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SPEAKER:

THOMAS A. SHANNON, JR.
ASSISTANT SECRETARY
FOR WESTERN HEMISPHERE AFFAIRS,
THE STATE DEPARTMENT

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PETER DESHAZO: Ladies and gentlemen, good morning. My name is Peter DeShazo. I'm the Director of the Americas Program here at CSIS, and I'd like to welcome you all. We're delighted that you could be here and we're delighted and honored to be able to host this presentation by Assistant Secretary Tom Shannon. Ambassador Shannon's remarks come at a very propitious time, following a cycle of important elections in the region spanning, I think, some 11 countries in the past 13 months, with new governments taking office throughout the hemisphere and developing policies that will be extremely important for the region – looking ahead with a situation of many positive factors in the region, the economy in good shape, with commodity prices high, but also many concerns, obviously poverty, joblessness, considerable dissatisfaction with persistent poverty in the region that has led to populist regimes being elected in the region and concern about a drift towards authoritarianism in some cases. So it's a matter of considerable challenges and opportunities, both for the region and for the United States, and, in this regard, the United States is extremely fortunate to have a diplomat of the experience of Ambassador Shannon as assistant secretary for Western Hemisphere Affairs.

Tom and I first met in Caracas when we worked together at the embassy in the mid-90s, and it was a true pleasure to be associated with someone whose background in Latin America was so strong, whose interest in the issues, whose intellectual curiosity was so great. And Ambassador Shannon went from there to ever greater things: deputy assistant secretary for the Andean Region at the Department of State, deputy permanent representative to the Organization of American States where he was the leader of the U.S. side in the formulation of the Inter-American Democratic Charter. Ambassador Shannon played a very important role in the formulation of that key document as senior director at the National Security Council for Latin America and now as assistant secretary, the key position for the United States in the formulation of policy on the Western Hemisphere. So it's, again, a great pleasure and an honor to introduce Ambassador Assistant Secretary Tom Shannon.

TOM SHANNON: Great. Thank you very much, Peter. I very much appreciate the introduction. I'm a little worried I've come into the wrong room; there's way too many people here. (Laughter.) But I do appreciate your interest. Actually, Peter and I have been talking about doing something like this for quite some time. Originally, our discussion was around the Inter-American Democratic Charter and the hope of being able to do an event last September to celebrate the fifth anniversary of the Charter. Unfortunately, for a variety of reasons, especially other events that were taking place in September and trips that the secretary made, we were unable to do it, but it's my hope to have a moment or two to talk about the Inter-American Democratic Charter in the course of this discussion.

But what I'd like to do is start with some remarks and then use those remarks really to begin a conversation with all of you. I realize there's a lot going on in the region

and this is, I think, a big moment in the Americas, a very kind of effervescent moment, and I want to make sure that we have an opportunity to have this conversation and I'm very interested in your comments and your questions.

But I wanted to start fairly broadly and talk a bit about public architecture and statues. Now, this might strike you as an odd way to start a conversation on the Americas, but here in Washington I think it's an appropriate way because Washington really is a public city; it's a city whose architecture reflects the democracy that we live in, and the time and the period in which buildings are constructed, the ways in which statues are placed, all have significance, important significance, to anyone who has spent any time walking around Washington. And I'm sure most of you have noted that in one of the most important and honored places in this city, right in front of the White House, there is a park in which the four corners are peopled not by Americans, but by foreigners, statues of foreigners who participated in the Revolutionary War. And at the center of that, of course, is our great populist: Andrew Jackson. And it's worth noting that this does sit in front of the White House.

But I'd like to point out kind of the buildings and the architecture that sit around the Department of State. If you walk around the Department of State, you'll notice that nearly all of the statues are Hispanic. If you go out the back of the State Department, the first statue you find is that of Bernardo de Galvez, the Spanish general who led military actions in the Mississippi Basin and River Valley in order to block British efforts to resupply forts in the Ohio Valley and effectively prevent any kind of back door strategy the British might have imposed in an effort to stop the American Revolution. And if you talk to the Spanish today, they will insist that they were much more important than the French in our successful war for independence. But also, as you walk around the Department, you'll find on Constitution Avenue the statue of the Uruguayan liberator, Jose Artigas. If you go further, kind of deeper, you'll run into San Martin. If you swing back toward the department, you'll run into Bolivar, and then if you go past the Department towards the Watergate, you'll find Benito Juarez.

And then if you kind of cut back and walk down Constitution again, you'll find the building for the Pan-American Union Secretariat, which today is the library for the OAS and administrative building for the OAS. And then obviously as you walk further, towards the corner of Constitution and 17th Street, you will hit the OAS building, which was inaugurated in 1910 and holds a very privileged place in this city. It sits almost equidistant between the Washington Monument and the White House, and at least at the time it was built, and to a certain extent even today, it had a very clear vision of the Capitol, sitting as it is on the corner of the Mall. And from my point of view, this is kind of physical evidence and political evidence of the importance of Pan-Americanism in the development of our foreign policy and in the development of our nation, and reflects a longstanding engagement with the Americas and a longstanding belief and understanding that our future was somehow tied with our hemisphere, with the Americas.

And in fact, when the OAS building was inaugurated on April 26, 1910, Elihu Root, who had just recently left his position as secretary of State under Teddy Roosevelt

and was speaking at the time as a private citizen, but who had committed himself to constructing a larger vision of Pan-Americanism, and in fact had been the first secretary of State to visit Latin America and Central America, spoke at the inauguration and he described the building as a true expression of Pan-Americanism, of open mind and open heart. And he said that the building itself is a "reminder of a perpetual assertion of unity, and common interest and purpose and hope among all the republics." And he said that the building itself is "a confession of faith, a covenant of fraternal duty, a declaration of allegiance to an ideal." These are lofty words, but I think they're words that are important to us today because I think that this is a moment in which we need to understand and, to a certain extent, recapture the Pan-Americanism that has informed so much of American history and so much of American foreign policy.

And so what I thought I would do briefly is talk a bit about Pan-Americanism and the importance of recapturing the unity of purpose that described Pan-Americanism, then talk a bit about the challenges that we face in the region today, and then talk a bit about the U.S. agenda in the region and what we can hope for in the coming year. And with any luck, by the time I get done with that, you'll have some comments of your own.

In regards to Pan-Americanism, it might seem a little odd, even a little quaint at this particular moment, to talk about this because this really is, to a certain extent, a moment of dispute and difference in the region. We've just seen a MERCOSUR summit in which the press at least seemed to relish the give and take between leaders, the questioning, the public disagreement. But this really is an important time to recall our Pan-American heritage, and I think there are a couple reasons for this.

First, because in an age that is really being defined by transnational threats, we know that we can only secure our countries through cooperation. It is only through collaboration. It is only through working together that we are going to be able to face the very significant and very real threats of organized crime, of terrorism, of drug trafficking, of trafficking in people, but also those threats that don't necessarily come from human actors, like natural disasters, environmental disasters, and pandemics. And the Americas has done a lot in this regard in terms of defining these new threats, and through the OAS and through the Inter-American Commission on Hemispheric Security, the hemisphere, the democratically elected leaders of the hemisphere, have defined a security agenda which is transnational in its base and which recognizes that only through cooperation and collaboration are we going to be able to protect our countries, protect our economies, and protect our institutions.

The second reason why I think Pan-Americanism is relevant today is that integration is a fact. It is really one of the important realities that defines the Americas we live in today. It's taking place, in some instances driven and facilitated by governments, but in most instances driven and facilitated by markets, by private sector organizations, by universities, by NGOs, by faith-based institutions and churches, and by demographics.

And this is the third reason why I think Pan-Americanism is important today, because the migration and demographic changes that have taken place in the Americas really have marbled our societies in a significant way, and by doing this they've really highlighted our diversity and underscored that the traditional American, in the broadest sense of the word, American hemispheric commitment, the pluralism and tolerance is so terribly important. The United States today, depending on who's doing the counting and how many undocumented aliens you want to assert are in the United States, is the third-largest Spanish-speaking country in the hemisphere. And as democracy opens the door to sectors of society that have been historically excluded, we are seeing in the region a real rethinking and re-understanding of what our countries represent. Few people realize that there are more Afro-Latinos than there are African Americans. Few people understand or see Latin America as a country with a large Asian population. And the emergence of indigenous communities in South America, in Central America has, I think, is going to play a tremendously important role in reshaping how we understand ourselves as the Americas and as a hemisphere.

Now, when we look at the challenges that we're facing today, they're not necessarily the challenges that you might assume we're facing. As I noted earlier, there's a lot of political effervescence right now. And the political struggle that's taking place in some countries has cast a highlight on issues such as institutions and rights and constitutional processes. And all these are very important issues, and I'm sure we're going to have the chance to talk about this in some depth when I finish my own remarks. And these issues really do deserve our close attention and our dialogue. And the Americas has the institutions and the instruments to have this kind of discussion and to have this kind of dialogue.

But I think we need to understand that the political effervescence that we're seeing today, the political struggle we're seeing today, is really an expression of a much more fundamental struggle and a much more fundamental issue. And that is how this region, how the Americas, how the Western hemisphere, and how the democracies of the Western hemisphere address the issues of poverty, inequality, and social exclusion, and do so within a democratic context, do so within a context that recognizes and understands that social justice is vital to a longevity of our political institutions and our society, but also has committed itself to the protection of individual rights and liberties and has sought to create political systems that are built on consensus and not on confrontation and conflict, because I think that we would all agree that in order to create enduring democracies in the Americas, we have to be able to show that democracy can deliver the goods. We have to be able to show that it can deliver the benefits and the services to the poorest and most vulnerable members of our society in order to give these people a stake in our societies and a stake in our governments.

And whatever our political differences are, I think that the recognition that what we face is not ultimately political, but more fundamental, really kind of opens a huge space for consensus and common action in the hemisphere. It challenges our institutions to respond, not only our national institutions but our multilateral institutions, but I think it also challenges us to rethink our diplomacy and understand our diplomacy in new terms

and to try to find a way to wash out of our diplomacy ideology and rhetoric, but instead focus on a more practical struggle and to work hard to produce results, recognizing that in a democracy that is responsive and accountable to voters, it is only through results that governments will survive; it's only through results that governments can hope to go back to voters and be reaffirmed in their commitments.

And in some ways, this kind of statement, the belief that we really have to get to work, that we have to sit down and find ways to engage each other in a productive fashion, and that we need to be prepared to push the ball forward little by little each day, is not what a lot of people want to hear. A lot of people want a great initiative, they want the grand strategy, they want a great leap. That's natural. It's understandable. But the reality is we have the institutions in place, we have the resources in place, we have political commitment in place; we just need to fit it all together.

And returning again to Secretary of State Elihu Root, the first Secretary of State to win a Nobel Peace Prize, he noted in his Nobel Peace Prize speech that – he was speaking of world peace at the time, but it easily translates to what we're trying to accomplish in the Americas – that we cannot arrive at our goal in one great leap, not by invoking an immediate millennium, but by the accumulated effects of a multitude of efforts, each insignificant in itself, but steadily and persistently continued. We must win our way along the road to better knowledge and kindliness among the peoples of the Earth.

And this is important because at this particular moment we really do need to be establishing a larger basis for consensus and a larger understanding of what it is we can accomplish. And Root himself, later in his Nobel Peace Prize address, said that it was important that nations created an environment that avoided creating a situation in which – and here I quote, "insulting words and conduct towards foreign governments and people become popular and braggart defiance is deemed patriotic." In other words, we need to find, in our diplomacy, a language of understanding and a language of sympathy. And we need to find ways to build democratic leadership that is focused on building this understanding and sympathy within nations and between and among nations. And I think the Democratic Charter was an incredibly important step in this regard.

Peter and I had the pleasure of working on the American team, the U.S. team, as we negotiated the charter, and what struck me is that the charter was effectively assigned to foreign ministers in April of 2001, and a version of it was presented to foreign ministers at the OAS General Assembly in June of that same year. In really less than two months, the permanent representatives at the OAS were able to fashion a document which, while it did not receive approval in San Jose at the OAS General Assembly, was accepted by the foreign ministers as the base document for continuing negotiations. And the foreign ministers created a deadline of September 11th, 2001 to finish that document and present it again to foreign ministers at the special or extraordinary General Assembly in Lima, Peru.

So, in a very short period of time, less than six months, the 34 members of the Organization of American States were able to fashion one of the most important documents in the history of the OAS, and I think one of the most useful documents this hemisphere will have as we move forward. And I think this should give us a degree of confidence in what we're able to accomplish; I think it should give us a degree of understanding in what we're capable of, because there are moments – and I think this might be one of them – in which the tendency is to understand divisiveness and difference as an inhibitor to action, as something that should require us to lower our ambitions and lower what we think we can accomplish.

And, in this regard – I've said this often and I'm sorry to repeat myself, but I think it's a vitally important statement, which is that the Democratic Charter is not just about democracy, or at least democracy as it is commonly understood, because, as all of you know, the first clause – the first article states that democracy is a right for all the peoples of the Americas and the governments of the Americas have a duty to promote and defend democracy. But the second clause says that democracy is essential to the social, political, and economic development of the Americas. That's a stunning statement because it effectively commits the Americas to a development model which is democratic, and asserts that development in its truest forms can only happen through democratic processes.

But the charter in this sense makes this statement almost as a hint and then leaves it there. It refers back to development in all its aspects in several points in the charter, but it never really tells the Americas and the citizens of the Americas how democracy is going to make development real for them. And, in an effort to fill that gap or to promote a larger discussion, the OAS General Assembly determined that a companion piece was necessary, a social charter. And the social charter discussions began with great energy and fanfare, but they've languished over time. And we think that this is a very propitious moment to take up again the promise that a social charter presented to the Americas, a promise kind of inherent and implicit in the Democratic Charter, but one in which I believe can create space for us to work within multilateral institutions and among and between nations to better define how we understand our development and how democracy will create that development.

In regards to our own agenda in the region – well, obviously having just gone through a year of elections, we face in front of us a year that we have described, both myself and Undersecretary Nicholas Burns, as a year of engagement. And what we mean by that is with so many new governments in place, some with familiar faces, but some with new faces, we have to go back out into the region and rebuild our dialogue, reconnect not just with governments but societies, and make sure that we have an openness and a fluidness and a frankness of dialogue that will allow us to understand each other well, but a dialogue that we think, while principled and interest based, is intent on finding points of convergence and recognizing that now, more than ever, points of convergence are going to be important to the future of the region.

And we see our engagement kind of adhering to several kind of broad principles or assumptions. One is that we have to deepen our political and commercial engagement in the region. In other words, we have to be everywhere, constantly engaging, talking, and making clear that we have an agenda which is fundamentally linked to the Summit of the Americas agenda and fundamentally linked to purposes and processes not of our own making, but of the manufacture of an entire hemisphere.

Secondly, we have to continue what Secretary Rice calls our positive agenda in the region, an agenda that is going to focus on working with partners who want to work with us to help them solve their problems, to understand that the competitive advantage we bring to the region and what makes us an indispensable partner for so many is our ability to help others solve their own problems by providing resources, by providing technical assistance, but oftentimes just by providing political support and recognizing that we want these countries to succeed; we want to find a way for them to be able to meet the deepest and most important needs of their citizenry, and it has to be our intent to do that. But in order to do that, we have to spend a lot of time listening to people. We have to understand their problems from their point of view. And I think we've spent a lot of time doing this in the several years that I've been working on this issue, and I think we're well positioned to continue it with this new set of leadership in the region.

Thirdly, I think it's vitally important that we articulate our policies in terms of development and economic well-being. I've said this before, and I'll say it again, there have been moments in our history in which the way we talk about issues and the way our partners in the region talk about issues appear to be different. We sometimes have a tendency to talk about solutions. Many in the region have a tendency to talk about problems. But the two connect and, over time, I believe that we are creating an inter-American vocabulary, if you want to call it that, which really will allow us to understand each other better and to understand that when we talk about trade, we're really talking about economic opportunity and fighting poverty. And when we talk about fighting drug trafficking and terrorism, we're really talking about creating secure environments in which people can go about their daily business. And I think that we have reached a point in which we really can begin to deepen our dialogue based on this common vocabulary.

And, finally, we have to be able to use multilateral institutions, regional institutions, and those informal structures, whether they be trade agreements, regular leaders meetings to promote integration, to build cohesion, and to avoid divisiveness, because I think, as our forefathers understood and noted, it is only in a unity of purpose, whatever our diversity of views might be, but it is only in a unity of purpose that the Americas are going to be in a position to compete in a globalized economy that is increasingly challenging. And when I talk about integration and cohesion and avoiding divisiveness, what I'm really trying to get to, trying to articulate – and I'm not sure how well I'm doing it – is that we have to understand much of what's happening in the region, especially integration, in terms of development.

There's a tendency today to assume that the U.S. approach to integration is entirely driven by free trade and, consequently, that those who have presented a

competing vision have developed an understanding of integration that is only political and ephemeral. And I believe that we're probably both wrong, but I can certainly say from the U.S. side that our understanding of integration goes far beyond free trade. Free trade is a vitally important component of this integration because it links markets and the economies of the world today are not driven by nation-states, they are driven by markets, and it is through markets that you achieve the innovation and competitiveness to create economic opportunity and to create the wealth that the state can then use to build the capacity to take advantage of that opportunity.

But free trade is not the only mechanism of integration. And, in fact, for the integration to be real, it really does have to meet the needs of the poorest and most vulnerable sectors of our society. It does have to be entrepreneurial. It does have to break down the powers of economic elites by creating opportunity for others. And it requires governments that are intent on making the kinds of national, political, and economic reforms necessary to open up their societies so that wealth is not something that trickles down; it's something that actually courses through a society.

Now, this is a huge challenge, and it's not an easy one, but it requires, I think, some basic understandings. And one understanding is that the Washington Consensus, much maligned, had an incredibly positive impact in this region in creating macroeconomic stability and fiscal sanity in governments. It ended decades of inflation and irresponsive public sector behavior to create an environment in which economic growth could take place. It did not address the microeconomic issues that have stalled development in countries. It did not address the social needs and the social agenda that is so evident and so important in the region today. But it never intended to.

And the challenge that we face in this post-Washington Consensus world is that the macro-revolution that the Washington Consensus presented has to be converted into a micro-revolution; it has to be converted into national revolutions. Alan Garcia recently said that as Peru negotiated its FTA with the United States, which it has successfully concluded, and as it worked with us to engage with our Congress to work towards approval of the FTA, that Peru needed to undertake an FTA inside of Peru, that it needed to find a way to open the Peruvian economy and begin to unlock the tremendous dynamism and the wealth and opportunity that exists in Peru. And I think this is a very articulate and attractive understanding of the kind of challenge we face, which is to understand that ultimately development, in an environment where opportunity is presented, depends on national governments taking responsibility for their own development and making the right kinds of decisions and then ensuring that there's a degree of continuity of policy so that those decisions can actually take hold and deliver results.

And so we need to understand as we engage – the United States needs to understand as we engage in the region, as we promote a free trade agenda, which has been remarkably successful, which, in terms of free trade agreements concluded, now stretches from Canada to the tip of Chile, and which now covers nearly two-thirds of the GDP of the hemisphere, which, through preferential access agreements, permits duty free

access for over 85 percent of all the goods coming from Latin America; that as we promote this free trade agenda, we'll be able to articulate and work with our partners to recognize that this larger integration that we seek requires more than just free trade. It requires a recognition of the importance of the social agenda. It requires a recognition of the importance of countries making their own decisions about their own economic future in an effort to create the kind of micro-revolution that I spoke about.

Ultimately, what we're talking about is really kind of the requirements of democratic leadership, which really has a goal to build kind of broad understanding and sympathy among people. George Marshall, when he was awarded the Nobel Peace Prize in 1953, said that, "Discouraged people are in sore need of the inspiration of great principles. Such leadership can be the rallying point against intolerance, against distrust, and against the fateful insecurity that leads to war." He said that there must be an effort of spirit, as important as economic, political, and military issues are to attempting to maintain peace in the world, that ultimately there must be an effort of spirit, an effort to be magnanimous, to act in friendship, to strive to help rather than hinder. He's right, and in our region we need this kind of leadership. I think we have lots of leaders who fit this mold, and I think we have a degree of conversation and dialogue among them to build a broader hemispheric leadership. We just need to make it real.

Again, my purpose here was not to talk to you for the entire time. My purpose was to create a tone and a context for what I hope will be a larger discussion with you all, which I'm sure will be much more specific about issues and countries, and I'm very happy to take those on. But I want to close with a quote from President Bush from a speech that he gave in Brazil in November of 2005 shortly after the Mar del Plata Summit, in which he said, "Our common ideal of social justice must include a better life for all our citizens. As elections and democracies are spread across our hemisphere, we see a revolution and expectation. In free societies, citizens will rightly insist that people should not go hungry, that every child deserves the opportunity for a decent education, and that hard work and initiative should be rewarded. And with each new generation that grows up in freedom and democracy, these expectations rise and the demands for accountability grow. Either democracies will meet these legitimate demands or we will yield the future to the enemies of freedom." He's absolutely right. This is our challenge; this is our goal.

Thank you very much for your time. I am happy to take any of your comments or questions.

(Applause.)

MR. DESHAZO: Thank you very much, Assistant Secretary Shannon.

The floor is open for questions. Please state your name and your affiliation as you ask your questions, please. In the back, the gentleman in red. Sorry – no? Oh, please, Johanna?

Q: Johanna Mendelson Forman, CSIS.

Thank you, Secretary Shannon. I had a quick question because I didn't hear it mentioned in your remarks and I know we had a short time to cover a broad area, but energy policy in the Americas is emerging as a key part of our strategy, and I was hoping you might expand a little bit, given our bilateral relationship with Brazil and the whole issue which of course is going to come up in the president's remarks tonight on what we can do as a region to work cooperatively, as you described, in this new relationship on renewable energy? Thank you.

MR. SHANNON: Thank you very much for the question; it's a very important one. I'm sure there are probably many things I was not able to touch on in my remarks and I'm happy to do it here.

In terms of energy policy, we've been – well, let me put it this way: This is obviously a very, very important issue for the president. I can't remember a meeting that I've been in with the president and his counterparts in the region in which energy has not been an important part of the discussion, because we all recognize the driving force that energy plays in our economies, and also the real potential that energy has as an integrator in the region, but also the vulnerability of many countries, many economies in the region, to spikes in energy prices. And without going into a whole lot of detail because, you know, there are some issues that we've been working on which we hope to unveil in the course of the year but aren't ready for kind of public discussion yet – we have been working with partners throughout the region to explore alternative fuels, especially biofuels and ethanol and biodiesels, and also working with institutions like Inter-American Development Bank to look at ways we can promote experimentation and investigation into alternative fuels, but also how we can create financial mechanisms and structures that will allow states who face really serious and expensive social agendas have a degree of stability and security in their public sector budgets so that they can deal with energy price spikes without gutting their social agendas, but at the same time operating within an environment that's market-based and does not necessarily pass on costs to producers or consumers.

MR. DESHAZO: Sir.

Q: Thank you.

MR. DESHAZO: I'm sorry, in the back.

Q: Mr. Secretary, Mexico just took a very courageous action extraditing to the United States some of the heads of the drug cartels in that country. To Colombia, it took several years for the Colombians to make this same kind of decision, and President Calderon did this time as one of the first actions of his government. Would you address that from the view of the United States? How do you react to this action? And what do you expect more from Mexico in that same respect?

MR. SHANNON: Thank you for that question. Obviously, we were very happy with the decision of the Mexican government to extradite to us some very dangerous and ruthless drug traffickers and other criminals. We actually have a very, very good extradition relationship with Mexico, and under the government of President Fox we really had a degree of cooperation which the United States had not seen. For the Calderon government to start in this fashion is a very, very strong signal to us. It is indicative of a president who understands and recognizes the problem that organized crime presents to Mexico, and, as I noted earlier, recognizes and understands the transnational nature of these kinds of crimes. The way in which he has addressed security issues in the short term, his use of the military and federal personnel to address problems, crime-related problems, and his decision to extradite, which sends a very strong message to the heads of cartels and the heads of organized crime that they will not be protected, that there's no escape, is a powerful message.

But it's also a challenge to us because if he's prepared to act so boldly, we need to be prepared to act so boldly. And we need to be prepared to sit down with President Calderon's government and look for ways that we can deepen our cooperation on the law enforcement side and on improving our security along the frontier, recognizing at the end of the day that you can't secure a frontier at the border. You can do a lot to improve security at the border; you can facilitate and regularize the movement of peoples, but ultimately, to protect a border, you need to protect way beyond the border. You need to develop mechanisms of cooperation and information sharing that allow both institutions, or both national institutions – Mexican institutions and American institutions, U.S. institutions – to function better.

And in this sense, I believe there really has been a dramatic, almost a radical change in the relationship between Mexico and the United States. President Fox really took steps that were historic and unprecedented, and President Calderon has made it very clear that he's prepared to go even further. And I think in the Mexican attorney general, in Mr. Medina Mora, we have a very committed, creative, and intelligent interlocutor, who is going to test us by showing what he's capable of, and President Calderon also showing what he's capable of, and then asking us to step up on our side.

Q: (Off mike) – is taking a lot heat from the opposition.

MR. DESHAZO: Please, there are others who would like to ask a question.

The gentleman in the back? Please say who you are and your affiliation.

Q: Absolutely – Ian Talley, Dow Jones. You know of course in Venezuela about the Orinoco belt, the discussions about the nationalization of and majority ownership there. It's really a two part question. Do you anticipate coming arbitration? What is the U.S. doing about that at all? Are you preparing any sort of trade issues or litigation? And secondly, on Verizon and EAS, both of whom are major shareholders in Venezuelan companies under the nationalization program of Chavez, are you doing anything to protect the assets of these interests? And secondly, Chavez has been buying Russian

military equipment – less sold to him from the U.S. Do you anticipate an arms race in the region?

MR. SHANNON: Those are several questions. Let me see if I can kind of pick them apart.

Referring to the last one, we don't anticipate an arms race. However, as we've said on a variety of occasions, you know, each country has to determine for itself what its defense needs are and each country has to determine for itself the kinds of weaponry and the amounts of money it will spend on weapons.

And obviously we weren't thrilled by the decisions made by the government of Venezuela in terms of its weapons purchases, but I think what worried us more than the weapons purchases themselves were how they fit into a larger revamping of a strategic doctrine and what they meant for the relationship between Venezuela and the United States, because ultimately, as you know, the U.S. and Venezuela have a very long and positive history, and that one important aspect of that history was cooperation between our armed forces. And the Chavez government early on decided that that relationship was no longer viewed as helpful and therefore sought to break down that relationship at every instance, whether it be in our military exchange program, whether it be in commonality of military doctrine, even to the symbolic point of uniforms, and then of course the use of military training exercises to promote a perception that the United States was an enemy of Venezuela and to conduct military exercises which were based under a premise that the United States would invade Venezuela, which is a false premise.

And for us, that is a strategic vision that we can't agree with, obviously, and it hearkens back to kind of my earlier comments in which I said that, you know, the big challenge we face today is how we overcome divisiveness and how we build a unity of purpose. And so in that regard we would obviously hope in the future, as we look for ways to engage with the government of Venezuela, to underscore the pacific nature of our relationship, but also the importance of dialogue on security issues, and especially strategic understandings so that we have a common understanding of just how important we are to each other.

In terms more broadly of your questions regarding the intentions of the government of Venezuela, in terms of however you want to describe it, whether it's nationalization or control or whatever both of petroleum interests but also telecommunications interests, this is something that we're following very, very closely. At this point what we have is a variety of kind of assertions of intent without necessarily any concrete action. We fully expect there to be some kind of concrete action and, in this regard, we are talking with the government of Venezuela to understand better what it is it hopes to accomplish. And I'm afraid I can't say much more at this point, but that obviously we're interested in making sure that U.S. companies have their property rights respected, that U.S. companies be able to operate on a level playing field in Venezuela at no disadvantage compared to other foreign companies, and that we will work with these companies to make sure that their rights and responsibilities are protected.

MR. DESHAZO: The gentleman in the – (inaudible) – right there.

Q: (Unintelligible) – Johns Hopkins CSIS. Standard & Poor's has recently downgraded Ecuador. President Correa and his finance minister have used words like "reconstructing" the debt, "defaulting" on the debt. A payment is due on February 15, a coupon payment. In the context of your remarks, what would be an appropriate U.S. strategy to engage the Ecuadorians not to create a new debt crisis in the Americas?

MR. SHANNON: I would argue that the strategy that we would employ would not just be a U.S. strategy; it would be a larger hemispheric strategy. I mean, obviously, Ecuador is going to take the decisions that it sees fit. But from our point of view – and we think this is shared broadly – Ecuador is at an important moment, politically and economically. President Correa was elected with a strong majority, a majority that clearly exceeded the vote that he received in the first round of the elections, that we think it represents an expression by a majority of the Ecuadorian people for a government that's effective, that's responsive, and that's accountable, and that this is an agenda that we and others in the region would like to be part of.

But in order for us to be part of it, we have to be able to engage and we have to be welcomed, and it would certainly be our hope that as President Correa and his team faces the huge challenges that they face, that they look for ways to start their mandate in a fashion that creates an opportunity for engagement and doesn't immediately pitch Ecuador into conflict with those institutions and those countries that could help it most. I'm no economist, so it's hard for me to talk in kind of specific terms about the rationality of Ecuadorian efforts to address the larger debt issue, but the point here is not to dodge your question; it's just to kind of make a larger comment that when people want to help you, you should let them help you, as opposed to creating an environment in which there's conflict or confrontation where it's not necessary.

MR. DESHAZO: The lady here. The lady in the red – (inaudible).

Q: Maruja Tarre (sp), from Simon Bolivar University, Caracas. You just say that you are having talks with the government of Venezuela about the nationalizations, and prior to that you say that it's necessary to engage in a positive dialogue to have some kind of results. Do you think that's possible with the Chavez government, taking into account the latest development in Venezuela?

MR. SHANNON: Well, we'll find out. (Laughter.) No, that obviously is the question.

I had an opportunity to speak with President Chavez at the inauguration of Daniel Ortega in Nicaragua, as did head of our delegation, Secretary Leavitt of Health and Human Services. And in both instances, President Chavez indicated a desire to improve relations and indicated a belief that we could find areas where we could have a positive and constructive conversation. And our ambassador in Caracas, Bill Brownfield, has

held several conversations with the foreign minister and with others in the foreign ministry about what such an agenda would look like. And I think we're fairly close to a moment in which we might be able to sit down and talk. But obviously, this decision rests in Caracas. I mean, from our point of view, we've been ready to have these kinds of conversations for quite some time, but it's been Caracas that has been reluctant up to this point, for a variety of reasons. But it's our hope that what President Chavez said to us Managua indicates a real willingness to talk, so we'll find out.

MR. DESHAZO: The gentleman in the back.

Q: Hi, Michael Bagley from the Bagley Group. Under the guise of Pan-Americanism, you talk about economic security and deeper commercial engagements. Can you talk about what may or may not be on the table for regional financial integration of the marketplaces, in particularly Central America? And maybe a subset of that is what you see on the U.S.-Panama free trade agreement dialogue for 2007.

MR. SHANNON: Okay. On the Panama side, obviously having concluded the free trade agreement was hugely important to us and, we believe, hugely important to Panama. And now our intent, of course, is to sign that agreement once the 90-day clock has finished, and then to bring that agreement to our Congress and work with our Congress to do all that we can to help win approval of the free trade agreement.

I mean, we see the free trade agreement as a significant commitment by Panama to a relationship with the United States, but more broadly to Panama's relationship with Central America. And I think an important component of a modernization agenda that has really defined the presidency of Martin Torrijos. And if you look at all that President Torrijos has done in a fairly short period of time, whether it be social security reform and fiscal reform and the Panama Canal referendum and now the free trade agreement, he is really kind of creating an environment that, if we're successful with the free trade agreement, is really going to change the face of Panama and prepare it to be successful in the 21st century in a dramatic way. And so it is our hope to be able to take a relationship which has been excellent up to this point, but to make it deeper and to help Panama achieve the kind of success that it wants to have.

More broadly, on Central America, integration in Central America is one of the most interesting and encouraging phenomenons that we're watching right now. And in fact, in case you haven't noticed, in the aftermath of CAFTA, we are looking for ways to accelerate the benefits of free trade agreements. And as I mentioned before, building a model of integration in which while free trade plays a very important role, is not the only component of integration. And we have Millennium Challenge compacts now with Honduras, El Salvador, and Nicaragua. We're in discussions with Guatemala about what it would take for Guatemala to enter into the Millennium Challenge program. And we're also working with other partners in the region and outside of the region, such as the European Union, which is very interested in and has begun a negotiation of a free trade agreement or an association agreement with Central America, to find ways to build layers

of support and integration and free trade on top of CAFTA so that the integration and the economic growth that CAFTA can create is not left entirely to the private sector.

I mean, one of the lessons we learned from NAFTA is that if you leave this kind of economic integration only to the private sector, you have to catch up later, even when you have a private sector as dynamic and powerful as then U.S. private sector, and that governments can play a very, very useful role in identifying existing kind of points of friction or difficulty in free trade agreements and looking for ways to resolve those. And so it's our hope that Central American integration, whether it be financial integration or looking at customs and integration reform or – deepen that integration because Central America has emerged from the CAFTA process with an enormous sense of self-confidence.

When you compare what they're attempting to do with what's going on in the rest of the region, it's quite remarkable. I mean, these supposedly are kind of small countries, but they had the confidence to negotiate an agreement with the United States, and they negotiated a pretty good agreement. And then to turn around and decide they were going to negotiate an agreement with the European Union, and on top of that beginning to look across the Pacific and see who they can negotiate free trade agreements with in Asia, and explore the possibility of associating themselves in some fashion with APEC. And from my point of view, for countries that are considered small, this shows a degree of self-confidence which is impressive, and so we want to find ways to encourage that.

MR. DESHAZO: Thank you very much. One question in the back, lady in red, then we should perhaps quit.

Q: Hello. I'm Sarah (sp) from CBC, Canadian Broadcasting. What do you see as the biggest issue facing the Canadian-U.S. relationship? And specifically the Western Hemisphere Travel Initiative, the air rules come in today. How big of a priority is it to get the land crossing rules into effect? They've already been delayed. How big of a priority is that, given the trade and tourism concerns?

MR. SHANNON: Yeah, you know, our relationship with Canada, similar to our relationship with Mexico, is so broad and so dynamic that it is very hard to identify a single issue that stands out. There tend to be kind of batches of issues that emerge over time, and they tend to be those issues at a federal level which nobody else can resolve, and require the engagement of the federal government because so much of what happens in our bilateral relationship gets solved elsewhere and solved in ways that are mutually beneficial.

We've talked with the Canadians a lot about the Western Hemisphere Travel Initiative. We understand, you know, their concern, and it's a concern that's shared on our side of the border, especially in border states. But at the same time, we're under a congressional mandate to get it done. It was legislation enacted in an effort to improve security in the United States and have a better understanding of who is or who isn't crossing our frontier. And putting the – kind of the air component of WHTI into effect

has been an important step. And I would say that the administration is quite committed to – you know, to implementing the rest of WHTI, always in consultation with our partners and recognizing that while we improve security – and this really is one of the principal components of our bilateral dialogue and one of the principal components of the Security and Prosperity Partnership – that as we look for ways to improve security, we don't want it necessarily to unduly constrain or inhibit what has always been a commercial relationship and a relationship among peoples that has been very fluid.

And if you'll permit me just a minute to talk about the Security and Prosperity Partnership, a ministerial is planned in Canada for the end of February – February 23. It would be the first time that the new Mexican foreign secretary will be participating in an SPP event. And then the Canadians will host a leaders meeting sometime in the summer.

And the SPP has been a – I think kind of a really creative initiative designed to find ways to armor our economies, if you want to put it that way; to bring into a trade agreement a security component that recognizes that our free economies and our pluralistic societies are vulnerable, but that within a larger context of North America, Canada, the United States and Mexico can preserve our sovereignty and independence, can protect and manage our frontiers, while at the same time recognizing that we live in a common space. And protecting that common space and developing mechanisms of security cooperation and emergency disaster management and health and pandemic cooperation, that will not only protect our prosperity, but our societies and our diversity and the well-being of our democratic institutions.

MR. DESHAZO: Ambassador Shannon, thank you so much for your vision of the – (applause).

MR. SHANNON: Thank you. (Applause.)

MR. DESHAZO: Thank you for your generosity in coming here. And ladies and gentlemen, thank you all very much for having come.

MR. SHANNON: Thank you.

(END)