

U.S. POLICY TOWARD THE AMERICAS IN 2010 AND BEYOND

HEARING BEFORE THE SUBCOMMITTEE ON THE WESTERN HEMISPHERE OF THE COMMITTEE ON FOREIGN AFFAIRS HOUSE OF REPRESENTATIVES ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

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U.S. POLICY TOWARD THE AMERICAS IN 2010 AND BEYOND

WEDNESDAY, MARCH 10, 2010

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE WESTERN HEMISPHERE,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:55 p.m. in room 2172, Rayburn House Office Building, the Honorable Eliot L. Engel (chairman of the subcommittee) presiding.

Mr. ENGEL. The hearing will come to order. I am happy that we have so many people in the audience with interest, and Mr. Mack and I were just at a meeting with the President of Haiti, Mr. Preval, and that is why we are late. So we both apologize to our colleagues, Mr. Burton, and everybody else but Haiti is obviously, I am sure, Dr. Valenzuela will mention Haiti, I am sure, in his testimony.

I just came back for Haiti on Friday, and obviously there is a lot of work to be done and the United States needs to play and will play an important role in helping to rebuild Haiti. I was at the White House this afternoon at the Rose Garden with President Obama and President Preval, and it was really heartwarming to hear both Presidents speak and talk about how we are going to work together to rebuild Haiti.

Before I begin, I want to acknowledge several of our guests in the audience, several Ambassadors, and I welcome them all: Ambassador Barney Karran from Guyana; Ambassador Luis Gallegos from Ecuador; Ambassador Francisco Villagran from Guatemala; Ambassador Jaime Aleman from Panama; and Ambassador Valdivieso from Peru. And Ann Grut-Philips who is the Minister Plenipotentiary for the Netherlands Antilles, so welcome to everybody. I think I told the Minister Plenipotentiary that is where I went for my honeymoon 30 years ago, so something with the Netherlands Antilles works, and welcome to all the distinguished people here today, and all the Ambassadors.

So, the Subcommittee on the Western Hemisphere will come to order. Last April at the Summit of the Americas United States-Latin American relations began to change for the better. I was in Trinidad as President Obama pledged an equal partnership and engagement based on mutual respect, common interests and shared values, and that was the President's quote.

In June, I saw a renewed U.S. commitment to multilateralism when I joined Secretary of State Hillary Clinton in San Pedro Sula, Honduras, for the General Assembly of the OAS. Secretary Clin-

ton's trip to Latin America last week certainly is an excellent start to the year, and I hope in 2010 the Obama administration will build on the momentum from its first year in office. I would like to briefly share some thoughts on the direction that I think U.S. policy should take in a number of key areas.

Firstly, we must work diligently to help Haiti from crisis to recovery. The Obama administration has so far done an outstanding job in responding to the catastrophic earthquake that hit Haiti on January 12th. I saw the devastation and our relief efforts firsthand when I visited the country on Friday. As we look ahead, we must assure the Haitian people that we will be there for the long term. The Donors Conference on March 31st in my home city of New York will be a key step in demonstrating the U.S. commitment to the Haitian people.

Our hearts also go out to the people of Chile who suffered a tragic earthquake on February 27th. We in Congress stand ready to help our Chilean friends as they move toward reconstruction.

Secondly, in 2010, I hope we can take a fresh look at our counternarcotics policies both here at home and throughout the region. I had a conference this afternoon and I spoke a little bit about that. Billions of U.S. taxpayer dollars have been spent over the years in combating the drug trade. Unfortunately, the positive results are few and far between.

In December, the House of Representatives unanimously passed the bipartisan Western Hemisphere Drug Policy Commission Act of 2009. It is H.R. 2134, and I authored it with my good friend, the ranking member Connie Mack, and it was a pleasure working together with him in a bipartisan basis, and this bill would provide a long-needed assessment of our counternarcotics efforts, and Connie Mack as co-sponsor was also very essential in helping to move this bill forward.

I am a strong supporter for security initiatives in the hemisphere, but I believe we need to have a more holistic approach for our counternarcotics strategy and could withstand the so-called "balloon effect" that results from pressure in one region causing the drug trade to move to another region, so think about it. If we go to a region to try to prevent the drug trade, but we don't do things to prevent it from moving, it will just take root in another region and obviously we don't want that to happen.

When I first became chairman of the subcommittee I traveled to Trinidad and Tobago where Prime Minister Manning told me that calls for just a small amount of security assistance were reportedly ignored. That was in the previous administration. I hope this is no longer the case. It seems to be no longer the case and I am pleased that the Obama administration is offering security assistance to the Caribbean, through the Caribbean Basic Security Initiative which is CBSI.

This week I am sending a letter to the Appropriations Committee and again along with Ranking Member Mack and several members of the subcommittee urging full funding of President Obama's \$79 million CBSI request.

You know, these issues that we deal with on this subcommittee are really bipartisan, and we have very little difference between

the parties. We understand that the United States needs to work with our friends and our partners in the hemisphere.

Thirdly, I am increasingly concerned about the closing of democratic space in the Americas, and I know Mr. Mack will certainly agree with me again on this one. Just 2 weeks ago the OAS's independent Inter-American Commission on Human Rights criticized Venezuela for its deteriorating human rights situation. In the coming year, I would like to see the OAS Permanent Council be more vocal in speaking out about the closing of democratic space in the region.

On a more positive note, Colombia's constitutional court recently voted to bar Colombians from voting on a referendum to lift the ban on third Presidential terms. This decision by the court and President Alvaro Uribe's respect of the court's ruling is proof of the country's strong institutions and adherence to the rule of law, and it should serve as an example to all of us, and I admire President Uribe for his compliance and for his going along, and that has added to all the other things, frankly, that I admire him for.

Fourth, I am pleased to see steps by the United States and several countries in the hemisphere to reach out to Honduran President Pepe Lobo; resuming our foreign assistance to Honduras and working closely with the Lobo administration is crucial. I know again our ranking member would agree.

But the inter-American community must also ensure that steps are taken to implement key pieces of the Tegucigalpa/San Jose Accord. This includes the establishment of a robust truth commission to investigate events from last year; and finally, we must continue to closely monitor the increasingly worrisome human rights situations in Honduras. The recent murders of three Hondurans who were active in their resistance to the coup or related to activists must not go unnoticed.

Fifth, we must continue to keep an eye on Iran's expanded presence in the Western Hemisphere. I was deeply disappointed with Brazilian President Lula da Silva recently hosted Iranian President Mahmoud Ahmadinejad in Brazil and I am concerned with Brazil's lack of interest in new U.N. sanctions against Iran. Brazil is a rapidly modernizing country which wants to gain a permanent seat on the U.N. Security Council, but I believe its failure to take Iran's nuclear program seriously is impeding its rise as a global leader.

Sixth, I would urge the Obama administration to focus on El Salvador and Paraguay. It may seem odd that I single out these two small countries, but they are key partners who want to have strong relations with the United States.

I attended the inauguration of Salvadoran President Mauricio Funes in June. He is the first President from the FMLN since the country's peace accords in 1992. Funes, who was in Washington to meet with President Obama this week, faces opposition in his country from both the far right and the far left.

In Paraguay, the second poorest country in South America, President Fernando Lugo was the first President not elected from the Colorado party in 60 years. Both Presidents want to have ties with the U.S. and we must continue to nourish this important relationship.

In the case of Paraguay, last year I introduced the U.S.-Paraguay Partnership Act, which is H.R. 1837, which would add the country to the Andean Trade Promotion and Drug Eradication Act, or ATPDEA.

On a more personal note, I am extremely concerned about the imprisonment of USAID contractor, Allan Gross in Cuba. I understand that Mr. Gross's health has been on the decline while in detention and he has lost over 50 pounds. His release needs to be a top priority, and again the impression of the Castro Regime is something that concerns us all.

President Obama, when he became our President, lifted the travel ban to Cuba for Cuban-Americans, and yet I think we have yet to see reciprocity from the regime in Havana. We need to see reciprocity. We need to see more, and we haven't seen it yet.

I hope that today's hearing will help create a framework for the Obama administration to build on its successful first year on the Americas through a number of key concrete actions. We all look forward to the hearing of the testimony of our excellent new Assistant Secretary of State for Western Hemisphere Affairs, Arturo Valenzuela, as well as our private witnesses.

Just 2 months ago this subcommittee and other interested people went on a trip to the hemisphere where we visited, one of the places was Argentina. I want to state that I was particularly glad that Secretary of State Clinton decided to visit Buenos Aires and meet with President Fernandez de Kirchner. I thought that was a very, very important step. I think Argentina is an important country, and I think that the United States needs to work closely with Argentina. I think that we can talk about differences and accentuate the differences. That is a mistake. I think we should accentuate the similarities with Argentina, and I feel very, very strongly about doing that as well.

So I am now pleased to call on Ranking Member Mack for his opening statement.

[The prepared statement of Mr. Engel follows:]

**Opening Statement
Chairman Eliot L. Engel**

House Foreign Affairs Subcommittee on the Western Hemisphere

U.S. Policy Toward the Americas in 2010 and Beyond

Wednesday, March 10, 2010

Last April, at the Summit of the Americas, U.S. – Latin American relations began to change for the better. I was in Trinidad as President Obama pledged an “equal partnership” and “engagement based on mutual respect, common interests and shared values.” In June, I saw a renewed U.S. commitment to multilateralism when I joined Secretary of State Hillary Clinton in San Pedro Sula, Honduras for the General Assembly of the Organization of American States (OAS).

Secretary Clinton’s trip to Latin America last week certainly is an excellent start to the year. And, I hope that in 2010, the Obama Administration will build on the momentum from its first year in office. I would like to briefly share some thoughts on the direction that I think U.S. policy should take in a number of key areas:

First, we must work diligently to help Haiti move from crisis to recovery. The Obama Administration has done an outstanding job in responding to the catastrophic earthquake that hit Haiti on January 12. I saw the devastation and our relief efforts first-hand when I visited the country on Friday. As we look ahead, we must reassure the Haitian people that we will be there for the long term. The Donors’ Conference on March 31 will be a key step in demonstrating the U.S. commitment to the Haitian people.

Our hearts also go out to the people of Chile who suffered a tragic earthquake on February 27. We in Congress stand ready to help our Chilean friends as they move towards reconstruction.

Second, in 2010, I hope we can take a fresh look at our counternarcotics policies both here at home and throughout the region. Billions of U.S. taxpayer dollars have been spent over the years in combating the drug trade. Unfortunately, the positive results are few and far between. In December, the House of Representatives unanimously passed the bipartisan Western Hemisphere Drug Policy Commission Act of 2009 (H.R. 2134) that I authored with Ranking Member Mack. This bill would provide a long-needed re-assessment of our counternarcotics efforts.

I am a strong supporter of our security initiatives in the hemisphere. But, I believe we must have a more holistic approach to our counternarcotics strategy that can withstand the so-called “balloon effect” that results from pressure in one region causing the drug trade to move to another region.

When I first became Chairman of this Subcommittee, I traveled to Trinidad and Tobago where Prime Minister Manning told me that his calls for just a small amount of security assistance from the Bush Administration were repeatedly ignored. Fortunately, this is no longer the case. I am pleased that the Obama Administration is offering security assistance to the Caribbean through the Caribbean Basin Security Initiative (CBSI). This week, I am sending a letter to the Appropriations Committee, along with Ranking Member Mack and several members of this Subcommittee, urging full funding of President Obama's \$79 million CBSI request.

Third, I am increasingly concerned about the closing of democratic space in the Americas. Just two weeks ago, the OAS's independent Inter-American Commission on Human Rights (IACHR) criticized Venezuela for its deteriorating human rights situation. In the coming year, I would like to see the OAS Permanent Council be more vocal in speaking out about the closing of democratic space in the region.

On a more positive note, Colombia's constitutional court recently voted to bar Colombians from voting on a referendum to lift the ban on third presidential terms. This decision by the court and President Alvaro Uribe's respect for the court's ruling is proof of the country's strong institutions and adherence to the rule of law. It should serve as an example to all of us.

Fourth, I am pleased to see steps by the U.S. and several countries in the hemisphere to reach out to Honduran President Pepe Lobo. Resuming our foreign assistance to Honduras and working closely with the Lobo administration is crucial. **But,** the inter-American community must also ensure that steps are taken to implement key pieces of the Tegucigalpa/San Jose accord. This includes the establishment of a robust Truth Commission to investigate events from last year. Finally, we must continue to closely monitor the increasingly worrisome human rights situation in Honduras. The recent murders of three Hondurans who were active in their resistance to the coup or related to activists must not go unnoticed.

Fifth, we must continue to keep an eye on Iran's expanded presence in the Western Hemisphere. I was deeply disappointed when Brazilian President Lula da Silva recently hosted Iranian President Mahmoud Ahmadinejad in Brasilia. And, I am concerned by Brazil's lack of interest in new U.N. sanctions against Iran. Brazil is a rapidly modernizing country which wants to gain a permanent seat on the U.N. Security Council. But, its failure to take Iran's nuclear program seriously is impeding its rise as a global leader.

Sixth, I would urge the Obama Administration to focus on El Salvador and Paraguay. It may seem odd that I single out these two small countries, but they are key partners who want to have strong relations with the United States.

I attended the inauguration of Salvadoran President Mauricio Funes in June. He is the first president from the FMLN since the country signed its peace accords in 1992. Funes, who was in Washington meeting with President Obama this week, faces opposition in his country from both the far right and the far left.

In Paraguay, the second poorest country in South America, President Fernando Lugo is the first president not elected from the Colorado party in 60 years.

Both presidents want to have close ties with us, and we must continue to nurture these important relationships. In the case of Paraguay, last year, I introduced the U.S. Paraguay Partnership Act (H.R. 1837) which would add the country to the Andean Trade Promotion and Drug Eradication Act (ATPDEA).

Finally, on a more personal note, I am extremely concerned about the imprisonment of USAID contractor Alan Gross in Cuba. I understand that Mr. Gross's health has been on the decline while in detention, and he has lost over 50 pounds. Clearly, his release needs to remain a top priority.

I hope today's hearing will help create a framework for the Obama Administration to build on its successful first year in the Americas through a number of key, concrete actions.

We all look forward to hearing the testimony of our excellent new Assistant Secretary of State for Western Hemisphere Affairs Arturo Valenzuela, as well as our private witnesses.

Mr. MACK. Thank you, Mr. Chairman, and it is a pleasure working with you, and I think as you outline, there are many things that we can agree on and work together on, and I think it is our responsibility to find those areas of agreement and work toward an overall policy toward Latin America that ultimately will help the people of Latin America in their struggle for freedom, security and prosperity.

Before I begin, I wanted to speak on the tragedies of both Haiti and Chile. Although these two earthquakes were very different, both ended the lives of so many, and I want the people of Chile and Haiti to know that our thoughts and prayers are with them. And Mr. Chairman, earlier today we had the opportunity to meet with the President of Haiti, and there are many challenges, and this is really going to take an effort, I think, not only from the United States but from other countries as well to come together to help the people of both Haiti and Chile recover and move forward.

Ensuring the greatest freedom, security and prosperity for the people of Latin America is my ultimate goal as the ranking member of the subcommittee, and during this hearing I hope that we will hear the thoughts of our witnesses on how we can move toward a goal that does just that—ensure freedom, security and prosperity for Latin America.

In Venezuela, Ecuador, Bolivia, Nicaragua, Cuba, the struggle for freedom and democracy continues. In the past several years we have seen thugocrats in the hemisphere alter their constitutions so they can remain leaders for life. We have seen elections stolen in Nicaragua and Venezuela, and in the streets of Caracas we see democracy being stolen in plain daylight. I firmly believe that Hugo Chavez is turning Venezuela into a dictatorship and has made Venezuela a country who Samone Boulevard himself would be ashamed of.

Whether it is squashing free and independent media outlets like RCTV or threatening his political opponents with violence and imprisonment, Hugo Chavez epitomizes what it means to be a thugocrat. His actions threaten the freedom, security and prosperity of the entire hemisphere and we cannot continue to let this stand.

I also believe that populism is the worst enemy of prosperity in Latin America. Without fail every time one of these so-called revolutionaries or populists come to power the few generating industries or resources that the country has are targeted. They are either nationalized, confiscated, or stolen, and history proves that these populace leaders rarely, if ever, return any wealth to their people.

Mr. Chairman, I have introduced legislation which supports President Obama and his agenda to strength U.S. trade relations with key partners like South Korea, Panama, and Colombia. I cannot think of a better way to fight populism and to bring greater prosperity to these countries than by passing these three trade agreements. These trade agreements will create jobs, grow our economy, and level the playing field for American manufacturers and businesses.

Finally, Mr. Chairman, one cannot have prosperity without security. Hugo Chavez's intent is making Venezuela the launching

point for terrorism in the hemisphere. He has become Iran leader Mahmoud Ahmadinejad his best friend, allowing terrorist organizations like Hezzollah and Hamas to enter the hemisphere and infiltrate the capital of the region.

In the resolution which I introduced with my good friend Ron Kline, Venezuela would be designated as a state-sponsor of terrorism. This is a resolution which I hope this committee will consider this year. We all have seen the reports. Unchecked flights from Iran to Venezuela, easy access to Venezuelan passports, lack security at Venezuelan airports, and Iran banks working with Venezuelan banks to avoid sanctions and fund terrorists.

I must ask, Mr. Secretary, what is the administration doing to curb the terrorism coming out of Venezuela which could eventually find its way to our very shores?

As we address these very important issues, I look forward to hearing the testimony of our witnesses today and having an open conversation that, frankly, the people of Venezuela and Latin America are fighting for every day, it is their freedom to speech without being punished by its governments.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Mack follows:]

The Honorable Connie Mack
Ranking Member
Western Hemisphere Subcommittee
Wednesday, March 10, 2010
Opening Statement

Thank you, Mr. Chairman, and thank you for holding this important hearing today.

Before we begin, I want to speak on the tragedies in both Haiti and Chile.

Although these two earthquakes were very different, both ended the lives of so many, and I want the people of Chile and Haiti to know that our thoughts and prayers are with them.

Ensuring the greatest freedom, security and prosperity in Latin America is my ultimate goal as the Ranking Member of this subcommittee.

During this hearing, I want to get the thoughts of our witnesses on three specific areas: freedom, security, and prosperity in Latin America.

In Venezuela, Ecuador, Bolivia, Nicaragua, and Cuba, the struggle for freedom and democracy continues.

In the past several years, we have seen *thugocrats* in the hemisphere alter their constitutions so that they can remain leaders for life.

We have seen elections stolen in Nicaragua and Venezuela.

And in the streets of Caracas, we see democracy being stolen in plain daylight.

I firmly believe that Hugo Chavez is turning Venezuela into a dictatorship, and has made Venezuela a country who Simon Bolivar himself would be ashamed of.

Whether it is quashing free and independent media outlets like RCTV, or threatening his political opponents with violence and imprisonment, Hugo Chavez epitomizes what it means to be a *thugocrat*.

His actions threaten the freedom, security and prosperity of the entire hemisphere, and we cannot continue to let this stand.

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Finally, Mr. Chairman, one cannot have prosperity without security.

Hugo Chavez is intent on making Venezuela the launching point for terrorism in the hemisphere.

He has become Iranian leader Ahmadinejad's best friend, allowing terrorist organizations like Hezbollah and Hamas to enter the hemisphere and infiltrate the capitals of the region.

In the resolution which I introduced with my good friend, Congressman Ron Klein, Venezuela would be designated as a state sponsor of terrorism.

This is a resolution which I hope this Committee will consider this year.

We all have seen the reports: unchecked flights from Iran to Venezuela; easy access to Venezuelan passports; lax security at Venezuelan airports; and Iranian banks working with Venezuelan banks to avoid sanctions and fund terrorists.

I must ask, Mr. Secretary, what is the Administration doing to curb the terrorism coming out of Venezuela, which could eventually find itself on our very shores?

As we address these very important issues, I look forward to hearing from our witnesses today.

Mr. ENGEL. Thank you, Mr. Mack.

I am now pleased to introduce our distinguished Assistant Secretary for Western Hemisphere Affairs, Arturo Valenzuela.

Mr. BURTON. Mr. Chairman.

Mr. ENGEL. Oh, I am sorry, Mr. Burton. I thought you were gone.

Mr. BURTON. You know, I can understand why you had missed me. I was just chairman of this committee and ranking member of this committee for about 10 years.

Mr. ENGEL. You are a good champion, Mr. Burton, but I liked you better when you were ranking member.

Mr. BURTON. Did you really? Oh, you don't like Mr. Mack now. No, I am just kidding.

Well, first of all, let me just say real briefly that I share Mr. Mack's concerns about Mr. Chavez. He is trying to cause his revolution to spread throughout Central and South America. He has put all kinds of money in Nicaragua and Bolivia, all over the place. And so I think one of the things that we ought to really address at the State Department level is the entire influence that his oil money is making on Central and South America, and we ought to realize that while we have problems in other parts of the world, in the Middle East, and I am the ranking member on the Middle East subcommittee, we still need to worry about our front yard and pay particular attention to what Mr. Chavez is doing, so I agree with everything you said, everything you said, Connie.

I want to ask you a question. I am going to come back and ask these questions later, but I would like you to think about them while I am making my opening remarks. We have an awful lot of confiscation of property in Nicaragua when the communists and the Sandinistas took over in the eighties, and we were able to get the Government of Nicaragua to make good some of the losses that these people suffered.

Now, in Honduras, we have one particular case that I have worked on for some time, it is called the Cemar case, C-E-M-A-R case, and it is a company, a cement company down there, that was forced into selling their company by, in part, our State Department for something far, far less than what it was worth, and I want to read to you real quickly what was said.

In 2008, more than 150 Members of Congress, including myself, wrote the Secretary of State about this case, and I quote from the letter, "Many, if not most, of the key facts in this case have already been established in various Honduras official findings of statements."

I would like to introduce for the record one of those official findings, a report issued by the Honduras attorney general in 2004, stating that the Cemar plant was eliminated from the market and bankrupted, bankrupted through illegal practice, and I have got a blue folder here I am going to give you so you can take a hard look at it. I think this is something that really needs to be looked into. It is probably not the only case. And I would like to know why the State Department forced one of our citizens to go through an expensive arbitration when the Honduras Government itself already ruled in favor of this company.

I would also like to introduce for the record a letter to Secretary Clinton written by Mr. Conyers, which I quote, Mr. Conyers said,

"I am concerned that in this case the actions of the Honduras Government may have violated Article 3 of the BIT which prohibits expropriation," and there is a letter attached.

So, I would like you to take a look at that and if you have some current knowledge on it I would like you to comment when we get to the question and answer period, and this is something that is really a bad state of affairs. This company was forced to take \$3 million when the assets were worth probably tens of millions of dollars, and it was forced in part by our State Department after the attorney general of Honduras said that there was illegal activity in forcing the sale of this by the Government of Honduras. It is something that we should not allow to happen.

It happened in Nicaragua. We have helped some of the people get their money back and get restitution in Nicaragua. But this is one case I think really should be looked into, and with that I will yield back my time and I will wait until we get to the questions and answers, and thank you for remembering me, Mr. Chairman, I really appreciate it.

Mr. ENGEL. Well, thank you very much. Mr. Burton.

Before I call on the Secretary, I just want everyone to know, before you leave, Dan, I agree with everything you said about the plant in Honduras, and I was also one of the 150 members who signed that letter, and it is a bipartisan letter, and certainly the new Government of Honduras, in my opinion, because they are new and they are looking at us for support, and I think we should support them, but I think responsibility comes with support. And when our American citizens are not being treated properly, that is something with which we all have concern, and I would hope that that would be one of the things that the Honduran Government would look at quickly and respond to it quickly because it is intolerable that this American citizen is being treated the way he was treated and continues to be treated.

So I wanted to say that I do agree with that, and the last thing I want to say before I call on you, I mentioned the trip we took just about 2 months ago, it was to Argentina. We also went to Colombia and Panama, and I cannot think of better friends that we have in this hemisphere than Panama and Colombia. We meet with the Presidents of both countries, President Martinelli of Panama and President Uribe of Colombia, and it just warms my heart to feel the good feelings in both countries, and in Argentina as well, President Fernandez de Kirchner. We had a wonderful meeting for 2 hours and the friendship was there as well.

But I know the Ambassador, as I said before, of Panama is here and he was with us when we were in Panama City, and everyone in the delegation just felt really a good feeling of warmth. We have had a long relationship with Panama, some of it good and some of it not so good, and the fact of the matter is there is a government there and a people there who feel kindly disposed to us. I think it is something that I appreciate very much, and as I mentioned before, I think that Colombia has done everything that we have asked of them and is a good ally.

And finally, I want to mention something about Mexico since it shares a border with us and it is a very important border, bilateral relations with that country are so important, and I admire Presi-

dent Calderon for his war against the drug lords and for his courage to take them on, and he and his country are suffering for it, but he has courage in taking them on, and we need to do everything we can to support him.

So I am going to stop. Mr. Sires, I don't know if you want to make an opening statement.

Mr. SIREs. I will be very brief. Shall I say welcome, and I want to thank the chairman for holding this meeting, and I have the same concerns along the way as the chairman has. I am very concerned about Colombian, the fact that we cut some money to Colombia. I am also concerned about the Panama treaty, the agreement. Hopefully, we can vote on those soon, and I am also concerned about the migration to Cuba, and if you could expand on that a little bit, that would be great. Very brief.

Mr. ENGEL. That was very brief. Thank you.

I am now pleased to introduce our distinguished Assistant Secretary of State for the Western Hemisphere Affairs, Arturo Valenzuela. It is a real delight for me to welcome Secretary Valenzuela to the subcommittee, particularly after a confirmation process that took far, far too long. I was delighted when the President nominated him, and know that he will do and is doing a fine job in his office.

Secretary Valenzuela comes from Georgetown University School of Foreign Service, where he was professor of government and director of the Center for Latin American Studies. During the Clinton administration, he served as Senior Director for Inter-American Affairs of the National Security Council, and was Deputy Assistant Secretary for Inter-American Affairs.

So, Mr. Secretary, you have had to listen to all of us, and that is probably the worst thing about testifying, but finally the floor is now yours and I am eagerly awaiting what you have to say.

STATEMENT OF THE HONORABLE ARTURO VALENZUELA, ASSISTANT SECRETARY, BUREAU OF WESTERN HEMISPHERE AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. VALENZUELA. Thank you, Mr. Chairman. I appreciate your words. I appreciate your travel to the region. I appreciate the comments of the members of the committee, and I very much look forward to exchanging views today, and also as we move forward in the relationship with the Americas. I very much value this conversation that we have had, and I have been pleased at the exchange of views that we have had before you trip and afterwards.

I just returned myself now from a lengthy trip to the Americas with Secretary Clinton. In 5 days she went to six countries. We met with a dozen heads of state, as many foreign ministers, attended a Presidential inauguration, attended aids to Chile and promised more. She attended the Pathways to Prosperity Ministerial and a gathering of Central American Presidents, met with civil society and private sector leaders, reached out to hundreds of students at large Afro-Brazilian University. The trip was what you might call intensive engagement.

I would add it continued here this week in meeting with President Preval of Haiti and President Funes of El Salvador, and as the President and Secretary have said, United States is committed

to Haiti, and as you have said, Mr. Chairman, after speaking with them today, committed to Haiti and its long-term recovery and development efforts.

On that trip we were particularly moved, Mr. Chairman, by the eloquent words of President-elect Mujica of Uruguay in his inaugural address. He outlined a bold vision of progress for his nation. It was a powerful, powerful defense of democratic values and institutions, including respect for our position parties and the value of dialogue and compromise and public affairs.

In Chile, of course, we saw firsthand the efforts of the Chilean people to cope and recover from another catastrophic earthquake. The Secretary was able to express her condolences and that of the American people to the Chilean people and extend, of course, our disposition to assist Chile, as we have done.

Everywhere we felt a dynamic agenda as animating democratic governments and societies in the region. It is an agenda we share. It is based on opportunity, effective democratic institutions, and the need to ensure our peoples' safety. The Secretary sent a clear message of U.S. commitment to practical partnership to advance this shared agenda, and a clear message that this had to be based on two-way responsibility.

That partnership is alive and well and growing in the Americas. I tried in my written testimony to capture its scope and ambition. To summary, we face very serious challenges, including assisting poverty and equality, transnational crime, democratic reversals, as so many of you have mentioned this morning in a few countries, the effects of the global economic crisis, and the effects of climate change.

To address these challenges, the policy of the United States to help catalyze networks of practical partnerships among all capable stakeholders in the Americas focused on three priorities critical to people in every country: One, promoting a social and economic opportunity for everyone; two, ensuring the safety of all of our citizens; and three, strengthening effective institutions of democratic governments, respect for human rights and accountability. An important element across all of these efforts is advancing the goal of a secure and clean energy future, a matter that the President himself raised at the Summit of the Americas.

Examples of this approach includes such initiatives, Mr. Chairman, as pathways to prosperity, the economic and climate partnership of the Americas, the inter-American social network, the joint action plan to eliminate racial and ethnic discrimination and promote equality. On the citizens' safety side, we are partnering with countries in the Americas in the Merida Initiative, Central American Regional Initiative, the Colombian Strategic Development Initiative, and the Caribbean Basin Security Initiative.

I think the Secretary was struck by the pragmatic understanding in the region that our success is linked, and that it hinges on our societies' ability to meet challenges and to compete and win in an integrated world. We have done so much to open our economies to trade and investment, but being successful and competitive takes a lot more. It requires investment and infrastructure and then people, and most of all it requires effective institutions that are governed by the rule of law. The quality and integrity of institutions

is perhaps the most critical determinant of a nation's success. This is why so much of our partnership in the region is focused on institution building and the need to fight for impunity and other threats to the rule of law.

By every measure we are more engaged in Latin America than ever with the governments, with the private sector, with civil society, between all three in ways that highlight shared values and common hopes, and in ways that broker opportunity on a scale that perhaps was once unimaginable. Bit by bit it is defining the community that is greater than the sum of the parts. It is a community where, as Secretary Clinton said in Costa Rica last week, "We all want the same things, the chance to live safe and healthy lives, to see our families productive and moving forward, a better future, to participate fully in our communities, and to do all that we can to extend those opportunities to others."

The Obama administration's approach in this hemisphere is that we are prepared to establish partnerships for joint action based on best practices. This is about the U.S. as "indispensable partners." This is no longer about a hegemonic presumption, but about engagement based on shared interests driven by mutual respect, and based on common values.

Mr. Chairman, thank you for your support, for your leadership and that of the members of the committee, you show on so many key hemispheric issues. I appreciate the candid dialogue that we have had and I wish to have with this committee, and look forward to addressing the points that you might raise. Thank you.

[The prepared statement of Mr. Valenzuela follows:]

TESTIMONY OF
 ARTURO A. VALENZUELA
 ASSISTANT SECRETARY OF STATE
 BUREAU OF WESTERN HEMISPHERE AFFAIRS (WHA)
 DEPARTMENT OF STATE
 BEFORE
 THE COMMITTEE ON FOREIGN AFFAIRS
 UNITED STATES HOUSE OF REPRESENTATIVES
 MARCH 10, 2010

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to talk about U.S. Policy in the Americas. I am just back from a six-nation trip to Latin America with Secretary Clinton, where we had the chance to meet with over a dozen heads of state, and many leaders in civil society and the private sector, and talk about our highest priorities and responsibilities. We were particularly moved by the eloquent words of President-elect Mujica who in his inaugural address outlined a bold vision of progress for Uruguay and a powerful defense of democratic values and institutions, including the respect for opposition parties and the value of dialogue and compromise in public affairs. So this is a particularly welcome opportunity to take stock of where we are and, more importantly, where we want to go in our relations with the countries of the Americas. It is very important, at the outset, to recognize how much our growing interdependence makes the success of our neighbors a compelling U.S. national security interest. Advancing that interest is a fundamental goal of our engagement in the Americas.

In 1961 the Alliance for Progress captured the imagination of the Americas with a bold shared vision. We live in a very different world at the beginning of the 21st century. With few exceptions, the countries of the region are much more inclusive, prosperous, and democratic. But, today, much of what we must help accomplish in this hemisphere also hinges on the power of a shared vision: a vision of an Inter-American community with shared values, shared challenges, a shared history and, most importantly, shared responsibility. Advancing that vision will require sustained, informed, creative, and competent engagement. That engagement must be sophisticated and variegated. We speak, accurately, of a "region," and of big unifying agendas, but we know at the same time that our community comprises profoundly diverse nations and sub-regions. To be successful, our approach must be able to disaggregate when necessary.

Our challenge is to carefully use our diplomatic and development tools, and our limited resources, to optimal effect. We need to help catalyze networks of practical partnerships, among all capable stakeholders in the Americas, focused on three priorities critical to people in every country of this region: promoting social and economic opportunity for everyone; ensuring the safety of all of our citizens; and strengthening effective institutions of democratic governance, respect for human rights, and accountability. Across all of these priorities, I want to emphasize, we are also working on practical initiatives to advance us toward a secure, clean energy future.

There is a strong element of community in the Americas today, and it will only get stronger with time. That feeling was nowhere more evident than in the extraordinary outpouring of support and assistance to the people of Haiti following the devastating earthquake there. Or in the region's unanimous feelings of solidarity with Chile after it, too, was hit by one of the biggest earthquakes the world has ever experienced.

Haiti is a special case. Shortly after taking office, well before the earthquake, President Obama and Secretary Clinton emphasized their personal commitment to helping Haiti break the cycles of poverty and poor government that have crippled its development. We have reaffirmed our commitment in the aftermath of the earthquake. You know the extent of the damage, the loss of life, and the urgent need. The Government of Haiti faces daunting tasks. Meeting them will require a sustained and substantial commitment from the international community, in support of the Government and people of Haiti as they define what their future should look like. On March 4, the United States and United Nations announced, that in cooperation with the Government of Haiti, and with the support of Brazil, Canada, the European Union, France, and Spain they will co-host a ministerial -- the *International Donors' Conference Toward a New Future for Haiti* -- at the United Nations in New York on March 31, 2010. The goal of the conference is to mobilize international support for Haiti's development needs and to begin to lay the foundation for Haiti's long-term recovery.

We in the Americas are joined together by many intersecting and overlapping interests, needs, and affinities. We share the common, though sometimes contentious, history of the Americas, developing from diverse European colonization, displacement of indigenous peoples, forced African immigration, assimilation of later immigrant groups, and the gradual coalescence of adaptable new societies. The populations of our countries reflect a particularly rich and

largely harmonious racial and cultural diversity that differentiates this hemisphere from large parts of Europe, Asia, and Africa.

We share a common history of independence movements inspired by the human ideals of the enlightenment, followed by the long and difficult processes by which our peoples have struggled to build the just, free, inclusive, and successful societies envisioned by our founding fathers. Many of our nations have followed policies in the past that have hindered this process, as when the United States put Cold War priorities ahead of democratization in the region.

Today, however, fundamental values of democracy, respect for human rights, accountability, tolerance, and pluralism are increasingly ingraining themselves into practice throughout the Americas. So many of the Americas' leading democracies have recently gone through, or are preparing for, peaceful electoral transfers of power. Alternation in power, increasingly effective institutions, responsible fiscal policies, open trade policies, and greater accountability—exemplified by such countries as Brazil, Chile, Colombia, Costa Rica, Peru, Uruguay, and El Salvador—embody the hemispheric reality. The significance of this trend cannot be overstated.

Our common legacy, our shared values, and the nature of today's global challenges must underpin a new and converging agenda for cooperation that helps unite diverse peoples and governments around a shared task: building stable, safe, inclusive societies that are supported by effective and legitimate institutions of governance. This agenda should also protect our diversity through tolerance and pluralism as a key factor in our region's success and competitiveness in a globalized economy. Energy security and global climate change are crucial issues for our partners and us and offer opportunities for deeper collaboration.

Our broad common agenda, not individual differences or outliers, should define our interaction in the Americas. I know some governments in the region will not embrace this approach, will do so only very selectively, or will seek to undermine this common cause. Working together with others, we need to be clear-eyed and proactive in countering efforts to undermine our common agenda. These can include attempts to expand authoritarian or populist rule at the expense of effective democratic governance based on the rule of law and representative government. They can also include the ill-conceived embrace of dangerous or problematic external actors.

We are concerned about the persistent erosion of democratic institutions and fundamental freedoms in several countries, particularly freedom of the press. These freedoms reflect the regional consensus and are enshrined in fundamental instruments of the Inter-American system. The recent Inter-American Human Rights Commission report on Venezuela was a complete and dispassionate review of the current state of affairs, and it represents an opportunity for Venezuela's government to begin a dialogue internally and with the hemispheric community.

In Cuba, we want to promote respect for human rights and fundamental freedoms. We have taken measures to increase contact between separated families and to promote the free flow of information to, from, and within Cuba. We have engaged the Cuban government on key bilateral matters like migration and direct mail service and will continue to engage Cuba to advance U.S. national interests, as in our effort to respond to the humanitarian crisis in Haiti. We remain deeply concerned by the poor human rights situation in Cuba, which contributed to the recent death of prisoner of conscience Orlando Zapata as a result of a hunger strike. We are also focused on securing the release of the U.S. citizen jailed in Cuba in December; a matter of great importance to the United States.

Our response to the coup d'état in Honduras shows that our interests are served by leveraging multilateral mechanisms, in concert with our partners, to support the implementation of principled policies. In Honduras we helped to strengthen the "collective defense of democracy" as a cornerstone of the Inter-American System. Today, Honduras is governed by elected leaders who are moving quickly to promote national reconciliation and their country's return to the fold of hemispheric democracies. As Honduras moves forward, we will continue to maintain a vigilant eye on the human rights situation there in light of serious concerns that have been raised.

To help advance our national interests, as reflected in the broad common agenda I outlined, the President has submitted an FY 2011 request for foreign assistance in the region that reflects a continuing shift toward greater economic and development assistance, over traditional security assistance. Specifically, of the total FY 2011 request, 62 percent is economic and development assistance, versus only 50 percent in the FY 2009 and FY 2010 enacted levels.

This does not mean we face a diminished threat to our national security from transnational crime and other menaces. These include the global drug trade, the largest criminal industry in the world, involving every country in the region. Nor does it mean we are shying away from doing our utmost to safeguard the security

of our citizens and citizens throughout the region. Instead, our request recognizes the critical importance of strong institutions, broad economic opportunity, and social inclusion in building resilient societies that can protect people from threats to their safety. For example, the request includes specific funding for innovative regional initiatives reflecting our commitment to shared prosperity and a sustainable future —such as the Inter-American Social Protection Network and the Energy and Climate Partnership of the Americas.

Our request also reflects our continued commitment to key hemispheric citizen safety initiatives including the Merida Initiative, our programs in Colombia, the Caribbean Basin Security Initiative, and the Central America Regional Security Initiative. The security challenges in the region are profoundly interconnected. Our initiatives are grounded in a common strategic vision and coordinated internally and with the interagency to ensure comprehensive and coherent planning and implementation. While these initiatives are mutually reinforcing, sharing broad objectives and some key activities, they vary considerably in size, level of U.S. support, complexity, and level of development. The combination of a common strategic approach and distinct, but interlocking, regional initiatives provides the necessary unity of effort as well as the flexibility necessary to help address unique circumstances that vary by country or sub-region.

The evolving mix of our assistance is also a function of successful partnerships – such as those with Colombia and Mexico – that have enabled others to assume an increasing share of responsibility for their own citizens’ safety. It is also a function of the leadership of many Members of this committee, and the administration’s clear understanding of the connection between major security challenges and a combination of weak institutions, social exclusion, and lack of economic opportunity that plague many societies.

Earlier I referred to three priorities critical to people throughout the Americas. They are mutually reinforcing, and they inform and influence our diplomatic and development policy throughout the Americas, so I would like to expand upon them in that context.

Opportunity

Through social and economic partnerships with governments, civil society, and the private sector we can leverage investments in people and infrastructure to make societies more competitive in the world and inclusive at home. Our public diplomacy initiatives—scholarships, exchange programs, in-country language programs, other activities through our bi-national centers—advance these goals,

bringing huge return on our investment. We are now exploring the potential to significantly expand such programs. The inclusion into the economic mainstream of traditionally marginalized groups is crucial to economic growth.

The Pathways to Prosperity initiative, which we have re-cast as a strategic platform for promoting sustainable development, trade capacity building and regional competitiveness, is also key to promoting more equitable economic growth. The initiative, which includes those countries in the hemisphere that are committed to trade and market economies, comprises a number of programs to help ensure that the benefits of trade and economic growth are equitably shared among all sectors of society. Despite its macroeconomic growth, poverty and income inequality remain key challenges in this hemisphere. Pathways countries share a commitment to promote a more inclusive prosperity and responsive democratic institutions.

Countries throughout the Americas have experience, creativity and talent to address these challenges and through Pathways we are working with partners to help exchange information and share best practices to benefit all. Secretary Clinton participated in the Pathways ministerial last week and cited a number of areas that we have identified for cooperation under Pathways. These include the creation of small business development centers; support for women entrepreneurs; modernizing customs procedures; expanded opportunities for English and Spanish language instruction; helping small and medium sized enterprises decrease their carbon footprint; and promoting the use of secured transaction to help small businesses better access capital.

We are also working with partners in the Western Hemisphere to fight poverty through the Inter-American Social Protection Network, which our leaders committed to support at the Summit of the Americas in Trinidad and Tobago last April. The launch of the Network in New York City in September 2009 was important—demonstrating the commitment of governments and citizens throughout the Americas to helping each other achieve social justice in creative and innovative ways. Examples of innovative social protection strategies include Conditional Cash Transfers (CCTs) – a simple idea linking responsibility with opportunity.

We will continue to work closely with partner nations such as Canada in promoting greater opportunity in the region. Canada's major development commitment to Haiti – both before and after the earthquake – as well as their

programs in the Caribbean, Bolivia, Honduras, and Peru, are effective multipliers to our own efforts.

We are also in serious discussion with other nations, such as Spain, and the EU, who provide substantial development assistance in the Americas. In particular, we see important opportunities to more effectively coordinate our programs in Central America, bilaterally and through SICA. When I met in Madrid with my Spanish counterparts last month we agreed to move quickly to assess and take advantage of these opportunities.

It is very important to address too our pending free trade agreements with Colombia and Panama. These accords are important components of economic engagement with the Americas. As the President has made clear, we remain committed to working with both Panama and Colombia to address outstanding issues, including concerns voiced by Members of Congress and other critical stakeholders. We are confident that together we can advance our interests and values through these agreements and our deep and diverse relationships with both Panama and Colombia.

Sustaining the opportunity generated by economic growth requires vastly enhanced cooperation on energy and climate change. The Energy and Climate Partnership of the Americas helps achieve this. The State Department is working together with the Department of Energy to lead U.S. efforts under the Partnership, and we and other governments in the region (Brazil, Chile, Colombia, Costa Rica, Mexico, and Peru) have developed initiatives focused on energy efficiency, renewable energy, infrastructure, energy poverty, and cleaner fossil fuels. Secretary of Energy Steven Chu will host an ECPA Ministerial April 15-16 in Washington, with Secretary Clinton's participation. There, we will further existing ECPA initiative and identifying new ones. We are excited about the countless opportunities for cooperation under ECPA.

Scientific partnerships in our Hemisphere also hold the promise of opportunity. Economic growth, promoting security and unleashing the potential of developing countries are inextricable from the sustainable development of our common resources and building our capacity for innovation.

The number of researchers in the workforce, doctoral degrees awarded and research and development expenditures in Latin America are well below that of OECD countries. Even so, scientific publications and patent applications have increased steadily in the region particularly in Argentina, Brazil, Chile, Mexico

and Uruguay. It is vital that we encourage this continued growth and use international scientific cooperation as the way to build further capacity.

Increased cooperation in science addresses key development goals for the countries in the region, but also directly benefits the U.S. economy. The countries of Latin America and the Caribbean not only look to the U.S. for leadership in S&T activities, but we are their largest trading partners, their largest source of foreign direct investment, and our universities are the destination of many of the best and brightest Latin American students. Investing in S&T cooperation with Latin America today will strengthen our U.S. universities and research institutions, but as we look past the immediate financial crisis, will help position American companies in the innovative industries of the future, ranging from clean energy to biotechnology. Bringing prosperity and economic growth to some of our strongest trading partners will also have a positive impact for traditional U.S. exporters.

Citizen Safety

Citizen Safety encompasses a similarly multi-dimensional set of partnerships that broker cooperation and institution building to fight transnational crime and assure a secure daily existence for individuals throughout the Inter-American community. To get sustained buy-in, it is vital that our security partnerships be understood by publics as *responsive* to the very local insecurity they face (crime, human trafficking, drug addiction, and poor environment, lack of reliable energy or clean water), and not simply a means of securing the United States regardless of the cost to others.

Strong public diplomacy has a vital tactical role in building wider awareness of the ways these jointly developed partnerships for example, with Colombia, Peru, Mexico, Central America, and the Caribbean address shared concerns, strengthen institutions, and help build resilient communities in which people can thrive.

Our diplomacy must also emphasize to publics all we do domestically to live up to our responsibility to address some of the key factors of transnational crime, including demand for drugs, and illicit traffic in firearms and bulk cash.

A variety of security partnerships in the region, the Merida Initiative, the Central American Regional Security Initiative (CARSI), and the Caribbean Basin Security Initiative (CBSI), seek to strengthen partners' ability to fight transnational crime, protect citizens, and prevent the spread of illicit goods and violence to the United States. In the process these partnerships are transforming relationships,

brokering growing cooperation and trust between those countries and the United States, and between the partner nations themselves.

The U.S. and Mexico have forged a strong partnership to enhance citizen safety and fight organized crime and drug trafficking organizations. In 2009, the United States and Mexico agreed to new goals to broaden and deepen the cooperation between the two countries. These include expanding the border focus beyond interdiction of contraband to include facilitating legitimate trade and travel; cooperating to build strong communities resilient to the corrupting influence of organized crime; disrupting organized crime; and institutionalizing reforms to sustain the rule of law and respect for human rights;

The Caribbean Basin Security Initiative (CBSI) seeks to substantially reduce illicit trafficking, increase safety for our people, and promote social justice. More than a series of programs, this partnership will be an ongoing collaboration that draws upon, and helps develop, the capacity of all to better address common and inter-related challenges. Partnership activities will be designed in a manner that maximizes synergies with other regional efforts (e.g. Merida). Under CBSI we will jointly seek the greatest possible support from extra-regional partners in pursuit of key objectives.

The Central American Regional Security Initiative (CARSI), in coordination with Merida Initiative and CBSI, strengthens and integrates security efforts from the U.S. Southwest border to Panama, including the littoral waters of the Caribbean. The desired end-state is a safer and more secure hemisphere—in which the U.S., too, is protected from spread of illicit drugs, violence, and transnational threats. CARSI recognizes a sequenced approach to resolving the challenges, consisting of: the immediate need to address the rapidly deteriorating security environment; the medium-term requirement to augment civilian law enforcement and security entities the capabilities to reestablish control and exert the rule of law; and the long-term necessity to strengthen the justice sector and other state institutions.

In the Andes, it remains in our national interest to help the Colombian people achieve the lasting and just peace they want, making irreversible the gains they have sacrificed so hard to achieve. Colombia has made major progress reducing violence and kidnappings, improving human rights, expanding the rule of law, and advancing the country's social and economic development. Important challenges remain including in the area of human rights. We will continue to work closely with the Colombian government to promote respect for human rights,

ensure access to justice, and end impunity. We will also continue to collaborate with Colombia to prevent and respond to the disturbingly high rates of internal displacement. The Colombia Strategic Development Initiative (CSDI) is our plan to support the government of Colombia's "National Consolidation Plan." CSDI is a whole-of-government approach that integrates civilian institution-building, rule of law, and alternative development programs with security and counternarcotics efforts.

In Colombia, Mexico, and elsewhere in the region the Secretary has emphasized that we understand that effective and collaborative counterdrug policies must be based holistically on four key goals: demand reduction, eradication and interdiction, just implementation of the law, and public health. To be sustainable, any gains will require economic and social opportunity sufficiently strong to provide compelling alternatives to involvement in illicit drug production and trafficking.

We tend to speak of U.S. security initiatives in the region, but in reality these are overwhelmingly joint in their development increasingly plurilateral in their implementation, and multi-faceted in their impact. As countries strengthen their internal capacity to address security challenges they are forming their own partnerships with neighbors in ways that multiply the effectiveness of programs. Canada is an increasingly important and committed security partner with regional countries; Mexico and Colombia are sharing vital capacity and experience; countries such as Uruguay, Chile, and Brazil are showing notable leadership in international security initiatives such as MINUSTAH in Haiti.

Effective Democratic Governance

Capable and legitimate institutions, including a vibrant civil society, are vital to successful societies that meet their citizens' needs. Our strong support for democracy and human rights is rooted in this fundamental fact. The capacity and integrity of democratic institutions is uneven in the Americas. All our nations have a broad co-responsibility to help strengthen both. Many are, in fact, reaching beyond their national success to share experience and technical capacity in the region and beyond.

U.S. democracy programs focus on broadening citizen participation, supporting free elections and justice sector reform, developing anti-corruption initiatives and governmental transparency, supporting human rights and fostering social justice through stronger rule of law.

Strong and effective multilateral institutions in the Americas can play a vital role in strengthening effective democratic institutions. The Organization of American States (OAS), at the center of the inter-American system, has a mandate from its membership to do so.

We must work through the OAS to strengthen democratic institutions at a time in which these institutions are being seriously challenged in some countries in the region. As part of this effort, we should apply the valuable lessons of the success of the independent Inter-American Commission on Human Rights, as an impartial arbiter on human rights issues, to address critical governance issues affecting our region. We must also build the political will necessary among OAS member states to fulfill the promise of the Inter-American Democratic Charter as an effective tool in the collective defense of democracy.

Recent experience should demonstrate to us that both the Secretary General and the Permanent Council should be less hesitant to use their existing authorities under the OAS Charter and the Inter-American Democratic Charter to take preventive action in situations that may affect the viability of democratic institutions in a member state. Such actions must be undertaken with the consent of the member state involved, of course.

As an organization, the OAS can do a better job of defending and promoting democracy and human rights, consistent with our shared commitment to implement and apply the Inter-American Democratic Charter. We need more effective mechanisms for foreseeing and counteracting emerging threats to democracy before they reach the crisis stage. The SYG's 2007 Report to the Permanent Council contained some useful recommendations in this regard that warrant further examination. The 2007 Report stressed the need for a "graduated response" to brewing political crises, and called for a more comprehensive linkage of the existing mechanisms of the OAS – particularly our peer review processes -- into a coordinated response mechanism in support of Member States' democratic institutions. We would welcome a serious discussion on the operationalization of these recommendations. We need to view the Democratic Charter more as a resource states can call on when they need it and less as a punitive instrument to be feared and avoided. After all, the Democratic Charter was initially envisioned to function as a preventive toolbox in support of our region's democratic institutions.

New regional or sub-regional institutions may also be able to promote democratic integration and effective governance. The extent to which they do so may ultimately determine their usefulness, staying power, or even legitimacy in

their members' eyes. We are willing partners with new collectives that are capable instruments of this common cause.

We already work closely and successfully with many multilateral groupings of which we are not part, such as SICA and CARICOM. This engagement is about much more than just aid—it is about co-responsibility, a point Secretary Clinton highlighted during her recent trip to South and Central America. In a time of budgetary challenge in the United States, it is difficult to ask our Congress for assistance resources for countries unable to invest in social programs because they fail to collect taxes from those in their own country who should be contributing to their societies. In many countries in the region tax collection represents less than 15 percent, sometimes less than 10 percent, of GDP.

Mr. Chairman, I cannot close without reiterating here something that I have had occasion to say privately to you and some of the Members on the Sub-Committee. Last April in Trinidad and Tobago President Obama asked his elected counterparts from throughout the Americas to look forward, together, toward the great tasks before us. He signaled clearly that partnership would be the leitmotif of the United States' engagement in the Americas.

That partnership is not just something we seek externally. It is something to which I commit, with you, and the other Members of the Sub-committee, as we work together to sustain smart policies that advance our national interests, and advance critical agendas we share with people all over the hemisphere. I appreciate the leadership you have shown on so many issues. I respect the wise counsel you and your staffs have provided my colleagues and me. And above all, I value the open and fluid dialogues we have maintained, even on difficult issues, since I assumed this job four months ago. I look forward to continuing this dialogue, and working with Congress to advance our positive agenda with the Americas.

Mr. ENGEL. Well, thank you very much, Mr. Secretary, and we appreciate it. I know we are going to have some really important questions.

Let me start off by mentioning that last year at the Summit of the Americas the President spoke, President Obama, and I refer to him as a rock star. Everybody hung on every word he said, and he spoke about engaging the hemisphere, and we have worked with the OAS.

There was a recent summit in Cancun. Heads of state of Latin America and the Caribbean agreed to form a new organization provisionally known as the Community of Latin American and Caribbean States. This organization includes every country in the hemisphere with the exception of the United States and Canada.

Some have said that this new organization could replace the OAS. What does the exclusion of the United States and Canada from this new organization say about the current state of hemispheric affairs, and are you concerned that the Community of Latin America and Caribbean States will replace the OAS?

Mr. VALENZUELA. Thank you very much, Mr. Chairman. That is a very valid question because there has been a lot of attention paid to this. Let me answer it this way. There have been a whole host of initiatives in Latin America over the years going way back that are regional initiatives to integrate the countries. There was at one point the Andean Pact. We know about Miracle Sur. There have been initiatives in Central America and others like that, and as we know our European friends and allies have their own organizations as well that we are not necessarily a part of.

So, in principle, it is not a problem for the United States. If these countries set up mechanisms in order to dialogue with one another, to seek to create better understanding, to perhaps build better and sort of mutual confidence, confidence-building measures, for example in the case of differences that exist within countries, or opening markets, and that kind of thing, we encourage that. We welcome that.

And I guess the question I would raise, Mr. Chairman, is will this be a really effective organization? I don't know. In some ways there have been so many organizations formed and so many of them have not been that effective. They certainly would not, and I would end with this comment, they certainly would not replace the Organization of American States, and it is our assumption, except for maybe one or two voices out there that have said something like that, that all of the countries in the Western Hemisphere are committed to the Organization of American States and it is their fundamental regional institution. After all, it is the oldest regional institution in the world. It is one based on treaty. It is one that has notable institutions such as the Inter-American Human Rights Commission that you referred to earlier, and I see a strong commitment, and this was reiterated on this trip that we took in Central America where we met with all the Presidents, to not only value the Organization of American States but to look for ways to try to strengthen the Organization of American States, and that is where I think we would be on this.

Mr. ENGEL. Well, I support the OAS and I think that it is very important for the United States to take a very active role in the

OAS, but sometimes the OAS disappoints. We have seen a closing of democratic space in the Americas, and the OAS's own independent Inter-American Commission on Human Rights recently criticized Venezuela for its deteriorating human rights situation. It follows similar statements regarding the closure of RCTV and Venezuelan TV stations.

How are we, how is the administration dealing with the closing of democratic space in the Americas, and what will it take for the OAS Permanent Council to be more vocal in speaking out about the closing out of democratic space in the region?

Mr. VALENZUELA. Well, this is a matter of big concern, Mr. Chairman, and it is something that we want to work on much more. As you pointed out, the Inter-American Human Rights Commission did come out with a very forthright, very strong report on the situation in Venezuela.

The commission has a long history of strong support for human rights going back even to the years where most of the countries in the Western Hemisphere were dictatorship. We need to strengthen that commission, and we need to make it more effective.

But beyond that, and this is a fundamental point to leave you with, after the countries of the Western Hemisphere signed the Inter-American Democratic Charter, this took place on the fateful day of 9/11, and it was a commitment that arises also out of the adoption of the Resolution 1080 in 1991, when countries that were coming out of dictatorship asserted strongly and forcefully that the commitment of the hemisphere was to be representative of democracy.

That, in turn, means that we need to move forward within the OAS to strengthen the institutions in the OAS, not just to the Inter-American Human Rights Commission, but also within the political secretariat to do several things perhaps; to have an early warning system that could help to understand better what is happening within particular countries in order to avoid a problem that might lead to a disruption or interruption of the political order, the democratic order, and to be much more forceful in raising issues where there are violations of the democratic—there is a history in the OAS of that.

We will remember, for example, in 2000 when there was a contested election where the OAS took significant action. We need to return to that notion that it is not just a coup, it requires the OAS to intervene. It is also violations of the fundamental tenets of democratic process—freedom of the press, ability to assemble and that kind of thing.

And so we are encouraging the OAS to go in that direction. To do so, and I will just end with this one thought, Mr. Chairman, to do so it really does mean forging a strong partnership with other countries to achieve those same objectives. We can't do this alone. We have to do it with others, and that is why our effort at engagement and dialogue, communication with others is so important as we move forward.

Mr. ENGEL. I couldn't agree more about the engagement. I think that that is absolutely key, and if we do not engage we do so at our own peril. You know, if we are going to complain that others are going to step into the void, you know, whether it is China, Rus-

sia, Iran, or whatever, if we do not engage others will step into the void. I couldn't agree more.

I want to ask you one last question, at least for now, and then I will turn it over to Mr. Mack, on Haiti. Obviously the earthquake in Haiti has highlighted the need for more coordination from donors in order to better channel assistance to those that need it. There is no doubt that donor coordination is hard. As you know, we have a donor conference in New York on the 31st of this month, but when donation coordination is done well it can have a much bigger difference on the ground.

The region as a whole receives assistance from us, from EU, Spain, China and Canada, national financial institutions like the IDB, and wealthy countries in the region also provide assistance. If more was done to coordinate U.S. assistance with other international donors, I believe it could have a much bigger impact in the region, and I am especially cognizant of that after listening to President Preval today twice.

Outside of Haiti, do any current assistance programs attempt this sort of coordination and are there plans to engage other international donors moving forward, and how are we coordinating our donations with international community vis-à-vis Haiti?

Mr. VALENZUELA. Thank you for your question because this is something, of course, all of us have been working so hard on since the earthquake in Haiti with respect specifically to Haiti. This is an enormous challenge. I think we can be proud, the United States stood up the way it did at the moment of the greatest need. We had to react fast and we did so.

But this, as you pointed out, is a long-term effort and as President Preval made very clear, this is something about a development strategy moving ahead to reconstruction, but also to build Haiti and this is where these efforts at coordination with other donors and other countries is very important.

Let me just emphasize how pleased we have been that the countries of the Western Hemisphere have been very much at the top of the list of those who have been working. They may not be able to come up with the largest amount of funding at a certain particular point, but the Brazilian-led manusta in Haiti has played a very important part. The contributions of countries like Uruguay, for example, Uruguay is the second largest peacekeeper anywhere in the world per capita, and it has forces not only in the Western Hemisphere but other places in the world. But the Peruvians have also been there, The chileans have been there, the Argentines have been there as well. There has been collaboration with Haiti.

The Dominican Republic, a neighbor, where there have been some difficulties over the years for complex reasons, has really stood up at this particular occasion, and I cannot let this opportunity go by without mentioning the fact that Canada, another countries in the Western Hemisphere that we work with so closely, has indeed taken a very important leadership role on this. It is very, very important.

So, I think that with respect to Haiti we are coordinating these things, and this is indispensable as we go forward. But your question is a larger one and it is extremely valid, and one of the things that we have really been working on very hard is to see how our

assistance can also be coordinated better with other players on the international stage, and in fact the main purpose of my own trip to Spain and to France recently was to talk not only about Haiti but also to speak with the Spanish, with the European Union and with the French, but particularly with the Spanish and the European Union, about how we might be able to coordinate our assistance say in an area like Central America, and we discussed very specifically support of CECA, for this Central American immigration process whereby we would coordinate our efforts. The Spanish, for example, are helping and the EU is helping to improve the customs systems in Central America.

What we would like to do is go beyond assistance here and there but have a broader paradigm about how this assistance should be done, and let me conclude by emphasizing something that the Secretary spoke with all of the Central American Presidents, including Central America, if the assistance of the United States could be coordinated well with the assistance of the European Union, with the Spanish, with the Canadians, and with others, but with a notion of co-responsibility where the countries also have to come to the table.

We need to make very, very clear, and I want to make this very important point in my testimony, I want to make very, very clear that when we go and work with other countries to assist them we also expect to have co-responsibility. This means that they also need to reform some of their institutions. And these, for example, in the case of Central America, they have to be willing to tax, you know, their own societies more than they have.

In the case of Guatemala, for example, less than 12 percent of GDP is represented by taxes. That is simply not sustainable in terms of the infrastructure and development kinds of investments that Guatemala has to do.

So, yes, let us coordinate better with our partners, but let us also have better partnerships with the countries that we are working with.

Mr. ENGEL. Mr. Sires reminded me that we were all watching with amazement with what Israel did in terms of its efforts in Haiti to try to get people out.

Before I call on Mr. Mack I just wanted to mention, and if you want to comment on any of this we would appreciate it, Mr. Mack and I were just as a meeting with President Preval. I want to just read to you a little bit from my notes some of the things that President Preval said, and if you could comment on anything that you feel is relevant.

He said that 1.5 million Haitians need to go to sustainable shelters because the rainy season is coming and their lives are in jeopardy if they just stay in tents or makeshift shelters because of the rainy season. He said they need agriculture, they need seeds to plant because if we don't have aid for agriculture more people will just migrate to Port-a-Prince. They will leave the rural areas and come to Port-a-Prince which would not be helpful.

He said revenues are decreasing and so budgetary support is needed. He quoted a figure of \$350 million needed until the end of the fiscal year. He said that the trust fund is needed. There is a donors' conference, help with the World Bank, and the IDB, but he

also needed \$1–2 million for tents, He said \$36 million for seeds and agriculture. He said 250,000 home were destroyed, and that is essentially some of the hard—his point to us was Haiti needs assistance and needs it immediately.

Mr. VALENZUELA. Yes, and we have discussed that with him. The Secretary met with him yesterday morning, but we have been meeting with him and with his government over various different venues starting right after the earthquake itself. Indeed, on all of these particular points we are prepared to move and to assist very specifically to help them out on that. They have done their homework. We are there, Mr. Chairman, to work with the Government of Haiti, in support of the Government of Haiti, mindful of the fact that this is a sovereign country that needs our support and is welcoming our support, and it is in that spirit that we are going to be working with them.

Mr. ENGEL. Because you know that the devastation, I saw it with my own eyes, it is never the same when you see it on television, when you are actually there and you see the devastation with your own eyes, and then you see so many people out in the street, as I mentioned, with nothing to do, no homes, no jobs, it is just a tragedy of absolute proportion, not to mention the estimated 230,000 people that have lost their lives.

Mr. Mack.

Mr. VALENZUELA. Exactly.

Mr. MACK. Thank you, Mr. Chairman, and I appreciate you being here and this opportunity to talk to you and ask you some questions, and really try to get an understanding of what your perspective is in the hemisphere and maybe an insight on to how you think some of the challenges can be overcome, but I have to start off—earlier in response to a question from the chairman you talked about the OAS, and I believe that the OAS, there might be one thing that myself and Hugo Chavez agree on, and that is that the OAS is ineffective, and the OAS has been a deterrent to freedom, security and prosperity in Latin America.

I think that one of the things the United States must do is also lead in the hemisphere on principle, and when you have an organization like the OAS who the leadership of the OAS conducts themselves in a way that seems to be more supportive of governments and ideas that are in the process of destroying democracy, I don't know how we can align ourselves with that kind of leadership.

I do agree with you that the relationships, that we need to continue relationships in Latin America, direct one-on-one relationships, and that is why I support the free trade agreements, and I believe that when the President in the State of the Union called for the free trade agreements in Panama, and Colombia, and South Korea, that I stand ready to help the President on that, and would like to hear your comments about the free trade agreements.

So, on the one hand we are saying—someone could get the impression that on one hand when you have a country like Honduras who stood up for the rule of law and the quality institution, government institutions that you mentioned, they look at how we respond to these things, and if on the one hand we respond to the Honduras events as a coup, which I completely disagree with, but if you respond to it as a coup, but at the same time look like you are sup-

porting the actions of let us say Bolivia or Cuba, it sends a mixed message. Honduras did everything by their constitution, and for anyone to call it a coup it is irresponsible and misguided.

So, I think that we need to show Panama and Colombia that we support them, that they are our friends, our allies. We need to move the free trade agreements. Not doing so sends the message to the rest of the hemisphere that the friendship of the United States doesn't matter that much, so I would like to get your thoughts on that and then I have a couple of follow-up questions.

Mr. VALENZUELA. Okay. Congressman Mack, I will agree with you 95 percent on this. With regard to the OAS, there is just no question that we need to work to make it a more effective organization. As you pointed out, what we saw as an effective response from the Inter-American Human Rights Commission we need to see also within the organization itself, and I think that that requires some changes within the organization. It requires better management. It requires strengthening of the management. It requires also what I outlined earlier when I responded to Chairman Engel, and that was that we need to encourage the OAS to have better sort of early warning system, but they also need better follow through on these things.

But let me just add an element that I didn't mention earlier, and that is the OAS really is an organization that has in some ways, you know, a board of directors with all the countries on it, and in my experience and what we can also find in the academic literature is that it will only work when there are key countries that take a leadership position to move the organization. If there isn't a consensus among key countries to move the organization, I refer to 2000, for example, with the crisis in Peru, there was a consensus, in the Caribbean there was a consensus, among countries in South America, there were dissident voices then. Venezuela was a dissident voice then. Brazil, Mexico were a dissident voice then because they didn't want necessarily a robust organization raising issues about an election that was in that particular case not handled well.

We need to get around that, but the way to get around that is to establish a stronger leadership among countries, so this is where we want to go, and this is why this engagement is so important. It is not about the organization alone; it is about the leadership of the organization and its board of directors, and we need to take strong effort in that regard.

Now with regard to your second question or comment, the free trade agreement with Panama and Colombia, yes, you know, we are supportive of that. Both Panama and Colombia, you know, have done what they needed to do in order to get these. In my estimation, it is a matter of—the President, of course, in the State of the Union said that he wanted to have this done, and we stand ready to work with USTR and also with Members of Congress. I defer to USTR on this, of course, but this is something that I think we really ought to do.

Then the 5 percent disagreement, Congressman, I am afraid that what happened in Honduras, in my estimation and in our estimation, and we voted in the Organization of American States, and I think it has been the unanimous opinion of all countries really

in the world, I cannot think of any country that did not judge the expulsion by force of President Zelaya is an interruption of the constitutional order.

Why? For a very simple reason. He was not given the most elementary due process of law.

Mr. MACK. Well, I would suggest then Honduras and the Government of Honduras are the most courageous on the planet because they stood up against, as you would say which I don't necessary agree with, but they stood up against all or most and said that the rule of law, our constitution, our freedom and democracy is more important than the pressure that is going to come from the United States or other countries.

In fact, when I went there and met with them, it was remarkable because you would have thought that the Honduran people and the government would have been very angry but instead they were in disbelief. They couldn't believe that their friend and their ally, the United States, when we always trumpet, as you said earlier, that equality, public institutions, and the rule of law, that here you have a country who did nothing but defend its constitution and honor its constitution and the rule of law, and for us to turn around and call it a coup when if you just look at the facts on the ground you have the Supreme Court, the Attorney General, the Congress, all saying that Zelaya must be removed, and it was the government institutions that did the right thing to remove Zelaya. The military never took over that country, so I think it is a little—you are right, we are going to disagree on that and we are probably going to disagree on that forever, and I am so proud of the people of Honduras for not only standing up, doing what they did, but also then having an election and showing the world that when you stick to your principles freedom and democracy will prevail.

Mr. VALENZUELA. Could I follow up very briefly?

Mr. MACK. Sure.

Mr. VALENZUELA. Because what I want to do is agree with you, and I think what I want to agree with you is moving forward because I think that, and this was very much a part of our conversation with the Central American Presidents, it is time for Honduras to be brought back into the international community, and President Lula has taken all of the necessary steps in that direction. He has configured a government of national unity. He has made an extraordinary effort to set up a truth commission. We met with him, as I said, with the other Central American Presidents. They have taken a leadership, Congressman Mack, to tell the other countries in Latin America it is time for Honduras to be welcomed back into the inter-American community. We are strongly supportive of that.

And the reason why we also want to move, not only because it is right, but because the Honduran people deserve better at this particular point. They have suffered enormously. It is one of the poorest countries in the region. We need to sort of reestablish our assistance with them to try and strengthen their institutions. So moving forward let us see how we can work on a bipartisan basis so that we can continue to work with Honduras and other countries in the region.

Mr. MACK. Mr. Secretary, I do want to look forward but part of looking forward is recognizing the past, and having a clear picture

of the past, and so I will let this be for now, but hopefully we will have an opportunity to have, and Mr. Chairman, if I may, I want to touch on Venezuela real quick.

First of all, do you believe that the FARC is a terrorist organization?

Mr. VALENZUELA. The FARC is a terrorist organization.

Mr. MACK. Thank you. And do you believe that Venezuela and Hugo Chavez have assisted or in any way worked with the FARC or supported the FARC?

Mr. VALENZUELA. I think there is some indications that there has been some assistance, but with all due respect, Congressman, and we are concerned about the FARC and the various different kinds of support that they have been getting from different kinds of organization, and we could talk about. I would prefer to talk about that in closed session rather than in an open session, but it is something that we are very concerned about, extremely concerned about, and as you know the news recently also links the FARC to some other organization. I won't say anymore in open session, but let us have a conversation where I can have my staff come up and talk to you about this.

Mr. MACK. I would appreciate that. Thank you, Mr. Chairman.

Mr. ENGEL. Thank you, Mr. Mack. Mr. Sires.

Mr. SIRES. Thank you, Mr. Chairman.

I want to talk a little bit about the OAS since it is such an old organization. I think that they have been very weak in the past with human rights, and they are made up of a board of whatever you call—excuse me?

Mr. VALENZUELA. It is a permanent council, it is a board.

Mr. SIRES. It is a board. They must be the same board that Toyota is made out of. They just don't admit what is wrong. But I wish that the organization would be stronger on human rights, and I think that is something that we should insist upon in the future.

I was happy to see 2 weeks ago they spoke up on Venezuela which I think is a step in the right direction. And talking about Venezuela, I just had a meeting with a group of people in Florida, and one of the things they said to me about Venezuela in connection with Iran is that the diplomacy, the Ambassador and the members of the Embassy of Iran and Venezuela, that the amount of personnel they have there makes it one of the largest Embassies in the world. Is that correct?

Mr. VALENZUELA. I don't know for a fact whether that is the case, Congressman, but we are certainly concerned about Iran's intents in Latin America. As the chairman indicated earlier, it is our concern as well. We are very concerned about the fact that Iran may be trying to establish networks in Latin America.

Mr. SIRES. And they seem to be getting more and more aggressive in destabilizing their neighbors. We saw the judge, the decision that the judge handed out regarding the fact that they were corroborating with FARC and trying to kill Uribe, and I also have heard were they were trying to destabilize the peasants in Panama, where they would try to stir up trouble in Panama also. I just wonder if you heard anything like that.

Mr. VALENZUELA. Well, as I responded to Congressman Mack, I would be happy to talk with you in a closed session about some of

the information that we may have on that score. I prefer not to do it in open session.

But let me just for the record say that we are extremely concerned about Iran's intents in Latin America. Its attempt is not commercial like perhaps China's is. I think it is openly political and in that sense it is reaching out to countries like Venezuela or even Ecuador are of significant concerns for us and we are tracking it as closely as we can, but it is something we take very seriously.

Mr. SIRE. The other issue that I wanted to raise is Colombia. I don't think we have had a better friend than Colombia in the last few years. I was just wondering if the cuts that were made, how is that going to hurt, and why were the cuts made? Can you just expand a little bit on that regarding the efforts to cut the drugs into this country?

Mr. VALENZUELA. Congressman, I couldn't agree with you more than the fact that our collaboration with Colombia going back to, in fact, the Clinton administration. I was at the NSE in 1991 when we first worked on trying to come up with a plan with Colombia. In fact, Congressman, it was a bipartisan policy, it was an extremely important part of the success of Colombia, and we continue to work with the Colombian authorities over the years to help them face these extraordinary challenges which in some ways are also part, as the Secretary of State said when she went to Mexico, it is partly our responsibility too because of the fact that so much of the cocaine that is produced out of Colombia does wind up in the United States, and so we continue to be committed to working with Colombia.

But let me say this; that if there is a decline in some of the assistance to Colombia it is not because we are not concerned or because we are walking away from our partnership with Colombia. Quite the contrary. Because the decline in some of the assistance, it is precisely because our efforts to Colombia have been successful because we have been able to move to a separate level in terms of our concerns and our assistance in Colombia.

The security situation is so much better in Colombia now that this is a chance for us to move away from some of the investment on the security side to investments in other areas that both the Colombian Government and the United States agree are very important, and that has to do with sustainable development, that has to do with addressing some of the economic problems, that it has to do with, for example, also alternative development. Alternative development efforts are very important. They may not be as expensive, and this is where our decline in Colombia, the amount of money that has gone down is about 10 percent, but we are convinced, Congressman, that even with a lower budget, because we are spending it in different areas, we would be as effective in moving forward in our assistance and our work together with Colombia.

Mr. SIRE. I have a question about China and South America. Are you concerned that the China is going to supplant the influence of the United States in South America, in Central America? The reason I say this is I Had dinner with one of the presidents of a university in Bogota, Colombia, and he told me that now in Colombia the second most studied language in the university is

Mandarin, which to me that was pretty striking. So are you concerned at all that we are going to be supplanted as far as influence in South and Central America by the Chinese?

Mr. VALENZUELA. No, Congressman, I am not. In fact, my answer to that would be, the impression I have is that much of the work that China is doing in Latin America, unlike the reference I made earlier to Iran, or perhaps some of the efforts that Russia may have, those are driven more by a perhaps political calculation. China's effort is driven at this particular point by an economic calculation, and if China invests, if China develops partnerships, and if Colombians at universities study Mandarin and so on and so forth and succeed in having Colombian exports export more effectively to China, more power to Colombia, and more power to the countries in Latin America.

It is in our interest, Congressman, for these countries to grow economically, to become more successful competitively at the international level, and they are also looking to China, as we are, you know, as sort of an engine of world economic growth, and so I would encourage that and welcome that obviously so long as it doesn't affect our own fundamental security interests, and at this particular point that is not an issue.

Mr. SIRE. Thank you.

Mr. ENGEL. Thank you, Mr. Sires. Mr. Burton.

Mr. BURTON. You know, years ago we started the maquiladora program down in Mexico and a number of other countries joined in, and the reason that was done was to try to stabilize Mexico and deal with the immigration problem that has grown, grown, grown, and American companies and investors have been encouraged to invest in Central America and South America to try to help those economies and to stabilize the region.

Ever since the Reagan doctrine took place where we changed totalitarian governments into democracies, we have been trying to do what we can to help those countries by creating free enterprise areas down there where people can invest and create jobs. The thing that bothers me is that in addition to having the competition from what I consider to be a communist regime, Mr. Chavez in Venezuela, so eloquently described by Mr. Mack, we also have corruption in an awful lot of these governments.

In Nicaragua, as I told you awhile ago, mentioned awhile ago, back in the early eighties they confiscated properly, the communists, the Sandinistas did, and it took a long, long time for anybody to get any restitution for that. We were able to help some businesses and some individuals to get some of their money back. Some never did. Some only got pennies on the dollar.

Now, in Honduras, and I don't want to beat a dead horse, but I want to talk about this again, there is at least 14 companies that have had their businesses expropriated by the—with the help of the Honduran Government, and all of these companies have contacted our Government, and many of my colleagues and I have contacted the State Department saying, you know, you guys really ought to try and do something about that; otherwise people in the United States aren't going to want to invest and risk their money if they think that we are not going to stand up for them in accord-

ance with these agreements if they try to have their property taken away from them through expropriation tactics.

And here in Honduras they have a new government, they have at least 14 cases that I know of, including the one I talked to you about, this cement company, and we are not doing anything about it. Now, if I am a businessman and I say, okay, I know that Chavez is pouring our money, our money, 25 percent of the oil we buy in the world I am told comes from Venezuela, so we are giving him our money instead of drilling here—that is another subject—instead of becoming energy independent we are still giving it to a communist dictator down in South America, all the leftist groups. But we are giving our money and our support to some of these countries down there, and we are also encouraging American investment wherever possible.

I don't know why anybody is going to want to invest in these countries in Central and South America if the United States Government doesn't back them up, and this company here, this is just one example, and there are 14 others, this one example in Honduras lost tens of millions of dollars because they were forced, forced to settle for \$3 million in order to get anything out of it.

And when we wrote to the State Department, the chairman of the Judiciary Committee, the chairman of this committee, myself, hundreds of us have contacted the State Department and they don't do anything. So what are you guys good for over there if you are not going to at least back up some of the American business people who have made investments down there? And how are we going to help Central and South America to continue to be democracies if the people that would invest in there are scared to death to do so because they will have their property expropriated by some entity, the government or somebody else?

So, I would like you to answer that question for me. Why would anybody in this country want to invest in Central and South American unless they knew that you and the State Department and our Government was going to back up these people in the event they had to have their property taken away from them with the coercion and the help of the governments involved? So why would we do that, and why aren't we doing something about it?

Mr. VALENZUELA. Thank you, Congressman.

Let me agree with you, with all your premises.

Mr. BURTON. But I don't want you to agree with me, I want you to do something about it.

Mr. VALENZUELA. I will tell you what I will do. Since I don't really know the particulars of the Cemar case that you mentioned earlier, I will look into it and get back to you on it because I don't have the specifics on that particular case.

Mr. BURTON. Let me just interrupt quickly, and then I will let you answer any way you want to.

It is not just this case. In Honduras alone there is at least 14 others, and if you go through Central and South America you are going to find tons of companies that have had this same kind of problem, and this is our front yard, and when these companies go, are forced out by the government or by some entity working with a corrupt government down there, the people in many cases lose their jobs, and they end up coming north into the United States.

The only way to stabilize Central and South America is to create economies where people want to stay home instead of coming up here to the golden country, and in order to do that they get investment from the United States and businessmen. We are going to have to let them know that we are going to stand by them, so go ahead.

Mr. VALENZUELA. I agree with you completely. Congressman, I said in my oral remarks, it is in my testimony too, that I think the single most important thing that could be done as we move forward with all these various different kinds of initiatives is to pay attention to the fundamental role of institutions and the rule of law, and that means that you need to have—if Latin America is going to be competitive in the world stage it has to have transparent procedures, it has to have rule of law, and this is not the case in a lot of countries.

You know, there is what is called judicial insecurity in many different countries where the laws are bend to favor certain kinds of private interests, and unfortunately that has been the case in Honduras, so we have been worried about the fact in Honduras there has not been that strong a tradition of the rule of law.

So two answers to your question. One is, our policy has to be and is indeed to work with these countries in order to strengthen institutions and the rule of law. When I referred to the conversations that we had with the Secretary in Central America with all the Central American Presidents, this was one of the single most important things that the Secretary said when she said there has to be co-responsibility on your side as well. This is not just about the United States providing assistance to particular countries; this is about the United States working with countries that are serious enough to get their rules and procedures right so that in fact people can invest with assurance.

Mr. ENGEL. Now—

Mr. VALENZUELA. On the second point.

Mr. ENGEL. Okay.

Mr. VALENZUELA. I agree with you. We, as the U.S. Government, should support our businesses if they run into difficulties, and I will look into these cases for you.

Mr. ENGEL. One more, I will let you talk, I want to just jump in and help you a little bit—

Mr. VALENZUELA. Sure.

Mr. ENGEL [continuing]. Because I do agree. I think the point that Mr. Burton is making, and by the way, there wasn't much progress made on these cases in the Bush administration, I think we have to be fair and say that as well, but Mr. Burton's premise is absolutely right. Honduras is rebuilding, and they need the United States' assistance at this very important time to help them, to support them, and that we should give it, but at the same time we would be fools if we gave the assistance without saying, you know what, we are very concerned about these American companies and these American citizens, and if you are expecting help from us, we expect you to take care of the things that we are concerned with.

So, I just want to make that point, and I think that is the point Mr. Burton was making, and I also want to say that next week,

on March 18, this subcommittee will be holding a hearing on Honduras, your Principal Deputy Craig Kelly is coming, and I am sure we will be able to explore a lot of those things, but if you could comment on that point, that, you know, they need our help now but there is reciprocity, we need their help in doing something with these cases.

Mr. BURTON. The chairman just made my point, and that is there are a number of these countries, including Honduras, that get Federal aid, get government aid from the United States, and if there are Americans who are suffering because of the policies that I talked about in this particular case, then it seems to me that we ought to say to them through the State Department, if you want our help then you had better solve these cases; otherwise, when you need the help that is obvious we are not going to be able to help you because we don't want American citizens who come down there to try to invest in your company to get the shaft. Okay? Thank you. Thank you, Mr. Chairman, for your comments.

Mr. ENGEL. Mr. Meeks.

Mr. MEEKS. Thank you, Mr. Chairman.

Mr. Secretary, I am just going to tell you, and as others, I am just passionate about the Western Hemisphere, and when I think about the people from visiting down there where you are dealing with the Caribbean, Central America or South America, they are magnificent, and I am so pleased that I believe we are moving forward from what had been a Cold War mentality in dealing with Central, South America and the Caribbean, to a post-Cold War type of deal, and I just think that is so important.

When I look at individuals like those that are in this room from a good friend, the Ambassador from Ecuador, and Guatemala, the Bahamas and Panama, you know, in talking with them and working with them I am reminded all the time of the great people that we have as our neighbors to the South.

You said you agreed with Mr. Mack 95 percent of the time. I don't think I would ever say that, but this 5 percent or a major part that I do agree with Mr. Mack on, and I will be willing to work with him and with you tooth and nail. Our friends in Panama and Colombia need that CAFTA, and I think that that is significant. And when we look at, I think, the results of CAFTA, if anybody really take a deep look at it, it is specifically because of some capacity building clauses that we had in the CAFTA amendment which I think that if we go forward even in Honduras and try to make sure that we then through capacity building build the judicial system that had heretofore had not been there, then we are in fact also helping our American companies.

So, one of the things that we have to do, and I think focus and target our dollars, when we are working whether it is trade agreements or others, is capacity building because that had not been there, and I have yet to go to someone who said they would not take help and capacity building, whether it was institutions and/or the workforce because what happens in many of the countries that we are talking about that have problems, the major problem is poverty, and we have got to figure out how we reduce poverty, and what individuals are looking for in a lot of these countries is show me how having a democracy means to me that I am going to

be able to feed my family and live like other people, because until they have food on their table then no matter what form of government they have it doesn't mean anything to them. It is not relevant to them.

One of the things I hear, whether it is in Central or South America or in Africa, why China and others we are concerned about, when they go in they are developing infrastructure and roads that can help people get jobs, and we do a great job, the United States, especially the humanitarian aid. I think we do that better than anyone else, but we do have to look at some of these other capacity building aspects that is going to help people sustain themselves by creating those jobs and opportunities within their own countries. I think that is so important.

I know, for example, Secretary Clinton went down, and one of the questions I had in regards to, and she was the keynote speaker at the Americas for Pathways for Prosperity, and that is an area in which I know is focusing on reduction of poverty, and so I was wondering if you can tell us in regards are you focused on addressing those key problems in the region? And I will add all my questions at one time.

The other issue that I am passionate about in the area because when you talk about the poorest of the poor, they are more often than not those who are African Latinos an indigenous individuals of the various countries. They are the ones that get the least and suffering the most of anyone in a number of these countries. And so as we have passed the Joint Action Plan with Brazil, and I know we have recently done a Joint Action Plan with Colombia, and I have asked and put in an amendment that I believe that the government—that the State Department should give us a report back on the progress of these joint actions.

I am pleased with what I see has been the progress of Brazil, and I would like to see the same thing in regard to Colombia, so I hope that you can also tell me about your plans to address the plight of African Latino and the indigenous populations, and whether or not they have been prioritized at all in the plans from a budgetary concept because sometimes it is about money.

Then, you know, I do believe in how you join countries together in some regional development, regional planning, et cetera, so I was wondering if you could tell me what you see as the biggest priorities or development in the Caribbean, because too often we leave them out when we are talking about the Western Hemisphere, but they are a part of it, but also Central and South America because they are our neighbors, they are great people, and they love Americans to a great degree no matter where you go, and that is even to some places where we have a doubt.

Then just finally, I am getting ready to travel to Bolivia, and so I was wondering if you could tell me where we are with the Bolivia bilateral dialogue. Are the talks stalled? Do we expect to exchange ambassadors between our two countries? Are they coming here? Where are we with that?

Mr. VALENZUELA. Thank you so much, Congressman, and thank you particularly also for your passion and your concern for this hemisphere. I will start out with a few of your concluding points and then go back to your earlier point.

The Joint Action Plan, which I know you have been very close to, I think is a terrific initiative. There was a meeting in Salvador between—this is a joint action plan to eliminate racism and ethnic discrimination and promote equality known as JAPR, and we had a great meeting in Salvador and Brazil, and there is going to be a subsequent meeting now in May in Atlanta, so it is Brazilian and U.S. counterparts meeting to discuss how we can address issues of racial discrimination and ethnic discrimination. And as you say, Congressman, we are also developing that program with the Colombians, to address the issues of African Colombians. It is a great program.

The passion and commitment of the Secretary to this program was indicated by the fact that one public occasion on her entire trip that was not something that had to do with official meeting was when she went to the leading—first Afro-Brazilian university in Sao Paulo, Zumi dos Myras Permadis, to interact with the students. It was a great occasion, she was very happy. This is an initiative that we want to continue to work on. It is very important.

Number two real quickly because I know we are running out of time, we are committed to the free trade agreements with Colombia and Panama, as I said earlier. This is a very important—

Mr. MEEKS. I know Panama, the new administration, they would love to get it done. President Uribe, the time that he has been President, the improvements in that country it is almost—and I am going to say to the President also—it is a shame that we don't get something done while he is still the President.

Mr. VALENZUELA. Yes, I would agree with you. Let us work on it and see if we can get it done.

And then finally on some of your specifics, the Caribbean, met yesterday for lunch with the Caribbean Ambassador. He is here in Washington along with Carmen Lomellin, U.S. Ambassador to the OAS. Many of the ambassadors are dual hatted. They are before the White House as well as the OAS. We had a great discussion, and this is a very, very important commitment.

When Secretary Clinton first asked me if I would be willing to take this position she underscored for me her commitment, her personal commitment to the Caribbeans, something we are working on very significantly, and in the spirit, Mr. Chairman, of your own concern over addressing issues such as security in a holistic fashion, not just focusing on one country but looking at it more broadly at the regional implications of this, you know, we are working both in Central America and through the Caribbean Basin Security Initiative.

We are very excited about this because this would be the first time that we have been working closely with the countries of the Caribbean on something as important as their security challenges right now, and we are pleased, for example, that the budget for that has gone up, in 2011, by 50 percent, so there are resources there. We want to move forward very, very strongly to try to train, to partner, and to work together on the security side, but also on broader initiatives in order to better the peoples of the Caribbean. We are committed to that.

On Bolivia, I should confess that it is slow. We continue to try to work with them on this framework agreement that we wish to

pursue. We have had dialogue with them. It is slow in coming. You know, this is a President who was elected with 62 percent of the vote. He had strong support among the Bolivian people, but it hasn't been easy to engage, and of course we are concerned about their lack of cooperation, for example, on such an important issue as counternarcotics cooperation. So we have some real issues there, but we continue to work on it, so I appreciate your going down there. Maybe when you come back you can give us a readout of your trip there.

Finally, if I might, Mr. Chairman, the broad point that you raised at the beginning, and that is, you know, the challenge is that if democracy doesn't deliver, if representative institutions don't address the fundamental problems that ordinary people have—poverty, inequality and things like that—people get frustrated, and institutions begin to wane, they become less popular, political parties become less popular, and this is what fuels the rise in populist leaders. So there is a direct relationship between that.

If countries can be effective in addressing the problems of people, then the challenges to democratic governments become greater and we wind up in a vicious circle. So our commandment then is to strengthen institutions as a fundamental part of this whole process. You know, it is only with strong institutions, with the rule of law, with genuine representative governments that speak to the people and address their real issues that we are going to be able to move forward and be able to be adequate partners, and this is what we are trying to do, Mr. Meeks. We are really committed to this.

It is a dialogue that is going to be long in coming but actually we are very optimistic about this. I must say we are very optimistic. This is where we want to look and see that the glass is half full, and we see countries throughout the hemisphere coming to us and saying, yes, we do want to have this dialogue. The dissidents are very few. Those that are coming to the table are very, very many, and we are really quite enthused and in that sense optimistic about our prospects. Thank you.

Mr. ENGEL. Thank you, Mr. Secretary. I should probably let that be the last word except we have talked among ourselves and we have a couple more questions we would like to ask. We will start with Mr. Sires.

Mr. SIRES. Thank you, Mr. Chairman; thanks the members.

Dr. Valenzuela, can you just give me an update on the negotiations with migrations in terms of Cuba, and if you know what is going on with Alan Gross, the situation there?

Mr. VALENZUELA. Well, first of all, let me say that we express our sympathy with Mr. Gross and his family. At the migration meetings, Craig Kelly, the Principal Deputy Assistant Secretary, was there heading up these migration talks. He made it very clear at the highest level of the Cuban Government that we wanted the immediate release of Mr. Gross; that we find it untenable that they should keep them.

The conversations on migration issues went fairly well in the sense that we were able to exchange views on things that concern us and concern them, but these are very small steps so far, Congressman, and our concern is—you know, the fundamental policy

of the United States Government is that we see a vision of an open and free democratic Cuba with respect to human rights, with a competitive democracy, you know, with a vibrant society that can rejoin the inter-American system. Is that sense our policy is oriented toward engaging directly as much as possible with the Cuban people.

But on Mr. Gross, there is no question this is the highest priority for the government and we are working hard to try to get him released.

Mr. SIRE. Thank you very much.

Mr. ENGEL. Mr. Secretary, I want to briefly talk to you about Mexico because we haven't touched on it in this hearing and it is so important. Obviously with the long border that we share with Mexico, as I said in my opening statement that what goes on over there affects us and vice-versa. As you know, I have a bill which has just passed the House which would set up a commission to look at drug policy in the region, in the Western Hemisphere, and I have long believed that we need to address the consumption side as well as the supply side. All these are intertwined with Mexico.

Just last month 16 teenagers were killed in Juarez, right across the United States-Mexican border. They were killed by a group of masked gunmen, and Mexican journalists are being abducted in the Reynosa area, which is across from McAllen, Texas. What can you tell us? I have been a very strong supporter of Merida. I noticed that in the proposed budget Merida funds have been cut. Can you just talk to me a little bit about Mexico and what our progress has been there?

Mr. VALENZUELA. Sure, I am delighted to do so. Again, Mexico is at the highest priority. There is no question about it. If you push me as to where I would put things, I would put it very much at the top.

Mr. ENGEL. As would I.

Mr. VALENZUELA. And this is of fundamental interest to the United States. You know, a prosperous Mexico is of fundamental interest. There is just no question about that. And Mexico is facing some significant challenges.

Let me say right at the outset, Congressmen, that the reduction in some of the expenditures, as with my earlier discussion with the reductions to Colombia, means simply the fact that now we can recalibrate some of the assistance. The earlier assistance went to some of the really expensive sort of items that you have to use, such as equipment for combatting the drug trafficking directly, helicopters and that sort of thing. Now we are actually funding other areas that are equally as important now that those other expenditures have been made, and that would include working very closely with what the Mexican Government has determined to be fundamental priority in this, and that is, again, what is needed is a strengthening of the institutions of the state, particularly local government and law enforcement operations.

So we are working with them on different levels. We are working with them to strengthen, you know, these institutions and other institutions as I say, but also working with them in a far better way than we have ever worked before.

I have some experience with this, Mr. Chairman, because I was the Deputy Assistant Secretary in the first Clinton administration in charge of Mexico, and I see now an quantum leap in the kind of cooperation that we have with Mexico today than what we had at that particular time.

So I am encouraged about this, but that does not mean that I want to be Polly-Annish about the challenges that Mexico faces. These are significant challenges that I, again, am optimistic that we are working well together; that Mexico has things in hand; and that in fact we are moving a head to make some progress on it.

The violence that you referred to in some ways is almost the inevitable result also of some of the success because as you bring down certain kinds of criminal organizations you incur a certain degree of conflict between them. But we are here for the long haul there as well, I think, because this is such fundamental interest of the United States to make sure that we get this right. Appreciate your help on all of this.

Mr. ENGEL. Thank you. I want to just finally comment on a few things and you could comment on any or all of the things I mention now.

Mr. Meeks mentioned the Caribbean, and I think it is important to state that I think it is very, very important for us not to neglect our friends in the Caribbean and the West Indies and other places in the Caribbean. I think they are very close in geography to the United States. There are close ties. There are hyphenated Americans in all the Caribbean nations, in my City of New York, and in the country, and I think those communities are really a treasure of linkage between the United States and those Caribbean nations, and we talk about the Caribbean Basin Initiative and things like that. I hope that we make that a priority.

I want to mention Iran. We spoke a lot about Iran and this subcommittee has held a hearing on Iran and the penetration into the hemisphere, and it is clear to all of us that Hugo Chavez is facilitating Iranian influence in this hemisphere, but I must say that I was very, very disappointed recently when President Ahmadinejad came to South America. I would expect him to speak in Venezuela and Bolivia. I was very disappointed that he was welcomed with open arms by President Lula in Brazil, and it is very disconcerting when you look at Brazil and how they voted in the IAEA. You know, when we voted to criticize Iran, Brazil I believe abstained, didn't vote for it. Argentina voted yes, and other countries voted yes, but Brazil did not. He was welcomed with open arms and given a platform to spew his hate, and we are told that President Lula is going or has gone, I think is going to Iran. He welcomed Ahmadinejad with open arms after the dispute over the election that was stolen, and I know Brazil wants to be a player on the world scene and maybe get a permanent seat in the Security Council, but this is a heck of a way to do it, and I wonder if you can mention that.

And finally let me say, you know, we contrast that vote with the vote of Argentina who voted against Iran having a nuclear weapon and voted for sanctions, and I know that President Fernandez de Kirchner of Argentina is going to be in Washington next month when they have discussions of the IAEA and nuclear discussions,

and I would just say publicly that I hope that President Obama can find time to meet with them. I think a meeting between the two of them is long overdue and I hope we can facilitate that.

So if you can comment on any of these thing, I would be very grateful.

Mr. VALENZUELA. Thank you, Mr. Chairman.

On the Caribbean, again I would reiterate how much this one is going to be a priority of this administration. The Secretary is very, very committed to that. And I might add, too, your remark about how in some ways, you know, many of these societies are blending in with our society, and it is part of the strength of our society too that we have been able to welcome so many of peoples from these various places, so there is a special bond that is there, Mr. Chairman, and that we need to as we move forward cultivate more in terms of our work in the Western Hemisphere as a whole.

When we talk about partners and friendships we are talking in some cases of a family, you know, in the case of many people in certain constituencies, and so I really want to reiterate our commitment to the Caribbean, to the countries of Central America in that sense too as we move forward.

Iran is a very, very serious problem. In my earlier testimony I underscored how serious we see their influence in the region. Let me say that this was, of course, a major item on the agenda of the Secretary's trip. She raised this issue with both President Fernandez de Kirchner in Argentina and reiterated that the United States kind of gratitude and pleasure that they agreed with us on this particular thing, and at the same time very forcefully indicated in Brazil too to Foreign Minister Amorim and to President Lula the United States' position that Iran is in violation of its international obligations, that it is in violation of IAEA, but also of United Nations Security Council resolution, and that in fact it is the responsibility of countries to abide by those particular resolutions. She did not mince any words on that and was very forceful in stating our concerns in that regard, and, you know, we are going to have to continue to move forward on this because it really is a very important element.

So, I would agree, Mr. Chairman, that we cannot sit back on this issue, and you know very specifically she also raised the discomfort over the sort of communications with Mr. Ahmadinejad. We agree on this.

With regard to the meeting on nuclear nonproliferation issues, I will defer to the White House in terms of scheduling meetings. They know what they are going to be doing, but we will certainly raise this as an issue of concern for us as well.

Thank you very much, Mr. Chairman.

Mr. ENGEL. Thank you, Mr. Secretary. I know my colleagues on both sides of the aisle appreciate your testimony and thoroughness. I am going to tell you, as I told your predecessor, Tom Shannon, we had him back to the subcommittee many, many times, and I look forward to your coming again and our exchanges of views, and we are going to take you up on some of the private discussions you offered to have with members of the subcommittee.

So I thank you. I will call a brief recess for 2 or 3 minutes to have our second panel seated. Thank you.

Mr. VALENZUELA. Thank you, Mr. Chairman.

[Brief recess.]

Mr. ENGEL. The subcommittee will come to order and our second panel is here, and I am very pleased to introduce our distinguished private witnesses, and sorry that they had to wait so long, but the testimony of the Secretary was very enlightening, and I look forward to hearing the testimony of these three gentlemen who have many, many, many years of expertise in the area.

Peter Hakim is president of the Inter-American Dialogue and no stranger to this subcommittee. Today will mark Peter's last time testifying as dialogue president as he will be handing over the reins to Michael Shifter and becoming president emeritus. Peter, congratulations. I want to tell you that in honor of your outstanding work and your outstanding service Ranking Member Mack and Congressman Meeks and I have inserted statements into the official Congressional Record commending your excellent work at the Inter-American Dialogue, and when you finish your testimony and we put you through the mill and the grill I will give you these three Congressional Records and statements from myself, Mr. Mack and Mr. Meeks. So congratulations to you.

Riordan Roett, I hope I am not botching your name, is a Sarita and Don Johnston professor and director of Western Hemisphere Studies at the Johns Hopkins School of Advanced International Studies. I generally don't read these things, but they did not put the "s" on Johns, I am sure that is done a lot of times, but I knew to put the "s" on.

I notice on your CV that you testified before the Subcommittee of Inter-American Affairs in 1982, well before we came to Congress although I came 6 years later so it wasn't much before, at a hearing entitled "U.S. Relations with Latin American after the Falklands Crisis," so perhaps you will have some insight to provide our subcommittee on recent developments involving that issue as well.

And last but certainly not least I am pleased to welcome Otto Reich back to the subcommittee. Ambassador Reich is a friend and served as Assistant Secretary of State for Western Hemisphere Affairs during the administration of President George W. Bush. He also served as U.S. Ambassador to Venezuela from 1986 to 1989, and I am sure you have some very interesting comments on your service in Venezuela as we look at it today.

So let me stop and let me ask you all to give us your testimony in 5 minutes. No need to read your testimony if you don't want to. So moved to insert your testimony into the record as if you had testified and read it all, and if you want to add anything without reading your testimony, we will put them both into the record. So let me start with you, Mr. Hakim.

STATEMENT OF MR. PETER HAKIM, PRESIDENT, INTER-AMERICAN DIALOGUE

Mr. HAKIM. Thank you very much, Mr. Chairman, Mr. Mack, and of course greatly appreciate the honor of being written into the record. I presume it is an honor, and it is also an honor to be here today. I am hoping your questions are softer for a lame duck, but anyway it is a great pleasure to be back, and let me say my own view, my conclusion is the past year has not been a very good year

for U.S.-Latin American relations. It is very clear that U.S.-Latin American relations remain unsatisfactory, as unsatisfactory as they were under President Bush, and there is no real clear course for getting them back on track.

Let me just say this is not mainly, primarily the responsibility, it is not mainly a failure of the Obama administration, either its concept of policy or in its implementation. What it really demonstrates is how difficult, how complicated, it is to make U.S.-Latin America relations more productive, to improve the quality of those relations. This is not a simple task, and what are the obstacles that make it so difficult?

First, and I won't even say one more than a sentence: The U.S. has an overcrowded agenda, and Latin America has a great deal of difficulty finding its way onto that agenda except when there is a crisis here or an emergency there.

Secondly, the politics of Washington are very difficult. I think we saw the Assistant Secretary Valenzuela whose appointment was delayed for at least 6 months because of Washington politics. It is also true that there is a range of policy issues that politics makes it very hard to act on. All of the people on the panel suggested they supported the free trade agreement with Colombia and Panama. It is clearly the politics of Washington that is holding that up. There are a number of other issues that are blocked in the same way. Politics made dealing with the Honduras issue very difficult as well, and that is just part of Washington.

And last, the Latin American countries themselves have not been particularly cooperative over the past year. On some issues they really pushed the United States further than it wanted to go. We could talk about bringing Cuba back to the OAS. We could talk about the pressure on the United States to act in certain ways on Honduras. Several countries were very critical of the United States, and now we are talking about the Venezuelans and company, but almost all of South America was very, very critical of the security arrangement between the United States and Colombia, and I thought that maybe the United States didn't handle it well, but at the same time I think there was an exaggerated response from the countries of Latin America. Some countries blatantly pursued policies they recognize fly in the face of U.S. interests, and really didn't want to negotiate them.

The most important one of those and it is not the only one is the Iran issue with Brazil, Brazil's relations with Iran. I think that Brazil has a perfect right to establish its own relationship, but it seems to me that they ought to be more willing to sit down and really discuss that and deal with that with the United States. I don't have to go into Chavez.

What is going to be the U.S. agenda in the coming period? Let me say I think that Honduras is almost solved. I think we are on the right track there. Haiti is going to be a long-term issue. It is not going to be an immediate issue. I think that we are working together with other countries in the hemisphere. We ought to keep it that way. I think it is just very long term, very difficult.

The big issues immediately are getting the United States-Brazil relationship back on track. Brazil is just too important in South America and globally. We have to find a way to manage our dif-

ferences there, managing our disagreement and find ways to cooperate where we need to.

We have to reassure Colombia. I think that has been talked about. Colombia is getting uneasy about the U.S. relationship and it is an important ally and we really do have to find the best way to do that is to pass the FTA agreement, I think, and I think we should also pass it with Panama as well.

Mexico, I think we have surprising good relations, but there are a number of long-term issues that remain unresolved and are difficult to resolve. You go to Mexico and these emerge very quickly on the agenda. Immigration being the essential issue, on which we seem unable to make progress on, and I am not very hopeful that we are going to in the short term, but I hope we can find some path toward managing that better. I would like to see the United States find a way to repair or allow Mexican trucks to use U.S. highways as we agreed to in NAFTA some 15 years ago. I think that is an important issue, and it is another irritant. And I think that we really do have to keep finding ways to work with Mexico. I think we are doing better than we have at anytime in the past, but it is still not enough on that issue, and that is an issue that really has to go beyond Mexico into Central America, and the Caribbean. If we are successful in Mexico and we don't really have a major effort in Central America and the Caribbean, it is just going to spill out into 15 countries instead of Mexico.

Lastly, and with this I will close, I think we do need to spend more attention, more effort on the economic dimensions of our relationship with Latin America. What Latin America most needs from the United States, I believe, are our capital investment. It needs access to our markets. It needs access to our science and technology. That is where if we could find ways to move toward a greater integration on the economic front that would really create the core. That is the core of the European Union, it is the core of almost any integration, and I don't think we are giving enough attention to that.

[The prepared statement of Mr. Hakim follows:]

**Statement of Peter Hakim
President of the Inter-American Dialogue before
the House Committee on Foreign Affairs
March 10, 2010**

Obama Administration Policy in Latin America. Year II

The first year of the Obama Administration has demonstrated how difficult it is to improve the quality of US-Latin American relations and develop more productive regional ties.

Arguably, no event since John F. Kennedy's election in 1960 was more welcomed in Latin America or held out greater expectations for improving the region's ties with the U.S. than Barack Obama's electoral victory in November 2008. Yet one year after taking office, U.S. policy remains largely unchanged and it is hard to identify a single Latin American country that has a better relation with Washington today than it did during President Bush's tenure. Secretary of State Hillary Clinton's visit to Latin America just this past week was widely reported as a repair mission to put a damaged U.S. relationship with the region back on track.

President Obama's debut into the divisive world of hemispheric politics was the April 2009 Summit of the Americas in Trinidad and Tobago, which brought him together with the Western Hemisphere's 34 other elected heads of state. And it was a successful start. The new president took full advantage of the two-day meeting to demonstrate his political and personal skills, as well as a clear intent to change the U.S. approach to Latin America.

He did not offer a grand vision or a new strategy for U.S. policy in the hemisphere. Instead, he promised a change in style and emphasis—fundamentally a turn to multilateralism and enhanced cooperation, and a closer alignment of the U.S. and Latin American policy agendas. The new President left Port of Spain with his own stature lifted and U.S. credibility enhanced. Expectations for the new administration were high throughout the region.

After the Summit, however, the new president ran headlong into the multiple roadblocks that frustrate change in U.S. relations with Latin America.

First, the Obama Administration's overcrowded agenda left little room for Latin America. President Obama dedicated most of his State of Union address on January 27th to domestic issues. Only 15 percent of his speech concerned foreign affairs. Latin America—aside from Haiti—was mentioned only briefly in a comment on free trade deals. The region cannot compete for Washington's limited foreign policy attention with the wars in Iraq and Afghanistan, Iran's nuclear ambitions and other security risks, China's expanding global muscle, or with critical international issues like the uncertain financial outlook and climate change.

Under the circumstances, it is not surprising that U.S. policy toward the region has been largely reactive, for the most part, responding to unexpected events like Haiti's tragic earthquake, the political crisis in Honduras, and South America's stinging criticism of the newest U.S.-Colombia security accord. Aside from Cuba, the Administration has proposed few new initiatives in the region, and has not yet offered a strategy for addressing the critical, long-standing problems in inter-American relation.

Second, the intense and bitter partisanship of Washington has compounded the problem of an overloaded agenda. Partisan congressional battles delayed critical diplomatic appointments for many months—including those of Western Hemisphere Assistant Secretary Arturo Valenzuela, and U.S. Ambassador to Brazil Tom Shannon. They also threw a monkey wrench into the Administration's efforts to design a coherent response to the Honduran crisis and other challenges in hemispheric affairs.

Neither Democrats nor Republicans have been eager to take on the politically volatile challenge of immigration reform, which remains the highest priority issue for Mexico and most nations of Central America and the Caribbean. The White House has not sought to press Democrats in Congress to advance critical trade matters, thus postponing congressional consideration of the Colombia and Panama free trade agreements and—in violation of NAFTA—keeping Mexican trucks off U.S. highways. To its credit, the Administration succeeded in limiting the reach of the protectionist “Buy America” clause demanded by many Democrats in the economic stimulus legislation.

Finally, an increasingly assertive and politically divided Latin America has also complicated U.S. policy making. Only a few countries are openly hostile to Washington, but across the region, governments are demonstrating a growing independence from the U.S., building diverse relations internationally, and increasingly resisting U.S. approaches. These are natural trends for a region of middle income countries that is expanding economically, more confident of its ability to resolve its own problems, and developing a significant global presence—but they should not be viewed as a cause of alarm. On the contrary, they should over time allow for more productive hemispheric partnerships. But, today they are a major source of friction in U.S.-Latin American relations, which have been strained in the past year by disagreements over Honduras, efforts to restore Cuba's OAS membership, Latin American opposition to the U.S.-Colombia defense pact, and Iran's ties to Brazil and other nations.

At the OAS's General Assembly meeting in early June, the U.S. reluctantly—and under considerable pressure from several Latin American governments—signed on to a unanimously-approved resolution that set a path for Cuba's return to the hemispheric organization, including requirements to accept the principals practices of the OAS. The resolution, importantly shaped by U.S. negotiators, was a constructive step for the U.S. and for the hemisphere—and it was fully consistent with U.S. policy. Still, American diplomats felt unduly pressed to deal with the issue at the OAS, which they feared could interfere with their cautious, bilateral approach to the politically perilous task of re-engaging Cuba.

When the initial response of the OAS, supported by every member government (including the U.S.) failed to reverse the Honduran coup and return President Manuel Zelaya to power, the consensus began to fracture and opinion in the U.S. and elsewhere in the hemisphere quickly polarized on what to do next. The Obama Administration came under intense, and unwanted, lobbying from all sides. When it decided to recognize the election of Porfirio Lobo, the clear winner of the November balloting, Washington found itself at odds with most governments of the hemisphere.

Although some bitterness remains, the Honduran crisis may finally be nearing resolution, as more and more countries accept the legitimacy of the Lobo government. Nonetheless, events in Honduras demonstrated how difficult it will be for the Obama Administration (or any U.S. administration) to pursue multilateral approaches in the face of Washington's polarized politics and a politically tense and divided Latin America. It is also true that the U.S. could have done a better job of managing Honduran policy. Washington often appeared ambivalent and inconsistent in its decision-making. At times, no one seemed to hold the reins on a day-to-day basis. Multilateralism will require more adroit political management at home and attentive diplomacy overseas.

In the midst of the Honduras affair, nearly every South American government vehemently condemned a new U.S.-Colombian agreement authorizing U.S. troops to continue to use Colombian military bases to help combat drugs and guerrillas. Latin America's deep distrust of the U.S. was on full display as the continent's other governments demanded to review every detail of the agreement and sought formal guarantees that U.S. military activities would be restricted to Colombia. Colombia's South American neighbors have clearly exaggerated the danger. After all, U.S. troops had been stationed in Colombia for some ten years without once being accused of violating any other country's sovereignty. But it is true as well that the U.S. and Colombia also handled the incident poorly. With greater transparency and wider consultation from the outset, the outcry could have been muted, if not avoided. Certainly, Washington officials should have been sensitive to Latin America's reflexive unease about U.S. troop presence in the region. And many argue the treaty was not really necessary.

The Obama Administration initially viewed Brazil as a promising partner on both regional and international issues, but the two governments have since ended up disagreeing on a series of important matters. While they have been cooperating effectively in Haiti (before and after the earthquake), the two nations have been disappointed and frustrated with the other on a range of issues. The U.S. resented Brazil's harsh criticism of the U.S.-Colombia accord and its pressure for tougher U.S. sanctions in Honduras, although their differences have more recently narrowed in both situations.

What most troubles Washington is Brazil's close relationship with Iran and its continuing defense of the Iranian government. President Lula warmly welcomed Iranian president Ahmadinejad to Brazil last year and plans to return the visit in May. Authorities in Brazil, which currently holds a temporary seat on the UN Security Council, have consistently rejected increasing U.S. calls for sanctions against Iran for its nuclear development activities, which UN inspectors have found in violation of international treaties and appear well on the way to illegally produce nuclear weapons. Brazilian-U.S.

disagreements on Iran's nuclear program, reinforced by Brazil's uncritical tolerance of Iran's crackdown on internal dissent and its threats against Israel, are now a central source of tension in the bilateral relationship, and will likely hamper cooperation on other issues.

Despite handshakes and smiles in Trinidad, President Chavez has zealously stuck to his anti-U.S. agenda in the Americas. He remains a dangerous and disruptive force in inter-American affairs and a relentless and malicious opponent of the U.S. Sometimes, Chavez dismisses Obama as well-intentioned, but too weak to curb predatory agencies like the Pentagon and the CIA from aggression and 'imperial' policies. But more and more often, Obama is attacked as the main culprit, hardly distinguished from President Bush.

The Obama Administration, in short, has a tough agenda ahead in Latin America. 2010 will probably not be any easier than 2009.

The Honduran crisis is one issue that is likely to be off the agenda. Washington has lifted nearly all sanctions against the country. Brazil is reevaluating its position and may soon recognize President Lobo. Honduras's return to the OAS could take place soon. While things could still go awry, the best guess is that Honduras will cease to be a central issue in inter-American relations in the coming months. Still, the Honduras episode has made clear that the hemisphere needs a better approach to respond to coups and other breaches of democratic rule. The OAS's Inter-American Democratic Charter, approved by every elected government in the Americas in 2001, was designed to strengthen the resolve and ability of the hemisphere's governments to collectively defend democracy. It is an impressive document, but in practice, it has not been effective instrument for confronting violations of democratic practice and the rule of law. This is a challenge that, for some time, will be extremely difficult to address in Latin America given the region's political and ideological divisions.

The recovery of Haiti from its massive earthquake and subsequent rebuilding of its institutions and infrastructure will, for many years into the future, surely be a central concern of the U.S. and many other countries in the hemisphere and beyond. (Chile will be able largely to manage its own recovery from an even more massive earthquake.) The international community had been working effectively in Haiti prior to the earthquake and there is every reason to expect sustained multilateral cooperation in the coming period. Indeed, a broad consensus has emerged regarding what has to get done in Haiti and where the external leadership should come from (mainly from the UN, as has been the case over the past several years, but with the U.S. playing an oversized role at least during the current emergency period). Although events in Haiti may go off course and produce unexpected problems as they have so often in the past, there is no good reason to believe that the relief and rebuilding efforts will generate much political conflict in the U.S. or the rest of the hemisphere. Haiti will surely present a series of formidable challenges, but it is not likely to provoke the ideological battles it once did.

Getting U.S. relations with Brazil on a more productive track may now be the most critical task confronting the Obama Administration in 2010. The past year has been deeply disappointing and, at times, frustrating for both the U.S. and Brazilian

governments. In many instances, Washington depends on Brazil's cooperation and good will to advance its agenda in Latin America. Brazil is a regional pole of power in the Western Hemisphere and occupies a particularly central role in South America, where on many issues it has displaced the U.S. as the dominant presence. On those matters which Washington and Brasilia can reach agreement, most other countries of the hemisphere are likely to follow suit. The U.S. increasingly must also deal with an influential and omnipresent Brazil on a range of crucial international issues—multilateral trade, climate change, nuclear non-proliferation, and global financial management, for example. And both countries should be taking far better advantage of the multiple opportunities a more robust economic relationship would offer. Brazil is today only the 11th or 12th largest U.S. trading partner and, more telling, the growth of bilateral trade in recent years has been substantially less than U.S. trade expansion with the other large emerging markets like Mexico, Russia, India, and China. While Brazil has considerable U.S. direct investment (FDI), it is fast losing ground to China and India. New U.S. investment is heading more to the Asian countries than Brazil.

The Obama Administration's challenge this year is not only to find common ground with Brazil—and develop stronger cooperation in regional and international forums. It is also to identify more constructive ways of managing U.S.-Brazilian policy disagreements and divergent approaches, so they do not lead to recurring tensions. The two countries particularly need to sort through the question of Iran's nuclear program, and find ways to moderate their differences. It is vital for both the U.S. and Brazil that this issue be confronted. If Iran continues on its current course, the issue will grow even more contentious. A new Brazilian government will take office in January next year, but U.S. policy should not be based on expected changes in Brazil relations with Iran or how the country manages other foreign policy issues. Over the longer run, the quality of U.S. relations with Brazil will depend on both countries' willingness to overhaul commercially (and diplomatically) damaging legislation and regulation in areas such as trade, energy, and agriculture.

Managing the U.S. relationship with Mexico is another central challenge for the Obama Administration. Although the two countries have developed increasingly effective cooperation on an array of routine (although also important) issues, they are not making much progress in dealing with the most critical problems that they share—immigration, trade and investment, and narcotics trafficking. This is a source of unease and some tension. Economic relations clearly need some rethinking. Last year, Mexico suffered the steepest economic downturn in all of Latin America, mostly because of its heavy dependence on U.S. markets, tourism, and remittances, but also because of its own lackluster efforts at policy reform. The U.S. has provided some modest support for Mexican efforts to confront its relentless wave of crime and violence, but has been unable to do much to reduce the drug consumption in the U.S. or curb arms smuggling to Mexico, which would be of most help. And the inability of the US to repair its immigration system is a continuing source of bilateral friction. For some time into the future, U.S.-Mexico relations will have to be kept on course without major reforms in U.S. drug or immigration policies. Domestic politics are almost certain to block the

Obama Administration's search for policy change on these issues, at least for the remainder of 2010.

Washington should also assign priority to reassuring Colombia of continuing U.S. support as it battles guerrillas and drug traffickers, confronts neighboring Venezuela's threats of war, and faces stiff criticism across South America for its military ties to the U.S. The Colombian government is already disheartened by the Obama Administration's failure so far to take any action to secure congressional approval of the free trade accord it signed with Washington almost four years ago. Colombians welcomed Obama's favorable reference to the accord in his January 27th State of the Union speech, but remain impatient for some indication of how the Administration plans to advance its ratification. More recently, the Colombian government was upset by the reduction (albeit modest and predictable) in military aid called for in the Administration's budget proposal for next year.

Colombia is not so much worried that Venezuela will start a war—but that Chavez will step up aid to the FARC cadres, who already enjoy safe haven in Venezuela, and prolong Colombia's internal conflict. But the Obama Administration's challenge is more complex than merely helping Colombia counter the armed assaults of criminals and guerrillas and withstand Venezuela's bullying tactics. It must also work to persuade Colombia's government to do more to curb abuses of human rights, better control its intelligence and security services, and keep its paramilitary forces disarmed. Washington must as well assure other South American countries that the U.S. access to Colombian military bases is no threat to any of them. With a new Colombian government taking office in August, this may be an opportune time to press this agenda.

Venezuela remains a vexing problem for the U.S. and many Latin American countries. The country is suffering increasingly serious internal difficulties—a deteriorating economy, rising political tensions and conflicts, and expanding crime and violence—all of which threaten Hugo Chavez's ability to govern. But it may also make him more dangerous and could lead him toward greater domestic repression and external belligerence to hold power. Responding to Venezuela and its ALBA allies will require a delicate balancing act. Confrontation with Chavez is usually counterproductive, most often emboldening rather than containing him. Washington has to be wary that its treatment of Venezuela not harm its relations with other nations and create sympathy for the Chavez government. And the country remains a major (albeit declining) source of oil. Still, it will be hard for the U.S. to ignore Chavez's violations of democratic norms, his interference in other countries' affairs, and his deepening relations with Iran.

The Obama Administration's bilateral approach to Cuba has begun to produce some modest but important changes—a relaxation of Bush era curbs on remittances and family travel for Cuban-Americans, authorization of new U.S. investments in telecommunications in Cuba, renewed dialogue on migration, and negotiations to establish regular postal service. This step-by-step strategy seems now to have stalled. The Cuban government has refused to respond to U.S. initiatives with any concessions of its

own, increasing the political costs of new measures from Washington. The arrest of a U.S. government contractor in Havana, accused of working with dissidents, has further complicated U.S. diplomacy—as has the death of an imprisoned dissident who had been on a hunger strike. Moreover, an active anti-Castro lobby has managed to derail any congressional action on Cuba policy, and bureaucratic caution within the Obama government continues to impede change. Cuba will remain an issue. It will take more time than expected to reset U.S. Cuba policy.

A year ago, many saw the global financial crisis as Latin America's toughest challenge, and potentially most harmful for U.S. relations with the region. Its impact, however, has turned out to be relatively mild, far less destructive than had been feared. The economic and social damage in most places has been kept in check, and growth is returning to the region. And despite the fact that the crisis was essentially “made in the USA,” the recriminations against Washington have been limited. The credit goes mostly to the governments of Latin America for steadily improving their economic management in recent years.

Yet, what Latin America, a region of mainly middle-income countries, most needs from the U.S. in the coming period is access to the U.S.'s \$15 billion¹ economy, nearly four times the total size of the region's economies. It needs U.S. capital for investment, U.S. markets for its exports, and U.S. technology to achieve sustained growth of five percent or so a year.

So far, however, the Obama Administration has not said much about how it will deal with the economic dimensions of its relations with Latin America. It has not offered any ideas for gaining approval of the trade treaties with Colombia and Panama—or about how it proposes to open U.S. highways to Mexican trucks as NAFTA requires. It has not yet suggested how vital trade preferences might be restored to Bolivia, or whether they should be extended also to Paraguay. It has remained quiet about the finding of the World Trade Organization, in a case brought by Brazil, that U.S. cotton subsidies are illegal—and about the imminent prospect of Brazil's WTO authorized retaliation. The Administration has not revealed its thinking about the U.S.'s questionable subsidies, tariffs, and quotas on a range of agricultural products, including ethanol, which has held up implementation of a US biofuels agreement with Brazil. It remains unclear whether the U.S. will support the replenishment of the resources of the Inter-American Development Bank (IDB), whose importance to the region, particularly its smaller and poorer countries, has increased as a result of shrinking private capital flows.

More than just responding to each of these issues, the Administration might also seek to develop a broader framework for U.S. economic relations in Latin America. There is no point in trying to resuscitate the Free Trade Area of the Americas (FTAA), which dominated thinking about hemispheric economic arrangements for nearly a dozen years. It lost its credibility in 2003, when neither the U.S. nor Brazil showed much commitment to finding common ground or even continuing the negotiations. But the Obama

¹ **Correction:** This should read “U.S.'s \$15 trillion” instead of “billion.” This correction added post-hearing.

Administration should be exploring, with Brazil and other key Latin American countries, alternative approaches to building longer-term economic cooperation in the hemisphere. A robust effort to develop a new regional economic strategy could provide US policy in the Americas with the direction and energy it currently lacks.

Mr. ENGEL. Thank you, Mr. Hakim. Dr. Roett. If you could pull the microphone a little closer, there is a button.

STATEMENT OF RIORDAN ROETT, PH.D., SARITA AND DON JOHNSTON PROFESSOR, DIRECTOR, WESTERN HEMISPHERE STUDIES AND THE LATIN AMERICAN STUDIES PROGRAM, THE PAUL H. NITZE SCHOOL OF ADVANCED INTERNATIONAL STUDIES (SAIS), THE JOHNS HOPKINS UNIVERSITY

Mr. ROETT. Let me take a different tack. I think it is very important to look at the bilateral problems we have with Latin America and they need to be resolved and they need to be addressed. I would argue that the old Latin America that we all knew and sometimes loved has literally disappeared. Beginning with the Chavez election in 1998, the region has, frankly, divided between the good countries and those countries that Secretary Clinton visited recently that are democratically consolidated countries, and those are the people with which we should be working.

Broader framework, there are three or four major issues in a multilateral nature that require U.S. assistance but in cooperation with our neighbors in Latin America. The first, of course, is climate change. The Copenhagen Conference was not particularly good and we can't leave it there, and the three important players at the table with President Obama that last night—Brazil, China, and India.

One, climate change would include Brazil, and multilateralize it. Two, trade, we must move to restore negotiations around the Doha round. If we go back to August 1998 in Geneva when it collapsed, who were the three protagonists that were most important to not wanting to agree, one supporting it? Brazil, China and India.

The last time I did testify before the subcommittee, it was on China and Latin America based on a book I had just published.

Third, financial architecture. We must strongly support, and you have a very important role here, Mr. Congressmen and your colleagues, the new financial architecture. We have had three meetings of the G-20. The old G-7, G-8 is dead. Who are the most important members of that? Once again, China, India, Brazil. There are three Latin American members of the G-20—Mexico, Argentina and Brazil.

Those are three multilateral issues in which the Congress must take leadership and support the administration. Copenhagen, climate, trade, Doha, financial architecture, G-20. Those are the new changing realities in which our colleagues in the hemisphere are very much interested and which I think this country under your leadership and the White House supporting you can really begin to talk about a broader multilateral agenda.

Sure, we need to resolve these. Very important to try to resolve some of the issue surrounding the presence of our troops in Colombia. The Brazil U.N. sanctions issues is certainly one very, very complicated; more complicated now with the cotton subsidies issue. We had administration people in Brazil trying to resolve that. That could become a trade war if we don't deal with it very, very carefully.

My suggestions, and as I was asked to do, for the Congress and for the administration in the coming year, first and foremost, I am delighted that the President is going to Australia and Indonesia next week. Why isn't he going to Brazil? There is nothing more important that President Obama and Mrs. Obama appearing in Brazil. It would be an extraordinary diplomatic move and one that would be widely supported throughout the hemisphere. Mr. Obama is extremely popular all through the hemisphere, a lovely counter-balance to the Chavez and other people who would rather not have take up so much newspaper space.

The interchange of the President of the inter-society group could be extraordinary. I mentioned the G-20, I mentioned the Doha rounds and I mentioned the Copenhagen round. These are all very important issues for Latin American countries. You mentioned before, Mr. Chairman, the Merida Initiative. I don't understand why there is less money and not more money for the Merida Initiative, and that should be redefined and expanded in scope to include greater social and economic development goals. As you have said before, Mexico is a critical ally of the United States. The Merida Initiative is one way to give President Calderon strong support that he deserves and that he very much so need, as a matter of fact.

Focus on relations, as I just said, in the hemisphere of like-minded democratic states like Brazil, Chile, Colombia, Costa Rica, Peru, Uruguay, among others. These are the countries that we can work with. These are the countries that understand and share our values. The other ALBA countries led by Venezuela do not, and I do not think there is much progress to be made in the short term in trying to work or reach out or cooperate with the ALBA. We can with the countries the Secretary has just visited.

The key challenges in 2010–2011, Brazil, as my colleague Peter Hakim mentioned, I spent 45 years studying Brazil. These elections are critical, they are crucial and the United States cannot allow any one issue, whether it is Iran or trade or whether it is other questions on the table that may appear bilateral, we need to work through those issues to make sure that Brazil is recognized as an important regional leader and selectively and increasingly global leader. The BRIC concept, Brazil, Russia, India, China, is here to say, and the United States must understand that and the way in which we can work best, I think, within that context is with Brazil.

Two, the organization that was created or we think it was created, we are not quite sure, in Mexico a few weeks ago, what is it? That has been raised in the testimony here this afternoon by Mr. Valenzuela, questions from you and your colleagues as well. Does it make a difference? We need to clarify that. If the OAS is to continue, are we going to re-elect Mr. Insulza as the secretary general in a few days? What is the significance of that? That needs to be clarified and do so very, very quickly.

Finally, I think it is very important that, again, we focus on global issues in which the Latin American countries are very interested in and increasingly concerned. To allow small issues, and some of these are not small issues, to allow small issues such as cotton subsidies to stop our dialogue with Brazil makes absolutely no sense. They understand and I understand and you understand the Farm Bill which the Congress has passed cannot be changed. We therefore need to work around the Farm Bill and find a diplomatic way in which we can continue our dialogue with Brazil on a very wide range on very important policy initiatives.

No question the Iran question is tremendously irritating, but I point out—I am not defending the position of Brazil, I will not do that—but Brazil has had a very long diplomatic and trade relationship with Iran, and Brazil will be in 3–5 years a major oil export, as is Iran. Brazil may join OPEC. There are diplomatic, political and economic reasons for Brazil for its own independent foreign policy to begin looking at those broader global issues that we have never really thought Brazil should or could engage. They are not beginning to engage them. My sense is after the election in October there will be a democratic, transparent election, no matter who wins, will be in a position to further the consolidation of democracy in Brazil and build a very important economic underpinnings of that economy, and that, it seems to me, needs very, very important attention by the United States.

Finally, again, the bilateral questions are very important. My sense is in the twenty-first century that this committee should really be looking at the broader multilateral context into which we put the three members of the G–20, other countries that have similar concerns of a social and economic sense, don't go back to the nineteenth or the twentieth century. The Monroe Doctrine is dead and buried finally.

But the last time I did testify someone asked me about the Monroe Doctrine, and I explained that would have been a good question in the nineteenth century but in the twenty-first century we probably don't want to go there, don't touch that.

So, in closing, I appreciate this opportunity. I urge you to look at the hemisphere in a broader global context, a twenty-first century context; not to get caught up on small issues although small issues need to be resolved; and address those larger questions in which our neighbors are very deeply interested. Thank you.

[The prepared statement of Mr. Roett follows:]

Testimony of
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House Committee on Foreign Affairs
Subcommittee on the Western Hemisphere
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Thank you, Mr. Chairman, for the opportunity to discuss with you and your colleagues the relations of the U.S. with our neighbors in the Western Hemisphere. 2010 should be a year of revisiting and redefining those relations. Such a review is in the national interest of the U.S. and of our neighbors.

High and Low Points of U.S. Policy towards Latin America, 2009–2010

It has been fifteen months since the Obama administration took office, an appropriate juncture for the Subcommittee to evaluate the state of play between the U.S. and Latin America. The perennial question is whether or not the glass is half full or half empty. There are a number of positive developments for which the administration can take credit. The rapid response of the U.S. to the humanitarian crisis in Haiti is among the most impressive. The offer of Secretary of State Hillary Clinton in Santiago, Chile to provide assistance to that government after a devastating earthquake deserves recognition. The President's visit to the region to participate in the Summit of the Americas last April in Trinidad and Tobago was a welcome signal to the region that the U.S. had turned a corner from the previous administration in seeking discussion and conversation rather than lecturing. President Barack Obama's decision to close the

¹ I would like to thank Lauren Miller and Benjamin Gedan for their research and editing assistance.

Guantanamo Bay detention facility was met with enthusiasm, as was the decision by the White House to lift restrictions on remittances from Cubans in the U.S. to their families on the island. As part of that decision, Cubans were permitted to visit Cuba for the first time in decades. And, of course, the recent visit of the Secretary of State to the region should be seen as a decision in the White House to make up for lost time.

All of these developments should be seen as the bottle being half-full. But there are disturbing developments that support the position that the bottle is half empty. Many of the countries in the region believe the decision of the U.S. to recognize the newly elected government of Honduras without the return to the country of former President Manuel Zelaya was wrong. The decision to station U.S. troops in Colombia, after losing access to bases in Ecuador, has raised suspicion about future U.S. intentions. The failure to move beyond the early decisions on Cuba has disappointed many countries in the hemisphere. The issue of sanctions on Iran, a very high priority for the Obama administration, has been met by skepticism, particularly in Brazil, currently a member of the Security Council of the United Nations where sanctions will need to be endorsed. While the U.S. initiative to work with Mexico in the context of the Mérida Initiative is welcome, it falls far short of what is needed to stabilize the 2,000 mile U.S.–Mexico border and to address the deteriorating security situation in Mexico, a key partner of the U.S.

Two global issues are of high relevance. The first is the failure of the World Trade Organization (WTO) Doha Round in 2008. The breakdown represented a polarization between leading emerging market countries—China, Brazil, and India—and the U.S. and the European Union (EU). One of many sticking points was high agricultural subsidies to protect domestic farmers in the developed countries that effectively preclude agricultural imports from other countries. In turn, the developed countries fault the developing countries for failing to cooperate

on important issues such as intellectual property rights. There is an impasse that needs to be resolved.

The second issue was the financial crisis of 2008–2009. Emerging market countries blame the industrial countries for a lack of regulation and transparency in their financial systems that caused the crisis and negatively impacted the emerging market countries. The result was the resuscitation of the G-20 (the major global economies), as a substitute for the industrial countries. The G-20 will now be the major forum for discussing the new financial architecture. Both issues—trade and finance—are high priorities for the countries in the hemisphere.

The High Points

Haiti

The U.S. action in Haiti represents one of the things that this country does best: provide support and assistance for those in need of humanitarian relief. The U.S. currently has thousands of military personnel and relief workers actively engaged with the MINUSTAH, NGO organizations, and other foreign government relief programs. The U.S. and Brazil—the latter commands the U.N. mission—appear to be working closely together. President Lula of Brazil and President Obama, as well as the foreign affairs officials of the respective countries, have spoken of the need to work together, and the U.S. appears ready to make a long-term commitment to rebuilding the island republic. However, a note of caution is in order—the U.S. should participate in that effort but not be seen as the key driver or dominant actor. A logical candidate to lead the effort is Brazil, which has had a positive presence on the island since the U.N. mission was conceived.

The Summit of the Americas

The decision by President Obama to participate in the meeting last year in Trinidad and Tobago was greeted enthusiastically by the governments in the region—even that of Venezuela! But the sense that an opportunity has been lost due to the lack of follow-up pervades the hemisphere. Although there is time to recapture the spirit of the meeting, continued perceived inaction on the part of Washington, D.C. will quickly neutralize the good will that the U.S. gained with the President's visit to the Caribbean.

As mentioned above, the two issue areas—of many—that would resonate very positively would be the closing of the Guantanamo Bay detention facility and efforts by the administration to further reduce the scope of the embargo against Cuba. For many years I and many specialists have believed that the greatest tool the U.S. has to move the island towards a democratic transition is to lift the embargo and allow people and goods to flow freely. I doubt the communist regime in power would survive very long, as presently constituted, if that were to happen.

The Low Points*Honduras*

None of the governments in the hemisphere can claim that they acted without self interest in the messy aftermath of the ouster of President Manuel Zelaya on June 28, 2009. It may be that the U.S. was short-handed by the absence of a confirmed Assistant Secretary of State. But the U.S. was slow to understand the deep concern in the region for a military coup d'état. For centuries, the history of the region has been marked by painful and often bloody military action to remove civilian governments from power. For most of the states in the hemisphere, the Honduran

incident re-opened old wounds. The ineffectiveness of regional organizations like the Organization of American States (OAS) was duly noted throughout the hemisphere. Some governments sought to use the coup shamelessly for domestic political purposes. Efforts at mediation by Costa Rica failed. The U.S. has been reluctant to recognize the violence that took place in the country after the installation of the interim President. Honduras held national elections on November 28, 2009, and the elections have been recognized as clean and transparent. In her recent visit to Central America the Secretary of State called for the recognition of the new government. The U.S. must now exercise great restraint but active diplomacy to restore Honduras to the OAS and to have the new government recognized as legitimate. This is a complicated task but one that needs to be given high priority.

Troops in Colombia

For many of our neighbors in the hemisphere the decision to transfer U.S. military personnel from Ecuador to Colombia emphasized the belief that Washington, D.C. cared only about the war on drugs and the fight against terrorism. The stationing of troops, combined with the strong financial commitment of the U.S. through "Plan Colombia" to support Bogotá in its war against terrorists and drug cartels, is controversial in the region. It is important to recognize that external forces have apparently worked vociferously to provide support for the guerrillas in Colombia. This deserves to be condemned in no uncertain terms by the U.S. and all of the states in the hemisphere. However, the fact remains that there is widespread belief in the region that it is the demand for drugs in the U.S. and Europe that drives the crisis. The demand for drugs is, without a doubt, an issue that deserves greater attention, perhaps more than the supply of drugs.

Iran and U.N. Sanctions

The most important stop on the Secretary of State's recent visit to the region was Brazil. I will discuss in the next section of my testimony some of the new realities that must be recognized by the U.S. regarding the emergence of Brazil as an increasingly important regional and global player. In this context, the sanctions issue deserves mention, as it was a key item on the Secretary's agenda with President Lula and Foreign Minister Celso Amorim.

This is a complicated and increasingly conflicted issue between Brasilia and Washington, D.C. For Brazil, Iran is a significant trade partner. Bilateral trade between the two countries reached approximately \$1.25 billion in 2009, a 40% increase since 2003 when President Lula took office. Brazil's top exports to Iran are sugar and beef; Iran sends petrochemicals and auto parts to its counterpart. The National Iranian Oil Company has granted Brazil's state oil company, Petrobras, the right to explore offshore oil reserves and drill in the Caspian Sea. Today, Iran is a major oil exporter. Brazil, when it has developed its pre-salt petroleum and natural gas reserves off its southeast coast, will become an energy giant and potential member of OPEC. The two countries have maintained diplomatic relations for decades. In the early 1990s Brazil considered selling equipment from its own unsuccessful nuclear program to Iran until the U.S. intervened and prevented any agreement. Conversations have continued over the years and Brazil's position is that the International Atomic Energy Agency (IAEA), not the U.N. Security Council or industrialized countries, is the appropriate venue for resolving the dispute over Tehran's nuclear program.

Brazil supports the right of developing countries to have nuclear programs for energy purposes as stated in the Nuclear Non-Proliferation Treaty (1968). The immediate concern of Secretary Clinton during her visit to Brasilia was to gain President Lula's support for a new

round of sanctions in the U.N. Security Council in the near future. But four countries—China, Turkey, Lebanon, and Brazil—have indicated that they may abstain from supporting a new resolution. Although a new resolution would need only nine of the Security Council’s fifteen votes to pass, the abstentions would be seen as a defeat because the U.S. and its allies want to convince Iran that it faces economic and political isolation from all sides if it continues to develop its nuclear program. To the disappointment of Secretary of State Clinton, President Lula and his Foreign Minister repeated that Brazil does not believe in isolating any country if peace is to be preserved. Brazil supports continued diplomatic efforts to bring Iran into compliance with the policies of the IAEA.

This is a classic North-South issue. Brazil and Iran, representing the South, argue that they are independent actors with the right to decide on the policies they will pursue in the modernization of their respective countries. The position of the U.S. and its allies is diametrically opposed. The important issue at hand is that the dispute over U.N. sanctions must not paralyze the dialogue between Brasília and Washington, D.C. on a wider and very important global agenda that I will discuss in the next section of my testimony.

U.S.–Mexico Relations

Much lip service is paid to the fact that Mexico is one of the critical allies of the U.S. Unfortunately, the relationship has deteriorated to a prolonged and often difficult discussion over drugs while downplaying many of the other significant bilateral relations—trade, investment, immigration, remittances, etc. The recent focus has been symbolized by the Mérida Initiative, a security cooperation agreement between the U.S., Mexico, and Central America with the aim of combating the threats from drug trafficking, transnational crime, and money laundering. The

assistance includes training, equipment, and intelligence-sharing. The Initiative was announced on October 22, 2007 and signed into law on June 30, 2008. The U.S. Congress has authorized funding for the program, but additional aid will be required, and, most importantly, the focus must shift from only fighting drug trafficking and the criminality attached, to a wider commitment to economic and social development in Mexico and Central America. Alternative employment opportunities are needed. Higher quality education and health care is required. These goals have been discussed for many years but have received little coordinated support.

The key issue in the bilateral relationship is the growing belief in Mexico and Central America that it is U.S. and European demand for drugs that drives the violence. Mexico remains a transit and not a cocaine production country. Marijuana and methamphetamine production does take place in Mexico and is responsible for an estimated 80% of the meth now sold in the U.S. Violence has escalated in Mexico as President Calderón has attempted to implement the Mérida Initiative. But public opinion, shocked by the increasing bloodshed of innocent people, is increasingly skeptical and even hostile to the initiative unless it offers a non-violent future for Mexico. This is a critical foreign policy and border challenge for both countries.

Trade and Finance

The failure to achieve a trade agreement in Geneva in 2008 was a blow to the hopes for a new global trade deal. Again, both sides—the emerging market countries and the industrialized states—were to blame. But it is critical to the hemisphere that talks resume, and it is clear that there will be no success unless the region, particularly Brazil, is included in formulating the new agenda. Brazil often speaks for the emerging BRIC (Brazil, Russia, India, and China) countries. Brazil is an important agricultural exporter and it will be a significant energy player in the near

future. Its financial stability has attracted billions of dollars of U.S. and other foreign investment in recent years. A relatively small international trader at the moment, that is rapidly changing, and a comprehensive trade arrangement is important to the hemisphere.

The financial crisis of 2008–2009, now apparently subsiding, was a shock to the hemisphere. Leading economies quickly identified the problem in the U.S. The important Latin American economies had introduced substantial banking and financial reforms over the preceding decade. It was apparent to them that the U.S. and its industrial allies had not. There is a great deal of frustration in the region with the unwillingness of the U.S. and the EU to address a very complicated agenda for continued financial reform.

Changing Realities in the Hemisphere

The “old” Latin America has disappeared. Beginning with the 1998 election of President Hugo Chávez in Venezuela, a group of countries with democratically elected leaders that reject U.S. regional leadership has emerged. This is in part due to the failure of the “Washington Consensus” reform agenda in the 1990s that focused on macroeconomic issues relatively successfully but failed to address micro issues—job creation, education, social mobility, and the rule of law. While the countries that have joined together to oppose the U.S. in the region—Venezuela, Ecuador, Nicaragua, Bolivia, and Argentina—have done little to address those micro challenges, they have developed a mantra of blaming capitalism and the market, embodied by the U.S., for the problems of the hemisphere.

New Latin American initiatives seek to further regional economic integration, address pending social problems, and promote greater political coordination. In 2008, the countries of the South American continent created UNASUR—the Union of South American Nations. A

South American Defense Council was established in 2009. In December 2008, the countries of Latin America organized the first Latin American and Caribbean Summit for Integration and Development (CALC) in Brazil. Cuba was invited to participate; Canada and the U.S. were not. The Rio Group, established in 1986 as a mechanism of cooperation and consultation, recently expanded at a meeting in Mexico to include the Caribbean states. The Unity Summit has yet to define its structure and leadership, but it, too, excludes the U.S. and Canada. While many are skeptical of the probability of any of these actually working, these initiatives demonstrate a willingness to work without the U.S. That reality needs to be understood in Washington, D.C.

Brazil has emerged as a critical spokesman and leader in the hemisphere. New economic players—China and India—are becoming important players. China has replaced the U.S. as the principal trade partner of Brazil and Chile. The European Union and Brazil signed an International Framework Cooperation Agreement in 1995, which entered into force in 1999. There are frequent visits, meetings, and mechanisms of consultation between the EU and Brazil and the other countries of the region.

Main Recommendations for the Obama Administration and the Congress

- A)** Schedule a visit by President and Mrs. Obama to the region. Their “star power” is a major “plus” for the U.S. Increase visits by the Congress to meet with their counterparts, but, most importantly, with civil society groups in the hemisphere to explain U.S. policy, both when it is complementary and when it is not.
- B)** Strongly continue to support the G-20 as a key forum for addressing the urgent reforms that will be needed to stabilize the international financial system.

- C) Attempt to restart the Doha Round of trade talks. This will require compromise and skilled diplomacy. It matters for the U.S. and it matters for the countries in the region.

- D) As deemed appropriate by the administration, pursue U.N. sanctions against Iran but do not let it sour the bilateral relationship with Brazil. Good and candid relations with Brazil are important to the future role of the U.S. in Latin America. One issue that may raise temperatures in both capitals is the possible decision by Brazil to buy and assemble 36 Rafale fighter jets with the French manufacturer Dassault Aviation (AVMD.PA). One of the finalists was the F-18 made by U.S.-based Boeing. This will be another indication of Brazil's goal to achieve an autonomous foreign policy; it should not be viewed as inherently "anti-American."

- E) Revisit the Mérida Initiative with Mexico and Central America to expand its scope to include social and economic development goals

- F) Reconsider the embargo on Cuba. As I have indicated, it has been Castro's best weapon to retain tight control of the island. The free movement of people and goods will confront the Cuban communist regime with the new realities of the 21st century.

- G) Work to resolve the Honduran issue quickly and judiciously. It should not be a major agenda item for the Americas, but it should be addressed with care to prevent countries like Venezuela from trying to manipulate any diplomatic solution to its advantage.

H) Focus our relations in the hemisphere on like-minded, democratic states like Brazil, Chile, Colombia, Costa Rica, Mexico, Peru, Uruguay, among others. There is little that the Congress or the administration can do to change the ideological opposition of the non-friendly states. The best counterweight is to engage on all levels with those democracies that have similar interests and goals to those of the U.S. In doing so, it will be up to those opposed to the U.S. to offer an alternative in the spheres of diplomatic, political, and economic cooperation.

Key Challenges in 2010

- I.** The October elections in Brazil will provide continuity in overall policy but will need to be carefully monitored by the U.S. for nuances in policy direction such as sanctions against Iran.
- II.** Will the new organization created in Mexico last month challenge the OAS? Does it make a difference?
- III.** The Congress should carefully monitor pending legislation that will further consolidate financial restructuring to avoid another crisis that would have major implications for stability in the region.
- IV.** The Congress and the Administration should avoid letting other global issues distract them from focusing on the key relationships within the Western Hemisphere.

Mr. ENGEL. Thank you, Dr. Roett. Mr. Reich.

**STATEMENT OF THE HONORABLE OTTO J. REICH, PRESIDENT,
OTTO REICH ASSOCIATES, LLC (FORMER ASSISTANT SEC-
RETARY OF STATE FOR WESTERN HEMISPHERE AFFAIRS)**

Ambassador REICH. Thank you, Mr. Chairman and Mr. Mack, for this opportunity to address the U.S. policy in the Western Hemisphere.

The overriding objective of U.S. foreign policy in Latin America and elsewhere should be to advance U.S. national interests, not to win international popularity contests. If we can be liked while we are advancing our interests, so much the better. But when we try to befriend undemocratic leaders and ignore their belligerence, we are neither liked nor do we advance our interests.

Some of the people to whom the Obama administration extended an open hand, only to encounter a closed fist, include the rulers of Cuba, Venezuela, Bolivia, Nicaragua, Ecuador and Honduras' former President Zelaya.

Foremost as among our national interest is security. Without security we cannot promote other goals such as democracy, human rights, and economic development. I believe the U.S. Government today is underestimating the security threats in the Western Hemisphere, rather we seem to be fighting the ghosts of dictatorships past, and trying too hard to be liked.

The main threat to the peace, freedom, prosperity and security of the United States in the hemisphere does not come from military coups, but from a form of free-thinking totalitarianism self-described as twenty-first century socialism, and allied with some of the most virulent forms of tyranny and anti-Western ideology in the world.

Today, Latin American is being undermined by autocrats who gain power through elections and then dismantle democracy from within. This has already happened in Venezuela and Bolivia. It is happening in Nicaragua and Ecuador, almost happened in Honduras, and could happen in any other nation that falls within the grasp of something called ALBA—my colleague Dr. Roett has mentioned—or the Bolivarian Alternative for the Americas.

ALBA's takeover pattern is clear. After gaining power democratically, they use force to intimidate political adversaries and the media, politicize the police and the military, and place them at the orders of the ruling party, pack the judiciary with compliant judges, rewrite electoral laws to eliminate opposition candidates and parties, seize private property or force businesses to close using bogus charges, incite mob violence to force potential opponents into silence or exile, and attack the churches, civil associations, the press, labor unions, and any other similar institutions that dares to challenge the government. Again, this has already happened in Venezuela and Bolivia, and it is happening in other countries.

Their stated model is Cuba, and the result will be the same, a willing dictatorship, a pauperized prison nation whose citizens risk everything to flee. This is what U.S. policy must prevent. ALBA is actually the revival of Fidel Castro's half-century goal of uniting international radical and terrorist movements of the developing

world under his leadership; a movement he organized in the 1960s and called it the Tri-Continental. The first country Fidel Castro ever visited after the overthrow of the Batista dictatorship in 1959 was Venezuela. Castro secretly asked Venezuelan President Romulo Betancourt for \$300 million, about \$3 billion, more than \$3 billion today, to underline the Yankees, as he put it, meaning us, in Latin America. Castro was rebuffed then but thanks to Hugo Chavez he has finally achieved his goal.

Castro also targeted Bolivia in the 1960s because of its strategic location. Bolivia's land borders with Argentina, Brazil, Paraguay, Peru and Chile, more than two-thirds of South America. In 1967, when Che Guevara selected Bolivia to begin his communist takeover of the continent, Guevara failed miserably but today a Castro disciple, Evo Morales is turning Bolivia into a twenty-first century socialist dictatorship.

U.S. policy cannot be solely focused on ALBA, but neither can we ignore it because the Havana, Caracas, LaPaz acts is undermining the peace and prosperity of the rest of the hemisphere. Our most sensitive relationships are those with Mexico, Brazil and Colombia. I contend that these nations are confused with the signals being sent by the Obama administration, or at least in the first year. Those nations' foreign policies, some of them, Brazil and Mexico in particular, seem oddly antagonistic to the United States and even self-defeating.

Mr. Chairman, my testimony is quite lengthy. I will submit it for the record. It includes some of the activities of ALBA and particularly Chavez, some of which have already been discussed here today—the introduction of Iran and Russia and even Belarus and other undemocratic nations into the hemisphere by Mr. Chavez; the facilitation of Ahmadinejad's visits to Nicaragua, Bolivia, possibly even Brazil, and other actions which I think are undermining the United States' interest in the hemisphere.

I would like to stop and during the question and answer period perhaps answer some of the questions that were addressed to my friend Arturo Venezuela that he couldn't answer because, of course, the Assistant Secretary can't answer some questions on the record about intelligence activities. However, there is plenty of open source documentation, for example, of Venezuela's support for terrorism. That would make it very easy for the United States Government if it so desired to include Venezuela in a list of state sponsors of terrorism, and other questions that were asked that I would like to express my own opinion about.

Thank you very much.

[The prepared statement of Ambassador Reich follows:]

**Testimony of The Honorable Otto J. Reich
President, Otto Reich Associates, LLC
Former Assistant Secretary of State for the Western Hemisphere
March 10, 2010
House Committee on Foreign Affairs,
Subcommittee on the Western Hemisphere**

Thank you, Mr. Chairman, for this opportunity to address the topic of US policy toward Latin America. The overriding objective of US policy - in Latin America and elsewhere - should be to advance US national interests, not to win international popularity contests.

If we can be liked while advancing our interests, so much the better. But let's be realistic: when we try to befriend undemocratic leaders and ignore their belligerence, we are *neither* liked *nor* do we advance our interests. Some of the despots in this hemisphere to whom the Obama Administration extended an open hand only to encounter a clenched fist include the rulers of Cuba, Venezuela, Bolivia, Nicaragua, Ecuador, and Honduras' former President Zelaya.

Foremost among our national interests is security. Without security we cannot promote other goals such as democracy, human rights and socio-economic growth. I believe the US Government today is underestimating the security threats in the Western Hemisphere. Rather, we seem to be fighting the ghosts of dictatorships past and trying too hard to be liked.

The main threat to the peace, freedom, prosperity and security of the US and the hemisphere does not come from military coups, but from a form of creeping totalitarianism self-described as 21st Century Socialism and allied with some of the most virulent forms of tyranny and anti-western ideology in the world.

Today in Latin America, democracy is being undermined by a new gang of autocrats who, counseled by the oldest dictator in history, gain power through elections and then dismantle democracy from within. Following Fidel Castro's direction, that has already happened in Venezuela and Bolivia; is happening in Nicaragua and Ecuador;

almost happened in Honduras, and could happen in any other nation that falls into the grasp of something called ALBA, or the Bolivarian Alternative for the Americas.

ALBA's ruling pattern is clear: after gaining power democratically, they use force to intimidate political adversaries and the media; politicize the police and the military and place them at the orders of the ruling party; pack the judiciary with compliant judges; rewrite electoral laws to eliminate opposition candidates and parties; seize private property or force businesses to close using bogus charges; incite mob violence to force potential opponents into silence or exile; and attack the churches, civic associations, the press, labor unions and any other civil institution that dares to challenge the government. Their stated model is Cuba, and the result will be an Orwellian dictatorship, a pauperized prison-nation whose citizens risk everything to flee.

ALBA was conceived in Havana and is financed by Venezuela's petrodollars. It is actually the revival of Fidel Castro's half-century goal of uniting international radical and terrorist movements of the developing world under his leadership, a movement that in the 1960's he financed and called "The Tricontinental."

The first foreign country Fidel Castro visited after the overthrow of the Batista dictatorship, in 1959, was Venezuela. While there, he secretly asked Venezuelan President Romulo Betancourt for \$300 million (about 3 Billion in today's dollars) to "undermine the Yankees (the US)..." in Latin America. Betancourt, a center-left leader but a committed democrat, flatly turned Castro down. Three years later Castro was supporting guerrilla warfare in Venezuela and sending an armed expedition of Cuban soldiers to join Marxist rebels in an attempt to destroy Venezuelan democracy and acquire its oil wealth. Today thanks to Hugo Chavez, Castro has finally achieved his goal.

Castro also targeted Bolivia in the 1960's, because of its strategic location and enormous mineral wealth. Bolivia has land borders with Argentina, Brazil, Paraguay, Peru and Chile – more than two thirds of South America. In 1967 Castro's lieutenant Ernesto (Che) Guevara, selected Bolivia as the site to begin his communist takeover of the continent. Guevara failed miserably, but today a Castro disciple, Evo

Morales, is turning Bolivia into one of those 21st Century dictatorships.

US policy cannot be solely focused on the ALBA Axis, but neither can we ignore it, because the Havana-Caracas-La Paz Axis is undermining the peace and prosperity of the rest of the hemisphere.

I cannot mention in our limited time all the bilateral relationships we have in the hemisphere. But the most sensitive dealings for the US remain those with Mexico, Brazil and Colombia. I contend that these nations and those of the rest of the hemisphere are confused by the signals sent by the Obama Administration in its first year. These three countries are following free market economic policies, providing greater opportunities for their population within a framework of civil liberties, and therefore making steady socio-economic progress. Yet, with the exception of Colombia, their foreign policy seems oddly antagonistic and even self-defeating.

We see Brazil, for example, distancing itself from the US and from Europe on critical matters such as Iran sanctions. Mexico, the Latin American country closest to the US in geography and economy, last month hosted a summit of Latin American leaders that included two military rulers, General Raul Castro of Cuba and Lieutenant Colonel Hugo Chavez of Venezuela, both of whom still wear their rank and uniform at home, but excluded the freely elected civilian leader of Honduras, Pepe Lobo. This is bizarre, unless they are trying to send a message that they do not share our values or else are misreading the signals sent from Washington. I believe it is the latter.

Some observers explain Brazil's behavior as diplomatic "muscle-flexing" by an economically emergent nation, or in the case of Mexico as a return to the traditional nationalistic foreign policy of decades past. Under the undemocratic 70-year rule of the PRI party, Mexico steered its foreign policy to the left, so as to distract its domestic radicals and keep them from interfering with the management of the more important domestic security and financial policies. These explanations are plausible, but US national interests are nevertheless damaged by the behavior of these friends. And while Mexico and Brazil are still friends, the ALBA nations are not, and are openly and actively undermining US interests.

For example, Venezuela has played an active destabilizing role in Ecuador, Peru, Nicaragua, and above all Colombia, where Hugo Chavez maintains explicit strategic and political alliances with the narco-terrorist Revolutionary Armed Forces of Colombia (FARC). (By the way, the term narco-terrorist is not mine, it is applied to the FARC by various agencies of the US and European governments.) Just last week the Spanish Government accused Chavez of supporting with the Spanish Basque terrorist group ETA as well as the FARC.

Not satisfied with merely supporting the FARC and allowing guerilla leaders and fighters to hide, train and recuperate inside Venezuelan territory, Chavez has repeatedly closed the commercial border and threatened war against Colombia. The impact on the Colombian economy has been devastating. But Chavez is not just involved in armed intervention against Colombia.

The US, Colombia, and other governments in the region have abundant evidence of massive flows of FARC-controlled cocaine through Venezuela. Senior Chavez regime officials have been designated by the US DEA as Drug Kingpins and active collaborators of FARC drug trafficking. These Kingpins include the current head of Venezuela's military intelligence services, General Hugo Carvajal, former Interior and Justice Minister Ramon Rodriguez Chacin, and former political police (Disip) chief Henry Rangel Silva. Weapons are smuggled to the FARC through Venezuela with the active collusion of senior Chavez regime officials including Army General Cliver Alcala Cordones. This is public record.

Last year, Peruvian intelligence services found evidence that Hugo Chavez actively supported the indigenous groups responsible for violent protests in that country. Former Bolivian Presidents Jorge Quiroga and Gonzalo Sanchez de Lozada have charged that the Chavez regime clandestinely financed and supported riots in that country as far back as 2002, which toppled two governments in quick succession and led to the election of Evo Morales. Chavez also actively supports radical groups in Ecuador, which under President Rafael Correa became a command, control, operations and training base for the Colombian FARC.

In Central America, Chavez actively supports the regime of Nicaraguan President Daniel Ortega. Chavez financed and encouraged Manuel Zelaya's efforts to violate the constitution and laws of Honduras. The disruption to the economy of Central America of the six-month long Honduran political crisis is said to have cost hundreds of millions of dollars to those impoverished economies. Chavez used Venezuela's oil resources to strengthen El Salvador's Marxist FMLN party, and poured millions of dollars into both El Salvador and Panama's presidential elections. He succeeded in one and one failed in the other. Mexico's intelligence services have found links between the Chavez regime and radical groups in that country.

Venezuela's oil wealth has been used to influence Caribbean states through the PetroCaribe program. PetroCaribe however, merely postpones the payment for oil purchased today. A few forward-thinking Caribbean leaders, in Trinidad-Tobago and Barbados for example, have warned that the PetroCaribe program is saddling the Caribbean's poor island nations with a debt burden they will never be able to repay. But cheap oil today is politically appealing to elected leaders who wish to continue winning elections even at the expense of future generations.

What PetroCaribe has done is to allow Chavez to manipulate the OAS, as evidenced before and during the Honduras crisis. This past week Chavez named Honduras' ousted would-be dictator Mel Zelaya as the head of PetroCaribe's "Political Council" – a body that does not yet exist, obviously a position created to give Zelaya a salary with which to travel the Americas doing Chavez's bidding.

There is another country, Argentina, that although not a member of ALBA bears watching because of authoritarian tendencies by its ruling presidential couple and close ties to Cuba and Venezuela, lack of official transparency, massive corruption, harassment of private enterprise, and interference with the free market and with the institutions of democracy.

It is no secret that President Cristina Kirchner received millions of dollars from Hugo Chavez for her election campaign, money that was taken illegally from the Venezuelan state, introduced illegally into Argentina, and given to the Kirchner campaign in violation of

Argentine law. We know much about the transfer of that money because of a Federal trial that took place in Miami, Florida, and because of an accidental search of a suitcase by an Argentine customs officer who was doing her job. It is well known that similar transfers have taken place in at least a half dozen countries in this region, but that have not yet been publicized.

Like Castro's before him, Chavez's ambitions are global, and the principal goal of his international activities is to weaken, undermine or cripple US strategic interests in the world, not just in the Americas. Chavez is very open about his determination to bring down what he calls the US Empire.

To this end, Chavez has forged strong bonds with undemocratic states such as Russia, Belarus, and Iran. Chavez has signed numerous economic and military agreements with all three countries. He has purchased over \$4 Billion in Russian military equipment. He invited the Russian Navy to maneuver in the Caribbean, which it did, for the first time since the end of the Cold War. Russia's hard-line Prime Minister Vladimir Putin is going to Venezuela soon, reportedly to sign a nuclear energy deal with Chavez.

Chavez has visited Teheran numerous times, has signed many commercial, financial and other agreements with Iran, hosted Iranian leader Ahmadinejad in Caracas, and sponsored Ahmadinejad's travel to Bolivia and Nicaragua. He has supported Iran's efforts to acquire nuclear weapons capable of striking targets in Europe and throughout the Middle East. He is a vociferous enemy of Israel and a supporter of regimes dedicated to the destruction of Israel and the US, and the sponsorship of terrorism, such as Iran and Syria.

During Chavez's 11 years in power, Hamas and Hezbollah have established a presence in Venezuela. Israeli military intelligence recently disclosed that a shipment of arms seized last November by Israeli commandos departed from a Venezuelan port and docked in an Iranian port before sailing through the Suez Canal bound for Lebanon. The weapons, including missiles, reportedly were to be delivered to Hezbollah.

Chavez also has turned Venezuela over to the Castro regime. Today

there are between 40,000 and 50,000 Cubans in Venezuela on official missions, by the Chavez regime's own admission. Since 2005 Venezuela's armed forces have been obliged to embrace Cuba's national security doctrine, which considers the US the greatest external threat to the survival of the 21st Century socialist revolutionary regime in Caracas.

In spite of its alliances with Russia, China, Belarus, Iran, Syria, FARC, Hezbollah and other criminal, terrorist or rogue governments and non-state actors, there are still policymakers in Washington, DC who maintain that the Castro-Chavez-Morales alliance is no more than a nuisance to US interests.

It is time to care less about what others think of us and focus more on what they do to us.

Thank you.

Mr. ENGEL. Thank you very much, Mr. Reich, and without objection your entire written testimony will be inserted into the record.

Let me ask you a couple of questions and I will be happy to turn to Mr. Mack. I mentioned before that Mr. Mack and I have a bill which passed the House unanimously, I believe, which would establish a panel to look at drug policy in the Americas. The panel would be bipartisan. It would be modeled after the 9/11 Commission, and it would look at the supply side as well as the consumption side, and see what really needs to be done, and they would be appointees by the President, the majority and minority leaders of both the House and the Senate.

Hillary Clinton said when she talked about U.S. counternarcotic efforts, she said, "Clearly what we have been doing does not work," and I would say the same thing.

So if anyone would like to take a stab at it, have you looked at Mr. Mack's and my Western Hemisphere Drug Policy Commission bill? What do you think of it? What more should be done in 2010 in our counternarcotics efforts in the Americas to increase our efforts in the demand side of the drug war? Would anyone like to tackle that? Mr. Hakim?

Mr. HAKIM. You participated, Mr. Chair, in a meeting of the Inter-American Dialogue with a group of 25–30 experts on drugs, and you spent a good deal of time explaining the commission, and maybe you don't know this but after you left I asked the group a question. I said: "Well, is this commission, if you had a grade or a scale, would you say this is a very important initiative, or would you say that it is not bad, it is a modest step forward, or would you say it is really not going to help very much?"

And I think that everyone that spoke up at least thought that this was a terribly important initiative because the most important thing on the drug issue now is to begin to get some kind of discussion and debate that is sustained over some time and not simply keep repeating what we have been doing for the past 20 years when everyone seems to come to the same conclusion that it is not working very well. It seems to me the only way to get at whether our policy is working, and how it is working, and what could be done better, is to open this up to real debate. We have not seen a debate on the drug issue. Just for example, it never became part of the electoral campaign of 2008, it was absent from the campaign, and so I vote very strongly for the commission.

Mr. ENGEL. Thank you. Dr. Roett.

Mr. ROETT. You mentioned again Mexico as being terribly important, the Merida Initiative. The Attorney General has said a number of times in the meetings that I have attended, the Mexican Attorney General, there are three key issues that the United States could help Mexico fight this war: Arms, the total arms across our border from the United States into Mexico; second, a flow of chemicals from American companies, often using third companies to get chemical into South America to process this garbage, which is then brought back across the Mexican border; and third, money laundering. Do we know where the money is going? Whose money is it? What banks are holding it? That is the critical issue for these guys to buy the arms and now buy the submarines and the other arma-

ments they are using to kill thousands of people each year throughout the hemisphere. Those three critical issues are very important.

And finally, your comment on consumption and demand is marvelous. It is exactly where we need to go and I am delighted as a bipartisan position on this subcommittee.

Mr. ENGEL. Thank you. I appreciate that and let me also say that it is so clear to me that the illegal guns that are going from the United States south of the border into Mexico that are involved in committing crime, not only in Mexico but Jamaica and other places as well, that we really need to do something to stop this. There is a law on the books, it just needs to be implemented and enforced. It was enforced by every President until the last administration.

The first President Bush, it is a 1968 law, the first President Bush enforced it, President Clinton enforced it, and it sort of went by the wayside during the George W. Bush administration, and it is still by the wayside during the Obama administration, and I think that that is something that we need to implement, and no one is talking about it. They are treading on their Second Amendment rights. These are illegal guns. Everybody knows they are illegal guns, and they come into this country for the sole purpose of going to south of the border to aid and abet the cartels. They are modified just a little bit so they kind of skirt our laws, and they illegally go there and I think that is something we need to deal with.

I want to ask a Cuba question and I want to start with Mr. Reich. What is your assessment? You know, it was very interesting. Fidel Castro stepped down after all those years and turned the reins of power over to his brother Raul. Everyone suspected that he was terminally ill and that he would be gone from the scene in a matter of weeks or months or maybe a year or so. It is several years and he is still around, and I think increasingly the policies that are coming forward from Raul Castro's administration seem more and more like they are directed and designed by Fidel. He writes opinions in newspapers. He speaks out vocally.

What is your assessment of all of this? Why did he turn over the reins of power and has anything really changed?

Ambassador REICH. My information, Mr. Chairman, talking to a lot of recent defectors. I spend a lot of time in Miami and there is a treasure trove of information, you have to filter it, but you talk to several people until you pretty much get the same story, then I think it is believable.

Castro was on the verge of dying. That is why he turned over power. But it is interesting, the people I spoke to. There is one position he didn't turn over even when he thought it was on his deathbed, and that was Secretary General of the Communist Party, and in a communist dictatorship that is the most important position. He kept that. I guess he was going to take it to the grave, god forbid, and then come back. I don't know what he was going to do with it, but since he came back he has really returned to control in Cuba. I would say he is in control. He doesn't manage the day-to-day like he did before. He made all the decisions which, of course, were all the wrong decisions which is why Cuba is absolutely bankrupt. People literally don't have enough to eat. But he

doesn't make those decisions anymore. To him those are insignificant.

The most important thing for him is the relationships with the United States; how to, frankly, win the war as he called it back in a letter he wrote in 1956, the war against the United States, and the hard line that you see being followed is, I think, due to two things.

One is that Raul is not the reformer that a lot of people thought he was going to be. Raul owes everything he has to his brother and to the communist dictatorship. The second is that Fidel is alive and making the important decisions in Cuba today.

Mr. ENGEL. Thank you. Let me ask, Mr. Meeks in the first panel talked about Bolivia and obviously we have no diplomatic relations with Bolivia. Bolivia relations with the United States took a turn for the worst when Morales expelled the U.S. Ambassador, kicked out the drug agents, and things seem to have taken an up-tick with the United States-Bolivia bilateral dialogue, but now seems that those talks are stalled. Bolivia was dropped from the Andean Trade Preferences.

How would any of you gentlemen advise the Obama administration moving forward with Bolivia in the coming years?

Mr. ROETT. I think this is a very interesting and important question. I and my colleagues agree, differentiate Bolivia and Morales from Chavez, Venezuela, Correa, Ecuador, the crazy in Nicaragua.

Mr. Morales is an authentic indigenous political leader that represents a new wave of democracy defined in Bolivian terms. So what we should be doing is working as well as we can diplomatically and perhaps through the Brazilians who have very good relations with Bolivia, to try to find out exactly what is the crux of the issue for not having formal diplomatic relations. But I think it is important for this subcommittee and for all of us in Washington to differentiate among these different ALBA people.

When you look at Morales, he actually knows how to manage an economy. Chavez does not, Correa does not, Nicaragua does not, Ortega doesn't even know what the economy means. Morales has good people working with him to manage that economy. The economy is growing and they are trying to resolve their differences with the Brazilians over natural gas. They are trying to find ways to develop natural gas. So I would put Morales in a different category. He himself as I understand it doesn't want to be tossed into the Chavista bucket. He understands that is no way to go.

But if you look at what the Bolivians have done and the way in which they manage their economy, then I think there is a basis for a conversation and a dialogue with Mr. Morales, which we will never have with Ortega, Chavez or Correa.

Mr. ENGEL. Anyone else care to comment?

Mr. HAKIM. I tend to agree with Riordan on that. Bolivia is a small, poor country that has a history of unstable government; has a history of huge differences between the poor and the people who were running the country, and the poor are mainly indigenous, and it just seems very unfortunate that the very important benefit that the U.S. was providing, the trade preferences was cut. This really hasn't hurt the government very much. They have access to the oil fields and all. It is not doing anything to improve relations cer-

tainly, and it is costing poor people jobs in Bolivia. We ought to be working harder to try and figure out a way to restore that and begin gradually to bring back that relationship.

The cost is so little to the United States, even if we make a mistake. In fact, Bolivia is worse than it is, I think this is worth a try, this is not a sort of major challenge to the United States the way Venezuela is.

Ambassador REICH. I am happy to finally be able to disagree with my colleagues. I don't think that Morales—first of all, he certainly is not democratic. My Bolivian friends tell me he doesn't speak any indigenous languages, for example, so he is not a genuine indigenous leader. What he is is a leader of the coca growers union. This is his power base in Bolivia for the last 20 years has been as the person who has been promoting the increased cultivation of coca, coca leaves, he claims, for traditional use, but the fact is this is the basis for cocaine. We are talking about a drug policy in the United States, and Bolivia is one of the major coca growing, coca producing areas of the entire world. Most of that, by the way, doesn't come to the United States, it goes to Brazil and Europe, but still the fact is that Morales has kept three titles. He is President of the country, he is head of the political party, which by the way is a totally undemocratic party and has used all the ALBA elements that I mentioned—the mob violence, the packing of the courts, all these undemocratic tactics; and third, he is still the head of the cocoa growers union, and it was that coca growers union that created the riots, according to two former Presidents of Bolivia—Gonzalo Sanchez and Tuto Quiroga—they publicly said that the coca growers union were the ones that created the violence that brought down to consecutive governments in Bolivia, and then created the conditions of violence that led to the election of Morales because he did win. As Secretary Valenzuela mentioned he won an election. So did Chavez, so did Juan Peron at one point, so did a lot of other undemocratic people who having gotten to power undermine the institutions of democracy and try to stay in power forever and it is going to be very bad for the people of Bolivia.

Mr. ENGEL. Thank you. Dr. Roett, you had mentioned the reaction of the other nations in South America with the U.S.-Colombia Defense Corporation agreement, I have taken the position and said publicly and privately in meetings with heads of states of the region that I believe that this agreement simply codifies an already existing defense cooperation between the United States and Colombia, but yet, as you pointed out, its negotiation set of a chain reaction of anger of several leaders in South America.

Can you go into a little more detail about your evaluation of this U.S.-Colombia DCA, and the reaction of South American leaders because, frankly, I don't understand it? We are kicked out of the Manta base in Ecuador, and we have not said that these bases are substitutes. There are not supposed to be anymore American troops on the ground than we currently have, and that this is important in fighting against drug trafficking and crime, and we obviously have a stake it, and we are not increasing the personnel nor are there permanent base. So what is all the fuss about?

Mr. ROETT. Very good question, Mr. Chairman. I am glad to referred to American troops, not American bases. Ultimately in

Washington or in New York you hear we are building American bases in Colombia. We are not. We have transferred a small number of troops from Ecuador to Colombia bases in a negotiated agreement with the Colombian Government.

The bases are really an excuse by—we are now using the ALBA acronym for the bad countries in the region—as a way of beating up on Mr. Uribe in the Colombian Government. It is very clear it is all propaganda, and Mr. Chavez is pushing this, no question.

The Ecuadorians have come in because of the very unfortunate issue of the movement of Colombian troops into Ecuadorian territory. So I think this has become one of those very, very small and short-lived mini-crises in the Andean Region that appear constantly. We would hope that with the election of Mr. Uribe's successor, and thank you for pointing out that he has agreed to step down. He agreed in the constitutional court. He is acting constitutionally that a new democratically elected—he will be a democratically elected President of Colombia, will be able to move beyond this issue as well. But as long as Chavez is in power, Colombia and Venezuela have a common border and Chavez is involved as we know with the FARC in Colombia. The policies are excellent and United States should stand tall and work with the Colombian Government, no matter who is the President, with the Colombian Government to really characterize what Chavez is doing is not only illegal, as immoral, and not to provide any kind of diplomatic or legal support.

Mr. ENGEL. Anyone else care to comment?

Mr. HAKIM. Just a little bit, that even the U.S. Ambassador to Colombia now recognizes that this was going on. The treaty was being signed, and that there wasn't a lot of information being provided. I agree with you that in fact this didn't mean a whole lot. The fact that the Latin American countries exaggerated their protest and used it in ways that were weirdly suggested. On the other hand there is a sensitivity, and the U.S. knows about the sensitivity, and this was well communicated, what the U.S. was doing. That was, I think, the main problem, that countries that we were trying to sort of work closely with just felt that they were not being, and this was universally felt in Chile, in Brazil, countries that we got along with very, very well, as you well, know, and like I said, I think the incident was blown out of proportion and all, but I think we could have done a little better as well.

Mr. ENGEL. I want to finish my questioning and then turn it over to Mr. Mack, about Brazil. Dr. Roett, again I want to comment on something that you said. You said that President Obama should be visiting Brazil, and I think that is a good idea actually. I think he should visit Argentina as well because I think that while there may be some disagreements with policies from the Argentine Government, I think Argentina is a very important country, and I think that we should not push them away. I know they had good relations with Chavez but I don't think we ought to have a litmus test with countries and say, if you have good relations with Chavez, we are your enemy. I think that we have a lot in common with Argentina, and I would hope we would work very, very hard to nurture that relationship, and as I said, I was glad that Secretary Clinton traveled to Argentina last week, and I think it is important that

Argentina gets the high level attention that it deserves. So I would be interested in hearing you talk about Argentina, and also about Brazil, because I think that it is important for us to engage, and one of the ways we engage is if the President visits or at least meets with the leaders of those countries. I think it is very, very important.

I co-chair the Brazil Caucus. You have caucuses here, Mr. Mack can attest to it, for everything, and you generally have a Democrat and a Republican that co-chairs the caucuses. Well, I agreed to co-chair the Brazil Caucus because I am very bullish on Brazil. I think Brazil is an important country, that we have a lot in common with them. They are the most populous country in South American. We have the most populous country in the Americas, in North America. Their land mass is the size of ours. They are a diverse country racially, ethnically, religious as we are, and we can learn a lot from them. I am in awe of what they did with biofuels and making themselves energy independent. I realize it is not exactly what we could do here but I have argued long and hard that we should take a page out of Brazil's book and try to wean ourselves off of foreign oil because now we are at the mercy, whether it is Chavez or the Saudi, the royal family, or whatever. We are at their mercy because we need their oil and that is why we have this symbiotic relationship with Chavez. He needs us to buy his oil and we need him for the oil. I would rather tell him that we don't need his oil. If we have biofuels—you know, ethanol, methanol—and we have other ways of getting our energy needs like Brazil did, we would be much more free and more independent.

So I admire Brazil, but I am very, as I mentioned before, disappointed, unhappy, perplexed by President Lula's policies. Again, it is not only Iran although Iran is very important. You know, Ahmadinejad was supposed to come to Iran before the Iranian elections, and I argued that would be tantamount to endorsing Ahmadinejad for re-election, so they listened. Other people said it too. They postponed it and they said he would come after the election. Of course, they were tainted fraudulent elections in Iran. You have people in Iran who are being killed by their own government in demonstrating for democracy and freedom, and then Lula welcomes Ahmadinejad with open arms, rubber stamping and giving credence to the election which we all know was a phony election.

And then the group that was put together without Canada and the United States, Brazil seems to be an important force in that, and it seems to go out of its way under Mr. Lula's leadership to try to tweak the United States at every turn. So I would like to hear some comments from all three of you on Brazil and Argentina, if you care, and we will start with you, Dr. Roett, because you had mentioned Brazil, so I would like to hear what you have to say.

Mr. ROETT. Thank you, Mr. Chairman.

My new book will be out in August. It is called "The New Brazil" being published by the Brookings Institution, in which I make the argument that the United States needs to be extraordinarily sensitive to the new Brazil. This is a new country. For the first time since Brazil was founded poverty has been reduced by a Bolsa-Familia Program that President Lula has made a very strong point

of his presidency and is the Afro-Brazilian population that benefits the most from Bolsa-Familia.

Second, energy is a very important question. You are absolutely right. We need to get away from Venezuela as quickly as possible. Brazil will pose within 5 years an interesting alternative for supplying us with petroleum. Makes every sense in the world to try to find ways in which we can accommodate our interests and their interests.

This cotton issue, we have people in Brazil right now. We have got to find a way to get around this cotton issue, and the Congress has got to play a role in that and working with the administration so that we remove that irritant. The irritants should not matter. The big question should. Who was the third world country that worked with the United States and the European Union in Geneva 2 years ago at the Doha Round? The Brazilians, to find a diplomatic solution. The Chinese and Indians did not. Brazil broke with them.

So if we look at the overall set of issues, I beg us not to take Iran as the way in which Brazil operates. I would never defend the Iranian policy. I would try to interpret it. As I mentioned, there is a long tradition of trade and diplomatic ties with Iran. Good people make bad mistakes, and President Lula's comments and policies on Iran are bad, but if you look at the broader picture this has got to be a very important dynamic bilateral relationship. The way South American goes it will go the way Brazil goes.

Argentina, I never disagree with the chairman of committees, but I disagree with the chairman of the subcommittee on Argentina. I follow that fairly closely, and you were unkind enough to point out that I testified here in 1982 when you were probably still in high school.

I think we have to be very careful with our relationship with Argentina. The Kirchners, and there are two of them as you know, we are not quite sure who is the President from day to day, the current President or the old President, are really weakening institutions. Look at what they are doing with the Central Bank. Look at what they are doing with a number of other decision, ruling by decree, trying to buy off members of the opposition in Congress. That is not the kind of country I want the United States to be identified with. I wish the Secretary had not gone to Argentina, and had stayed in Montevideo, and had made good comments, democracy consolidated Uruguay, social peace, Uruguay, political stability, Uruguay, and then just pointed her finger across the river, and those three things are not present in Argentina.

Finally, on the Falklands, this is a political gambit for the elections next year. They did this in 1982, Margaret Thatcher took care of that. They are now trying the same thing to build up national support among the paradists and independents in Argentina. I hope it is not going to work. I hope she is defeated or her husband is defeated. It is time we end petty dynasties in the region.

Mr. ENGEL. Mr. Reich.

Ambassador REICH. Yes, Mr. Chairman. On Brazil, I happen to have been the Assistant Secretary of State in the Bush administration, the much maligned Bush administration, when Lula was elected. We made a conscious decision to work with Lula. Even

though he had a very—as you know, has a very left wing background, Marxist. I am not talking liberal Democrat. I am talking—this guy was in jail for supporting violent revolution. He was fighting against the military dictatorship. You know, I think probably both sides were at fault.

However, we should differentiate between Lula and Brazil. Lula is going to be President of Brazil only until next January 1. To the extent, in fact, that he has followed centrist economic policies that have resulted in this unprecedented development in Brazil, not just growth because they have had growth for many decades, but development, and social economic development in Brazil which the United States supported. The Bush administration established right at the beginning of the Lula government bilateral working groups at the ministerial level, at the cabinet level.

I was present at the White House when President Lula came right after being inaugurated, and President Bush established working groups on things like energy and education, and poverty reduction, and we helped and we should be very glad that we did. We didn't do it just to help Brazil, we did it because it is in the interest of the United States to reduce poverty in this hemisphere, our best allies are the countries that are making progress and that provide the basic human needs for their people.

But we should be careful, and I agree with my colleague on Argentina, also to differentiate between Argentina, which is a friend and will be again, and the Kirchner government. There are a lot of violations of Argentine law taking place with the perhaps participation of the President of Argentina and her husband, and it is not clear, by the way, who is running the country. They are both very unpopular. As you know, Mr. Kirchner ran for Congress and he lost after leaving the presidency. There are a lot of things that will come out when they leave office that we don't want to be associated with.

I mean, there was a trial in Miami where it has been documented that Hugo Chavez sent money illegally to her campaign for election, that has been established. So there are a lot of things that are taking place in Argentina that we should, as I said, be very, very careful about.

But as far as foreign policy issues, like Brazil getting close to Ahmadinejad, I think it is a terrible mistake, I agree with Riordan. It is a terrible mistake on the part of Lula, but it is very similar to what Mexico's policy always has been. Mexico's foreign policy has always been way to the left of its domestic policy. It is almost like these countries that are ruled by left of center politicians give the foreign ministry to the left sort of to play with, to keep them occupied so they don't fool around with the really important things like fiscal policy, and national security, and other matters.

This was explained to me, by the way, by a Mexican many, many years ago because I said, how do you explain the fact that Mexico is so anti-American, pro-Castro, you know, pro-Sandinista, et cetera. And he said it is because the foreign policy is run by the left. The important issues are run by the center. I am not denigrating foreign policy. I have spent my entire life in foreign policy, but that is the way they see it, and we should establish those rela-

tionship with the countries, with the honest politicians because the other politicians are going to be history before too long, I hope.

Mr. ENGEL. Mr. Hakim, I will give you the last word on this before I turn it over to Mr. Mack.

Mr. HAKIM. Well, let me just say it seems to me we have to continually ask the question, not only whether a leader or a country is good or bad, ethical or unethical, but what the U.S. is going to do about it in ways that sort of serve U.S. interests best. Brazil is just too important a country in South America. Simply, they have a presence that is often an influence that is greater than our own in South America. We have to work to advance our agenda in South America, we cannot do it without the cooperation of Brazil. We have to accept that.

And, similarly, internationally, Brazil has become just very, very important on all of these global issues. They are now in the U.N., a temporary member of the Security Council, and the vote on Iran is not—you know, hasn't been taken yet. We can still influence Brazil. Brazil could vote in favor of Iran, it could abstain, it could vote with the United States, but the wrong thing is to simply sort of challenge Brazil on this or make it the fulcrum of our relationship. It seems to me we really have to figure out how to find more areas of cooperation with Brazil as we have with regard to Haiti, as we have with regard to Doha. There are lots of other areas. It is the best way to deal with Brazil, and it is probably the best way to deal with Argentina as well.

I am not a great fan of the Kirchner government, I think they are very irresponsible, but, frankly, I still think that it doesn't make any sense for us to try to isolate or alienate them. The question is to continue to work and try to move them through diplomacy and directions that we find more beneficial to our interests.

And let me end by saying Lula was never jailed for violent revolutions at all. He was a labor leader. Secondly, he has been the most successful leader Brazil has ever had, politically, economically, and internationally. I don't think he leaves foreign policy to anybody but himself and it is treated very, very importantly in Brazil. I don't think that you can explain it that way. I think there is other explanations but I do think that Lula has been a first-rate leader. He would be a candidate for lots of international positions. We talked about secretary general and all. Lula is a very special person.

Mr. ENGEL. Thank you. Mr. Mack.

Mr. MACK. Thank you, Mr. Chairman.

I am going to kind of pose this question to all of you. In the last let us say 4 or 5 years, and I think it began before that, there has been—it started with this idea, you know, Hugo Chavez gets elected. He then begins to dismantle democracy, if you will, in Venezuela, and as he is doing that he is reaching out to other countries that may want to follow in the same steps, creating a playbook that then gets passed on to different countries, and it seemed, and I mean, this is fact, we have just seen this happen, and all through that time we have had conversations on this committee and all over the place about what is the right approach. Do you isolate him? Do you go meet him? You know, what do you do? And there is always this—you know, at some point I think you have to recog-

nize that if someone is against you, there is nothing you can do. I mean, I don't know that another meeting with Hugo Chavez, you know, at some point there is nothing you can do.

So the question then becomes what is U.S. policy? What should we do? What should our policy be to Latin America, and what is the best way to implement it?

So I would like to get from each one of you, if you agree with kind of what I have outlined, if you have any thoughts of—well, I don't want to go there. Moving forward what do you think the policy of the U.S. should be in the current environment that we find ourselves in? Some of the countries out there that just—it appears that they have no intentions in wanting a positive relationship with the U.S. In fact, I think that Chavez believes that being antagonistic to the U.S. helps him. So what should some of our policy positions should be, and what do you think we should do moving forward to strengthen those relationship with the countries that are our friends, and what to do about some of those countries that appear to be kind of on the fence? So that is kind of a big question. It gives you a lot of room to work with.

I will say this, that earlier my friend Congressman Meek said that he wouldn't agree with the Secretary, to agree with me 95 percent of the time, he gave me 5 percent, and then another year from now if we can get to 10 percent, I would be happy with that. But of the 5 percent I think that he is talking about is the idea that poverty—when you talk about the people in Latin America and you talk about the governments, a lot of times they are two different things, and the idea of a foreign policy that deals with the people of Latin America, that gains—you know, the strength of America can be in our relationship with the people of Latin America, so it is almost two—you almost have to go at this in two ways: One, what to do with the governments, if you will, and then what the policy should be from the United States for the people of Latin America, so big question and I will let you go down the line and love to hear your thoughts.

Mr. HAKIM. Let me go first. Let me say first is that I do believe that almost every country wants reasonable relations with the United States, with the possible exception of Venezuela. I think Venezuela is really, and even if you want to argue that maybe Ortega in Nicaragua or Morales doesn't want good relation, they are not very threatening to the United States. These are sort of very small, poor countries that we should continue to try through diplomacy.

Venezuela is really the big issue. That is the country that has resources, is disruptive. It has a leader that really sort of reaches beyond the borders and all, and how you deal with it becomes very, very important. And you know, we have tried confrontation. That seems to strengthen him the more he had traction from our confrontation. We tried ignoring, that doesn't seem to do very much. He continues on his way.

There is no—I mean, this is one of those problem countries that I think we are going to have to live with for sometime, at least until Chavez—if things get worse in the country, if depression really does get much worse, we may be faced with a real challenge. But the fact is I don't think any policy is going to work with Venezuela

that doesn't have minimal support from Brazil, Argentina, and other countries.

In other words, for any policy to the United States makes sense unless on one count, that is, are we willing to sort of interrupt our oil commerce and trade with Venezuela? That is really in some ways, to use a common term, the nuclear option. Venezuela depends more on our imports of oil than we depend on their oil. We have never been willing to really go there. We hardly ever discuss this. Once in awhile Senator Lugar wrote a report on this, but the question is, I think, that unless we are willing to sort of think of that as an option, which I don't think we should because I think it really is dangerous, I think that we really have to find other allies in Latin America and sort of work with them.

It is very interesting, just one anecdote: You know the mayor of Caracas who lost his office? Basically he won the election and Chavez pushed him out of office. He went to Argentina to ask the countries of MEROSUR—Brazil, Argentina, Uruguay and Paraguay—to admit Venezuela because they thought that by being part of that group would have a moderating influence.

So there are different ways to approach this. I don't think there is any perfect way. I mean, I don't think there is any really magic wand that is going to solve that problem.

Mr. ROETT. That is an important question, but if you look at the electoral results recently in Latin America, nobody has fallen into the ALBA family. El Salvador, democratic elections; Honduras, we can discuss the past but the present and future is more important, there were democratic elections in Honduras; Colombia, there will be democratic elections in Colombia. Now, there were in Uruguay, there were in Chile, there will be in Brazil. Those are the countries the United States needs to work with. We have got to find small and big ways to work with those countries.

I agree with Mr. Hakim. There is nothing we can do with Venezuela unless we can find an alternative source of energy. We cannot do that overnight, although we should begin working on it, and I think the issue here is to let the other countries in the region look at our policies that work well with the democratic countries, and we need not push it in their face, but they will get the message very quickly that Washington works with democratic, consolidated, socially peaceful countries, not with countries in upheaval. That is the kind of message Correa needs to hear in Ecuador particularly. You cannot do a thing with Ortega in Nicaragua. He is off his meds. And Venezuela is just not going to be a serious contender for any kind of collaboration with the United States.

So, the Secretary's trip, as I said before, was excellent and it went to the democratic consolidated countries. That is the message we need to put out day by day, and if the President goes, he should repeat that itinerary and go to those countries as well, and he will be wildly received.

Ambassador REICH. I have had to make basically those decisions. What do you do when you, like the Assistant Secretary of State, you don't have all the resources you want. Our time is limited, our money is limited, our energy, resources, the time of our policymakers is limited. What I would do, frankly, is look at the hemisphere and do a triage, do what they do in a military hospital.

They bring in the patients. Those that are going to survive no matter what—they are only going to survive if they get medical intervention, and then the rest.

We should actively work with our friends, support our friends. We know who they are. We talked about Colombia. We have not talked about Peru but Peru today is a friend, at least a friendly government. Panama, Honduras, we owe Honduras because, frankly, this administration made a terrible mistake last year, which has been corrected by the Secretary of State, against the advice of some of the people in her State Department, but it has been corrected. It has been reversed, but we owe Honduras. Most of the Caribbean are our friends. We need to work with them.

Then you take the hostile countries, and the most hostile is Venezuela, and you actively oppose those hostile countries that are hurting our national interests, and I mentioned in my testimony what Chavez is doing. Chavez and Castro, because they have an alliance.

What would I do? Three things right now. I would put Venezuela on the list of state-sponsored of terrorism. You don't have to go into executive session. There is plenty of evidence that Venezuela is supporting terrorism.

Two, I would announce that we are stopping our purchases of oil from Venezuela. We buy 8 percent of our consumption from Venezuela, about 15 percent of our imports, but it is 72 percent of what Chavez exports. We are going to replace that 8 percent a lot faster than he is going to replace 72 percent, I guarantee you. In fact, what it may do is reduce the price of oil in the market. He is going to have to dump that 72 percent because most of the oil is already committed. People have contracts for the purchase of oil. His contracts are with us. We can replace that oil from Canada, from Mexico, from a lot of other places; from Colombia, perhaps.

Third, I would cancel the visas of the private sector people who are becoming multi-millionaires and billionaires doing business with Chavez, most of which is illicit or at least unethical. There are billionaires now in Venezuela, they called the "Boligueses" or "Bolivarian Bourgeoisie." If we revoke those visas instead of the 70 visas we revoked in Honduras from the people—frankly, in a very vindictive action by our State Department from the people who supported Michelletti.

No matter what you think of Michelletti the fact is I agree with you, Mr. Mack, that his actions—he was named by the Congress as the President of Honduras. We canceled visas in Honduras for political reason, and by the way just to—I am sorry Mr. Burton is not here, but there is a very powerful family that is responsible for the bankruptcy of that company that he mentioned. Our Embassy knows who they are, and those visas haven't been canceled either, and they are in violation of our laws. Section 221(f) of the Immigration and Nationalities Act, if anybody want to look it up.

But going back to Venezuela, that is what I would do, and I disagree with Peter Hakim. We never confronted Chavez. There was no confrontation. We have always extended a hand. Certainly the Clinton administration did. Chavez brushed it away. Clinton tried to send the CBs, U.S. Navy personnel to help with a natural disaster. Chavez said, oh, no, just give us the equipment, but we don't

want your navy forces. Well, that was against our laws so we had to withdraw the navy. That was the very beginning, the first year of Chavez, and we know the history since then.

And the other countries, the rest of the hemisphere, if they don't want to be our friends, and they are not our enemies, well, we will just work with them. You can be neutral. I disagree with former President Bush. He said, you know, if you are not with us you are against us. There is a place for neutrals. I don't have a lot of respect for neutrals, but we will work with them. That is what I would do.

Mr. ROETT. May I mention four words? Fulbright Program expand it; Peace Corps expand it; consulates, open more, we have closed many, many consulates, make it easier for Latin American students to get visas to come to the United States, they are not terrorists; and we are losing Latin American students in our universities because of the terrible problem of either finding a consulate and/or getting a visa. Those four things. They are small, but symbols are important and those are symbols.

Mr. MACK. Thank you, and I know time is running out and I want to make sure that Congressman Meeks has a chance, but I just wanted to leave this last thought. I think whatever policy that we move forward in the U.S., it needs to be consistent, and I think that for having one policy for one country and another policy for another country creates an environment that Hugo Chavez and others can use, feed on to pit us against others, and you don't need to respond to that. I just wanted to put that out on the record, Mr. Chairman.

Mr. ENGEL. Well, thank you, Mr. Mack. As you probably can hear, we are in the middle of a series of three votes and we have about 8 minutes to vote, and of course they don't bang the gavel right away, so let me turn this over to Mr. Meeks for about 5 or 6 minutes. Mr. Meeks.

Mr. MEEKS. Thank you, Mr. Chairman.

First, I didn't get a chance, I wanted to come back down here to first congratulate Mr. Hakim for his being moved to the emeritus status. He has done a great job and I appreciate the work that you have done and look forward to continuing to work with you on a continuous basis.

Let me say to Dr. Roett that I want your book. I am been impressed listening. I definitely want to read your book when it comes out, so please make sure I know how much it costs, where I can get it, I want to buy your book, and I very much appreciate what I have heard you say this afternoon.

Before I ask my question the one thing that I think we have to, at least the way I look at making statements myself from within, so we should focus on governments and that there are free and fair elections as opposed to saying after the free and fair elections, whether we like this President or that President, because can you imagine—you know, they would do the same thing here. You know, we have different Presidents that come from different parties, and we don't want them to say that we don't want to work with our Government based upon who that President is. Those governments have to shift to make sure that they work with us. There is a difference in President Bush and President Obama, so some people,

you know, they shift. That doesn't mean they should not work with us because we have a shift in our presidency. So we shouldn't be focusing and saying that, well, because this person is President, without looking at the institutions and the fact that it was a democracy and the people had spoken, that we are going to deal because we don't like this President.

The other piece that we have got to be aware of, for example, in Bolivia where for the first time you have a person who was elected, who is an indigenous person from the community, where the indigenous people are speaking and voting in a democratic manner to forget that perspective, and say that because he is—the same thing with President Lula, who is indigenous, a different—you know, the people came out in record numbers to vote for him, and we can't say because we don't like—you now, he is a left-winger or he is a this or that we don't like him. It is, I think, a compliment to the country that the people who may be historically under other governments didn't even have the right to vote before.

So that is progress, and what we have got to talk about is the long-term relationship building, and in those relationships, depending upon the President sometimes, you are going to have a better relationship with a country than you did before, but the main thing is to keep those contacts and to open those doors so that you can deal with the people who really needs the kind of relationship that we have.

With that being said in the little time that we have, there is so much still to be done and so I try to focus on what we can do from our perspective in our country. Where do we start? I mean, I don't know, we talk about drugs, we have got that issue. We talk about poverty, we talk about government and I have talked essentially about capacity building. Is there any organizational structure or how do we do those kinds of things that we know needs to be done, how do we prioritize them? Let me ask that. What do you think our priorities should be as we deal with Central America and South American specifically, I leave the Caribbean out a little bit because of the size of the country, what do you think our priorities should be moving forward?

Ambassador REICH. I was asked that question when I was, again when I was Assistant Secretary, and my answer was—it actually may surprise you—what Latin America needs is decent jobs for its people. I mean the problem is how do you create those decent jobs, and the answer is freedom. The system that provides individual initiative, that provides the necessary role of government, the right role of government, not necessarily one where the government stifles enterprise, is the kind of government that we should work with, and by the way, we made—as I say, we made a conscious decision to work with Lula. We actually make that decision with almost anybody, with everybody.

When Morales was elected, President Bush called him to congratulate him. We sent our Assistant Secretary, Tom Shannon went down to talk to him. Actually, I was the one who went to talk to Lula. I was the first Washington official to talk to Lula. It was November 2002. Actually he didn't win the first time around. He had to go to a run-off election, so he did win but it was after a run-off, and right after the run-off I went to see him and I took a mes-

sage from President Bush, and it was inviting him to the White House. By the way, he was the first President in Latin America to be invited to the Oval Office before he took office. He came on December 10, 2002. He took office January 1, 2003. President Bush received him in the Oval Office to show we wanted to work with Brazil and to end, in spite of his leftist background, his radical background, radical labor leader, he is missing a finger because he was actually—he worked with lathes and he lost a finger in one. I gave him, by the way, a Jefferson cup thinking that would be nice, and he appreciate it, a pewter cup that was designed by President Jefferson a long time ago. I also gave him a pen, a Ronald Reagan pen. I couldn't help but, I had to give him something Republican. But we had a very good conversation, and I spent 2½ hours with his top three advisors who went into the government with him, and we had heated discussions about some issues, but we founded the basis for the relationship that lasts until today.

Lula is an example of the left of center leader the United States can work with. We are going to have differences of opinion, and we do on things like Iran and Cuba and Honduras and perhaps other things.

Morales, on the other hand, having gained power democratically has begun to dismantle the institutions of democracy, and I don't want to spend too much time, I would be happy to come in and tell you what he has done, and that is an example of the kind of leader that we cannot—I don't think the United States can work with him. That is why the Obama administration is having so much trouble restoring relations to the ambassadorial level.

But as far as priorities and what do we do, we should work with the leaders who want to work with us to create the conditions for economic development in the hemisphere based on freedom, on free enterprise, and frankly, the kind of freedoms that we enjoy in the United States.

Mr. ENGEL. I am going to let that be the last word unless Mr. Hakim wants—we have about 30 seconds left. You can each give us perhaps 30 seconds if you have a burning desire.

Mr. ROETT. I would first work at the micro level. Let us get the cross-border trucking issue with Mexico resolved; second, let us get the cotton subsidy with Brazil resolved; third, let us get the outstanding bilateral trade deals resolved and voted on by the Congress.

The macro level, I have already explained. Let us work in a bigger multilateral framework on things like Doha, energy, climate, very important, and trade.

Mr. ENGEL. Mr. Hakim, you will be the last word if you can do it in 30 seconds.

Mr. HAKIM. I think that Riordan is right. I would go after those issues, but I think you have to take Mexico and Brazil as rather special countries in the region. Building good, strong relations with those two countries would allow us to reach out to a whole lot of other countries. They are really the two pivotal countries, and I agree that you have to deal with all those sub-issues to get there. You have to deal with immigration and you have to deal with trucking, or you are not going to get there. With Brazil, you have to deal with a whole lot of issues as well.

But if the U.S. can begin to think even in terms of almost a G-3, that that would be a very sort of useful, or at least a beginning, framework for moving forward.

Mr. ENGEL. Thank you. We are going to go because we missed a vote. I want to thank the three of you for excellent testimony. This entire hearing lasted over 3 hours, and I was really intrigued with every minute of it, and I really appreciate the work that you gentlemen have done, and obviously helped to enlighten us, and I know we will have you all back here in the future.

And Mr. Hakim, please pick up your citations and thank you all three of you for excellent testimony. The hearing is adjourned.

[Whereupon, at 6:10 p.m., the subcommittee was adjourned.]

A P P E N D I X

MATERIAL SUBMITTED FOR THE HEARING RECORD

SUBCOMMITTEE HEARING NOTICE
COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

SUBCOMMITTEE ON THE WESTERN HEMISPHERE
Eliot L. Engel (D-NY), Chairman

March 9, 2010

TO: MEMBERS OF THE COMMITTEE ON FOREIGN AFFAIRS

You are respectfully requested to attend the following OPEN hearing of the Subcommittee on the Western Hemisphere, to be held in Room 2172 of the Rayburn House Office Building:

DATE: Wednesday, March 10, 2010
TIME: 2:30 p.m.
SUBJECT: U.S. Policy Toward the Americas in 2010 and Beyond
WITNESSES: **Panel I**
The Honorable Arturo Valenzuela
Assistant Secretary
Bureau of Western Hemisphere Affairs
U.S. Department of State

Panel II
Mr. Peter Hakim
President
Inter-American Dialogue

Riordan Roett, Ph.D.
Sarita and Don Johnston Professor
Director, Western Hemisphere Studies and the Latin American Studies
Program
The Paul H. Nitze School of Advanced International Studies (SAIS)
The Johns Hopkins University

The Honorable Otto J. Reich
President
Otto Reich Associates, LLC
(Former Assistant Secretary of State for Western Hemisphere Affairs)

By Direction of the Chairman

The Committee on Foreign Affairs seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202/225-5021 at least four business days in advance of the event, whenever practicable. Questions with regard to special accommodations in general (including availability of Committee materials in alternative formats and assistive listening devices) may be directed to the Committee as noted above.

COMMITTEE ON FOREIGN AFFAIRS

MINUTES OF SUBCOMMITTEE ON THE WESTERN HEMISPHERE MEETING

Day Wednesday Date 3/10/10 Room 2172 RHOB

Starting Time 2:55 p.m. Ending Time 6:10 p.m.

Recesses 1 (4:43 to 4:50)

Presiding Member(s) Eliot L. Engel

CHECK ALL OF THE FOLLOWING THAT APPLY:

Open Session ☒

Electronically Recorded (taped) ☒

Executive (closed) Session ☐

Stenographic Record ☒

Televised ☐

TITLE OF HEARING or BILLS FOR MARKUP: (Include bill number(s) and title(s) of legislation.)

"U.S. Policy Toward the Americas in 2010 and Beyond"

SUBCOMMITTEE MEMBERS PRESENT:

Eliot L. Engel, Connie Mack, Gregory W. Meeks, Dan Burton, Albio Sires

NON-SUBCOMMITTEE MEMBERS PRESENT: (Mark with an * if they are not Members of HIRC.)

HEARING WITNESSES: Same as meeting notice attached? Yes ☒ No ☐

(If "no", please list below and include title, agency, department, or organization.)

STATEMENTS FOR THE RECORD: (List any statements submitted for the record.)

Eliot L. Engel, Connie Mack, Gene Green; QFR: Eliot L. Engel, Michael McCaul, Barbara Lee; Extraneous materials: Eliot L. Engel, Dan Burton

ACTIONS TAKEN DURING THE MARKUP: (Attach copies of legislation and amendments.)

n/a

RECORDED VOTES TAKEN (FOR MARKUP): (Attach final vote tally sheet listing each member.)

Subject	Yeas	Nays	Present	Not Voting

TIME SCHEDULED TO RECONVENE _____

or
TIME ADJOURNED 6:10 pm



Subcommittee Staff Director

**Statement of Congressman Gene Green
House Foreign Affairs Committee
Subcommittee on the Western Hemisphere
“U.S. Policy Toward the Americas in 2010 and Beyond”
March 10, 2010**

Thank you, Mr. Chairman, for holding this hearing.

I would like to welcome our witnesses here today and thank all of those in attendance for their interest in the United States' current and future relations with the Americas.

The presidential coup in Honduras, the devastating earthquakes in Haiti and more recently Chile have forced the region to endure many political, social, and economic setbacks over the past year.

As the region continues to move forward, the U.S. must remain engaged in its endeavors to rebuild its image in Latin America and continue working on a more active policy in the region

The Merida Initiative was a critical first step in implementing a counternarcotics strategy in the Western Hemisphere.

However, the U.S. needs a more holistic approach in order to better integrate our security efforts in the region.

Human rights violations, media and information restrictions, as well as election fraud in various countries threaten to close the democratic space in the region.

As we engage our allies, we must focus our emphasis on partnership and multilateralism to continue rebuild our relations in Latin America and uphold democracy in the region.

I am hopeful that this Congress and our Administration will continue to give Latin America the focus it deserves and that we will go about our policy towards Latin America based on a platform on mutual respect.

Thank you again, Mr. Chairman, for holding this hearing and I look forward to the testimony of our witnesses.

**Questions for the Record Submitted to
Assistant Secretary Arturo Valenzuela by
Representative Eliot L. Engel (#1)
House Committee on Foreign Affairs
Subcommittee on the Western Hemisphere
March 10, 2010**

Question:

U.S. population assistance to Latin America and the Caribbean plunged from over \$80 million in 1996 to only about \$37 million in 2007. At the same time, USAID has “graduated” countries across the region and closed population programs, eliminating experienced staff, projects, and technical assistance that was essential to future progress in priority areas. In fact, by the end of 2012, USAID plans to graduate every country in the region from population programs except Haiti and Bolivia. Between 2009 and 2012 Jamaica, the Dominican Republic, Paraguay, Peru, El Salvador, Nicaragua, and Honduras will have their UDS-funded population programs shuttered. This, despite persistent pockets of extreme poverty, unmet for family planning, high maternal mortality, and very high levels of teen pregnancy and unsafe abortion, particularly among indigenous people and those living in rural areas.

In an environment where the USAID population budget has increased over 40% in the last two years, are State and USAID planning to review this policy toward the nations and people of the LAC region and consider slowing or ending plans to graduate countries in the region and perhaps enhance funding for priority areas in targeted countries?

Answer:

Because of the success of USAID-supported family planning programs in the LAC region over the past forty years, USAID has developed a process of graduation from USAID support for selected countries. The first group of countries, which graduated during the 1990s and early 2000s, included Brazil, Chile, Colombia, Costa Rica and Mexico. All of these have continued to record high contraceptive prevalence with increased use of modern family planning methods and decreasing total fertility rates.

A 2002 OMB study recommended a more strategic funding approach to ensure that family planning money went where it was most needed, i.e., to Africa and South Asia. As a result of this recommendation, USAID developed a graduation strategy for countries that had modern contraceptive prevalence of 55 percent or more and total fertility rates of less than three children per women. (See attached Technical Note on Graduation.) Based on those criteria, a number of LAC countries, including the Dominican Republic, El Salvador, Honduras, Jamaica, Nicaragua, Paraguay, and Peru, were scheduled for family planning graduation between 2007 and 2013. In each case, USAID/Washington and the USAID Mission in country worked with local stakeholders to develop a family planning phase-out plan focusing on key issues that needed to be resolved to ensure a successful graduation. Several patterns of need emerged, including ensuring contraceptive security, improving family planning service quality, and reaching select populations, including the rural poor, underserved ethnic groups, and adolescents. Following these plans, USAID has been working in each country scheduled for graduation to help establish government ownership of the family planning programs as a means to graduate successfully.

At the regional level, USAID/LAC funding has focused on contraceptive security, with yearly meetings to promote improved forecasting, procurement, and distribution to service delivery points. Contraceptive security committees, composed of government, NGO, and commercial sector representatives, have been formed in each country and meet regularly to ensure contraceptive security in-country. USAID contractors provide technical assistance to the countries slated for graduation, as appropriate to moving the process forward successfully.

While it is true that there are still persistent family planning needs among certain populations, overall modern contraceptive prevalence rates in the LAC countries to be graduated are similar to those in the United States. Therefore, USAID felt it prudent to move out of countries with high contraceptive prevalence and concentrate on countries with much greater unmet need for family planning, primarily in Africa and South Asia.

Recognizing that all family planning issues will not be totally resolved before graduation, USAID plans to continue providing technical assistance to graduated LAC countries. It will also follow the progress of the graduated countries to ensure continued family planning success and, if necessary, take appropriate steps to help resolve major issues as they arise.

TECHNICAL NOTE

Approach to Phase-out of USAID Family Planning Assistance

I. Background

All USAID assistance programs in developing countries should be designed and implemented with the expectation that the host country program will eventually no longer require or receive direct support from USAID or other donors. This note describes preparations and key actions recommended to ensure that high-performing family planning programs can continue to be successful even after the end of USAID family planning and reproductive health assistance.

In the past, some decisions to phase out USAID support for family planning programs have been made without rigorous technical criteria. This Technical Note describes a proactive approach to prepare countries and programs for eventual graduation and provides definitions and criteria for phase-out of USAID family planning and reproductive health assistance. The graduation process should be carefully planned and implemented over a period of time, from two years for those countries that have all elements of successful continuation in place to up to ten years for those with major challenges for sustainability.

II. Graduation strategies

Development of a phase-out plan

For successful graduation from population assistance, experience has shown that a crucial step is development of a comprehensive phase out plan. Once a country meets the initial criteria for program graduation provided in sections III and IV below, an initial assessment should be carried out to determine the actual program strengths and weaknesses and main challenges to successful graduation, and to begin the development of a phase out plan. Representatives from GH/PRH and health staff from the appropriate regional office are available to work with mission staff on this assessment.

During and after the assessment, a number of program aspects should be examined and the vulnerability of the program in maintaining these aspects beyond USAID assistance should be addressed. The mission team, with support as needed from USAID/W, will need to verify and/or plan to reinforce the following areas: national commitment to programs; adequate financing of programs; contraceptive security; adequate human resources including sustainable leadership and technical skills; quality of information and services; appropriate engagement of the private sector; and attention to access of underserved populations.

Host country commitment and that of other development partners to this effort is vital. Therefore, graduation strategies should be developed in consultation with all the major constituencies and partners in family planning, including government health and/or family planning officials, other government officials such as Ministry of Finance, NGOs and commercial private sector organizations providing FP services or other support, civil society, other donors, universities, and any other interested/affected stakeholders.

During the preparatory period leading to complete phase-out of USAID family planning assistance, it is important to target remaining funds and technical assistance optimally for the specific circumstances. For instance, USAID may progressively phase out its population assistance over a pre-determined period while proactively working with country officials to obtain assistance from other donors. Or USAID may phase out of selected areas of assistance, such as procurement of contraceptive commodities, while continuing assistance to other program components, such as assistance to marginalized groups with poor access to services. Each country will have its own transition plan that should include selected post-graduation activities, such as monitoring of key indicators post-graduation.

Examples of changes in program focus during a phased graduation process include:

- Within a country, specific programs, components of programs or sectors that are found to be relatively mature are “graduated” from USAID support while others receive continued USAID assistance.
- USAID family planning assistance shifts away from on-going support for operations (subsidized contraceptives, training, outreach expenses, etc.) to phase-over activities (transition from subsidized to commercial social marketing, from centrally planned programs to decentralized planning, ownership and funding of family planning efforts, etc.)
- Family planning assistance is focused on specific underserved regions of a country or marginalized groups rather than supporting national coverage.
- Technical assistance is focused on organizational and/or financial sustainability of specific organizations or program components.

Factors requiring extra attention during planning

Phasing out USAID family planning and reproductive health assistance in large countries, (those with over 80 million inhabitants) requires particularly careful planning given the magnitudes of the population, health and development impacts of any faltering in program performance. These countries often have complex programs and are likely to need additional time to sustain gains they have made. In these countries, to allow for a successful phase-out of assistance, the phase-down process should normally be planned for at least five years with sufficient funding during that period.

Countries with extremely poor economic indicators including very low per capita and gross national income (GNI) or large inequities in use of family planning services are also likely to need extra time and/or special consideration of equity in access to services to prepare for withdrawal of USAID family planning and reproductive health assistance. Governments in these countries may need extensive policy dialogue or other help to ensure they allocate sufficient resources to cover these programs. Low income individuals and families also may have specific constraints in accessing services that should be addressed as a priority in planning for a successful graduation.

III. Criteria for near term graduation from USAID population assistance

A country's family planning program will be considered a candidate for graduation within a 2-5 year time period when:

- Total Fertility Rate is less than 3.0¹
- Modern Method Contraceptive Prevalence is greater than 55% of MWRA

Attainment of these two indicators will trigger a joint USAID/W and mission assessment of other important aspects of the program, including at a minimum:

- Access to a range of products and services, including widespread availability of different methods of contraception and several different sources of services, should be assessed across all regions and population groups.
- Sustainability of the family planning program should be assessed through a review of dependency on USAID financing of products and services in the public and private sectors; existing government and/or NGO or commercial commitment and planned funding for these products and services; and other available sources of funds and technical support.
- Quality of care including informed choice should be assessed across the major service providers (public sector, NGOs, and private commercial sector).
- Special circumstances such as large population size (over 80 million) low per capita income, pervasive inequities in access or quality of care, or other important concerns should be identified and taken into consideration in planning the duration of phase-out of USAID assistance.

Using survey and service delivery data, supplemented by program evaluation reports, site visits, in-depth interviews and other information, a graduation assessment should determine the country's status relative to these other factors. If these parameters have been addressed to a reasonable level the country level, and/or remaining weaknesses are expected to be resolved through targeted technical or financial support over the next several years, USAID will proceed with the phase-out process over a 2-5 year period.

IV. Criteria for mid-term graduation from USAID population assistance

A country's family planning program will be considered a candidate for graduation within a 4-10 year time period when:

- Total Fertility Rate is 3.0-3.4
- Modern Method Contraceptive Prevalence is 48-55% of MWRA

The assessment process described in Section III above for near-term graduation planning will be used to determine the remaining weaknesses of the family planning program, the necessary timeline for program graduation and the focus of program efforts over that period to achieve maximum program access, quality and sustainability.

¹ For the Europe and Eurasia region the fertility rate is not a factor for program graduation, since the goal of the USAID family planning program in this region is not to lower the fertility rate further but to lower the abortion rate and increase the use of contraception.

The phase-out plan and graduation process would normally cover a 4-6 year period, which could be extended up to ten years under extenuating circumstances.

V. Planning from the beginning for eventual graduation from USAID population assistance

In countries that receive USAID assistance for family planning programs that do not meet the criteria for near term or mid-term graduation, it is still important to plan with the goal of graduation in mind. Country programs in each phase of maturity need to consider how to implement programs that will move them to the next phase in program maturity.

Programs that have modern contraceptive prevalence rates below 15% generally should focus program efforts on creating and sustaining essential services and communication including developing basic capacity, implementing a supportive policy agenda, and strengthening NGO services. Programs that have modern contraceptive prevalence rates above 15% but less than 30% should be addressing improving access and quality through securing the commodity supply, developing staff's technical, administrative, and managerial skills while instituting family planning and reproductive health programming through multiple channels. Attention should also be given to improving data and its use and to strengthening communication.

As countries start to approach 30-50% modern contraceptive prevalence rates and are therefore approaching near-term graduation, plans should be put into place to address contraceptive security within the public and private sectors. Programs should be working on the areas outlined in the attached population life cycle framework while preparing for the issues that will need to be addressed for near-term graduation. The activities that need to be prioritized in each country are very much dependent upon the program characteristics and the specific needs that have been identified through assessments and evaluations.

VI. Successful graduation

Successful graduation from USAID family planning and reproductive health assistance means that family planning service delivery continues to support the level of contraceptive prevalence achieved before graduation and inequities in access to services have not increased. Successful graduation normally requires:

- A sustained or increasing contraceptive prevalence rate that reflects high knowledge about and use of modern family planning methods
- In-country technical, administrative and programmatic capacity that are capable of maintaining family planning service delivery and adapting to changes as appropriate
- On-going financing of essential aspects of family planning service delivery and products, including contraceptives
- Attention to remaining pockets of unmet need

Phase-out of USAID family planning program assistance is sometimes combined with phase-out of USAID assistance to other health programs, but not in every case, since the maturity of other health programs is not always equal to the maturity of the family planning program. When a program is graduated from population assistance, family planning activities are not the subject or a main component of a strategic objective, and there are no USAID mission staff dedicated to population assistance. Complete graduation from USAID family planning assistance is accomplished when USAID population funding is phased-out to zero or almost zero.

“Almost zero” implies that mission support of specific population activities ends, although USAID may combine limited assistance for family planning and reproductive health within an integrated health or social sector program. Or, upon the request of a mission and with mission oversight, limited family planning assistance might be offered through central or regional programs. Assistance for demographic and/or other surveys, information exchange and networking opportunities are examples of the types of assistance that might be offered in this circumstance. Crisis or emergency situations might also require a resumption of short-term or temporary family planning assistance.

Missions that have successfully graduated family planning programs have provided some essential guidance that is of value to all teams. First, they stress the need for careful, consistent and honest communication with host country counterparts and other assistance partners. This includes open discussion of timelines, but deadlines should not be announced and then shifted, since this undermines the seriousness with which other partners respond to the challenges of USAID’s planned phase-out. Second, during all phases host country counterparts need to be encouraged and recognized publicly for the steps they take to improve program performance and sustainability. Finally, program graduation from USAID assistance should be celebrated for the success it is, with public acknowledgement from the highest levels possible in both USAID and the host government.

In mature programs ready for graduation, typically a warm, highly productive and highly valued partnership has been built over the years between USAID technical staff and the local partners. **The technical relationship between USAID and country programs need not end when USAID family planning and reproductive health assistance is no longer provided.** Ways to continue the relationship with former counterparts should be developed as part of a graduation plan.

**Questions for the Record Submitted to
Assistant Secretary Arturo Valenzuela by
Representative Michael T. McCaul
House Committee on Foreign Affairs
Subcommittee on the Western Hemisphere
March 10, 2010**

Question:

Despite the United States' increased efforts to work with Mexico, last year we saw a significant spike in drug trafficking-related violence, especially in the border area. Is there any evidence that the Mexican government is making any headway in its efforts against Mexican drug trafficking organizations? Additionally, the flow of weapons between Mexico and United States continues to be an issue, as well as the movement of large amounts of cash. How successful have our efforts been to disrupt these operations?

Answer:

The United States fully supports the courageous efforts of the Mexican government to counter the threat to both our nations of organized crime and the associated drug trafficking violence. The United States has acknowledged that it shares responsibility for these problems and strongly supports Mexican efforts against the cartels through Merida Initiative cooperation and funding, specifically through training and equipment to Mexican security and police forces.

We are witnessing a violent backlash by powerful transnational criminal organizations against President Calderon's efforts to disrupt the cartels' business and to dismantle them. Countering the cartels and related violence is a long-term process involving law enforcement and civil society on both sides of the border. The surge of Mexican military forces and federal police to areas of high levels of violence worked well initially; however, criminal organizations have countered this strategy by changing their tactics or moving their bases of operations. Mexican security forces are now adapting their response.

The United States government is working closely with the Government of Mexico to disrupt the flow of firearms, ammunition, explosives, and bulk cash being smuggled from the United States into Mexico. We are also working to disrupt the flow of illicit proceeds back to criminal organizations. Programs focused on training and information sharing are having a positive impact.

The two nations are partnering in unprecedented bilateral interdiction, investigation, and information-sharing activities to identify, disrupt, and dismantle trans-border criminal networks that smuggle weapons from the United States into Mexico. For example, the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) has deployed "Spanish" e-Trace, a web-based system that allows Mexican investigators to track weapons known to originate from the United States. ATF investigations are benefitting from increased numbers of Mexican trace requests made possible by the deployment of "Spanish" e-Trace. The purchase of four Integrated Ballistics Identification Systems (IBIS) for Mexican forensics labs in 2009 is expected to have a similar positive effect on Mexican investigative success.

Money laundering components are included in the U.S. training programs developed with Merida Initiative funding. These modules have already been taught to thousands of officials in the federal police, the attorney general's office, the finance ministry and non-governmental organizations (NGOs). The United States continues its vigorous bilateral anti-money laundering investigations in conjunction with vetted Government of Mexico personnel. These investigations, which target the proceeds and assets of major criminal organizations outside of the United States, have yielded nearly \$60 million in seizures since the beginning of 2009.

U.S. and Mexican law-enforcement agencies collaborated on a Criminal Proceeds Study that will be released in June 2010. The study describes the methods and routes used by organized crime to gather and transport cash from the United States into Mexico. They have also partnered to increase information sharing, as legally and operationally appropriate, on bulk cash smuggling routes and money-laundering networks that operate in the United States, Mexico, and beyond.

The United States and Mexico also cooperate closely on extradition matters to ensure that individuals who are members of the cartels can be brought to justice. Since President Calderon took office in December 2006, Mexico has extradited a total of 314 people to the United States, including 113 who were extradited on narcotics-related charges. Cooperation in the area of extradition helps ensure the members of the cartels cannot operate with impunity on either side of the border. Further, our consular officers vigilantly apply U.S. immigration laws to deny cartel members, their associates, and their spouses and children visas to travel to the United States.

Question:

Currently, there is a pending supplemental assistance to reimburse funds used to respond to the crisis in Haiti. I understand that a considerable amount of this money will be earmarked for reconstruction efforts in Haiti. Will this affect the amount of humanitarian assistance and development support the United States can provide to other countries in the region, especially if another crisis erupts, such as the recent earthquake in Chile?

Answer:

Later this month, the Administration will submit a request to Congress for FY 2010 supplemental funding specifically for Haiti; we cannot speak to the final appropriation at this time.

We are confident the United States will be able to respond to other crises and humanitarian needs that might arise in the Western Hemisphere and globally.

Question:

Last year we saw a tumultuous period in Honduras, where the Supreme Court ordered the removal of President Zeleña for being in violation of the constitution, and eventually, a new president was elected. What is the current U.S. policy regarding Honduras? Is the Lobo government doing everything it can to move Honduras forward from the political crisis?

Answer:

The United States strongly supports President Lobo's actions to promote national reconciliation, implement the Tegucigalpa-San Jose Accord, and tackle Honduras' serious political, economic, and social challenges. As Secretary Clinton has stated, a democratically elected government headed by President Lobo has taken office in Honduras and democratic, constitutional governance has been restored. These conditions, including President Lobo's actions since taking office—most notably the significant progress he has made in establishing the Truth Commission, as stipulated in the Tegucigalpa-San Jose Accord, and in fostering national reconciliation—met the United States' requirements for restoring foreign assistance to the Government of Honduras terminated in September 2009.

Accordingly, the United States is resuming assistance to the Government of Honduras to promote economic and social development, strengthen democratic institutions and respect for human rights, and enhance Honduras' capacity to combat crime and drug trafficking. We restored the assistance the Secretary terminated last September, with the exception of some security assistance funds that were reprogrammed prior to their September 30, 2009 expiration, as well as approximately \$11 million in Millennium Challenge Corporation assistance that was terminated by the MCC Board of Directors. We also restored other assistance, such as that provided for law-enforcement purposes, which was suspended after the coup to be consistent with our policy of limiting contact with the de facto regime. We are now in the process of evaluating our military assistance to Honduras as we begin re-engagement with the Honduran military to ensure we do so in a deliberate and focused manner, and that our engagement promotes democracy, respect for human rights, and constitutional order in Honduras.

Honduras continues to face daunting challenges, which include strengthening democratic institutions and improving the human-rights climate; combating high levels of corruption, crime, and drug trafficking; and promoting and implementing social and economic reforms to reduce poverty and inequality levels that are among the highest in the hemisphere.

We are working closely with President Lobo regarding allegations of serious human-rights abuses and reports that persons have been targeted for their political views. We remain deeply concerned about a recent series of events in which it appears individuals who express political opinions, especially regarding the coup of June 28, 2009 and the de facto regime which operated in Honduras, are targeted for violence and intimidation. We are also concerned that journalists who write articles or otherwise report on sensitive issues also appear to be targets for violence and intimidation. We continue to strongly condemn these acts of violence and repeatedly express our concerns about the human rights situation in Honduras to President Lobo and members of his government. On April 26, President Obama expressed his deep concern to President Lobo regarding the human rights situation, including the recent killings of journalists and civic activists. President Obama welcomed the Honduran president's plan to fully and transparently investigate these recent reported cases of killings, and commitment to improve the overall human-rights situation in Honduras. In this connection, the United States has stressed that the prompt and forceful investigation of killings and acts of intimidation is essential to the protection of human rights. We will continue to follow this issue closely.

We believe that President Lobo is doing everything he can to move Honduras forward from last year's political crisis. His cabinet has members from five political parties, including three candidates who ran against him in last year's Presidential campaign. President Lobo

replaced the senior military leadership involved in last year's coup and the defense minister who served in the de facto regime that took power afterwards. Further, he established the Truth Commission, which was formally launched on May 4. While much more important work remains to be done to improve the human-rights situation, we note President Lobo's public commitment to do so and the steps he has already taken to fulfill this commitment, such as appointing a human-rights advisor who is working to strengthen the government's response to alleged human-rights violations. Also, the human-rights advisor and the secretary of state for security are working together to ensure that those who have received precautionary measures by the Inter-American Commission on Human Rights receive the appropriate protection.

The United States has deep and abiding interests in Honduras, and we will continue to work closely with the government and people there as they strive to build a better future.

Question:

There are increasing reports of Iran using its influence in South America, specifically working with Hugo Chavez to undermine stability in the region. How widespread is Iran's influence? What are we doing to counter their efforts?

Answer:

Iran has not traditionally had a major presence in Latin America, but seems to be trying to raise its profile, in part, to counter its increasing diplomatic and economic isolation in the face of UN sanctions. Iranian contact with the region expanded after the September 2006 Summit of Non-Aligned Nations in Havana. Since then, President Ahmadinejad has traveled several times to the region, focusing on Cuba, Venezuela, Bolivia, Ecuador, and Nicaragua. Iranian economic engagement remains limited and several promised projects have failed to materialize. Some other arrangements, such as scheduled airline service from Iran to Venezuela, seem more symbolic than economic.

There is concern about Iranian connections to Hizballah, Hizballah's fundraising in the region, and the potential for Iranian arms sales. We are following the situation, and actively counter terrorist financing. While Iran has made some very high-profile contacts in the region, other governments have sought to keep their distance from the Government of Iran. Governments are free to pursue relations with whomever they wish, although we have natural concerns about Iran due to the nature of its government, which is the most active state sponsor of terrorism and continues to defy its obligations to the UN Security Council, International Atomic Energy Agency, and the Nuclear Non-Proliferation Treaty. We expect all countries to abide by their international commitments and obligations, and to enforce UN resolutions and sanctions on Iran.

**Questions for the Record Submitted to
Assistant Secretary Arturo Valenzuela by
Representative Barbara Lee
House Committee on Foreign Affairs
Subcommittee on the Western Hemisphere
March 10, 2010**

Question:

In order to rebuild differently and in a more sustainable manner in Haiti, I believe we must adopt a “rights-based approach” to assistance.

Such an approach would be “Haitian-led” and include democratic participation of civil society, would adopt concrete transparency and accountability mechanisms, and would focus on building the capacity of the Haitian Government to provide basic services while ensuring the social, civil, and political rights of its people.

The recent statements made by Secretary Clinton and others in the Administration regarding transparency and partnering with Haiti are very encouraging.

Can you describe the policy framework that is emerging for U.S. reconstruction and development assistance to Haiti?

Answer:

Your question covers two important factors guiding U.S. investment in the reconstruction process—that it be Haitian led and managed in an open and transparent way that ensures long term benefits for the people of Haiti. After the earthquake, the United States consulted with Haitian government leadership, including the line ministries, to re-assess whether deep investment in agriculture, health, energy and rule of law were still the areas of greatest importance into which the United States should invest. The Government of Haiti identified increased importance in energy and infrastructure—especially shelter and housing—as well as with rule of law, governance and security. We have accordingly adjusted our plans to align with the needs identified by the people and Government of Haiti.

Over the past three months, we have seen increasing engagement on the part of the Government of Haiti to see that “building back, better” involves taking responsibility, acting transparently, providing information, and ensuring accountability not only to partner nations, but to the people of Haiti. In April, after passage by both bodies of the legislature, President Preval issued a decree establishing the Interim Haitian Reconstruction Commission (IHRC). The IHRC will exist for 18 months and have representatives from the Government of Haiti, labor unions, the private sector, NGOs, the Diaspora community, and international donor nations. The mandate of the IHRC is to coordinate, prioritize, and sequence investments and projects to meet the needs of the people and Government of Haiti without duplicative efforts. Prime Minister

Bellerive and former President Bill Clinton will co-chair the IHRC and are currently conducting an open and transparent search for an Executive Director. The IHRC will also have sector offices for education, health, and agriculture. It will also have offices for engaging the NGO community and private sector actors. The Government of Haiti and the IHRC understand that a Haitian-led, private-sector efforts are vital to the nation's future prosperity.

As a donor nation, the United States will coordinate its sector plans with the IHRC to ensure that all efforts continue to align with the needs of the people of Haiti and that U.S. investments are most impactful.

Lastly, the IHRC will serve a capacity-building function by pairing local employees with seconded experts to work alongside each other for the 18 months. At the end of the 18 months, the IHRC will stand down and the Haitian Development Authority—a wholly Haitian-led body—will be in control.

Question:

What specific measures will State and USAID take to ensure that projects are transparent and participatory, both to international observers and to local Haitians?

Answer:

At the March 31 Donor Conference, the UN tracked pledges in real-time on a public website. This website continues to identify pledges, sectors of focus, needs as identified by the Post Disaster Needs Assessment, and where gaps exist. The tracking mechanism will continue to grow in depth with specific project information and progress reporting as they get underway. This site will allow the people of Haiti to hold the Government of Haiti and international donors accountable and similarly to create mutual accountability between the Government of Haiti and international donors. The website is www.refondation.ht.

USAID recognizes that its work in the longer term recovery and reconstruction phase must be both transparent and participatory. As we work with Haiti to rebuild in the aftermath of the earthquake, we will implement a results-driven reconstruction program that is guided by the principles of transparency, innovation, accountability, and collaboration. USAID seeks to bring new partners, including local organizations, small and disadvantaged businesses, and others who can offer innovative development solutions, to the table. The following outlines procedures that are designed to ensure transparency, efficiency, and broader outreach to attract new partners.

- USAID is dedicated to greater Haitian involvement in award selections. To the maximum extent practicable, proposed contracts and grants will provide for source selection participation by representatives of the Haitian government, at both the national and sub-national levels, and to include where appropriate civil society and the international community.
- USAID will disseminate sector-focused concept papers for consultation with the Haitian government, civil society, and the international community.

- USAID will make every effort to make local and international communities aware of ongoing business opportunities through regular announcements.
 - When applicable, USAID will hold pre-award conferences to provide potential partners with the opportunity to ask questions about an award solicitation.
 - USAID will conduct assessments of local NGOs to provide technical assistance to build their organizational capacity to receive direct awards.
 - As appropriate and to the extent possible, USAID will hold meetings after an award is made to review the winning bid or to explain award decisions with unsuccessful offerors and applicants in accordance with all applicable USAID regulations and policy standards.
 - USAID will maximize allowable set-asides for U.S. small business concerns, including minority- and women-owned businesses, whenever appropriate.
-

Question:

At the outset of U.S. relief efforts in Haiti, reports indicated that only one cent of every U.S. dollar was going to the Haitian Government.

Moving forward, how much of U.S. funding will go directly to budgetary support for the Government of Haiti?

Answer:

The Government of Haiti has already shared adjusted figures reflecting a revised 2010 need for \$172M in direct budget support from donors. The effects of the earthquake and the damage in Port-au-Prince will impact tax collection and revenue, and the Haitian government will take in only half of what was expected before the earthquake. At the same time, key items such as salaries for policemen and civil servants, and essential goods, services, and utilities cannot be paid.

The Government of Haiti has requested budget support and has encouraged donors to provide assistance. As a result, the Treasury Department is providing technical assistance on the ground to facilitate recovery of Government of Haiti functions in the finance ministry and to build capacity.

The Multi Donor Trust Fund (MDTF) will include a mechanism for providing budget support to the Government of Haiti, which will assist in meeting that financing gap and rebuilding government capacity. At the same time, the MDTF provides a strong mechanism for tracking funds and ensuring necessary accountability and oversight. While the United States has not announced its investment into the MDTF, we have indicated that it will be at least \$30 million, the threshold for being on the Fund's Steering Committee.

Question:

What additional assistance is the Administration considering for Chile in the short- to medium-term?

Answer:

The United States is committed to continue working closely with the Government of Chile as it moves from emergency needs to reconstruction efforts. For example, FEMA recently signed a letter of intent with its Chilean counterpart to promote information sharing and coordinate emergency management planning. USAID, through the Office of Foreign Disaster Assistance, is prepared to work with Chile on strengthening emergency response capacities. Under the Department of Defense's Humanitarian Assistance and Disaster Recovery programs we are providing assistance to worthy community projects in earthquake-affected areas. The Department of Commerce is supporting a trade show that will highlight how U.S. businesses can support Chilean reconstruction efforts. In addition, experts from the Departments of Defense, Justice, the National Oceanic and Atmospheric Administration, NASA, U.S. Geological Survey, and others continue to provide expert assistance and technical support.

Question:

What is the current estimate for Chile's financing needs to rebuild from the earthquake, and how much outside assistance might the country need to support its reconstruction efforts?

Answer:

The Government of Chile estimates the cost of the 8.8 magnitude earthquake on February 27th at almost \$30 billion (equivalent to about 17 percent of Chile's GDP). This figure includes some \$21 billion in damage to infrastructure, of which \$10.6 billion is in public infrastructure. Insurance is thought to cover about \$2 billion in private sector damage and \$1 billion in public sector damage.

The Government of Chile plans to spend \$8.4 billion on reconstruction over the next 4 years. The financing for this reconstruction plan will come from a variety of sources including: economic growth, reallocating current budget priorities, reducing tax evasion, new incentives for charitable donations made to the reconstruction effort, increased taxes in a variety of sectors (including copper mining), sale of certain government assets, issuance of external and internal debt (through new government bonds), tapping the sovereign wealth funds, and re-assigning state revenue from copper. There have been no specific monetary requests for outside assistance or appeals to international financial institutions for aid in financing the reconstruction.

Question:

Mr. Assistant Secretary, while you were in Spain you were quoted as stating that the Administration proposes "to reverse some of the measures taken by the previous U.S. government to not permit more fluid connections between U.S. citizens and their counterparts in Cuba,..." You went on to say that the Administration is "opening up those measures to have much more communication from one society to the other society."

Many of us who support engagement with Cuba were pleased by the Obama Administration's decision to restore the right of Cuban Americans to visit their families and to open up telecommunications opportunities with our nearest Caribbean neighbor.

In this regards, I introduced the Pursuit of International Education (PIE) Act of 2009, which would restore the general license for educational travel to Cuba.

Would the Administration consider granting the same general license it granted a year ago to Cuban Americans, or at least to reinstate the regulations that until 2004 permitted programs organized for a wide range of educational, cultural, religious and humanitarian purposes?

If so, would the decision be announced soon enough to have an impact on planning for the 2010-2011 academic year?

Answer:

We are committed to increasing the opportunities for meaningful exchange between Cubans and Americans and will continue to study the possibilities for deepening such exchanges.

In 2009, President Obama announced a policy of support for the Cuban people to freely determine their future by, among other measures, easing restrictions on family travel to Cuba to facilitate greater contact between Americans and their families in Cuba. The Administration also supports meaningful engagement between more Americans and Cubans and has already increased the issuance of licenses for educational, cultural, and religious exchanges under existing regulations. For example, in 2009 there was an 80 percent increase in travel licenses issued to U.S. persons under the public performances, athletic, and other competitions and exhibitions category; a 25 percent increase in religious licenses; and a 16 percent increase in licenses issued for academic travel to Cuba. Additionally, non-immigrant visa issuances for Cuban citizens have more than doubled in the last year, including visas for more Cubans to travel to the U.S. for cultural, academic, and professional exchange.

Question:

Congressman Collin Peterson recently introduced H.R. 4645, the Travel Restriction Reform and Export Enhancement Act, which would end travel restrictions to Cuba and increase agricultural exports. I am an original co-sponsor of this bill.

If Congress passes this legislation, would the President sign it?

Answer:

Regarding President Obama's view on pending legislation, we would refer you to the White House for further clarification. We are encouraged that the changes designed to encourage family travel to Cuba have been successful and have led to a significant increase in such visits since September 2009.

Question:

In 2008, the Colombian Constitutional Court declared that “there are no mechanisms for justice and reparation” for “crimes affecting women [internally displaced persons (IDPs)],” and ordered the investigation of 183 cases of sexual violence against women IDPs. However, to-date almost no progress has been made on these cases, and no policies have been developed to address this grave problem.

What steps is the U.S. taking to support Colombia in implementing the Constitutional Court's ruling on violence against women IDPs?

Answer:

The U.S. government (USG) regularly engages the Colombian government to encourage implementation and prioritization of programs addressing concerns of Sexual and Gender Based Violence (SGBV) and supporting the Constitutional Court's rulings on violence against displaced women. The USG is increasingly dedicating its resources toward strengthening the capacity of Colombian governmental entities to respond more effectively to displacement and the specific protection and socio-economic needs of women. This includes strengthening the capacity of Social Action; the Vice-Presidency; the Ministry of Interior and Justice; the Ministries of Social Protection and Education; the Ombudsman, the Inspector General, the Prosecutor General, the National Police, and departmental and municipal governments. Other key support to the Government of Colombia includes supporting the civil society-led Displacement Monitoring Commission to ensure it has the capacity, vision, and resources needed to perform its monitoring and advising role to the Constitutional Court, as well as working with health clinics, internally displaced persons (IDPs) associations, religious entities, traditional community leadership structures, and grass-roots organizations.

The USG provides comprehensive support to Colombia through programs that prioritize vulnerable women in the delivery of emergency humanitarian assistance, health and psychosocial attention, habitat support, socio-economic stabilization (including income-generation activities), and access to rights. In these efforts, the USG coordinates closely with United Nations (UN) agencies, particularly the UN High Commissioner for Refugees (UNHCR), the World Food Program (WFP), the United Nations Children's Fund (UNICEF), and the UN Office for the Coordination of Humanitarian Affairs (OCHA), as well as with other bilateral and multilateral donors working with vulnerable populations. The USG is also leveraging significant funding from the Colombian private sector to enhance program impact and ensure long-term sustainability of programs that work with vulnerable populations.

Question:

Colombia's displacement and refugee crises are among the greatest in the world, with an estimated 4 million people having been forced from their homes.

Yet the Administration's FY11 budget request for the Migration and Refugee Assistance (MRA) account for Western Hemisphere programs is \$11.5 million below the FY10 estimate.

Can you please explain the reason for this decrease in funding?

Answer:

Supporting humanitarian assistance to and the protection of refugees, internally displaced persons (IDPs), other conflict victims, stateless people, and vulnerable migrants remains a top Administration priority. The FY11 MRA request aims to support humanitarian requirements, including those in the Western Hemisphere. To assist in meeting humanitarian requirements in FY 2011, the Administration also requested \$45 million in the Emergency Refugee and Migration Assistance (ERMA) Fund to meet urgent and unexpected needs. The Administration will continue to monitor worldwide humanitarian needs closely, including those for Colombian refugees and IDPs. In addition, as discussed in the following question, funding for IDPs through USAID has been increased.

Question:

Does the Administration plan to offset this decline by increasing funding for other types of programs that address Colombia's displacement and refugee crises?

Answer:

In addition to funding provided through the MRA account as described in the previous question, the United States increased assistance from the FY 2006 and FY 2007 figures of about \$31 million, to \$35 million in FY 2008, \$41.5 million in FY 2009 and \$45 million in FY 2010 to assist Colombian internally displaced persons (IDPs) and Colombian refugees in Ecuador. Our FY 2011 request of \$32.6 million assumes a continued reduction in new IDPs.

PRM assistance addresses IDP and refugee emergency needs during the first 90 days. Longer-term social and economic assistance to IDPs in Colombia is provided by USAID and its partners. PRM and USAID closely coordinate project funding to prevent duplication of programs.

In FY 2009, USAID's IDP programs directly benefited 276,148 IDPs and other vulnerable persons (of which 181,633 were IDPs). They received assistance in the areas of income generation, housing, health care, education, food security, and community strengthening. USAID also significantly strengthened its support for civilian victims of the conflict and other persons with disabilities during FY 2009. Particular attention continued to be devoted to the needs of women, Afro-Colombian and indigenous populations, who are disproportionately impacted by the conflict. USAID plans to provide support services to 168,499 additional IDPs and other vulnerable persons in 2010, although levels of violence and security are difficult to predict. As noted earlier, the Colombian government continues to dedicate significant resources to IDP assistance, including \$650 million in 2009 and an expected \$700 million in 2010.

Question:

The Colombian government's "Integrated Action" counterinsurgency programs are now a central focus of U.S. security and development assistance to that country.

However, I am concerned that 1) civilian institutions vis-à-vis the military are not participating sufficiently and 2) that reports of human rights abuses – including the entry of paramilitary “successor groups” into Integrated Action zones – are going unaddressed.

What steps is the Administration taking to help address these problems?

How is U.S. policy and foreign assistance being tailored to give civilian officials and local communities a more adequate decision-making and management role?

Answer:

“Integral Action,” although an important Colombian initiative, is not “the central focus of U.S. security and development assistance” to Colombia.

As part of an overall framework for dismantling the organizational structures of foreign terrorist organizations and illegal armed groups, the Colombian military, in addition to increasing its physical presence in the countryside and conducting increased operations to ensure permanent citizen security, also undertakes activities to restore government authority and respect for human rights in areas threatened by criminal, former paramilitary, and guerrilla organizations.

The Colombian Army’s Integral Action Units (“Acción Integral”) conduct community projects in areas in conflict and those just emerging from it, areas where the security situation does not allow for the entry of civilian Government of Colombia entities. Every branch and level of the military, from battalion to division, has an Integral Action Unit that does work roughly similar to that of U.S. Army Civil Affairs Officers and the U.S. Army Corps of Engineers. The focus is on practical projects that provide communities with tangible assistance to help them recover from violence, and to demonstrate that the Colombian state is concerned for their welfare beyond the provision of security.

Integral Action Units carry out both quick impact projects – such as deploying medical teams in remote areas to offer a variety of services – and long-term development projects, including installing drainage systems, and rehabilitating bridges and tertiary market roads to connect isolated villages with larger urban centers, connecting previously isolated communities to markets and government services.

One example of such a long-term project is in Arauca, where “Acción Integral” is working to rebuild the urban center of Saravena, to construct a cultural center, and to reconstruct the Banadias Bridge, connecting Fortul to Saravena. The project also includes the construction of a justice center, the return of police to two populated areas, and the establishment of two new specialized judicial offices.

Additionally, the Colombian military is a member of the Center for Coordinated Integral Action (CCAI), a civilian interagency body established in the Office of the Presidency tasked with coordinating the re-establishment of civilian government presence in “priority” zones just emerging from conflict. CCAI receives support in these efforts from the United States.

Question:

Even with the inauguration of Porfirio Lobo as President of Honduras on January 27, I am concerned that opposition leaders continue to be targeted for intimidation, violence, and murder.

The Committee for the Defense of Human Rights in Honduras reports that at least 40 political activists and opponents have been murdered since the coup of June 28, and the Inter-American Commission on Human Rights reports that family members of opposition leaders are also being “killed, kidnapped, attacked, and threatened as a strategy to silence the activists.”

Moving forward, if Honduras wants to restore our and the international community’s confidence in its democratic institutions and respect for the rule of law, the Lobo Administration must intervene to halt these abuses and pursue investigations and prosecutions of those responsible.

Can you please describe the current state of U.S.-Honduras relations?

Answer:

The United States strongly supports President Lobo’s actions to promote national reconciliation, implement the Tegucigalpa-San Jose Accord, and tackle Honduras’ serious political, economic, and social challenges.

Honduras continues to face daunting challenges, which include strengthening democratic institutions and improving the human-rights climate; combating high levels of corruption, crime, and drug trafficking; and promoting and implementing social and economic reforms to reduce poverty and inequality levels that are among the highest in the hemisphere.

We plan to engage closely with the Lobo Administration to assist their efforts to raise the living standards of impoverished Hondurans. The Government of Honduras has a number of good ideas; for example, it plans to implement a new conditional cash transfer program for families, improve the educational system, and improve the poor citizen-security climate. Also, the Honduran government would like to channel some remittances toward investment rather than consumption.

The United States supports the lifting of the suspension on Honduras’ participation in the OAS as soon as possible, and we are working with other OAS members towards that end.

We are not going back to business as usual in Honduras. However, it is time to move forward and assist the new government in making a more concerted effort toward establishing honest, transparent, inclusive, and accountable governance institutions, and to ensure that another break in the country’s democratic order never happens again. The United States has deep and abiding interests in Honduras, and we will continue to work closely with the government and people there as they strive to build a better future.

Question:

Has all U.S. aid that was terminated in 2009 been restored, and have visas of Honduran officials that were revoked been reinstated?

Answer:

As Secretary Clinton has stated, a democratically elected government headed by President Lobo has taken office in Honduras and democratic, constitutional governance has been restored. These conditions, including President Lobo’s actions since taking office—most notably the significant progress he has made in establishing the Truth Commission, as set forth in

the Tegucigalpa-San Jose Accord, and in fostering national reconciliation—met the United States’ requirements for restoring foreign assistance to the Government of Honduras terminated in September 2009.

Accordingly, the United States is resuming assistance to the Government of Honduras to promote economic and social development, strengthen democratic institutions and respect for human rights, and enhance Honduras’ capacity to combat crime and drug trafficking. We restored the assistance terminated by the Secretary last September, with the exception of some security assistance funds that were reprogrammed prior to their September 30, 2009 expiration, as well as approximately \$11 million in Millennium Challenge Corporation assistance that was terminated by the MCC Board of Directors. We also restored other assistance, such as that provided for law-enforcement purposes, which was suspended after the coup, to be consistent with our policy of limiting contact with the de facto regime. We are now in the process of evaluating our military assistance to Honduras as we begin re-engagement with the military to ensure it is done in a deliberate and focused manner, and promotes democracy, respect for human rights, and constitutional order in Honduras.

We continue to monitor events in Honduras and adjust our policy with respect to visa restrictions based on developments there. Any individual whose visa has been revoked will have the opportunity, upon application for a new visa, to try to establish eligibility, with one factor being the conditions existing in Honduras at that time.

Question:

How concerned are you about the reports of continued human rights abuses against political opponents, and what steps is the Administration taking to address these abuses?

Answer:

We are working closely with President Lobo regarding allegations of serious human-rights abuses and reports that persons have been targeted for their political views. We remain deeply concerned about a recent series of events in which it appears individuals who express political opinions, especially regarding the coup of June 28, 2009 and the de facto regime that operated in Honduras, are targeted for violence and intimidation. We are also concerned that journalists who write articles or otherwise report on sensitive issues also appear to be targets for violence and intimidation. We continue to strongly condemn these acts of violence and repeatedly express our concerns about the human rights situation in Honduras to President Lobo and members of his government. On April 26, President Obama expressed his deep concern to President Lobo regarding the human-rights situation, including the recent killings of journalists and civic activists. President Obama welcomed the Honduran president’s plan to fully and transparently investigate these recent reported cases of killings, and commitment to improve the overall human-rights situation in Honduras. In this connection, the United States has stressed that the prompt and forceful investigation of killings and acts of intimidation is essential to the protection of human rights.

While much more important work remains to be done to improve the human-rights situation, we note President Lobo’s public commitment to do so and the steps he has already taken to fulfill this commitment, such as appointing a human-rights advisor who is working to strengthen the government’s response to alleged human-rights violations. Also, the human-rights advisor and the secretary of state for security are working together to ensure that those

who have received precautionary measures by the Inter-American Commission on Human Rights receive the appropriate protection. We will continue to follow this issue closely.

US Foreign Policy Towards the Caribbean Community (CARICOM): Economic Aspects

By Richard L. Bernal, Ambassador of Jamaica to the US (1991-2001)

Testimony to the Subcommittee on the Western Hemisphere of the U.S. House of Representatives. Hearings on U. S. Policy Towards the Americas in 2010 and Beyond. March, 2010.

The United States of America and the member states of the Caribbean Community (CARICOM) share common traditions and goals of peace, democracy and prosperity. There has been a long-standing relationship of friendship between the governments and people of the United States and CARICOM in which the region is recognized by the United States as its Third Border. The United States in the post-World War II period has been the major economic partner of CARICOM, as is evident in the flows of trade, investment, tourism and migration.

U.S. foreign policy has an important impact on the economic progress of the CARICOM countries, and economic development is an essential foundation for peace and democracy in the region and an efficacious antidote to drug trafficking, transnational crime and social violence. The economic development of CARICOM is in the national interest of the United States.

POLICY RATIONALE: Acute Vulnerability of Small Middle-Income Developing Economies

The distinguishing characteristic of small middle-income developing economies (SMIDEs) is acute vulnerability to exogenous external events. The extent of vulnerability is more pronounced in small middle income developing economies (SMIDEs) because of the high degree of openness, narrow range of economic activities, concentration of exports, limitations of economies of scale and constrained competitiveness of small markets. The structural economic vulnerability is compounded by the proneness of the island states of this region to natural disasters including volcanic eruptions, hurricanes, tsunamis and earthquakes. The frequent incidence of natural disasters deprives the region of a significant portion of GDP on an annual basis.

To date this acute vulnerability has not been fully appreciated and is not adequately reflected in the financing facilities and the accompanying conditionalities of the multilateral financial institutions. The appropriateness of the policy requirements and the scheduled duration of adjustment are still open to refinement. Stabilization is not an end in itself; it is a necessary but not sufficient condition for the restoration and promotion of sustainable economic growth. Therefore stabilization must be linked with and facilitate adjustment and transformation. If these goals are to be accomplished in the context of a global economic recession, great care must be exercised in the application of macroeconomic policy platforms that rely predominantly on deflationary fiscal and monetary policy. Short-term policy must not undermine the building of long capacity for international competitiveness through investment in the expansion and

improvement of human resources and modern infrastructure. Economic adjustment must be adequately financed over a suitable term that is politically feasible and socially tolerable.

CONTEXT: The Impact of the Global Financial Crisis

The acute degree of vulnerability means that the SMIDEs of the Caribbean have been more profoundly and adversely affected by the global financial crisis than the developed economies and most developing countries. That these effects have not attained the international notoriety that accompanies dramatic economic collapse is a tribute to the creativity and political courage of policy making and economic management and to the enterprising people of the region. These economies cannot initiate an economic recovery from the deleterious effects of a global recession with deflationary macroeconomic policies, nor can they avoid the deleterious effects by resort to fiscal stimulus. Like those economies more able to provide them, SMIDEs warrant stimulus packages aimed at employment creation, maintenance of social safety nets and enhancement of international competitiveness. These economies require adequately funded remedial economic programs designed specifically to address their structural and institutional characteristics. Financing such economic programs requires a combination of external funding at concessionary terms over a development-oriented timeframe.

RESPONSE: A Growth-Promoting U.S. Foreign Policy

The SMIDEs have the best prospect of achieving sustained economic growth and, indeed, economic development if they pursue sound economic strategies; this prospect is complemented by a growing global economy. The governments of the developed countries and the large developing countries of the G-20 must refrain from policies—in particular, protectionism—that inhibit access to their markets. The United States, given its unique role in the world economy and as main economic partner of CARICOM, must continue to play a leadership role in shaping and nurturing an international economic environment which is sensitive to and supportive of the economic requirements of the SMIDEs. There is an umbilical link between the resumption of tangible growth rates in the SMIDEs of the Caribbean and the economic recovery of the G-20 engines of global growth via export demand, tourism, private capital flows and remittances. The United States can start by implementing economic policies and a foreign policy that actively promotes growth in CARICOM. Measures to this end should include adequate levels of the appropriate kind of development support, an enhanced trade regime which encourages CARICOM exports of both goods and services, measures to stimulate private direct investment; moreover, they should prompt an increased level of development financing from multilateral development institutions, facilitate the restructuring of debt to manageable proportions and provide for sustained aid for reconstruction of Haiti.

The elements of a growth-promoting U.S. foreign policy for the SMIDEs of CARICOM must include (a) sustaining and promoting opportunities, (b) alleviation and/or elimination of

constraints and impediments and (c) facilitating the attraction, mobilization, creation, allocation and utilization of resources.

The actions of the United States will not have an impact on all aspects of the multidimensional process that is development; they must be complementary to national development strategies within domestic social and political environments which are conducive to development and consistent with a deepening regional integration process aimed at creating an enlarged, seamless region-wide economic space.

1. OPPORTUNITIES

A. Expanding Trade

The United States is the largest trading partner of CARICOM, although its share of the region's trade has declined due to diversification. U.S.-CARICOM trade takes place within the framework of the Caribbean Basin Trade Promotion Act (CBTPA) which is in force until September 2010. The CBTPA allows imports from CARICOM to enter the United States free of duty.

CARICOM has written to various members of the House and Senate indicating that it is "most heartened" by the initiative of Senators Ron Wyden (D-Ore) and Bill Nelson (D-Fla) on February 2, 2010 of introducing S. 2978, the objective of which is to extend the duration of the CBTPA to September, 2013. The Governments of CARICOM believe that the continuation of preferential trade arrangements will be beneficial to their economies. They are not ready at this time to sign a free trade agreement (FTA) with the United States because their economies require more time to prepare for such a possibility. In the past the Office of the U.S. Trade Representative has indicated that such a FTA would be similar to CAFTA. The leadership of the region's governments and private sector believe that CARICOM economies cannot cope with an FTA with the United States. Further liberalization of market access for imports from the United States would have to be implemented in a manner similar to that of the recently concluded CARIFORUM-EU Economic Partnership Agreement. The Agreement is based on preferential treatment in the form of asymmetrically phased schedules of liberalization over periods in some cases as long as 25 years. Adjustment is facilitated and supported by development assistance funds and technical assistance, and takes account of the need to maintain the integrity of the regional economic integration process.

The United States has been urged by CARICOM to support special and differential treatment for small developing economies in the design of the Doha Development Agenda of the World Trade Organization (WTO). Special measures afforded them will be consistent with the S&D provisions of the WTO and would in no way disrupt international trade because these economies account for less than 1 percent of world trade. CARICOM continues its support for Aid for Trade as an indispensable means of improving the ability of developing countries to benefit from participation in an increasingly open international trading system.

The policies employed for the stimulation, acceleration and consolidation of the economic recovery of the U.S. economy and the world economy will also have a procreative and energizing impact on CARICOM. This will be manifested in the resurgence of tourist arrivals and expenditure, exports, remittances, loans, financing and direct foreign investment.

B. Promoting Private Enterprise Synergies

The U.S. business community, if provided with the right sort of encouragement from the U.S. Government, can help to reinforce a market-driven, private-enterprise-led growth process in CARICOM economies. Numerous CARICOM-owned firms and foreign corporations operating in CARICOM countries have demonstrated the capacity to be internationally competitive in a world economy in the throes of profound globalization. There are private sector synergies between the United States and CARICOM which are yet to be brought to fruition to the benefit of both economies as they struggle to restart a globally engaged dynamic for rapid and sustained economic growth.

The catenation of locally owned firms and U.S. corporations, particularly those of small and medium size, through strategic corporate alliances, can drive increased trade and investment. The United States should, in collaboration with the governments and private sectors of CARICOM countries, initiate a study to identify the institutional and policy measures that could be taken by both sides to increase foreign investment in both directions.

The International Finance Corporation (IFC) and the Inter-American Investment Corporation (IIC) can perform an invaluable service in funding the private sector of CARICOM in the current conjuncture of uncertainty in international capital markets. The International Finance Corporation, the private sector arm of the World Bank Group, has increased investment and advisory projects in the Caribbean. Since July 2008, IFC has invested more than \$133 million in 21 projects in the CARICOM region, including investments and advisory services.

The IIC has significantly increased its operations after a slow start in which both the IIC and the private sector of the CARICOM region were involved in a learning process. The portfolio has grown from \$2.7 million in 2007 to \$53.9 million at the end of 2009 and a further \$16 million is in the pipeline as of February 2010. The IIC must continue to expand its technical assistance to the private sector of the region in the form of energy audits, diagnostic studies and workshops, especially for local companies, which are very small by global standards.

2. RESOURCES

A. Increasing US Development Assistance

The U.S. development assistance to CARICOM countries, with the exception of Haiti, has declined from the mid-1980s. Many in the region have interpreted this as a sign that the United States does not regard CARICOM as a priority. The decline in U.S. aid has been accompanied by

the rise in importance to the region of economic aid from Venezuela and China. The United States should significantly increase its development assistance to CARICOM countries because this type of resource is still urgently needed to boost acutely vulnerable development processes in these SMIDEs.

There needs to be a better understanding: middle-level per capita income is an illusion masking acute economic vulnerability and a severe fragility in the nature and process of the region's economic growth. The SMIDEs have done relatively well compared to the majority of developing countries but this does not obviate the value of development assistance. Indeed, there is an ongoing role for an appropriate type and amount of development financing in modernization of infrastructure, enhancing education, stimulating an internationally competitive business environment, nurturing a market driven business culture and the strengthening of institutional capacity. These are secondary drivers are essential components for the transformation to sustainable and resilient economic growth and their efficacy cannot be enhanced and accelerated by development assistance. Current focus of development assistance is on poverty alleviation and basic development needs of lower-income, less-developed countries and this results in an insufficient recognition of the needs of CARICOM countries because of their middle level per capita income.

The United States should eschew efforts to graduate the SMIDEs of CARICOM from the concessionary facilities of multilateral development banks by the explicit recognition and application of the more relevant criteria of vulnerability to the allocation of development assistance.

B. Redimensioning Multilateral Development Lending

The World Bank's current portfolio in the CARICOM countries includes 45 projects for a total of \$733.7 million. These operations focus inter alia, on economic policy, urban development and education, catastrophe risk insurance, disaster risk management, HIV/AIDS prevention and control, biodiversity conservation, management of climate change impact, public sector modernization and telecommunications. The World Bank should substantially increase the amount of resources provided to CARICOM countries.

The Inter-American Development Bank (IADB) has proved vital development funding to CARICOM countries. The Caribbean constituency has had 53 loans amounting to \$1.2 billion. During 2009 the Caribbean constituency (the Bahamas, Barbados, Guyana, Jamaica and Trinidad and Tobago) received \$495 million in loans following on \$404 million in 2008. To date in 2010 a further \$235 million has been approved. These projects include policy-based lending and investment loans for infrastructure, education, water, agriculture, sanitation, energy and coastal protection. The IADB must be endowed with additional resources to enable it to continue its policy-based lending and counter-cyclical financing, and to expand its conduit of resources to the SMIDEs of the hemisphere, notably those of CARICOM. It is important that the smallest of the

CARICOM economies continue to access resources from the IADB through the Caribbean Development Bank (CDB).

The Board of Governors of the IADB have agreed to increase the capital of the Bank by \$70 billion, and the United States and other donor members must move expeditiously to complete the domestic political processes to give tangible effect to this commitment.

Multilateral development banks and bilateral aid agencies must remain fully cognizant of the fragility of SMIDEs while endeavoring to achieve meaningful poverty alleviation on an ever-increasing scale. There is a temptation to succumb to the blunt quantitative criteria of per capita income as a measure of development needs. Such a fixation raises the spectre of graduation of SMIDEs from the concessionary facilities. This is an ironic disqualification of those who by dint of careful management, public initiative and private enterprise have attained middle-income status despite their small size and paucity of resources. The CARICOM countries have made progress, but their quest for the higher levels of development could be frustrated by inadequate development funding.

C. Expanding the Caribbean Development Bank

The CDB has embarked on policy-based lending and hence will have to be the purveyor of this type of funds, whether from its own resources or as a lending institution. The CDB is due for a replenishment of its capital and although the United States is not a member it can contribute to the lending resources of this Bank.

The IADB provides resources to the CDB for disbursement to the member states of the Organization of Eastern Caribbean States (OECS), which are not members of the IADB. These countries are eligible for IADB funding through the CDB by a special amendment to the IADB Charter in 1977. Since then the IADB has approved 8 loans worth \$104.5 million and 13 technical assistance grants totaling \$6 million. The major beneficiaries were Dominica, Grenada, St. Lucia and St. Vincent. The IADB should continue the practice, which the Charter contemplates, of treating the CDB as if it were a sovereign borrower.

3. CONSTRAINTS/IMPEDIMENTS

A. Facilitating Debt Reorganization

The economies of the Caribbean are among the most heavily indebted among the emerging economies. Reorganization of external and domestic public-sector debt would be instrumental in providing the urgently needed fiscal space and alleviate pressure on interest rates and exchange rates. It would allow governments to have less resort to borrowing and to reorient fiscal policy to be a tool of development policy in contrast to being confined by the strictures of taxation and borrowing driven by sizeable fiscal deficits. The creation of a facility for debt reorganization in SMIDEs is urgently needed at this juncture, when access to international capital markets is still

prohibitively expensive and policy-based lending needs to be re-dimensioned. These economies have structural impediments similar to those of less developed countries but do not qualify for HIPIC treatment and are not large preferred borrowers of private sources of finance.

B. Enhancing Sustainability and Resilience

The countries of CARICOM, whether they are island states or part of Central and South America, are coastal societies. The vast majority of the population lives and works on the coast or within a few miles of the sea. Many of the vital economic activities—notably tourism, fishing and shipping—are sited on the beach and depend on the quality of coastal and sea resources. Climate change poses a clear and present danger to the region and requires immediate action. The identification and mobilization of resources to enable the governments of the region move quickly to formulate and implement suitable policies is a natural role for multilateral development banks. Any deterioration in the environment of the Caribbean will have a deleterious impact on the region and indeed, on the globe.

The Caribbean region has a history of being highly prone to and susceptible to natural disasters including annual incidents of powerful, hurricanes, earthquakes (most recently in Haiti), and volcanic eruptions as in Montserrat. Perennial hurricanes have caused damage to the CARICOM countries amounting to a considerable share of GDP. The global community has to devise a more systematic medium-term mechanism to sustain redevelopment after the relief efforts are completed. This is a challenge that the United States is well acquainted with, having experienced the destruction caused by Hurricane Katrina.

RECONSTRUCTION: Haiti

The World Bank and the Inter-American Development Bank must be commended for their response to the devastation in Haiti. The World Bank has indicated that it will provide an additional \$100 million for Haiti. The IADB has announced the cancellation of Haiti's debt to that institution, converted the undrawn portion of outstanding loans to grants and established a special department dedicated to the reconstruction of Haiti. Both institutions have signaled their commitment to the long-term redevelopment of Haiti.

The government and people of Haiti are neighbors and a member state of CARICOM, and, consequently, CARICOM intends to be a full participant in the process of reconstruction and development. It should be recalled that CARICOM has been requested and designed by President Preval to carry out certain representational functions on Haiti's behalf.

Haiti's recent experience graphically dramatizes the general point about vulnerability by demonstrating the devastation which natural disasters can cause in the economy and society of a small developing country.

Congress of the United States
Washington, DC 20515

June 19, 2009

The Honorable Hillary Clinton
 Department of State
 2201 C Street, NW
 Washington, DC 20515

Dear Secretary Clinton:

We are writing to you on behalf of Oscar Cerna, a U.S. citizen, and his company Cemento America, S.A. (CEMAR). Mr. Cerna's investment in Honduras was allegedly expropriated by the Honduran government in 2004 to protect the government's commercial interest in a partially state-owned cement company substantially controlled by the Honduran military. We respectfully request that you refer this case to the Department of Justice's Foreign Claims Settlement Commission (FCSC).

Mr. Cerna has presented substantial evidence to us that his \$27 million cement plant was intentionally driven into bankruptcy by and expropriated through actions of the government of Honduras. Among the evidence Mr. Cerna cites are pleadings later filed by the Attorney General of Honduras largely admitting to the scheme. In furthering this complex plan, the government of Honduras apparently acted not only through the military, but also through its judicial system and agencies, including the Honduran tax authority and its intellectual property registry. In the process, not only was equipment of CEMAR seized, but the Honduran government pursued a dubious criminal prosecution of Mr. Cerna which was later thrown out by the courts. This evidence, including a legal analysis prepared by the law firm of Greenberg Traurig supporting Mr. Cerna's claim and many other key documents, is contained in a dossier accompanying this letter.

Last year, many of us wrote a similar bipartisan letter to your predecessor (dossier, section 3). While the State Department declined our previous request, we believe that decision was based on a misreading of the case and Mr. Cerna's ability to exercise his rights under the Bilateral Investment Treaty.

Madame Secretary, while the State Department previously recommended that this case be dispatched to international arbitration under the BIT, Mr. Cerna is not a multi-national company with the resources needed to engage in such a costly four-to-eight year

The Honorable Hillary Clinton
 June 19, 2009
 Page two

litigation. Many, if not most, of the key facts in this case have already been established in various Honduran official findings and statements. These facts do not need to be proven again in a fruitless, expensive, dilatory, and endless arbitration.

Accordingly, we respectfully request your intervention in referring this case to the Foreign Claims Settlement Commission, as this is, in reality, Mr. Cerna's only available remedy.

We thank you for your kind interest in this most important case, involving a U.S. investor in a foreign country.

Sincerely,

Eliud L. Engel

Connie Mauch

Schubert Rangel

Harold A. Weston

Norm Dick

Alfred L. Hestings

Ralph M. Hall

John D. S.

Howard Cole

Carolyn McConky

Gregg Allen

Dana Robinson

JOHN COFFEY, JR., Oregon
CHRISTIAN

HOWARD L. BISHAM, California
RICK BOUCHER, Virginia
JONATHAN BUCKLE, New York
ROBERT C. "BOBBY" SCOTT, Virginia
JULIAN F. PATT, North Carolina
ZOE LOFGREN, California
ANITA JACKSON, U.S. Texas
KATHLEEN WATERBURY, California
WILLIAM D. DELATYNY, Massachusetts
RICHARD HENDERSON, Florida
STEVE LUNGER, Tennessee
HENRY C. "HANK" COFFMAN, III, Georgia
FREDRICK PERLUS, New Mexico
MIKE DUNN, Texas
JERRY W. CATHERINE, Illinois
BRAD SCHIMMEL, California
TAMARA BALCHUN, Wisconsin
CHARLES A. GONZALEZ, Texas
ANTHONY D. WIENER, New York
ADAM B. SCHIFF, California
DANIEL V. MATTEL, New York
KIM T. BRADY, California
DEBORAH WASSERMAN SCHULTZ, Rhode Island

ONE HUNDRED ELEVENTH CONGRESS
Congress of the United States
House of Representatives
COMMITTEE ON THE JUDICIARY

2138 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515-6216

(202) 225-3951
<http://www.house.gov/judiciary>

January 11, 2010

LAMAR G. SMITH, Texas
RANKING MEMBER

T. JAMES JOHNSON, JR., Wisconsin
HOWARD COHEN, North Carolina
ELTON GALLO, California
BOB GOODLATTE, Virginia
DANIEL E. LUDWIG, Oklahoma
DANIEL E. GIBBS, California
J. RANDY FORBES, Virginia
STEVE KING, Iowa
DUSTY FLAHERTY, Arkansas
LOUIE GOMBERG, Texas
JIM JOSEPH, Ohio
TED POE, Texas
JASON LARFETZ, Utah
THOMAS ROBERTS, Rhode Island
GREGG HARPER, Mississippi

The Honorable Hillary Rodham Clinton
United States Department of State
2201 C Street, N.W.
Washington, D.C. 20520

Dear Madam Secretary:

On June 19, 2009, I joined 90 Members of Congress to write to you concerning the case of Oscar Cerna. As you know, Mr. Cerna is a U.S. citizen and resident of Florida. He was the principal owner of Cemento America, S.A. de C.V., a cement company that was allegedly driven from the market by an illicit cartel and conspiracy involving the dominant Honduran cement manufacturers and senior officials of the Honduran government and military.

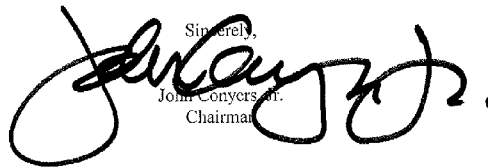
I am concerned that in this case the actions of the Honduras government may have violated Article III of the U.S.-Honduras Bilateral Investment Treaty, which prohibits expropriation of investments "either directly or indirectly through measures tantamount to expropriation." I am also concerned that Mr. Cerna's case does not appear to be an isolated example. I understand the State Department is aware of approximately 14 other outstanding claims for expropriation made by U.S. persons against the government of Honduras.

As you know, Honduras recently held presidential elections, which hold the promise of enabling the United States to resume normal relations with the country after the turmoil resulting from the removal of President José Manuel Zelaya. The organization of the new government of Honduras provides a unique opportunity for the United States to pursue resolution of Americans' long-standing expropriation claims against Honduras. Resolving these claims would provide demonstrable evidence of the new government's commitment to democracy and the rule of law.

I respectfully request that you communicate these points to the new government of Honduras at an appropriate time, including during the expected consultations with the new cabinet in early 2010. In reestablishing its relations with the United States, Honduras must demonstrate its commitment to the rule of law, including by promptly addressing the claims of Mr. Cerna and other Americans whose property appears to have been expropriated.

The Honorable Hillary Rodham Clinton
January 11, 2010
Page Two

We should not let the opportunity of the organization of a new government in Honduras to pass without taking action in support of the rule of law in Honduras. Please contact me if you have any questions.

Sincerely,

John Conyers, Jr.
Chairman

cc: The Honorable Lamar Smith
The Honorable Howard L. Berman
The Honorable Ileana Ros-Lehtinen
Office of Legislative Affairs, Department of State

English Translation
File Number: 222-04

Honduras Attorney General Position on CEMAR Bankruptcy¹

REFUTATION OF THE AMOUNT CLAIMED IN AN INADMISSIBLE AND ILLEGAL LAWSUIT. A SPECIAL POWER OF ATTORNEY WITH LIMITATIONS AND PROHIBITIONS IS HEREBY GRANTED FOR A JUDICIAL MANDATE. DOCUMENTATION IS HEREBY ATTACHED.

Honorable Judge of Letters for Administrative Disputes:

I, **SERGIO ZAVALA LEIVA**, of legal age, married, Attorney at Law, Honduran, and from this domicile, with Identification Card number **0638** issued by the Honduran Bar Association, acting in my capacity as **Attorney General of the Republic** and consequently true and lawful attorney of the **GOVERNMENT OF HONDURAS**; appointed through Legislative Decree number **03-2002** dated January 26, 2002, as I certify it with a duly authenticated copy that I am attaching hereto; with the utmost respect, I hereby appear before you refuting in time and form the "Sum" formulated in an unsustainable way in the illegal action initiated against my Principal by Attorneys **MAURICIO VILLEDA BERMUDEZ** and **ENRIQUE FLORES LANZA**, acting in their capacity as Legal Representatives of **LAFARGE INCEHSA, S.A. DE C. V.**, in the **ILLEGAL** lawsuit lodged against my Principal, the **GOVERNMENT OF HONDURAS**, through the **Ministry of Industry and Commerce**, requesting **THE PURPORTED ANNULMENT OF A SPECIFIC ADMINISTRATIVE ACT OF GOVERNMENT THAT THEY HAVE IMPROPERLY REGARDED AS "GENERAL" IN NATURE, SO AS TO AVOID COMPLIANCE OF**

¹ This is a Petition filed by the Honduras Attorney General in a case brought against the Government by Lafarge-INCEHSA [part-military-owned cement company] and CENOSA[the cement cartel] after CEMAR had been eliminated from the market and bankrupted. CEMAR is not a party in this case; however, this pleading contains several factual and legal statements of the Attorney General directly relating to CEMAR.

English Translation
File Number: 222-04

THE REQUIREMENTS PRIOR TO THE FILING OF SUCH AN IMPROPERLY INITIATED ACTION, BY ALLEGING THAT IT IS NOT ACCORDING TO THE LAW; THE RECOGNITION OF AN ONEIRIC AND INDIVIDUALIZED LEGAL SITUATION, and to LEAVE WITHOUT EFFECT AND VALIDITY THE CHALLENGED EXECUTIVE DECREE; I hereby present my arguments based on the following facts and legal considerations:

FACTS:

FIRST: The aforementioned legal representatives allege without basis, when specifying the "Claimed Amount of the Lawsuit" and mending the complaint as a result of an order by your Court, that the damages caused as a result of the illegally challenged Executive Order are equal to Lps. 6.30 per bag of cement sold "EX PLANT," and that based on such fact, they have arrived at the "current" and oneiric sum for caused "losses and damages" of SIX MILLION SIXTY-EIGHT THOUSAND TWO HUNDRED SEVENTY-THREE LEMPIRAS (Lps. 6,068,273.00), **WHEN IT IS OBVIOUS THAT THE EXECUTIVE ORDER HAS NOT CAUSED THEM ANY DAMAGES AT ALL WITH RESPECT TO THE MENTIONED PRICE STRUCTURES,** insomuch as THE ESTABLISHED EX PLANT PRICE OF SEVENTY LEMPIRAS PER BAG, 12% SALES TAX INCLUDED, **CAUSES THE FINAL PRICE TO THE CONSUMER TO GO UP BY MORE THAN THE SIX LEMPIRAS AND THIRTY CENTS (Lps. 6.30) that the illegal plaintiff mentions, as a result of the addition of freight costs and the distributor's profit; THEREFORE THE FINAL PRICE TO THE CONSUMER, FREIGHT COSTS AND DISTRIBUTOR'S PROFIT INCLUDED, HAS REACHED THE SAME LEVELS AS IN MAY 2003 THAT THE AFOREMENTIONED LEGAL REPRESENTATIVES INVOKE.** Your Honor: THE ONLY PURPOSE OF THE EXECUTIVE ORDER IS TO STOP, TO HOLD, TO DETER THE LIMITLESS AND UNSCRUPULOUS

English Translation
File Number: 222-04

ABUSE OF THE TWO CEMENT COMPANIES BY RESTRICTING THEM FROM PUNISHING THE CONSUMERS BEYOND THE LEVELS WHICH THE IMPOSED EXACTIONS [An official wrongfully demanding payment of a fee for official services when no payment is due] HAVE REACHED IN HONDURAN SOCIETY TO THE PRESENT DATE.

And these considerations are made, Your Honor, **WITHOUT TAKING INTO ACCOUNT THE IRREFUTABLE FACT STEMMING FROM THE LOOSE, INTERVENTIONIST AND MANIPULATIVE FREE WILL OF THE TWO CEMENT COMPANIES [LAFARGE-INCEHSA and CEMENTOS DEL NORTE] REGARDING THE ANTI-COMPETITIVE PRACTICES THAT THEY USED AGAINST “CEMENTO UNO” TO BREAK THE EPHEMERAL COMPETITION WITH WHICH IT MADE INROADS INTO THE MARKET; a stage during which THEY THEMSELVES LOWERED THE PRICE TO THE FINAL CONSUMER TO THE LEVEL OF Lps. 49.69 [US\$ 2.75¹] per bag in February of this year, BY SELLING THE PRODUCT AT BELOW COST BY USING PREDATORY PRICES IN ORDER TO STRIKE DOWN, JUST AS THEY DID, THE ADVANTAGEOUS COMPETITION THAT AROSE TO THE BENEFIT OF THE CONSUMER.** Therefore THERE ARE ABSOLUTELY NO PRETENDED DIFFERENTIAL “DAMAGES” against the illegitimate plaintiff, and the only thing evident from their actions and claims IS THEIR VORACIOUS AND LIMITLESS APPETITE IN THEIR ATTEMPTS AGAINST THE NATIONAL CONGLOMERATE THAT IS SO WORTHY OF HONEST ENTREPRENEURS WITH INTENTIONS OF RATIONAL, MODERATE AND RESTRAINED PROFIT.

For the reasons previously stated, I hereby CHALLENGE the idealized amount claimed.

English Translation
File Number: 222-04

SECOND.- Your Honor: So chaotic is the situation in an industry that is so essential to our national economy that WHEN THE TWO CEMENT COMPANIES IN OUR COUNTRY WERE PRIVATIZED, THE PRICE OF A BAG OF CEMENT WAS ABOUT FOUR LEMPIRAS, FINAL PRICE TO THE CONSUMER. Therefore, it is quite evident, no matter how you look at it, that these processes only served TO PAUPERIZE SOCIETY, TO IMPOVERISH THE POOR AND TO MAKE THEM MISERABLE as a result of the levies brought about by the high prices at which the products manufactured by the privatized companies are now sold. On the contrary, back then it was assumed that there was going to be greater "EFFICIENCY" in their management and that, consequently, they would "CONTRIBUTE TO THE IMPROVEMENT OF THE ECONOMY". This was not more than a deceitful, specious and ingenuous argument that was then translated into cruel realities, such as the one that the cement producers want to impose on us, that is, that WHEN THEY WERE ECONOMICALLY ASPHYXIATING THE ONLY COMPETITION THAT DARED TO EMERGE, "CEMENTO UNO", THEY LOWERED THE FINAL SALES PRICE TO THE CONSUMER to about FORTY NINE LEMPIRAS AND SIXTY NINE CENTS (L49.69) [\$2.75¹] PER BAG, placed at the hardware store, with the cost of freight and sales tax included, being obvious that the going price at the factory WOULD HARDLY REACH THIRTY LEMPIRAS [\$39.09 per metric ton²]. Under these circumstances, everything was "BUSINESS AS USUAL" IN THEIR COMMERCIAL OPERATIONS. Once they finished, liquidated or killed the small competition that entered "the free forces of supply and demand of the market", which barely captured a 12.5% share of that market, "THE OMINOUS FORCES OF SUPPLY AND DEMAND", AND CONSOLIDATED THE EXISTING MONOPOLY OF THE INDUSTRY IN THE COUNTRY, SURE AS THEY WERE OF THEIR VICTORY OVER THE ENEMY, PRICES UNSCRUPULOUSLY SKYROCKETED AND LAST AUGUST REACHED EIGHTY EIGHT LEMPIRAS [\$4.75³] PER BAG [\$111.68 per metric ton²] TO

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THE CONSUMER IN SAN PEDRO SULA. By doing so, they flagrantly distorted the economic indexes and irremediably affected THE CONSTRUCTION INDUSTRY, a basic activity in the economic reactivation of one THE STRATEGIC SECTORS THAT THE GOVERNMENT OF HONDURAS, IN SPITE OF THE NON-INTERVENTIONIST PROVISIONS CONTAINED IN THE CONSTITUTION, HAS RESERVED TO ITSELF UNDER EXTRAORDINARY CIRCUMSTANCES SUCH AS THE ONES BROUGHT ABOUT BY THE UNSCRUPULOUS PROFITEERING OF THE ONLY TWO CEMENT PLANTS IN THE COUNTRY.

Therefore, Your Honor, if events unfolded in that manner during the period when they [Lafarge-INCEHSA and CENOSA] applied PREDATORY PRICES against **"CEMENTO UNO"** AND AGAINST SOCIETY AS A WHOLE **THROUGH ANTI-COMPETITIVE PRACTICES, THEY SOLD THEIR PRODUCTS AT BELOW COST WITH THE SOLE PURPOSE OF "BANKRUPTING THE COMPETITION"**. These practices are **REPULSIVE, IMMORAL, ILLEGITIMATE AND ILLEGAL** since in no way were they aimed AT **"FAVORING THE CONSUMER"**, but precisely on the contrary, TO ATTEMPT AGAINST THE CONSUMER'S BEST INTERESTS, AS THEY DID ONCE THEY BURIED THE COMPETITION, WHICH THEY ACHIEVED IN THE END.

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I hereby refute the amount claimed based on the following articles of law: 1, 80, 82, 228, 245, numerals 1), 2), 11), 20); 331, 332, 333 and 339 of the Constitution of the Republic; 1 and 40, numeral 1 of the Law concerning the Organization and Authority of the Courts; 19, function 1 of the Organic Law of the Office of the Attorney General of the Republic; 1, 39 and 40 of the Law concerning the Jurisdiction of Administrative Procedures.

PETITION:

Your Honor, with the utmost respect **I HEREBY REQUEST:** to have as refuted in time and form the amount claimed in the lawsuit; to process this refutation collaterally and transfer it to the opposing party so that it may express its opinion about this refutation within three days; with its plea or without it, to open the motion to evidence over a period of ten calendar days to make motions and produce evidence; and to continue the due process until delivering the interlocutory judgment **DISMISSING** the oneiric amount claimed in the lawsuit **AND DECLARING THE PLAINTIFF GUILTY OF LITIGATING UNDER FLAWED LEGAL ARGUMENTS AND IN BAD PROCEDURAL FAITH, ALL IN AN ATTEMPT AGAINST THE BEST INTERESTS OF HONDURAN SOCIETY.**

SPECIAL POWER OF ATTORNEY IS HEREBY CONFERRED FOR PURPOSES OF LITIGATION. RESTRICTIONS TO REPLACE IT.

To continue with these proceedings, I hereby grant Special Power of Attorney for a Legal Mandate, with restrictions to replace it, to **GREGORIO ADRIAN ROSALES**, of legal age, married, Honduran, of this domicile, Attorney at Law, registered with the Honduran Bar Association under Number 02287, with address to receive notices at the offices of the Legal Services Unit of the **Ministry of Industry and**

English Translation
File Number: 222-04

Commerce located in the third floor of the former FEADUANAH building, Boulevard Kuwait, in this capital city; telephone 235-3081; to whom I hereby grant the general powers of attorney for a legal mandate, with RESTRICTIONS TO REPLACE THIS ATTORNEY AND USE IT TO THE DETRIMENT OF THE REPUBLIC OF HONDURAS, OF THE POWERS EXPRESSLY MENTIONED, MORE SPECIFICALLY OF WAIVING THE RIGHTS TO APPEAL AND THE LEGAL JURISDICTIONS, OF COMMITTING TO AND SETTLING WITHOUT PREVIOUS EXECUTIVE ORDER PURSUANT TO ARTICLE 19, FIRST ATTRIBUTION OF THE ORGANIC LAW OF THE OFFICE ATTORNEY GENERAL OF THE REPUBLIC; **THEREFORE, THE COURTS MUST REFRAIN FROM ACKNOWLEDGING ALL ACTS OR OMISSIONS THAT VIOLATE OR TRANSGRESS THIS PUBLIC NORM IF THE EXECUTIVE ORDER REQUIRED FOR SUCH PURPOSE IS NOT IN THE RECORDS.**

Tegucigalpa, M. D. C., October 13, 2004.

Dr. SERGIO ZAVALA LEIVA
ATTORNEY GENERAL OF THE REPUBLIC

¹Based on the average official exchange rate published by the Central Bank of Honduras for the month of February, 2004: 18.06 lempiras per dollar.

² One metric ton equals 23.529412 bags of cement.

³Based on the average official exchange rate published by the Central Bank of Honduras for the month of August, 2004: 18.54 lempiras per dollar.

