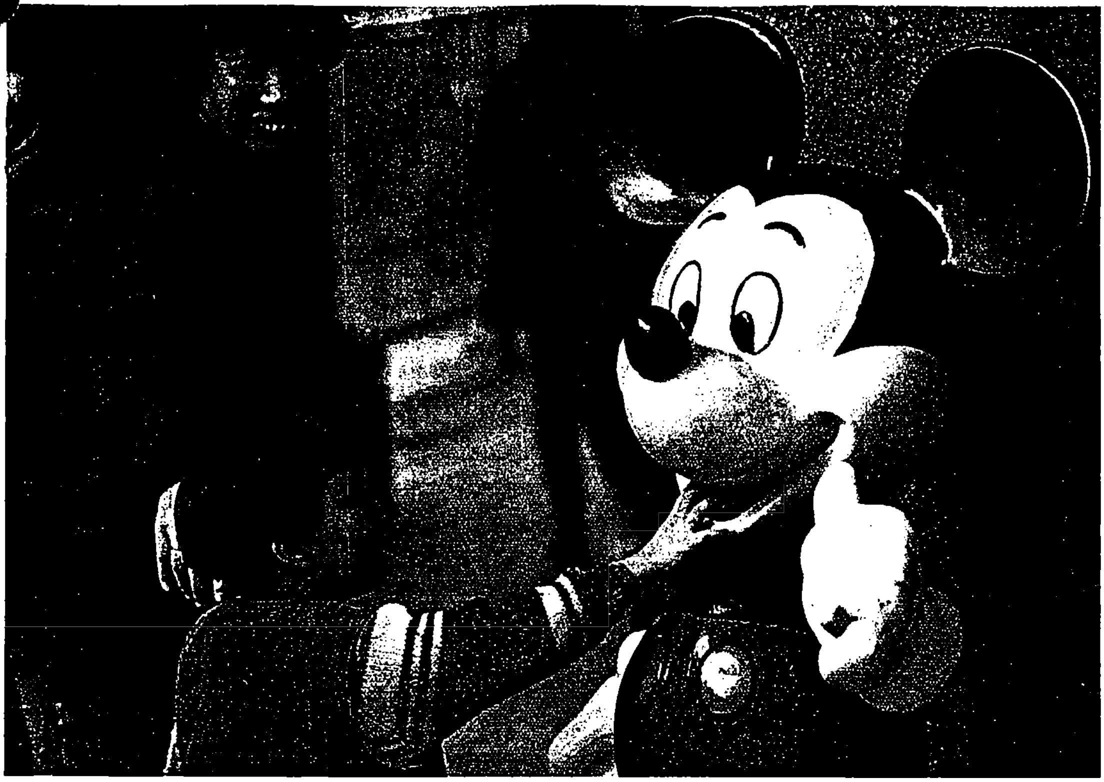
▶ A vicious power struggle is raging in Moscow among bankers, businessmen, and reform politicians who backed Boris Yeltsin's reelection bid last year. With the threat of a communist resurgence—the glue that bound them together—gone, they are at each others' throats fighting for political and financial power.

The conflict is turning violent. On July 21, a shot was fired into the home of Central Bank Chairman Sergei Dubinin. No one was injured. Earlier this month, Dubinin accused former Deputy Finance Minister Andrei Vavilov and major banks of mishandling over $500 million in government funds. Vavilov, an ally of Prime Minister Viktor S. Chernomyrdin, was bounced from his post by reformer Anatoly B. Chubais. He quickly found a job with MFK Bank, a unit of Oneximbank.

Moscow insiders read the probe into Vavilov as an attack on Oneximbank and former First Deputy Prime Minister Vladimir Potanin, who now runs it. Other financial bigwigs, notably Security Council Deputy Secretary Boris Berezovsky, want to clip Potanin's wings and stymie his acquisition binge. Oneximbank is locked in battle with rival groups for control of both Rosneft, the last big oil company to be privatized, and Svyazinvest, a telecom outfit whose holdings include a 38% stake in long-distance carrier Rostelecom.

Meanwhile, Potanin seems to have lost the protection of Chubais, who is mainly preoccupied with consolidating his political power. In the new Russia, where connections count far more than entrepreneurship, that's dangerous.

By Patricia Kranz in Moscow



MOUSEKETEER: *Beijing is refusing to release new Disney movies and videos*

CHINA

HAS DISNEY BECOME THE FORBIDDEN STUDIO?

Irked by a Tibet film, Beijing freezes the giant's new projects

It was the kind of publicity Walt Disney Co. never wanted. When the Hollywood giant decided last year to produce and distribute *Kundun*, a film on the Dalai Lama, the Tibetan spiritual leader, Beijing officials erupted, furious that foreigners were publicizing the cause of Tibet.

Yet Disney stuck with the project, which superagent Michael Ovitz acquired for the company in his short, disastrous tenure as Disney president. Now, the extent of the retribution is becoming clear: a ban on new Disney ventures in China, the world's biggest undeveloped media market. Disney "has indicated a lack of respect for Chinese sovereignty," says Yang Buting, a vice-director of the Ministry of Radio, Film & Television. "Because of this, we are thinking over our business with Disney."

Chilling comments. The propaganda department of the Communist Party's Central Committee is so angry that Disney's main projects in China are "frozen," says an industry analyst. The company has a few ventures up and running. But Disney wants greater access for the Disney Channel through cable TV: China's fledgling TV market is already generating $4 billion a year in advertising revenues. Those efforts are going nowhere, industry sources say. Sources also say the Chinese are not releasing new Disney films and that the company has not landed a distribution deal for its videotapes.

RETRIBUTION Plans to expand TV access for the Disney Channel and the China Disney Club are going nowhere. Meanwhile, Sony's upcoming Tibet movie could land it in hot water, too

Disney officials are playing it cool. "We continue to do business in China," says spokesman John Dreyer. "The Chinese government has expressed their concerns about *Kundun*," he adds. "We continue to talk with them." The company also points out that 12 TV stations carry the China Disney Club, a family show launched in 1995. Disney says it is talking with provincial TV stations about signing on. But such efforts "take time," says Maria Miu, a Disney executive in Hong Kong.

The uproar could also affect Sony Corp.'s picture-making division. Sony is distributing another film, *Seven Years in Tibet*, starring Brad Pitt. "The company is expecting some difficulties," says an industry analyst based in China. Sources say Sony is concerned but hopes the film's adventure theme will not be as controversial as Disney's *Kundun*.

TOO "DEFIANT"? Even in the best of times, Western entertainment giants face major hurdles in China, from copyright infringement to resistance from the communist bureaucracy. It took Children's Television Workshop more than two years to negotiate its Shanghai-produced version of *Sesame Street*. And China's recent promotion of its "spiritual civilization" is partly aimed at protecting local industries from Hollywood and other Western influences.

But Disney appears to be in the hottest water of all. Disney "should not have been so defiant" on a film China considers "taboo," says one seasoned Asian TV executive, arguing that the company could have shown more sensitivity. "They just don't know how to approach the Chinese." For now, the exact release date for *Kundun* has not been set. And, informed sources say, Disney officials are not expecting a thaw until the film flap is over, which they figure will be in the first half of 1998 at the earliest. Even that scenario may be wishing on a star.

By Joyce Barnathan in Hong Kong, with Matt Miller in Shanghai and Dexter Roberts in Beijing

An interview with Disney Chairman Michael D. Eisner appears on page 73.