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A. L. MONROE
PRESIDENT

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Congressman William Lehman
Room 2347
Rayburn House Office Building
Washington, D. C. 20515

Dear Congressman Lehman:

I recently presented the attached testimony on the subject of the Caribbean Basin Initiative before the Senate Foreign Relations Committee. As a businessman and a resident of Florida, the stakes for the United States and its citizens in this effort are as real and immediate as they are for the peoples of the Caribbean Basin region. I strongly urge you to support the passage of this most important piece of legislation during the current session of Congress.

Sincerely,



STATEMENT BY A. L. MONROE
ON BEHALF OF THE COUNCIL OF THE AMERICAS AND
CARIBBEAN/CENTRAL AMERICAN ACTION TO THE
SENATE FOREIGN RELATIONS COMMITTEE
WEDNESDAY, MARCH 31, 1982

Mr. Chairman:

My name is Archie Monroe. I am the president of Esso Inter-America, Inc., Exxon Corporation's regional affiliate responsible for operations in Latin America and the Caribbean. We have conducted business operations for over 50 years in the region, and are currently represented in 17 of the 24 countries under consideration in the Caribbean Basin Initiative. Our regional office is located in Coral Gables, Florida.

However, my testimony here today is on behalf of two non-profit groups in which my company, and I personally, actively participate -- the Council of the Americas and Caribbean/Central American Action -- organizations which represent a substantial majority of private investments in that region. Both organizations welcome and support the President's Caribbean Basin Initiative.

Before commenting on specific elements of the CBI, I wish to share some general observations with you as a businessman and as a Florida resident.

My first observation is the fundamental, underlying realization that the stakes for the United States and its citizens in this effort are as real and as immediate as they are for the peoples of the Caribbean Basin region. High unemployment, high inflation, rising debt loads and falling commodity prices have combined to create an environment of economic instability -- indeed of desperation. Social and political unrest in many countries has followed in its wake. Realistically, economic recovery efforts alone cannot solve the whole problem in countries where unrest has resulted in political or even military confrontation. But it is even more certain that without economic survival and recovery, moderate governments cannot hope to hold the support of their populations. This is true not only where the forces of moderation are actively threatened by extremist pressures. It is also true in many countries of the Basin -- a majority in fact -- where moderate, progressive, pro-U.S. governments have been democratically elected with strong popular support. The leaders in these countries came to power expressly on platforms of bettering the living standards of their populations by encouraging private enterprise and developing stronger ties with the United States. If the expected economic progress never materializes, and -- above all -- if the hoped-for partnership with the United States fails to produce positive economic results, support for leaders advocating this course will be hard to sustain.

The refugee influx is another problem which affects our country directly and which becomes more pronounced daily as peoples from the area continue to pour in. The day-to-day costs of providing for the displaced have become a burden that is straining the limits and capabilities of the communities forced to shoulder it. As a resident of Miami, it is clear to me that the economic and political future of the region will have a direct negative impact on our lives in Florida unless a way is found to halt the inflow. Addressing the economic plight that is forcing these people from their homes is essential.

The immigration problem, plus the enormous economic stake represented by existing U.S. trade and investment ties, add up to a crucial U.S. national interest in the economic health of the Caribbean.

Another observation in light of this crucial interest, is that the measures being proposed as part of the CBI represent a very modest investment -- one we can scarcely afford not to take. We are talking about an aid package for 24 countries that in all its elements -- existing appropriation levels, the proposed increase for FY 1983, plus the proposed \$350 million supplemental -- amounts to a billion dollars for the year. This comes at a time when the Soviet Union is said to be pumping close to three and one half billion dollars a year into Cuba. The supplemental appropriation of \$350 million -- designed to aid these countries from economic hardship -- is less than the \$368 million that the State of Florida has spent since the Spring of 1980 to care for the refugees that have already come to our shores.

In light of these considerations, I would strongly recommend that this legislation should be in the direction of more assistance, rather than less. It comes at a time when U.S. direct investment exposure in the region is over \$5 billion, and U.S. exports to the region annually bring almost \$7 billion into our economy. And, the trade and investment incentives in the CBI will open up new opportunities for U.S. firms and their employees as well as those in the region. The region's economy -- and our own -- will stand to gain further, for example, by additional inputs to the supply of credit which these countries and their private sectors need so urgently; or, by additions to basic infrastructure that will enable them to attract the kind of investment required if they are to "pay their own way" over the longer term.

One way I believe the package could be strengthened without adding to the required funding is in the consideration of the most effective means of providing tax incentives on new investment. The Council of the Americas undertook a study of this question and concluded that while the tax credit for investment as proposed by the Administration will be a useful tool for attracting additional investment, the approach known as "targeted tax sparing" could yield an even more positive impact. Under targeted tax sparing, the United States would not collect the tax "spared" by a Caribbean country when it extends a tax holiday in an effort to attract investment.

Almost all of our developed-country competitors provide tax sparing, and the less-developed countries have been requesting it for years. Lack of a

similar program on the part of the U.S. Government makes our own private sector less competitive with other developed countries with operations in the region, and tends to undercut the objectives of the Caribbean countries in extending tax incentives to U.S. firms. This approach has the added advantage of offering to labor-intensive businesses a more meaningful incentive -- the kind the Caribbean countries most want.

Whichever approach you ultimately choose to incorporate, the combination of tax incentives with the trade and aid provisions of the bill will make the Caribbean Basin Initiative a strong and innovative development package worthy of passage by this Congress and worthy of the strong expectations it has already raised in the region.

There are three elements of the Caribbean Basin legislative package which not only distinguish it from more traditional aid approaches, but which we believe will help it to succeed. I will mention how these three specific approaches are designed to contribute.

First, the plan will channel assistance directly into the private sector where it can produce results most quickly and in the areas of highest priority -- job creation, export earnings, sustained economic growth for a high standard of living without deeper and deeper debt. In addition, the expanded long-term AID funds will be targeted either into the private sector directly -- as in the case of business credit or programs for business leadership -- or into the type of public sector projects -- such as infrastructure or skills training -- that directly complement the private sector by removing immediate impediments to investment and production.

Secondly, the CBI is directed primarily toward the harnessing of private sector resources, rather than direct aid from the U.S. Government. Traditionally, development of Third World economics has been viewed as a task for public sector programs and funding. This package blends measures involving trade and investment enhancement with carefully targeted aid efforts, thus using a relatively modest amount of public funding to leverage a much broader array of private-sector resources. The 12-year one-way free trade treatment will expand U.S. markets for local private business and at the same time should attract new U.S. investors and joint-venture partners. This will bring technology, capital, managerial know-how and marketing contacts that will enable the Caribbean and Central American business communities to take better advantage of the new trade access. The second major CBI component, the ten percent investment tax credit, will further reinforce this process.

These measures, coupled with negotiation of bilateral investment treaties, expanded Export-Import Bank lending, and development of additional insurance facilities -- can go a long way toward developing an improved investment climate in the Caribbean Basin.

A third important aspect of the plan involves a coordinated multi-country approach that includes Canada, Mexico and Venezuela. Thus, the

CBI will involve not only the leveraging of substantial U.S. private sector resources, but the broader array of resources that the four donor countries together represent. This creative mechanism will allow our Government to share the burden and maximize the combined impact while retaining full discretion to fashion specific U.S. programs.

By combining trade, aid, and investment measures, by enlisting the cooperation of other countries, and by channeling both governmental and private sector resources in a way most likely to strengthen local private sectors, the Administration's program strikes a positive balance between public and private sector development efforts. Both sectors have important roles to play in the development process. Under this flexible program, their joint impact can be maximized.

In summary, building the basis for their healthy economic and political development, and friendly relationship with the United States, will be a major long-term effort for which this Initiative is only the beginning. Making it work will take a concerted effort on the part of our government, the cooperating donor countries, the governments of the region, and above all by the private entrepreneurs who in the final analysis are most critical to the outcome. This legislation provides a framework in which we can all participate in an effective working partnership to address the urgent needs of the region.

Thank you.