TESTIMONY OF ANDRES GLUSKI, PRESIDENT AND CEO OF THE AES CORPORATION BEFORE THE COMMITTEE ON WAYS AND MEANS SUBCOMMITTEE ON TRADE

Chairman Nunes and distinguished Members of the Subcommittee, my name is Andrés Gluski. I am the President and Chief Executive Officer of The AES Corporation (NYSE: AES), a Fortune 200 company managing electric sector companies in many countries around the world. I am also one of the 10 U.S. members of the 2011–2013 U.S.–Brazil CEO Forum as Brazil is one of the key markets for AES. We have enjoyed a positive working relationship with the Brazilian government and we are committed to growing our business in the country. Thank you for inviting me to testify before the Subcommittee on the important topic of the trade relationship between the United States and Brazil.

AES and Its Brazilian Operations

AES is a global power company that owns and operates a diverse and growing portfolio of electricity generation and distribution businesses. We employ approximately 25,000 people globally, and safely provide reliable and affordable energy to customers in 25 countries. Our power plants use a broad range of technologies and fuel sources, including coal, diesel, hydropower, gas, oil, wind and biomass, and our utilities power several diverse markets, from São Paulo, Brazil to Indianapolis, Indiana. AES has a proven commitment to operational excellence in the generation and distribution of electricity to its customers. We combine our more than 30 years of experience in the field with deep local insight to provide safe and sustainable energy to improve people's lives in the markets we serve. Our success in managing a diverse fleet of energy assets across the world sustains hundreds of direct and indirect high quality finance and technical jobs at our headquarters in Arlington, Virginia.

AES has maintained an important presence in Brazil since 1997. We have invested more than $6.9 billion in the Brazilian energy sector. We hold a significant amount of our electricity generation and distribution assets in partnership with the Brazilian National Development Bank (BNDES), although AES has a controlling interest in those companies and operates them. AES Brazil is headquartered in São Paulo and currently employs more than 6,000 people. We are one of the largest electricity groups in Brazil, operating more than 3,300 MW of generation capacity and serving 7.7 million distribution customers. We control and operate two companies listed in the Sao Paulo Stock Exchange (Bovespa), Tiete and Eletropaulo, with a current combined market cap of $5 billion.

The U.S. – Brazil CEO Forum

I am honored to participate in the U.S.–Brazil CEO Forum ("the Forum"). The Forum was created in 2007 by the United States and Brazilian governments and is comprised of private and public sector representatives from both countries.

In the United States, the Forum is chaired by the U.S. Secretary of Commerce and the Deputy Assistant to the President and Deputy National Security Adviser for International Economic Affairs. In Brazil, the Forum is chaired by the President's Chief of Staff, and the Brazilian Minister of Development, Industry and Foreign Trade.

Over the past two years, the Forum's efforts have focused on improving cooperation related to issues in the areas of trade and investment, and education and innovation. We have also concentrated on the aviation, infrastructure and energy sectors.

Opportunities in the Energy Sector

At AES, we see tremendous potential for the U.S. and Brazil to cooperate in the energy sector, and we have engaged in discussions at the Forum on several key topics within the energy industry.

Development of the shale gas resource in Brazil could become a significant contributor to growth in the Brazilian economy. The Brazilian Oil Agency, ANP, originally estimated that Brazil has 32 trillion cubic feet of natural gas reserves. Those estimates have more recently been raised significantly. They now believe five basins in the country contain potential reserves of up to 500 trillion cubic feet of shale gas. This estimate is 88 percent higher than the U.S. Energy Information Administration's estimates that Brazil has 226 trillion cubic feet of gas held in shale. With either estimate, however, the potential for gas production is significant. Brazil may offer exploration blocks that contain deposits of shale gas in these five separate basins in an auction planned for December 2013.

There is significant potential for further collaboration between the U.S. and Brazil in developing these potential shale gas reserves. To foster successful collaboration and to ensure the appropriate development of these resources, attention is needed to enhance the natural gas infrastructure in Brazil, to secure enough skilled professionals to work in the industry, and to establish appropriate incentives for property owners. I'll briefly examine each of those issues.

Enhancing Natural Gas Infrastructure

In the U.S., shale gas is fundamentally changing the country's energy outlook, providing a new source of low-cost natural gas for domestic consumption and exports. The U.S.–Brazil CEO Forum believes Brazil would also benefit from growing its natural gas usage to diversify and increase the reliability of the country's energy supply while stimulating other sectors of the Brazilian economy. Natural gas is also cheaper than other hydrocarbons and has lower CO2 emissions.

To fully leverage its available natural gas resources, Brazil should support new investment in the development of gas transportation infrastructure. A well-organized gas transportation infrastructure will allow natural gas to be utilized widely across Brazil's vast territory.

Securing Skilled Professionals

To develop a vibrant natural gas industry, Brazil will need skilled labor to build the supporting infrastructure. In the U.S., there is uniquely skilled labor in this sector which could be leveraged to assist in efforts to further develop this industry in Brazil. If Brazil were to establish a formal Visa Waiver Program for skilled professionals, these workers could be more readily available.

For Brazil to develop its next generation of skilled labor, the nation needs policies to sponsor additional education in science, technology, engineering and math. Moreover, programs to promote internships within the private sector will also help develop the next generation of skilled labor.

The private sector can collaborate with both governments to drive education and innovation, increase job opportunities, promote economic growth and help reduce poverty.

Establishing Incentives for Property Owners

In developing natural resources, it is helpful to provide incentives to property owners for them to be able to participate in the benefits of utilizing these resources. In the United States, underlying shale gas is the property of the landowner, creating a financial incentive for private owners to allow shale gas operations and their associated disruptions to occur on their land.

In Brazil, the Federal Union generally owns the gas, not the landowner. Brazil will need to develop mechanisms to compensate and incentivize landowners to cooperate with natural resource development on their lands if the potential for the natural gas industry in Brazil is to be realized.

Sugar Based Ethanol

A closely related area where there can be significant complementarity between the U.S. and Brazil is in the area of bio-ethanol products. Brazil is the largest producer of sugar based bio-ethanol in the world, representing around 40% of its domestic fuel demand in 2012. The U.S. could benefit by loosening barriers to the import of lower cost bio-ethanol from Brazil while U.S. companies which lead in the material science discipline could benefit from favorable treatment in Brazil that would allow them access to ample supplies of economic raw materials which are not always available in North America.

Liberalizing Local Content Rules

The challenges and the opportunities that the energy sector offers to Brazil will require the cooperation of many countries to support further development. The United States is well-positioned to provide know-how in the development of oil and gas infrastructure at competitive costs, provided there is a level playing field where U.S. companies are held to the same rules applied to their Brazilian competitors.

Brazil has some of the most demanding local content laws in the world. Awarded contracts require that activities in the oil exploration phase use between 37 and 85 percent local goods and services. In the development phase, the requirement is between 55 and 80 percent.

State-owned Petrobras recently requested that regulators relax strict requirements on local content laws. Petrobras asked for these changes to be included in the next bidding rounds for new oil and gas exploration concessions in 2013. These changes will help continue development of the sector in Brazil. In addition, promoting partnerships with U.S. companies in this area, along with access to competitive Brazilian financing for U.S. investors, could significantly advance the agenda in the sector.

These local content rules are not only an issue in the energy sector, but also present challenges in other sectors as well.

Increasing Role of Local Capital Markets

The Brazilian National Development Bank (BNDES or "the Bank") plays a critical role in Brazil's current economic growth and development. The country has an agenda for the completion of significant infrastructure projects under the Growth Acceleration Program, in addition to construction of infrastructure and facilities for the 2014 FIFA World Cup and the 2016 Olympics. The Bank is the leading long-term provider of financial support for key strategic sectors in Brazil.

The Bank offers several financial support mechanisms to Brazilian companies of all sizes, as well as public administration entities in Brazil. The Bank has grown to become the largest development bank in Latin America and the second largest development bank in the world. Only the China Development Bank is larger. In 2010, the Bank had a loan portfolio three times larger than that of the World Bank and in 2012 lent more money than the World Bank and the Inter-American Development Bank combined.

The Bank supports the creation of national champions in key sectors of the Brazilian economy, such as aviation, commodities, oil and gas, poultry, meatpacking and others. This support has created Brazilian global players in different sectors of the economy that are capable of competing outside of Brazil. These companies include Petrobras, Vale, JBS and Embraer, the world's third largest aircraft manufacturer and a Brazilian member of the U.S.–Brazil CEO Forum. These companies are executing an internationalization program focused on extending their presence to become global players. They have attracted investors in local and international capital markets. Embraer's aviation business exemplifies the potential for complementarities between the two countries as Embraer's planes are manufactured in Brazil, while much of the avionics and many of the turbines are made in the United States.

Globalization and the demand for goods and services from developed markets have increased the attractiveness of local capital markets. More and more of these companies are able to raise funds in Brazil, attracting a diverse source of investors. Brazil's Securities, Commodities & Futures Exchange ranks among the world's leading exchanges by market capitalization and second in the Americas with a market capitalization for 365 companies of more than $1.22 trillion as of April 2013.

Brazilian players have been in the headlines for large transactions in many parts of the world. Recently, Jorge Paulo Lemann , a Brazilian investor with a controlling stake in Anheuser-Busch InBev, the world's largest beer company, together with his longtime partners Marcel Telles and Carlos Sicupira, made headlines, when their investment firm, 3G Capital, partnered with Warren Buffett in a $28 billion takeover of the U.S. consumer giant Heinz.

The potential is well demonstrated for the development of a deep and sophisticated capital market in Brazil. This potential must be realized if Brazil's true economic potential is to be realized.

Creating U.S. Job Opportunities

The U.S. has the opportunity to create jobs both through investment in Brazil and by encouraging Brazilian investments in the U.S. We see large U.S. corporations committing to develop facilities in Brazil. Automobile manufacturers and large conglomerates such as General Electric are good examples of entities bringing competitive U.S. technology and know-how to Brazil, and at the same time increasing value for U.S. companies in their supply chains.

As an example, the GE technology center located in Rio de Janeiro develops wind turbines specifically designed for the intensity and height of Brazilian winds. This GE activity can also help bring U.S. components from other companies to Brazil as part of GE's supply chain. This approach generates jobs in the U.S., both in management of overseas assets as well as the manufacturing jobs created when U.S. components are purchased.

The U.S. and Brazil could also benefit from encouraging Brazilian investment in the U.S. infrastructure sector. Brazil has developed strong engineering and construction companies that are competing in the U.S., Latin America and Africa. The U.S. is second only to China in public ownership of its infrastructure. A widespread infrastructure privatization program promoting privatization of toll roads, highways, bridges, and ports, could represent a huge opportunity to attract Brazilian and other global investors to the U.S. infrastructure sector. Through this effort, we will be able to improve and modernize U.S. infrastructure without increasing the fiscal deficit, while also creating jobs in the construction and infrastructure sectors that could help the U.S. continue reactivating its economy. This program could benefit significantly from the work already performed by the Infrastructure committee at the U.S.–Brazil CEO Forum. The committee has already prepared documents explaining the Brazilian government's procurement policies for contracting infrastructure projects as well as detailing examples from the U.S. on a variety of public works and infrastructure contracts.

Corporate Tax Structure Improvements

Accelerating economic growth and cross-border investment between the U.S. and Brazil also requires tax certainty and tax incentives which seek to promote the domestic growth agendas of each nation. These objectives may be accomplished primarily by advancing long ongoing negotiations in support of a Bilateral Tax Treaty between the U.S. and Brazil. In the longer term, U.S. Tax Reform is needed to simplify the treatment of foreign earnings for U.S. based corporations while providing a level playing field with multi-nationals based in other jurisdictions, particularly in Europe and Asia.

Building on the success of the recently approved U.S./Brazil Tax Information Exchange Agreement, we support the re-initiation of negotiations on the terms of a Bilateral Tax Treaty to reduce or eliminate double taxation and provide economic incentives to stimulate cross border investment and job creation opportunities. Such incentives, including reduced rates of withholding tax on interest, dividends, royalties, and payments for technical services would be mutually beneficial to both U.S. and Brazilian investors and would improve overall investment efficiency between the two nations.

We also support comprehensive tax reform in the U.S. that seeks to simplify and modernize the corporate tax system by introducing a competitive territorial tax system that eliminates the current disadvantage U.S. companies face relative to their foreign competitors. In an era of extraordinary capital mobility, tax reform provides an opportunity to make U.S. multi-nationals more competitive on a global scale and the U.S. a more attractive investment locale. These changes would spur job creation and domestic economic growth by encouraging U.S. companies to repatriate cash to the United States.

Investment firms such as AES require certainty over the U.S. taxation of foreign earnings which are actively managed. A leader in this field, AES has successfully tapped into local capital markets for more than a decade to raise equity in support of its business growth objectives through its controlled foreign corporations and seeks certainty that income derived from these actively managed equity market investments will continue to benefit from U.S. tax deferral, consistent with the U.S. tax treatment of investments structured through private party ventures. To state it simply, with growing local capital markets, it does not make economic sense to discriminate in any way from a tax perspective between those companies using publicly listed controlled foreign corporations to raise capital abroad versus private partnerships or private joint ventures. The former help better integrate U.S. companies into the national fabric of the countries where they operate while providing greater transparency and governance.

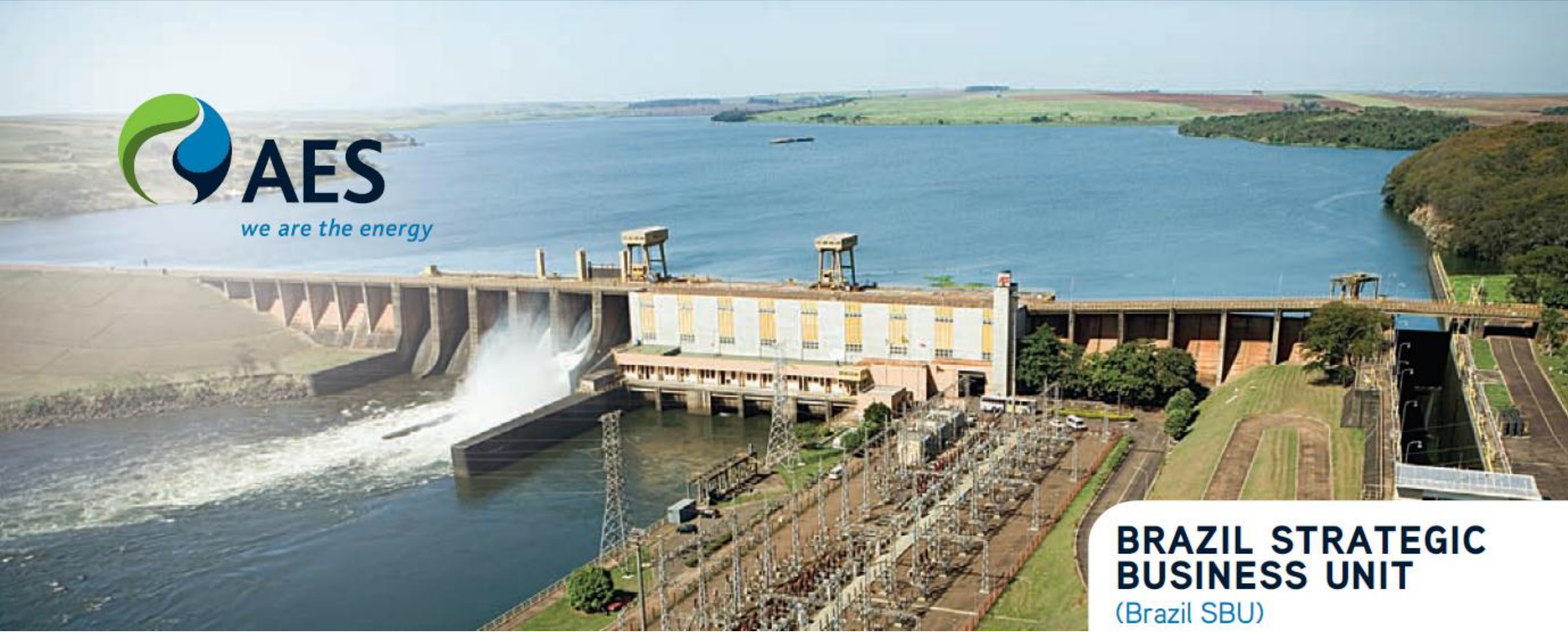
Trade Agreements

In addition to the specific policy issues already identified, both governments should be encouraged to reach a long-term trade and investment liberalization framework. Brazil and the U.S. both supported the Doha negotiations; however, a positive outcome currently seems distant. Due to the fact that a multilateral agreement seems unlikely, several bilateral agreements have been implemented among many of our major trading partners. Both nations should take note of increasing shifts in trade and investment flows from the Atlantic to the Pacific. In response, the United States and Brazil should seek a fully integrated economic area within this hemisphere. Realizing this opportunity will create an environment for job and wealth creation, a priority our countries share. As President Obama said during his presidential visit to Rio in March 2011, "together we can advance our common prosperity." Let's continue on this path of mutual collaboration in a bilateral trade and investment relationship.

Conclusion

I appreciate the opportunity to present this testimony to the committee.

Thank you for your time and consideration.



BRAZIL STRATEGIC BUSINESS UNIT
(Brazil SBU)

7,712 AES People in 4 businesses

Utilities:

7,723,000
customers (Eletropaulo 6,483,000; Sul 1,240,000)

104,038
square kilometers of service territory

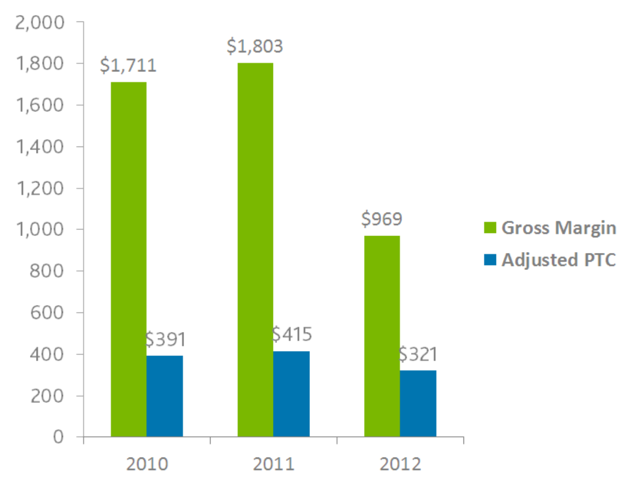
3,976
kilometers of service transmission lines

108,011
kilometers of distribution lines

Capacity (Gross MWs):

Hydro	2,658 MW
Gas	640 MW
TOTAL	**3,298 MW**

AES Brazil Financials



Brazil Strategic Business Unit Locations

Map	Business	Name	Location	Capacity MW	Generation Fuel Sources
1	Eletropaulo	Eletropaulo	São Paulo, SP	-	-
2	Sul	Sul	Porto Alegre, RS	-	-
3	Tietê	Água Vermelha (AGV)	Ouroeste, SP	1,396 MW	Hydro
4		Bariri (BAR)	Bariri, SP	143 MW	Hydro
5		Barra Bonita (BAB)	Barra Bonita, SP	140 MW	Hydro
6		Caconde (CAC)	Caconde, SP	80 MW	Hydro
7		Euclides da Cunha (EUC)	São José do Rio Pardo, SP	109 MW	Hydro
8		Ibitinga (IBI)	Ibitinga, SP	132 MW	Hydro
9		Limoeiro (LMO)	Mococa, SP	32 MW	Hydro
10		Mogi-Guaçu (MOG)	Moji-Guaçu, SP	7 MW	Hydro
11		Nova Avanhandava (NAV)	Buritama, SP	347 MW	Hydro
12		Promissão (PRO)	Promissão, SP	264 MW	Hydro
13		São José (SJS)	São João da Boa Vista, SP	4.1 MW	Hydro
14		São Joaquim (SJQ)	Vargem Grande, SP	3 MW	Hydro
15	Uruguaiana	Uruguaiana	Uruguaiana, RS	640 MW	Gas
16					
17