



**UNITED STATES-MEXICO CHAMBER OF COMMERCE
CAMARA DE COMERCIO MEXICO-ESTADOS UNIDOS**

**NAFTA & CAFTA
CONFERENCE**

May 26, 2004

PROCEEDINGS

The Westin Embassy Row Hotel
2100 Massachusetts Avenue, NW
Washington, DC 2008

United States-Mexico Chamber of Commerce
Camara de Comercio Mexico-Estados Unidos
1300 Pennsylvania Avenue, N.W., Suite G0003
Washington, DC 20004-3021
Tel: 202-312-1520 Fax: 202-312-1530
<http://www.usmcc.org>

TABLE OF CONTENTS

	<u>PAGE</u>
BACKGROUND	3
CONFERENCE AGENDA	4
PRESENTATIONS	6
KEY ISSUES	6
Keynote	6
E-Commerce	6
Manufacturing	7
Healthcare	8
CROSS BORDER & PORT FACILITATION	9
Emergency Planning	9
Logistics & Distribution	10
U.S. Patriot Act	11
SAE	12
NAFTA & CAFTA ROUNDTABLE	12
Keynote	12
Speakers	13

BACKGROUND

The United States-Mexico Chamber of Commerce held its “NAFTA & CAFTA” Conference on May 26, 2004 at the Westin Embassy Row Hotel in Washington, DC. The event was convened by Mr. Albert Zapanta, President and CEO of the Chamber. Corporate Sponsors for the occasion were:

Good Neighbor Sponsor

Loretto Bay Project

Presidential Sponsors

**J.P. Morgan
Tysons Foods**

Ambassadorial Sponsors

**Artera Group
Azteca America
Bell Helicopter
Coca Cola
Dames & Moore
Duty Free Americas
Grupo BIMBO
Holland & Knight**

NAFTA & CAFTA Forum Sponsors

**Cornerstone Communications
Orion**

NAFTA & CAFTA CONFERENCE AGENDA
Wednesday, May 26, 2004

8:00 a.m. - 12:00 p.m. Registration

8:30 a.m. – 8:45 a.m. Welcome
Albert Zapanta, President & CEO, U.S.-Mexico Chamber of Commerce

9:00 a.m. - 10:30 a..m. "Key Issues Forum"

Keynote Speaker: Bill Graves,
President & CEO, American Trucking
Associations

E-Commerce: Steve Flagg,
Purchasesoft

Manufacturing: Rod Rodrigue
MEP

Healthcare: David Libenson,
Hospital Santa Engracia

10:45 a.m. - 12:15 p.m. "Cross Border & Port Facilitation"

Emergency Planning: Ken Eickmann,
EG&G Technical Services

Logistics & Distribution: Lionel Carrasco
Neoris

U.S. Patriot Act: Cynthia Marcotte Stamer
Epstein Becker and Green

SAE: Carlos Lavin
Mexico SAE

12:30 p.m. - 2:00 p.m. Governor's Luncheon
Gov. Juan Carlos Romero Hicks, Governor of the State of Guanajuato

2:00 p.m - 4:00 p.m. "NAFTA & CAFTA Roundtable"

Keynote Speaker: Elaine Chao
U.S. Secretary of Labor

Speakers:

**Ambassador Eduardo Ramos Gomez
Partner, Duane Morris**

**Federico Sacasa,
Executive Director, Caribbean-Central
American Action**

**Ambassador Juan Sosa,
President, U.S. Panama Business Council**

**Ambassador Jaime Zabloudsky,
Former Ambassador of Mexico to the
European Union**

PRESENTATIONS

9:00 a.m. - 10:30 a.m. KEY ISSUES FORUM

Keynote Speaker: Bill Graves, President & CEO, American Trucking Associations

“I see a bright future for NAFTA and the trucking industry,” said American Trucking Association President and CEO Bill Graves. During the ten year period of NAFTA’s existence, he said, U.S. trade with Mexico has tripled, increasing from \$91 billion in 1993 to \$273 billion last year. Meanwhile, border truck crossings rose from 5 million in 1994 to 9 million in 2004.

Mr. Graves estimated some 10 million employees – 7 percent of the U.S. workforce – are involved in some way with the trucking industry and together they account for five percent of the U.S. GDP. In these circumstances, he said, trucking regulations under NAFTA must be realistic. “We need a seamless border and a balance between safety and efficiency. We also need good cooperation between government agencies.” The NAFTA access provisions, he continued, “must be evolutionary, not revolutionary.”

The NAFTA trucking provisions, he stressed, “don’t represent an ‘open door’ policy for Mexican and Canadian truckers on U.S. highways.” NAFTA calls for each Mexican carrier to go through an application process and be approved by the U.S. Department of Transportation. The carrier must get proper insurance and also go through a safety review. Once approved, it gets a conditional operating authority effective for the same time frame as for a U.S. carrier. However, while comparable procedures apply for U.S. carriers in Mexico, “we are concerned,” said Mr. Graves, “about their lack of national treatment.”

Mr. Graves predicted few Mexican carriers will want to go beyond immediate (U.S.) commercial lanes due to regulations and the same is true of U.S. carriers in Mexico. However, he stressed, “all carriers must meet safety standards. The United States won’t compromise on safety. Last year, there were 43,000 fatalities resulting from accidents on U.S. highways, 5,000 of them involving trucks.”

E-Commerce: Steve Flagg, Purchasesoft

PurchaseSoft, a leading provider of eProcurement software, has recently established an alliance with the U.S.-Mexico Chamber of Commerce and Cornerstone Communications, a firm that specializes in business development support services. Mr. Flagg indicated the purpose of the alliance is to help small to medium sized businesses find each other – essentially to help U.S. companies access sources in Mexico.

Plans call for the Partnership to provide real-time assistance for USMCOC member companies to better consolidate their orders, negotiate prices, manage inventory, and track assets. The resource, said Mr. Flagg, offers a competitive edge for businesses to engage with larger numbers of potential suppliers and buyers. He said when companies buy and sell goods over the internet:

- It removes geographic barriers;
- Eliminates inventory buildup;
- Reduces order processing costs; and

- Increases the flow of commerce.

Members simply log onto the Partnership system to access catalog records and conduct transactions immediately with prospective buyers and sellers. For further information, they should contact Mr. Flagg at PurchaseSoft's office in San Diego, California (Telephone: 858-232-2637).

Manufacturing: Rod Rodrigue, MEP

Manufacturing, said Mr. Rodrigue, is a major source of the best jobs. Representing 20 percent of private sector employment and 25 percent of payrolls in the United States, the industry offers this country's highest average wages and benefits. It further accounts for:

- \$1.3 trillion or 29 percent of U.S. GDP;
- An excess economic output to sales ratio amounting to \$2.30 for every \$1 in industry revenue;
- 61 percent of this country's exports and 71 percent of its imports; and
- The largest growth in worker productivity – double the pace of the total economy.

He noted further that 99 percent of them employ less than 500 workers. Small to medium size enterprises dominate this sector, accounting for over 50 percent of total U.S. production and 11.8 million workers or 65 percent of this country's manufacturing workforce.

Representing two-thirds of total R&D investment, U.S. manufacturers are also, said Mr. Rodrigue, the most prolific innovators and aggressive adapters of new technology. They have to be "agile, adaptable and creative," he said, and "only those with supply chains will compete. The U.S.-Mexico alliance provides a means to build these supply chains."

However, Mr. Rodrigue continued, "We need to face challenges." He said the industry experienced the major share (90 percent) of job losses during the recent recession and has seen no growth in output during what he characterized as "a weak economic recovery." External overhead costs are exceeding a record 22 percent and with R&D growth down 50 percent, the U.S. industry share of global R&D spending has been declining. He itemized other challenges as follows:

- Record manufacturing trade deficits;
- Unfair foreign trade barriers & competitive disadvantages;
- More capable, educated and subsidized foreign competition;
- A growing pace of global outsourcing; and
- Major domestic and international concerns relating to economic viability, national security and global stability.

Mr. Rodrigue said his firm, MEP Management Services, helps companies deal with these concerns. It provides decision support and implementation assistance to smaller firms adopting new manufacturing technologies and best business practices. "MEP helps manufacturers make products better, faster and cheaper," he said.

Established in 1988 by the U.S. Department of Commerce and the National Institute of Standards & Technology (NIST), the firm now has some 400 offices with 1,700 agents in 50 states and annual federal appropriations amounting to \$110 million. Each year, it provides assessments, training and technical assistance to over 18,000 manufacturers throughout the United States. Economic impacts for 5,000 firms assisted in FY02 included:

- \$953 million in new revenue and \$1.8 billion in retained sales;
- \$681 million in cost savings, \$941 million in new capital investment; and
- 35,000 jobs created and retained.

Mr. Rodrigue cited MEP's "Lean Manufacturing" Workforce Initiative improvements accomplished for a number of Navy systems: the DDG51 Destroyer, F18 Fighters, the LPD17 Amphibious Ship and the SLAM-R Missile. MEP worked with six prime contractors - Northrop Grumman, General Dynamics, Boeing, Rockwell Collins and Honeywell – and 21 suppliers on procedures dealing with hydraulic systems, ball valves, dehumidification appliances, electronics and propulsion equipment. Its recommendations helped bring about reduced delivery times and 20 to 40 percent cost reductions, while suppliers gained more DoD procurement sales and increased competitiveness in global commercial markets.

Healthcare: David Lebenon, Hospital Santa Engracia

Mr. Lebenon described four private hospitals in Monterrey, Mexico, a city of 3 million persons located approximately two hours by car from the U.S. border. Each of the hospitals, he said, offers excellent care and together they represent all primary healthcare specialties.

Of the four, he said San Jose Hospital offers the most complete range of services and is considered the area's most prestigious. Designed for very high income private patients, it is a 138 bed facility that includes 10 Intensive Care Units. During the past two and a half years, San Jose has invested US\$55 million towards further expansion and renovation.

Christus Muguerza is an 80 bed hospital, the oldest in the area and also designed for high income private patients. Affiliated with the U.S.-based Christus Health System, it provides a complex range of services and has recently invested US\$30 million towards the first stage of a planned 180 bed general acute care hospital to be located by the National Highway.

With 269 beds and 20 Intensive Care Units, OCA is the largest private hospital in the Monterrey area. It serves the total healthcare market and has recently initiated a new phase of expansion.

With 70 beds (including 20 Intensive Care Units), Santa Engracia is a modern facility affiliated with the Baylor University Medical Center and the Dallas, Texas based CIMA hospitals group. It also provides a wide range of services for a very high income market. Planned expansion calls for 60 additional beds, a second medical office and a rehabilitation facility.

All of these are fine facilities, he said, and "we want the U.S. Congress to allow Medicare to pay for treatment. We want you to force us to pass the [U.S.] Joint Commission on Accreditation."

10:45 a.m. - 12:15 p.m. "CROSS BORDER & PORT FACILITATION"

Emergency Planning: Ken Eickmann, EG&G Technical Services

General Eickmann compared emergency recovery efforts following emergencies precipitated by the Mount Pinatubo volcanic eruption in the Philippines, the 1984 Tinker AFB Bldg 3001 fire and the April, 1995 Oklahoma City bombing.

The Mount Pinatubo eruption resulted in a 1500 square kilometer area being covered by several inches of volcanic ash. All wide roofed buildings collapsed and 722 people died. Unfortunately, said General Eickmann, "we created a lot of problems for ourselves by a lack of advance planning." For example, many U.S. military personnel had married Filipinos and questions arose as to which members of their extended families, as well as pets, qualified for evacuation.

He suggested the 1984 Tinker AFB Bldg 3001 fire could be considered a "prequel" to the Oklahoma City disaster. While this huge building burned out of control for four days, military and civilian fire and rescue teams worked well together. Subsequent joint exercises resulted in military and civilian units gaining a better understanding of their respective capabilities, enhanced trust and lines of communications, and creating lasting working relationships.

The Oklahoma City bombing was a major disaster causing many deaths and some \$650 million in damages. With the bomb having been placed at the most vulnerable point in what was a cantilevered building, General Eickmann noted that engines from automobiles that had been parked nearby were subsequently found two blocks away. He commented further that an ATF office was located in the building and the bombing instigators, Timothy McVay and his cohorts, had sworn to go after the ATF. Ten agents were among those killed.

Problems encountered in Oklahoma City included FEMA's limited supplies and equipment. "We also found that visiting dignitaries can be a problem. They were trying to do the right thing, but they did cause a lot of disruption and this does not begin also to consider the press. We need to be prepared for these situations."

Based on these experiences, General Eickmann recommended seven primary considerations for emergency preparedness:

- Awareness – assessing threats, risks and vulnerabilities;
- Prevention – reviewing building accessibility, design, and warning systems;
- Good Communications;
- Pre-Packaged and Pre-Positioned Supplies and Equipment;
- Coordinated Responses;
- Public Relations; and
- Recovery Planning.

Logistics & Distribution: Lionel Carrasco, Neoris

As the nation's fourth largest IT consulting firm, Neoris is currently providing support services for U.S. Customs. In this capacity, Mr. Carrasco said Neoris must address concerns such as physical security, access control, personnel security, training and procedural security. "We need, he said, "to understand both the physical flow as well as the information flow in Customs activities." Security can be enhanced, Mr. Carrasco suggested, through broad based visibility and accountability. For example:

- Warehouse visibility enables:
 - Reduced labor costs and
 - Better warehouse management.
- Transportation visibility enables:
 - In-transit inventory management and
 - Better trailer/asset management.
- Supplier visibility enables:
 - Vendor managed inventory and
 - Supplier collaborative replenishment
- Demand visibility enables:
 - Order fulfillment & Vendor drop-ship
 - Direct-to-store delivery
- Cross border visibility enables:
 - Market Intelligence Accuracy and
 - Risk Management
- Manufacturing visibility enables:
 - Work-in-progress material management and
 - Finished goods and replenishment planning

Port security, Mr. Carrasco suggested, depends on information availability, accuracy and timeliness. It relies on proper identification of “trusted shippers,” verification of contents, tamper protection and automated manifests. Information flow linked to physical flow, he argued “creates tamper resistant systems.”

Container and pallet tagging are key elements in such systems. They improve the traceability of goods, provide for automated proof of delivery, and reduce paperwork. Case tagging reduces warehouse labor and case theft, expedites cross-docking, consigns inventory, and aids physical counts and reconciliation.

Effective IT solutions, he said, “can be a survival issue.” They can help answer questions such as who are the shippers of cargo from foreign ports, and can they be trusted. How much accountability is acceptable for carriers and operators if they are not responsible for cargo content? Does the container remain secure in transit? Is it possible to prevent a crisis by managing and distributing information to the proper stakeholders?

U.S. Patriot Act: Cynthia Stamer, Epstein, Becker & Green

The U.S. Patriot Act, said Ms Stamer, has created a new environment for conducting U.S.-Mexico business and “we need to understand the rules of the game. We are,” she suggested, “in an increasingly complex legal and political environment.” At the same time, “U.S. citizens are not used to having everything scrutinized.”

Enacted following the 9/11 attack, the Act calls for stepped up government enforcement, surveillance and investigatory powers. It also sets new reporting requirements and looks at money and the flow of people.: Effectively, Ms Stamer said, “we need to consider theft, privacy, seizure of people, selling particular products, finding the right consultant and selling consulting services. Sentencing guidelines can apply to white collar crimes and you can be out of business even if you’re innocent.”

Among other requirements, non-financial institutions generally must report information to the Financial Crimes Enforcement Network when they have received \$10,000 in currency either in one or related transactions. Financial institutions must establish anti-money laundering programs, including, at a minimum:

- Internal policies, procedures, and controls,
- Designation of a compliance officer,
- Ongoing employee training progra, and
- An independent audit function to test programs.

Other detailed due diligence, reporting and record keeping mandates also apply. The law assigns far-reaching powers to conduct investigations and control immigration relating to suspected terrorists. It also affects cross border business transport, workforces, and payments and it prohibits arrangements designed to misrepresent or avoid reporting on transactions. Organizations and officials are liable for negligent hiring or supervision.

The law sets criminal sanctions and sentencing guidelines for most Federal Class A misdemeanors and felonies that apply to public and private entities. Fines can be set high enough to effectively destroy criminal organizations. In addition, Ms Stamer warned, some liabilities cannot be delegated, so “you too can be prosecuted or sued for your vendor’s mistakes.”

However, she suggested, compliance and risk management programs can help prevent or mitigate hefty penalties. An effective compliance program establishes procedures for training and overseeing employees, agents, customers and business partners. It should, she advised, incorporate:

- A legal inventory,
- Audit policies, procedures and practices,
- An assessment of compliance status and risks,
- Designing and documenting a tailored compliance program,
- Implementing the compliance program,
- Monitoring and enforcement,
- Means for disclosure,
- Periodic review and updates,
- A policy for responding to government inquiries or investigations, and
- Oversight and Enforcement.

Ms Stamer suggested a few “practical pointers”:

- Cross border operations require an awareness of laws on both sides of the border;
- Compliance standards and procedures should be reasonably easy to follow;
- Overall responsibility for monitoring compliance should be assigned to specific high level officials, not to individuals who maintain the programs;
- Training should be tailored to ensure effectiveness;
- Compliance must be monitored;
- Standards need to be e
- Enforced consistently through appropriate disciplinary mechanisms;
- Violations require appropriate responses to prevent future offenses;
- Attorney-Client privilege should be used strategically;
- Everything must be documented.

Doing the right thing “is only half of the battle,” said Ms Stamer. “You must be able to prove you were right and keep your business operating successfully.”

SAE: Carlos Lavin, Mexico SAE

Mr. Lavin indicated SAE is currently working to streamline Mexican government operations. Its mission is to:

- Manage the selling, destroying or donating of non-performing assets;
- Manage government loan activities;
- Eliminate public and private trust funds; and
- Sell off public and private companies.

A good deal of SAE’s work involves Mexico’s 40 customs offices located along its 3,152 km U.S. border. Further activities must deal with the country’s 1,149 km southern border and its 11,122 km of coastlines. “We have,” Mr. Lavin said, “developed a business model to achieve a world class public entity.” Thus far, SAE has reportedly brought about cost savings amounting to 1.5 billion pesos for the Mexican government.

2:00 p.m - 4:00 p.m. "NAFTA & CAFTA ROUNDTABLE"

Keynote Speaker: Elain Chau, U.S. Secretary of Labor

The 9/11 attack, estimated Secretary Chau, was responsible for 1.5 million lost jobs. Since then, unemployment is down and inflation and interest rates have reached their lowest levels. In the third quarter of 2003, she said U.S. productivity increased 9.2 percent – “an almost unheard of level for a developed nation.”

However, Secretary Chau added, reduced unemployment also has its problems. “Our unemployment rate of 5.6 percent is below the rates for the 1970’s, ‘80’s and ‘90’s and many job openings remain unfilled. We will need one million new nurses in the coming years and 3.5 million new health care workers overall. We need to look at training and it’s got to be relevant.”

Secretary Chau cited the appearance of new types of manufacturing jobs. “We’re trying to hook up workers with those new jobs,” she said, adding that the Labor Department recently started a Hispanic worker program. “We’re

deeply committed to opening doors for Hispanic workers.” In this regard, she cited the large number of Hispanics appointed to positions of authority in the Bush Administration. “We have also,” she said, “worked with the USMCOOC to help training for Hispanics.”

Secretary Chau said her Department is concerned about workplace injuries and fatalities among Hispanic workers. “That’s why we established a Hispanic Workers Task Force, which is dedicated to improving outreach and preventing fatalities among Hispanic workers.” Among concrete steps the Department has taken, she cited:

- Translating its health and safety materials into Spanish and distributing them in workplaces nationwide;
- Increasing the number of Spanish-speaking investigators; and
- Increasing the number of inspections.

Secretary Chao added that about half the inspections are in the construction industry, which has a relatively high percentage of injuries and fatalities among Hispanic workers. As a result of the increased inspections, she said fatalities among Hispanic workers are declining for the first time since 1995.

Meanwhile, Secretary Chau suggested the “ambiguity” of white collar worker provisions in the Fair Labor Standards Act – “is a problem.” It has, she said, been on the docket for reform since 1977. “With new rules,” she continued, “you will see much clearer guidance. Guaranteed overtime protection will also be provided.”

Speaker: Ambassador Eduardo Ramos Gomez, Partner, Duane Morris

NAFTA has resulted in extraordinary achievements, said Ambassador Ramos. During the ten year period following its implementation, he said, U.S.-Mexico trade nearly tripled, going from \$88 billion in 1993 to \$250 billion in 2002. Canada has become Mexico’s second largest export market and last year, Mexican seasonal workers going to Canada numbered 12,000 – 50 percent of Canada’s total. Meanwhile, Ambassador Ramos noted, Mexico has signed 32 trade accords around the world and as to U.S. manufacturing, real hourly wages have grown 14 percent since 1994.

In these circumstances, North America has become one of the main actors in the world trade front. However, he suggested, NAFTA needs to evolve. “Today, it is fatherless and our baby has no direction. We can’t watch or stand still. 9/11 changed things. We became neighbors, not partners. Relations have matured now. We know each other better.”

As to new measures to be taken, the Ambassador suggested a need for a North American court to better handle trade disputes.

Speaker: Federico Sacasa, Executive Director, Caribbean-Central American Action

When the Alliance for Progress was established, said Mr. Sacasa, “if you’d said 34 of 35 nations in the Western Hemisphere would be democracies, that would have been considered a dream.” Speaking on Central American trade issues, Mr. Sacasa said “we forget that the gap [between countries] is widening. We’d love to have the problems that Mexico is having. We [in Central America] are advocates of dealing with the ‘third border’ in a different way....It’s incredible to me that Mexico is not fervently supporting CAFTA.”

The world, said Mr. Sacasa, “changed in 1989. These tiny countries were a playground for major nations in the Cold War. These countries got lost in a broader trade agenda. Their economic relevance got lost.”

The problem, he said, “is the U.S. is distracted” and, he continued, “we’re insignificant.” In these circumstances, Mr. Sacasa suggested, “we need to start taking action.... We need to talk gringo to gringo. The U.S. has other priorities. It’s busy. We think it’s because the U.S. doesn’t love us. Then what do we do when the U.S. does pay attention? We bitch.”

Central America, said Mr. Sacasa, needs foreign investment. “The traditional sources are diminishing although this is countered a bit by the \$10 billion per year coming from overseas citizens.” Unfortunately, he said, investment in the region has been limited due to :

- Lack of skills,
- Lack of scale,
- Bureaucracies, and
- Corruption or lack of rules of law.

Meanwhile, Mr. Sacasa noted the quota on apparel trade is going to be lifted as of January 1 and, he predicted, “20 to 25 percent of apparel trade is going to relocate to Asia.” He said “we need to train our people and integrate the region.” Unfortunately, he added, CAFTA is not going to be ratified this year.

Speaker: Ambassador Juan Sosa, U.S.-Panama Business Council

“I feel like an outcast,” said Ambassador Sosa. “We’ve talked about NAFTA and CAFTA. I’d like to talk about PAFTA.”

Central America, he continued, “didn’t want Panama in the [CAFTA] group. The United States didn’t and Panama didn’t. However, if we don’t get an accord, we’ll wonder why not Panama. It’s very important for Panama to have a Free Trade Agreement. We should have it in four rounds. NAFTA had eight. We should negotiate an agreement on the basis of NAFTA and we think we can do it before the (US) election. However,” Ambassador Sosa noted, “the closer we get to the election, the more difficult it will be.”

Meanwhile, he said, “I ask why isn’t Mexico looking south more. We have similar languages and culture. Mexico has had some successful projects in Panama – as for example with Grupo ICA, Telmex and others. There are areas where Panama excels – as for example, the maritime sector, which has never been the subject of a free trade agreement.”