

Thomas F. McLarty Testimony
House Subcommittee on Trade – Brazil Hearing
Ways & Means Committee
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Introduction

Chairman Nunes, Members of the Committee – I want to thank you for hosting this hearing today on Brazil and the growing bilateral relationship.

My interest and involvement in Brazil and the Americas began a number of years before I came to Washington to serve in the Clinton administration. My older son Mark lived and worked in Brazil before attending college, and during our visits to see him, my wife and I were impressed and charmed by the country, with its natural bounty, vibrant history, rich culture, and welcoming people.

Little did I know then that I would have the opportunity to participate in forging some of our nation’s key policies toward our closest neighbors, from the Mexican peso recovery package to the Caribbean Basin Initiative to Plan Colombia; or that I would have the opportunity to help shape the Summit of the Americas in 1994 in Miami – the first gathering of hemispheric leaders since 1967; or that I would represent the United States at the signing of the Guatemala peace accords that ended a 36-year civil war.

Little did I know that I would return to the region more than 50 times as President Clinton’s Special Envoy for the Americas, or that I would continue traveling Pan-American highways in the private sector through my strategic advisory firm, McLarty Associates.

So it’s a pleasure and privilege to share my observations with you this morning.

A Good Moment to be Focusing on Brazil

This hearing is timely, coming on the heels of Vice President Biden’s trip to Brazil just over two weeks ago, and just a few months prior to President Dilma Rousseff’s State Visit in October.

As you know, this will be the first State Visit for a Brazilian President since the United States hosted President Fernando Henrique Cardoso in 1995 during my tenure in the Clinton Administration; and after 18 years, both our countries—and indeed the world—have changed.

Brazil’s rise, together with that of other emerging markets such as China and India, has irreversibly shifted global dynamics.

The sharpened focus on Brazil—and, more broadly, the renewed emphasis on Latin America we are witnessing during President Obama’s second term—reflects the importance of Brazil’s peaceful emergence on the global stage.

Without neglecting the geopolitical hotspots critical to our national security, the United States has much to gain from new and more productive engagement with Brazil. With that in mind, I want to outline four areas of strategic cooperation with real potential for win-win outcomes—by which I mean job growth and economic prosperity for all our citizens: energy; democracy, peacekeeping and defense; China; and trade and investment.

Energy

First, energy.

The enthusiasm surrounding Brazil's discovery of enormous pre-salt oil deposits off its coast has been tempered by the acknowledgement that deep-water drilling remains a difficult and risky endeavor. The United States' significant technological and operational safety expertise could be coupled with Brazilian know-how to produce meaningful results. Chevron and Exxon Mobil participated in the 11th oil and gas bidding round conducted by the Brazilian authorities in May; but more can be done to further our technical and commercial cooperation in deep-water exploration and production.

In addition, Brazil—like the United States—is rich in shale gas reserves. Mirroring the U.S. experience, Brazil is presently struggling to enact effective regulatory regimes that balance environmental concerns with the potential of this energy resource. As Chairman Nunes is aware, a Brazilian congressional and business delegation recently visited the U.S. to learn about the U.S. experience, highlighting the potential for deeper bilateral collaboration in this area.

Lastly, and thanks in part to this Committee's leadership in lifting the ethanol tariff, our two countries can more aggressively pursue business opportunities in ethanol production, as well as jointly create development opportunities for production in third markets such as Africa or Central America and the Caribbean, where the United States and Brazil have a shared legacy and mutual desire to support human and economic development.

Democracy, Peacekeeping and Defense

The second area ripe for cooperation is democracy, peacekeeping and defense.

Though Brazil's cultural tendency towards non-intervention can limit the depth of our cooperation on issues such as non-proliferation, Brazil has been a steadfast peacekeeping partner in places like Haiti and the Democratic Republic of the Congo, and is seeking to increase its influence in the developing world. Brazil's Jungle Warfare Instruction Center has become an elite training center for special operations forces for African and even French and American soldiers, reflecting Brazil's desire to raise its military profile abroad.

Brazil recognizes that its newfound prominence requires a more strategic approach to defense cooperation and force modernization. To this end, in 2010, the United States and Brazil signed a Defense Cooperation Agreement to exchange defense and operational expertise. Beyond the commercial benefits, the agreement is helping Brazil enhance its military capabilities; and from the U.S. perspective, we are cementing a strategic relationship with the most culturally and

politically compatible of the BRIC emerging markets—an anchor of regional stability, and a potential partner on global security issues.

While Brazil is not likely to publicly press countries over their internal political processes—as recently demonstrated by its handling of Venezuela’s recent presidential election—Brazil’s recognition of its role as a global leader has it focused as never before on regional stability, particularly in South America. In a shift from even a decade ago, the Brazilian government is more actively engaging in commercial diplomacy and pressing for the rule of law in countries like Ecuador and Bolivia. This trend is almost certainly correlated with the increasing presence of Brazilian multinational companies invested in the region.

China

The third area for enhanced cooperation concerns China.

Both Brazil and the United States have much to gain from China’s rise, as millions of new consumers enter the marketplace, offering an opportunity for companies to fill gaps that meet local needs. Brazil also serves a model for much of the developing world as it undergoes the successful integration of more than 20 million people into its middle class. My family’s fourth-generation automotive enterprise has dealerships in both Brazil and China, and I can testify to the economic transformation and vast potential for business in these markets.

At the same time, both the United States and Brazil fear what China’s rise might mean for domestic competitiveness. The United States has much to gain from collaborating with Brazil on approaches to China that encourage the emergence of China not only as a global giant, but also as a global stakeholder. For example, encouraging China’s active participation in ensuring a more balanced and stable international monetary system.

Trade and Investment

The last area of mutual potential benefit that I want to highlight is trade and investment.

Since 2006, goods and services exports from the United States to Brazil have more than doubled, from \$26.6 billion in 2006 to \$62.7 billion in 2011. In addition, the United States has long been one of the largest investors in Brazil.

Increasingly, however, we are seeing Brazilian firms in sectors from agriculture to steel expanding aggressively throughout the United States. USTR reports that Brazil FDI in the United States was \$5 billion in 2011, up 266 percent from 2010. Portuguese is now spoken in the Great Plains, with JBS investments in Colorado, Minnesota, Nebraska and Iowa. Embraer’s two plants in Jacksonville and Melbourne, Florida, will produce many of the 30 regional jets recently purchased by United Airlines, creating high-skilled jobs in those communities. Investments like these give Brazil an unprecedented stake in the U.S. economy. We should encourage the U.S. and Brazilian government to involve more closely the private sector in both countries in strategic and commercial dialogues.

The United States and Brazil also have much to gain from multilateral liberalization in agricultural trade. The WTO Doha Development Round collapsed in part because of a failure to address agricultural subsidies and domestic supports in a significant way, as well as emerging markets' reluctance to liberalize trade industrial products and services. As the United States pursues our current ambitious trade agenda in Asia and Europe, we should bear in mind that Brazil could help to bridge the longstanding North-South disputes that have stalled Doha's conclusion, even more so with a Brazilian leading the WTO. While bilateral trade and investment flows are robust, both countries are leaving money on the table by failing to deepen what could be an even more vigorous and expansive economic relationship.

Conclusion

Mr. Chairman, for many years and for many reasons, Brazil has been a secondary focus for U.S. foreign policy. Today, however, our neighbor's rising role, not just regionally but globally, creates an opportunity for our two nations to work together in shaping a future for the global community that reflects our democratic values and beliefs.

With the momentum created by the upcoming State Visit, and building on the spectacular tenure and professionalism of our departing U.S. Ambassador to Brazil, Tom Shannon, the moment is ripe and the stage is set for seizing that opportunity now.

High-level U.S. engagement and commitment will be essential to realize the promising opportunities I've outlined here. I am encouraged by the leadership you have shown with this hearing, and I look forward to answering any questions you may have.

Thank you.