

April 1993

# U.S.-Chilean Trade

## Developments in the Agriculture, Fisheries, and Forestry Sectors



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**General Government Division**

B-252105

April 1, 1993

The Honorable E (Kika) de la Garza  
Chairman, Committee on Agriculture  
House of Representatives

Dear Mr. Chairman:

This report responds to your request that we review issues affecting bilateral trade between the United States and Chile, focusing on the agriculture, fisheries, and forestry sectors.

As you requested, we plan no further distribution of this report until 30 days from its issue date unless you publicly announce its contents earlier. At that time, we will send copies to the Secretaries of Agriculture and the Treasury, the U.S. Trade Representative, and other interested congressional committees. Copies will also be made available to others on request.

Please contact me on (202) 512-4812 if you have any questions concerning this report. The major contributors to this report are listed in appendix I.

Sincerely yours,

A handwritten signature in cursive script that reads "Allan I. Mendelowitz".

Allan I. Mendelowitz, Director  
Financial Institutions and International Trade

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# Executive Summary

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## Purpose

U.S.-Chilean trade more than doubled between 1986 and 1991. Chilean agriculture, fishery, and forestry exports to the United States have been particularly successful, and in 1991, accounted for well over half the value of Chilean exports to the United States. However, the United States sells few agricultural, fishery, or forestry products to Chile.

To assess trade relations between the United States and Chile focusing particularly on the agriculture, fishery, and forestry sectors, as well as the implications of a future free trade agreement between the two countries, the Chairman, House Committee on Agriculture, asked GAO to (1) review recent trends in U.S. trade with and investment in Chile for these three sectors; (2) evaluate the development of Chilean agriculture, fishery, and forestry exports to the United States; (3) analyze the extent to which horticultural exports from Chile complement or compete with U.S. domestic production; and (4) identify the principal impediments to bilateral agricultural trade and efforts to promote further trade liberalization.

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## Background

Statistical data suggest that both the United States and Chile have benefited from recent trends in bilateral trade. Chile is one of the major importers of U.S. products in Latin America and the most rapidly growing market for U.S. exports in the region. Similarly, the United States continues to be Chile's most important trade partner.

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## Results in Brief

U.S. agricultural exports to Chile represented only 13 percent of Chile's total agricultural imports in 1991, and U.S. exports of fishery and forestry products to Chile are also rather limited. However, U.S. Department of Agriculture officials reported that certain U.S. agricultural exports could increase if Chilean tariffs were lowered. The United States is also the leading foreign investor in Chile's fisheries and agricultural industries and in certain industrial activities related to forestry.

Chile has become a major U.S. supplier of agricultural products, particularly fresh fruit. After Mexico, Chile is the largest supplier of agricultural products to the United States. Chile also significantly increased its fishery and forestry exports to the United States between 1986 and 1991.

Generally, Chilean fresh fruit exports to the United States complement rather than compete with U.S. domestic production, because the

production season for most crops in the two countries does not overlap. Nevertheless, some U.S. growers are concerned about the growing influx of fresh fruit imports from Chile.

There are few significant impediments to trade between the United States and Chile. However, U.S. officials object to Chile's price support mechanism for certain agricultural commodities, because it imposes a variable import levy that renders some U.S. exports less competitive. Chile also gives preferential tariff reductions to products from fellow members of the Latin American Association for Integration, which limits the competitiveness of certain U.S. exports. Conversely, Chilean growers and officials consider U.S. "marketing orders" to be a trade barrier. (A marketing order is a regulatory program administered by the U.S. Department of Agriculture to prevent marketing of low-quality crops and sharp fluctuations in supply.) Also, Chilean officials believe that U.S. quotas for certain agricultural commodities may interfere with potential Chilean exports.

Despite these impediments, both governments have demonstrated a commitment to promote further expansion of trade. In October 1990, the two countries signed a bilateral framework agreement on trade and investment, establishing a trade and investment council to develop the basis for a future free trade agreement.

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## Principal Findings

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### U.S. Exports to and Investment in Chile

In 1991, U.S. agricultural exports to Chile were valued at \$69.7 million, according to Chilean Central Bank figures. According to the U.S. Department of Agriculture, there may be opportunities to expand U.S. agricultural exports, such as cotton, soybean oil, and soy meal, if Chilean tariffs are lowered. U.S. fishery and forestry exports to Chile are very limited and are not likely to increase significantly in the near future, since Chile is a producer and exporter of these commodities.

The United States is the principal source of foreign investment in Chile and the primary investor in Chile's fisheries and agricultural industry. Foreign-owned, primarily U.S., trading companies manage about 40 percent of Chilean agricultural exports. The United States also ranks among the top three sources of foreign investment in certain Chilean

industrial activities related to the forestry sector. However, these three sectors combined accounted for only about 1 percent of total U.S. investment in Chile between 1982 and 1991.

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### Chile's Exports to the United States

The United States is Chile's principal market for agricultural exports. From 1989 to 1991, the value of U.S. agricultural imports from Chile increased by nearly 60 percent, from \$421 million to \$668 million, according to figures provided by the Central Bank of Chile. Table grapes are the leading Chilean agricultural export to the United States, worth about \$342 million in 1991. Other major Chilean fresh fruit exports include peaches, nectarines, avocados, plums, pears, and apples.

Chilean fishery exports to the United States grew by 215 percent between 1986 and 1991, from \$40 million to \$126 million, according to U.S. Department of Commerce data. Since 1990, Chile has been among the top 10 exporters of fishery products to the United States. Chilean forestry exports to the United States have also increased dramatically. Chilean Forestry Institute figures indicate these exports to the United States were up 240 percent, from \$20 million to \$68 million between 1986 and 1991.

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### Competition and Complementarity in Chilean Horticultural Exports

Generally, Chilean fruit exports to the United States complement U.S. production. Chile's production for most crops takes place during the winter months in the United States, when there is no U.S. production. Among the top Chilean fresh fruit exports to the United States, only avocados are produced concurrently in the United States and Chile, while there is also a short period of overlap in table grape production.

U.S. growers have expressed concern about the increase in fresh fruit and vegetable imports from Chile, despite their complementarity. A spokesman for a major U.S. growers' organization noted that Chilean fruit exports are expected to continue to increase over the next few years. Further increases in Chilean fruit exports could adversely affect U.S. producers, the growers' organization believes.

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### Few Barriers to Trade Between the United States and Chile

Although there are few trade barriers between the United States and Chile, some still remain. A feature of Chile's price support mechanism, known as "price bands," is a variable import levy, in addition to the 11-percent tariff on imports of wheat, wheat flour, vegetable oils, and sugar when the price of these commodities falls below the minimum price set by the

government. The U.S. government opposes price bands because they limit the competitiveness of U.S. exports to Chile. Chile's preferential tariffs for products from other member countries of the Latin American Association for Integration also have an adverse impact on potential U.S. exports. According to U.S. Department of Agriculture sources, many Chilean importers prefer high-quality U.S. cotton and oilseed products. However, they do not buy these products from the United States because they are subject to full tariff rates, while the same items from Latin American Association for Integration member countries receive as much as a 30- to 50-percent tariff reduction.

On the other hand, Chilean growers and officials oppose U.S. marketing order requirements and have raised questions about U.S. quotas on agricultural commodities. Of particular concern to growers is the marketing order for grapes. Chilean growers argue that the marketing order requirement for grapes is not applied fairly. Their fruit is graded upon arrival in the United States, 14 days after it is harvested in Chile, while U.S. grapes are graded at the time they are harvested. Chilean officials have also raised concerns about U.S. quotas on dairy imports. U.S. quotas may restrict future sales of Chilean dairy products to the United States, they believe.

Despite the difficulties, U.S. and Chilean officials are working to expand trade and investment opportunities. Through the 1990 Enterprise for the Americas Initiative, the United States pledged to strengthen Latin American and Caribbean economies by increasing trade and investment and by reducing official debt to the United States. The United States and Chile have also signed a framework agreement establishing a bilateral council to develop the basis for a future free trade arrangement.

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## Recommendations

This report contains no recommendations.

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## Agency Comments

GAO discussed its findings with officials from the Office of the U.S. Trade Representative, the U.S. embassy in Chile, and the Chilean embassy in the United States. The Office of the U.S. Trade Representative suggested some changes to the discussion of Chile's investment regime. The Chilean embassy in the United States did not express any comments or disagreements with GAO's findings.

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**Abbreviations**

ALADI	Latin American Association for Integration
EAI	Enterprise for the Americas Initiative
FEDEFRUTA	Federation of Chilean Fruit Producers
USDA	U.S. Department of Agriculture



# Introduction

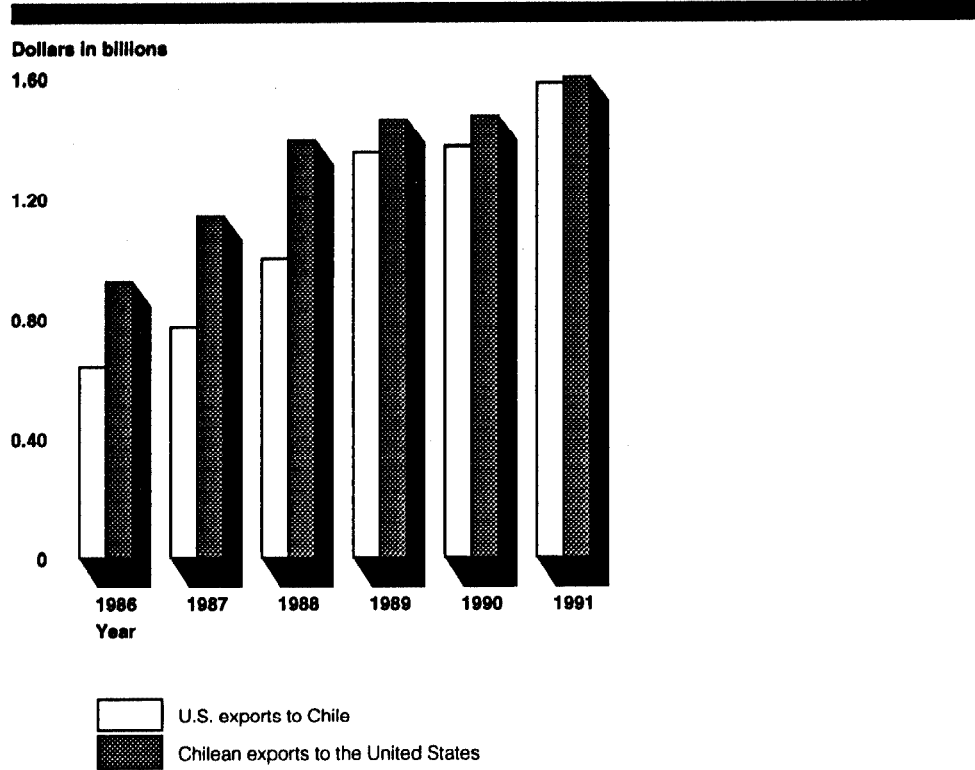
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## Expansion of U.S.-Chilean Bilateral Trade

Since the mid-1970s, Chile has undertaken a series of bold market-oriented economic reforms. The government has sold many state-owned enterprises, cut public sector expenditures, lifted price controls, tightened monetary policy, reduced import tariffs, and instituted liberal terms on foreign investment. While there have been considerable social costs associated with these policies, Chile has succeeded in containing inflation, lowering unemployment, stimulating exports, and attracting significant foreign capital. The country's gross domestic product is estimated to have grown by 9.7 percent in 1992.

Chile's market-oriented reforms have led to substantial increases in trade with the United States. Between 1986 and 1991, U.S.-Chilean bilateral trade more than doubled. According to statistical data, both countries have benefited from this expansion. Chilean figures showed a surplus in the balance of trade in favor of Chile during the 6-year period. However, the overall trend over this period has favored U.S. exports, narrowing the existing trade gap (see fig. 1.1). Chile is the fourth largest importer of U.S. products in Latin America and the most rapidly growing market for U.S. exports in the region. On the other hand, the United States continues to be among Chile's most important trade partners. In 1991, the United States was the largest supplier of imported goods to Chile and the second largest market for Chilean exports after Japan.

Figure 1.1: U.S.-Chilean Bilateral Trade, 1986-1991



Source: Central Bank of Chile.

The principal U.S. exports to Chile are machinery, transport equipment, and chemicals. U.S. agricultural, fisheries, and forestry exports to Chile are very limited. They were valued at approximately \$73 million in 1991, according to figures provided by the U.S. Department of Agriculture (USDA) and the U.S. Department of Commerce. Nevertheless, further trade liberalization could provide opportunities for increased U.S. agricultural exports, according to a USDA report.

Copper still ranks first among Chilean exports to the United States. However, in 1991 Chile's table grape exports were about equal to its copper exports, valued at \$342 million. In recent years, Chile's agriculture, fisheries, and forestry exports to the United States have been particularly successful. Fresh fruit and seafood exports have experienced substantial growth, and forestry exports to the United States have also expanded

significantly. As indicated in table 1.1, in 1991 agriculture, fisheries, and forestry exports accounted for well over half the value of Chilean exports to the United States.

Table 1.1: Value of Chilean Exports to the United States, 1991

U.S. dollars in millions	
Sector	Value
Agriculture	\$668
Fisheries	126
Forestry	68
Others	735
<b>Total</b>	<b>\$1,597</b>

Sources: Central Bank of Chile and Chilean Forestry Institute.

## Objectives, Scope, and Methodology

The Chairman, House Committee on Agriculture, asked us to study trade relations between the United States and Chile and the implications of free trade, focusing on the agriculture, fisheries, and forestry sectors. Based on the Chairman's request, we (1) reviewed recent trends in U.S. trade with and investment in Chile for these three sectors; (2) evaluated the development of Chilean agriculture, fishery, and forestry exports to the United States; (3) analyzed the extent to which horticultural exports from Chile complement or compete with U.S. domestic production; and (4) identified the principal impediments to bilateral agricultural trade and efforts to promote further trade liberalization.

The information presented in this report is based primarily on official documents and statistics from USDA, the Office of the U.S. Trade Representative, the U.S. Department of Commerce, the Central Bank of Chile, the Chilean Forestry Institute, the Chilean Foreign Investment Committee, the Embassy of Chile to the United States, and other U.S. and Chilean government agencies. All figures discussed reflect calendar year information.

To obtain a balanced view on the major issues affecting bilateral trade, we met with Chilean as well as U.S. government officials. In the United States, we interviewed officials responsible for trade or Chilean affairs at the Office of the U.S. Trade Representative; various USDA agencies, including the Foreign Agricultural Service, the Agricultural Marketing Service, and the Animal and Plant Health Inspection Service; the Department of State;

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the Department of Commerce; and the Embassy of Chile in Washington, D.C.

In Chile, we met with officials at the Ministry of Agriculture, the Fisheries Secretariat, the Forestry Institute, and the Foreign Investment Committee. We visited companies involved in agriculture, aquaculture, and forestry production in the regions of Valparaiso, Rancagua, Puerto Montt, and the Santiago Metropolitan Area.

We also held discussions with private sector representatives in the United States and Chile, including the California Grape and Treefruit League, the Northwest Horticultural Council, the American Chamber of Commerce in Chile, the Federation of Chilean Fruit Producers (FEDEFRUTA), the Chilean Association of Salmon and Trout Producers, and a number of U.S. and Chilean firms involved in bilateral trade in the agriculture, fisheries, and forestry sectors.

Data on U.S. harvest and marketing seasons for horticultural commodities were provided by the USDA's Agricultural Marketing Service. Corresponding data on Chilean harvest and marketing seasons were provided by FEDEFRUTA.

Information on Chilean legal matters in this report does not reflect our independent analysis of the matters, but rather is a synopsis of information from secondary sources in the Chilean and U.S. governments.

We did our review from February through November 1992 in accordance with generally accepted government auditing standards.

We discussed a draft of this report with officials from the Office of the U.S. Trade Representative, the U.S. embassy in Chile, and the Chilean embassy in the United States, and made changes as appropriate.

# U.S. Exports to Chile and Investments in Agriculture, Fisheries, and Forestry

Currently, U.S. agriculture, forestry, or fishery exports to Chile are very modest. U.S. agricultural exports, however, may be able to expand if Chile's tariffs are reduced. While the United States is the leading source of foreign investment in Chile, agriculture, forestry, and fisheries account for a small fraction of total U.S. investment in that country.

## U.S. Exports to Chile

U.S. agriculture, forestry, and fishery exports to Chile are rather limited. However, there may be opportunities to expand U.S. agricultural exports. A USDA report suggests U.S. exports could increase, if given at least the same tariff benefits as exports from some of Chile's Latin American trade partners.

USDA figures indicate U.S. agricultural exports to Chile in 1991 were valued at about \$69.7 million.<sup>1</sup> The combined value of U.S. forestry and fishery exports to Chile that year was nearly \$3.5 million, according to U.S. Department of Commerce figures. In 1991, the principal U.S. agricultural export to Chile was corn, valued at \$28.2 million. Other major U.S. agricultural exports to Chile in 1991 included sugar, \$6.9 million; beverage syrup, \$6.7 million; soybean cake and meal, \$1.9 million; and tallow, \$1.8 million. Although the United States is a major agricultural exporter, it sells few agricultural commodities to Chile. This situation is not surprising given the fact that U.S. exports face higher tariffs and transportation costs than exports from neighboring South American countries that compete with the United States.

However, there may be opportunities to expand U.S. agricultural exports to Chile. In 1991, imports from the United States represented only 13 percent of Chile's total agricultural imports. There is significant demand in Chile for certain agricultural commodities, such as cotton, vegetable oil, and soybean meal, which the United States could supply. The U.S. share of the Chilean market for these commodities is very limited, partly because Chile's current tariff structure favors exports from other Latin American countries belonging to the Latin American Association for Integration (ALADI). Table 2.1 shows some of the leading Chilean agricultural imports and the principal suppliers. Four of these products are supplied by neighboring South American countries that are members of ALADI. Favorable treatment of ALADI products and other impediments to U.S. agricultural exports to Chile are discussed in chapter 5.

<sup>1</sup>According to Central Bank of Chile data, U.S. agricultural exports to Chile in 1991 were valued at \$66.3 million. U.S. Department of State officials explained that the discrepancy between U.S. and Chilean figures is based on differences in data collection.



**Table 2.1: Selected Chilean  
 Agricultural Imports and Major  
 Suppliers in 1991**

U.S. dollars in millions		
Commodity	Value	Major supplier
Cotton	\$53.3	Paraguay
Vegetable oils	44.5	Argentina
Soybean meal	22.6	Paraguay
Dry milk	21.8	European Economic Community
Beef	19.4	Argentina

Source: Central Bank of Chile.

A report by the Office of the U.S. Agricultural Attache in Chile concluded that a free trade agreement between the United States and Chile would enable an increase in U.S. exports, if given at least the same tariff benefits as exports from ALADI countries. The report noted that certain U.S. agricultural exports to Chile could increase by as much as \$5 million to \$15 million in a year, if tariffs were eliminated. Among the commodities most likely to benefit from free trade are cotton, soybean oil, soy meal, dry milk, and meat.

Moreover, according to the Office of the U.S. Agricultural Attache, a recent study commissioned by a Chilean business group estimated that U.S. wheat, vegetable oils, sugar, and corn exports could increase by \$78 million, if Chilean tariffs were eliminated. The U.S. Agricultural Attache also noted that while U.S. agricultural exports to Chile are still limited, they showed significant increases in 1992.

## U.S. Investments in Chile

Chile has been exceptionally successful among developing countries in attracting foreign investment capital. Chile's basic legislation governing foreign investment, known as Decree Law 600, provides for nondiscriminatory treatment of foreign investors, free access to foreign exchange markets, and minimal state regulation of business activity. Foreign investment is generally permitted in all sectors.<sup>2</sup> Between 1982 and 1991, overall foreign investment under Decree Law 600 reached about \$5.9 billion.

The United States has been the principal source of foreign investment in Chile. U.S. direct investment between 1982 and 1991 was approximately \$1.9 billion. The bulk of U.S. investment in Chile during this period, about

<sup>2</sup>The only restriction on foreign investment in the sectors discussed in this report involves ownership of fishing vessels. See discussion in the following section.

72 percent of the total, went into the mining sector. The service sector also accounted for a substantial portion of U.S. investment during this period, approximately 23 percent of the total. Agriculture, forestry, and fisheries, however, have received only a small fraction of total U.S. investment in Chile during this period. The combined value of investments in these three sectors accounted for only 1 percent of total U.S. investment in Chile. Nevertheless, the United States is a leading investor in each of these sectors.

According to data provided by the Chilean Foreign Investment Committee, the United States was the leading source of foreign investment in Chile's fisheries sector between 1982 and 1991. During this period, U.S. investment in Chilean fisheries totalled about \$9 million.

The United States is also the principal foreign investor in Chile's agricultural industry. Figures provided by the Chilean Foreign Investment Committee indicate U.S. investment in Chile's agricultural sector reached approximately \$8 million between 1982 and 1991. A spokesman for a major U.S. fruit growers association noted that many members are involved in growing operations in Chile. Foreign-owned trading companies, primarily from the United States, manage about 40 percent of Chilean agricultural exports.

According to Chilean government data, U.S. investments in Chile's forestry sector were only about \$2 million between 1982 and 1991. An official with the Chilean Foreign Investment Committee explained that while U.S. investments in Chile's forestry sector seem very limited, there are significant investments of U.S. origin in industrial activities related to forestry, including wood pulp and paper production. This official estimated that the United States ranks among the top three foreign investors in these types of activities in Chile.

In 1991, Chile amended its foreign investment regime to require majority domestic ownership of fishing vessels. This requirement applies only to new investments. Foreign investors who owned fishing vessels prior to 1991 are not required to give up their investment. The requirement is also applied only on a reciprocal basis. Investors from countries that allow more than 51-percent foreign ownership of fishing vessels are not subject to the requirement. U.S. investors are subject to the new requirement, because the United States limits foreign ownership interest in any fishing vessel to less than 50 percent under chapter 121 of title 46, United States Code.

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**Chapter 2**  
**U.S. Exports to Chile and Investments in**  
**Agriculture, Fisheries, and Forestry**

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According to the Office of the U.S. Trade Representative, Chilean law falls short of what the United States regards as the international law standard on foreign investment. While profits on foreign investment may be freely remitted, capital may not be repatriated for 3 years, and transfers related to intellectual property are restricted.

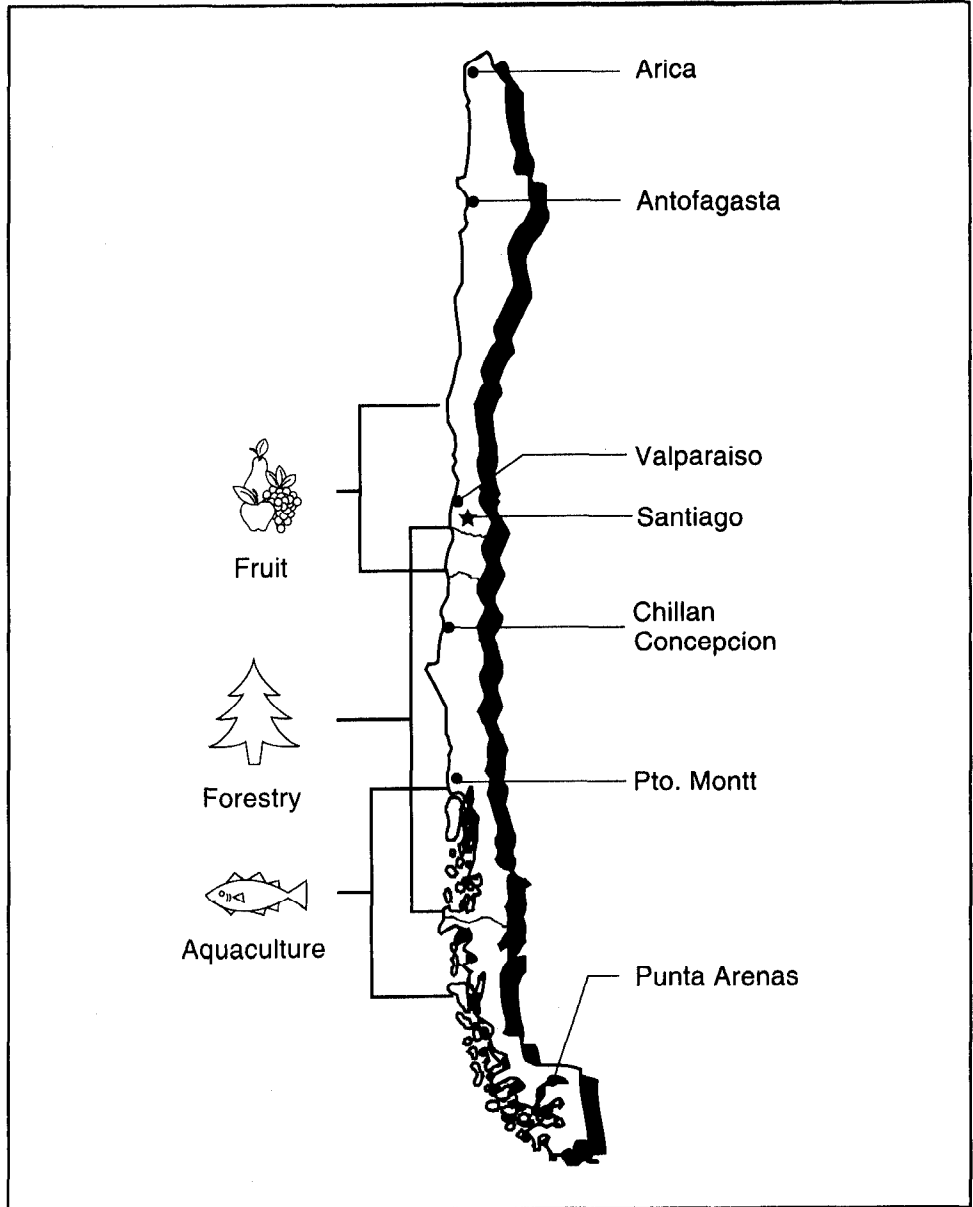
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# Chilean Agricultural, Fishery, and Forestry Exports to the United States

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The United States is the principal market for Chilean agricultural commodities and is a major market for Chilean fishery and forestry exports. Chile ranks among the major suppliers of U.S. agricultural imports. Chile is the second largest supplier of agricultural products to the United States after Mexico. From 1986 to 1991, the value of Chilean fishery exports to the United States has increased by 215 percent, while forestry exports have increased by nearly 240 percent. Figure 3.1 shows the areas for fruit production, aquaculture, and forestry in Chile.

Figure 3.1: Map of Chile Showing  
Selective Economic Activities by Area



## Agricultural Exports

During the 1980s, agricultural production in Chile doubled, and Chile was able to turn its traditional trade deficit in agriculture into a substantial surplus. The United States is the principal market for Chilean agricultural commodities. Approximately 40 percent of Chilean agricultural exports are sold to the United States. Chile's agricultural exports to the United States grew from \$421 million in 1989 to \$668 million in 1991, an increase

of approximately 60 percent. After Mexico, Chile is now the principal foreign supplier of U.S. fruits and vegetables.

Fresh fruits are Chile's principal agricultural export to the United States. Table grapes are the leading Chilean fruit export, accounting for more than half the value of Chilean agricultural exports to the United States in 1991. Other major Chilean fruit exports include peaches, nectarines, avocados, plums, and pears. Processed agricultural products, such as apple juice, are becoming increasingly important exports to the United States, as Chile's fruit and vegetable processing industry expands and develops. Chile's reinstatement to the U.S. Generalized System of Preferences and the elimination of customs duties on some of these products has provided excellent opportunities for growth.<sup>1</sup> Chile has also enjoyed considerable success promoting its wine exports to the United States. It is now the third largest supplier of wine to the United States, replacing Germany and following Italy and France. Table 3.1 lists the principal Chilean agricultural exports to the United States in 1991.

Table 3.1: Major Chilean Agricultural Exports to the United States, 1991

U.S. dollars in millions	
Commodities	Value
Table grapes	\$342
Peaches and nectarines	48
Apple juice	41
Plums	28
Avocados	23
Pears	20
Wine	19
Others	147
<b>Total</b>	<b>\$668</b>

Source: Central Bank of Chile.

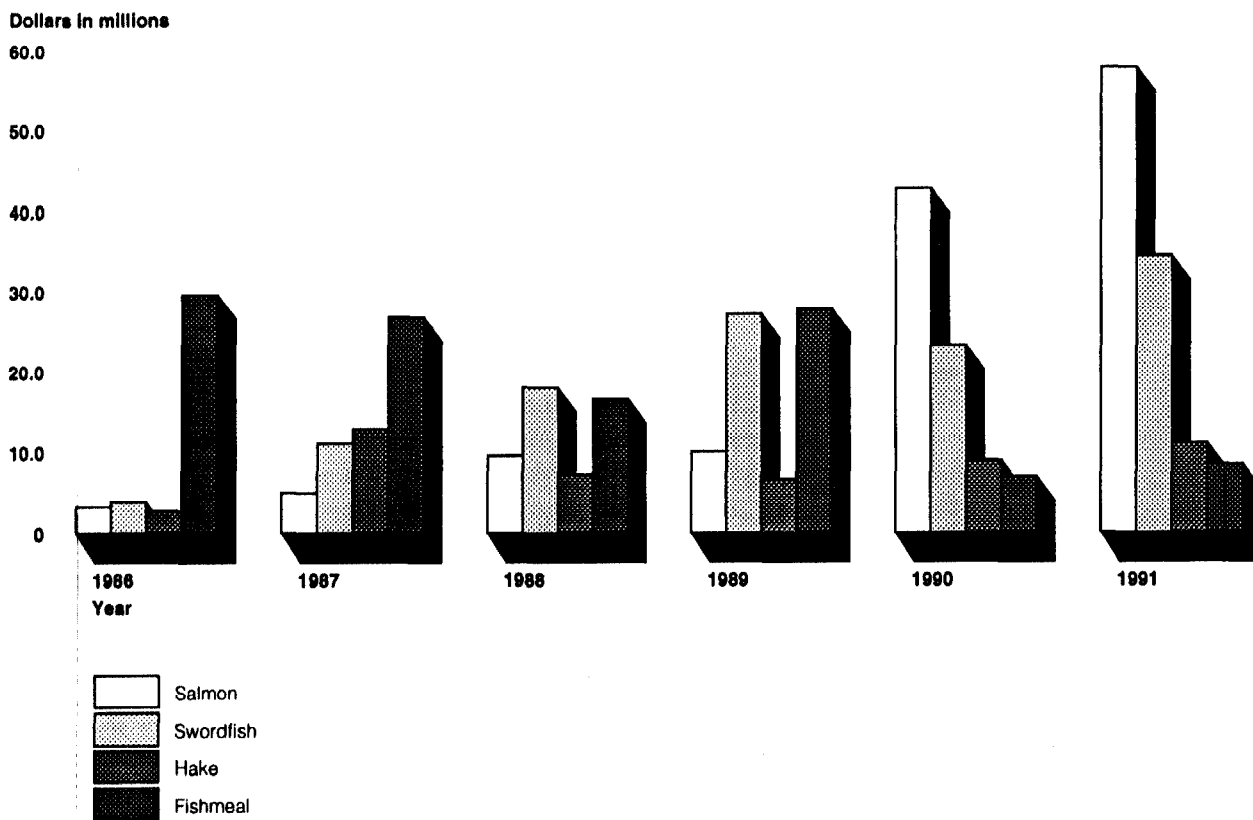
## Fishery Exports

According to U.S. Commerce Department data, in 1991 Chilean fishery exports to the United States had reached almost \$126 million, from approximately \$40 million in 1986. Since 1990, Chile has been among the top 10 exporters of fishery products to the United States. The United States is Chile's third largest market for fishery products after Japan and

<sup>1</sup>The Generalized System of Preferences encourages economic development by promoting trade rather than by giving financial aid to developing countries. This program offers duty-free treatment to over 4,000 products from more than 100 developing countries.

Spain. The major Chilean fishery exports to the United States are salmon, swordfish, hake, and fishmeal. Together, these four products represent about 90 percent of Chilean fishery exports to the United States. Figure 3.2 illustrates the development of these four major fishery exports to the United States from 1986 to 1991.

Figure 3.2: Major Chilean Fishery Exports to the United States, 1986-1991



Source: Central Bank of Chile.

## Salmon

During the 1980s, fish farming, or aquaculture, became the fastest-growing area of the Chilean fishery sector. The principal varieties of fish produced are Atlantic salmon, coho salmon, salmon trout, and rainbow trout. Production in salmon and trout farming has increased from 50 tons to over

50,000 tons during the decade. This exceptional success is due to the fact that climatic and ecological conditions in southern Chile are ideal for salmon breeding. Fresh salmon is the single largest Chilean fish export to the United States. Currently, Chile is the second largest exporter of salmon to the United States after Canada. In 1991, total Chilean fresh and frozen salmon exports to the United States reached approximately \$58 million. Chile's aquaculture industry still relies on imported fish eggs for hatching, principally from the United States and Canada.

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### **Swordfish**

Chilean swordfish exports to the United States did not begin until the mid-1980s. However, within a few years, swordfish exports have increased dramatically, from 30 tons in 1984 to approximately 4,000 tons in 1990. Currently, Chile is the principal exporter of swordfish to the United States. This impressive expansion in swordfish exports is linked to substantial growth in the size of the Chilean fishing fleet, larger fishing vessels, and changes in technology used in fishing. Almost all Chilean swordfish is exported fresh to the United States. In 1991, Chilean swordfish exports to the United States were valued at \$34 million.

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### **Hake**

In the mid-1980s, Chile began exporting frozen hake to the United States. According to market analysis appearing in the U.S. press, demand for hake burgeoned in 1987 and 1988 when the domestic fast food industry faced a shortage of cod, and Chilean hake was used as a substitute. While Chilean hake exports to other countries have generally continued to expand, exports to the United States have remained below the level reached in 1987. In 1991, Chilean fresh and frozen hake exports to the United States were about \$11 million.

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### **Fishmeal**

Chile has traditionally been the world's largest exporter of fishmeal. Fishmeal is a mixture of dried and ground dark-fleshed fish, such as sardines and mackerel, typically used as fertilizer or fodder. In 1991, fishmeal accounted for about half of Chile's fishery exports. Chilean fishmeal exports to the United States have decreased significantly in recent years, from about \$30 million in 1986 to \$8 million in 1991. This decline is partly explained by recent reductions in Chile's catch of dark-fleshed fish species. It is also related to a shift to new markets that have emerged in East Asia.

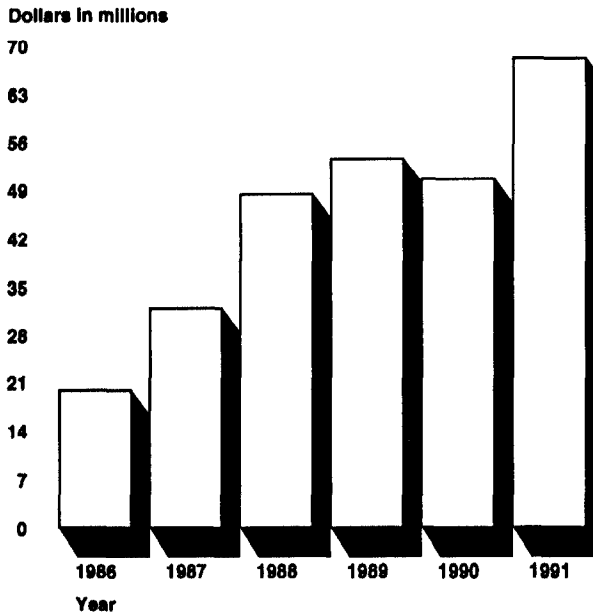
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## Forestry Exports

Chilean forestry exports to the United States increased from \$20 million in 1986 to \$68 million in 1991, according to Chilean Forestry Institute data (see fig. 3.3). In 1991, the United States was the second major market for Chilean forestry products after Japan. Chile's forestry export industry is based on wood pulp products. Its principal exports worldwide include cellulose and wood chips. However, lumber and furniture products account for the bulk of exports to the United States.

Figure 3.3 Chilean Forestry Exports to the United States, 1986-1991



Source: Chilean Forestry Institute.

Chile's forestry industry is still considered to be in its infancy, according to a U.S. Department of State report. Within 15 years, standing forests are expected to provide enough lumber to quadruple current export production. More than 22-million acres of forests are involved in commercial activity, including 3.5-million acres of radiata pine plantations, a tree species that grows three times faster in Chile than in the United States. According to forestry industry and government officials, Chile intends to develop exports of wood for structural use and other

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higher-value-added products. Significant growth in Chilean furniture production and exports is expected.

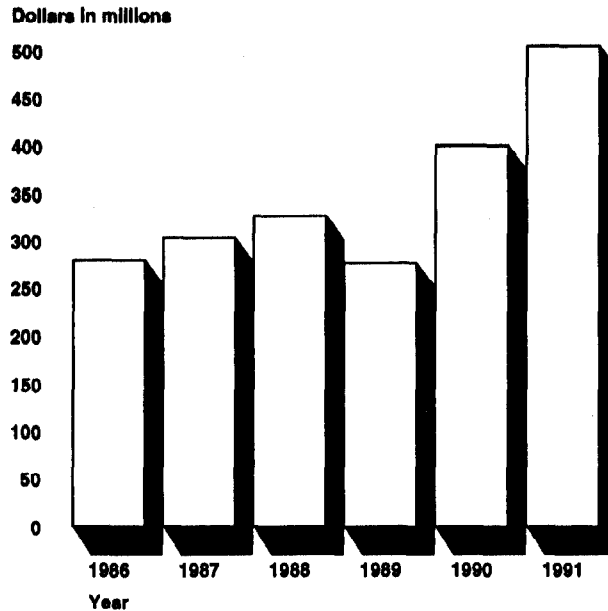
# How Chilean Horticultural Exports Complement or Compete With U.S. Production

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The fruit industry has become a major element of Chile's economic growth. Fresh fruits are Chile's major export after copper. Climatic conditions in Chile are ideal for the production of common temperate weather fruit varieties, and the country's relative geographic isolation protects crops from many pests common in other areas of the world. Chilean fruit exporters have also taken advantage of a growing season that coincides with the Northern Hemisphere winter to develop lucrative markets in the United States and Europe. Currently, the United States is the largest single market for Chilean fruit. In 1991, about 46 percent of Chilean fruit and vegetable exports were sold to the United States. Chilean fresh fruit and vegetable exports to the United States in 1991 were valued at \$505 million (see fig. 4.1). Fresh fruit and vegetables account for approximately 76 percent of all Chilean agricultural exports to the United States.

Almost all of the major Chilean fruit crops exported to the United States complement rather than compete with U.S. domestic production. Nevertheless, some U.S. growers are concerned about the expansion of fresh fruit imports from Chile.

**Figure 4.1: Chilean Fresh Fruit and Vegetable Exports to the United States, 1986-1991**



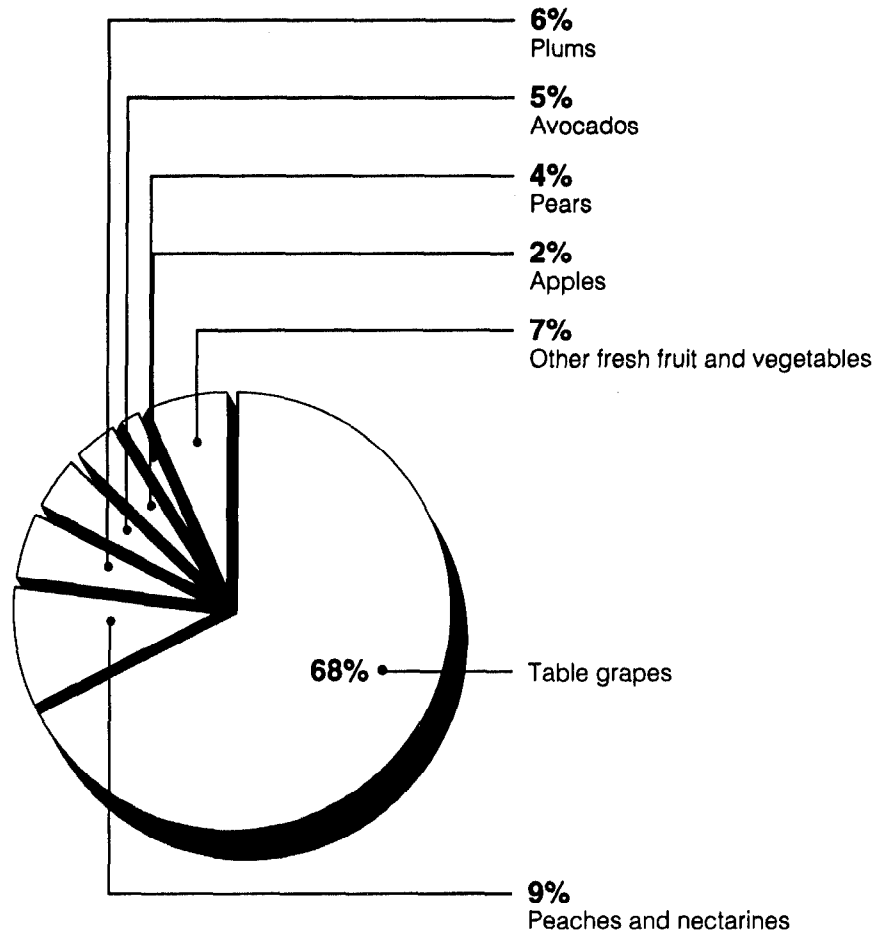
Source: Central Bank of Chile.

## Comparison of U.S. and Chilean Harvesting and Marketing Patterns

The top Chilean fresh fruit exports to the United States are grapes, peaches, nectarines, plums, avocados, pears, and apples. The combined value of these seven crops represented approximately 93 percent of Chilean fresh fruit and vegetable exports to the United States in 1991 (see fig. 4.2). Generally, Chilean fruit exports to the United States complement rather than compete with the U.S. domestic production season. Among these top seven fruit crops, only avocados are harvested and marketed concurrently in the United States and Chile. Harvesting and marketing patterns for Chilean exports of these seven commodities and domestic production in the United States are discussed in the sections that follow.<sup>1</sup>

<sup>1</sup>Chile exports many varieties of fresh fruit to the United States. However, we focused our analysis on those Chilean fresh fruit exports to the United States whose export value exceeded \$10 million in 1991.

Figure 4.2: Principal Chilean Fresh Fruit and Vegetable Exports to the United States, 1991



Source: Central Bank of Chile.

## Grapes

Table grapes are by far the largest Chilean fresh fruit export to the United States, totaling \$342.3 million in 1991. From 1986 to 1991, Chile provided about 85 to 90 percent of the U.S. market for imported grapes. Chilean fresh table grape exports to the United States have increased by 69 percent from 1986 to 1991, while the value of U.S. domestic table grapes marketed fresh during the same period grew by 48 percent. In 1991, the value of Chilean table grapes exported to the United States exceeded the value of domestic U.S. table grapes marketed fresh, according to USDA and Central Bank of Chile data.

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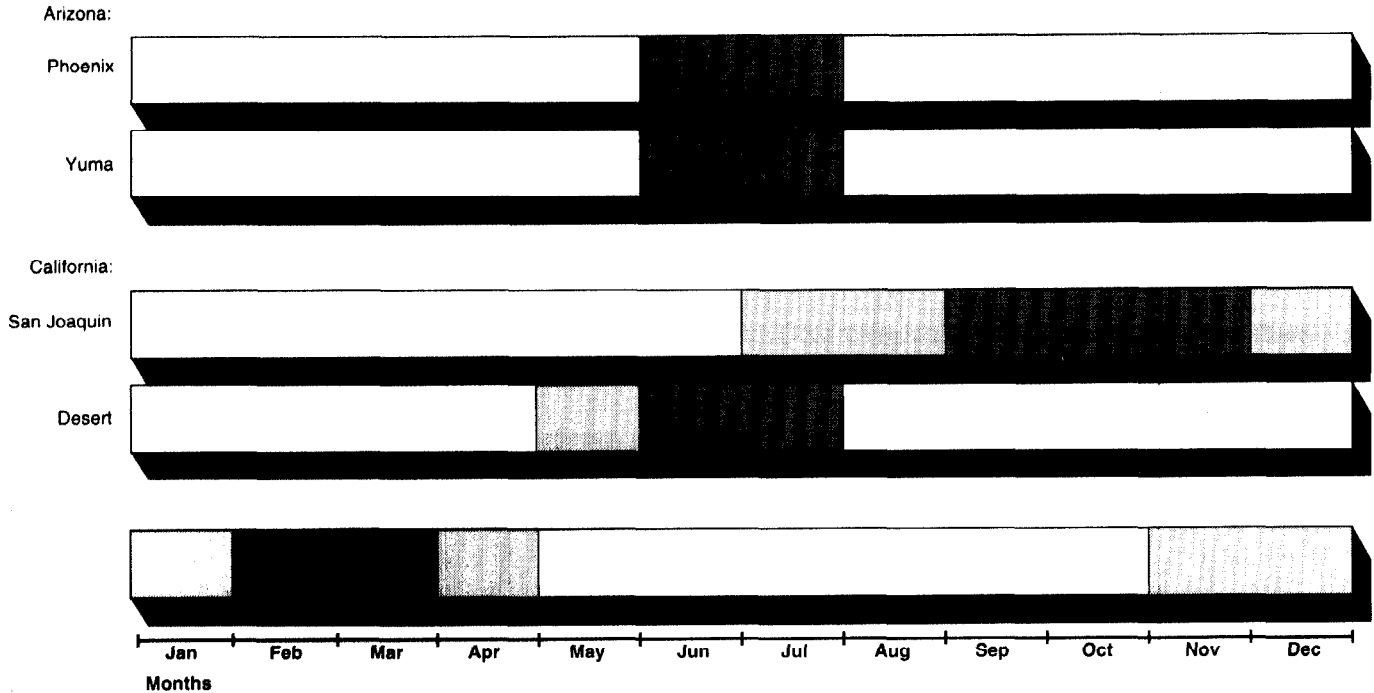
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The peak Chilean harvest for grapes takes place February through March, when there is no production in the United States (see fig. 4.3). However, Chilean grapes are exported to the United States from November to April. Consequently, there is some overlap with production from the San Joaquin valley towards the end of the U.S. harvest season. Chilean grape exports that enter the United States between November and February 14 are subject to a tariff of \$2.12 per cubic meter. From February 15 through March 31, the tariff is reduced to \$1.41 per cubic meter, and during April they enter duty free.

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**Figure 4.3: U.S. and Chilean Harvesting Seasons: Table Grapes**

**United States**



Source: USDA for U.S. data and FEDEFruta for Chile data.

**Peaches and Nectarines**

Peaches and nectarines are classified together under a single tariff code. Together, they represent the second largest Chilean fruit export to the United States, totaling \$47.8 million in 1991. Chile accounts for 95 percent of the U.S. market for imported peaches and nectarines. The value of exports of Chilean peaches and nectarines to the United States has grown by 83 percent between 1986 to 1991, compared to a 16-percent increase for the value of U.S. domestic production marketed during the same period. In 1991, the value of Chilean peaches and nectarines exported to the United

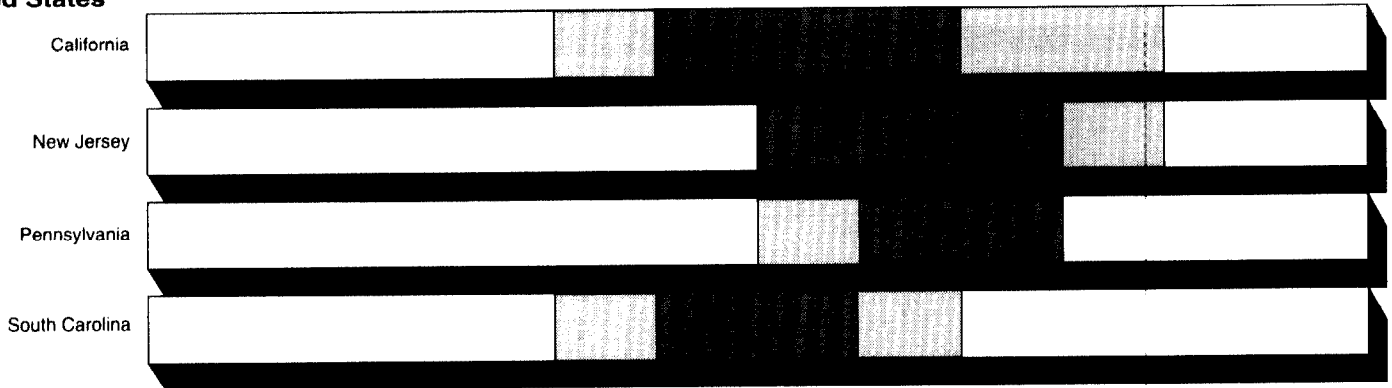
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States represented about 14 percent of the value of domestic U.S. peaches and nectarines marketed.

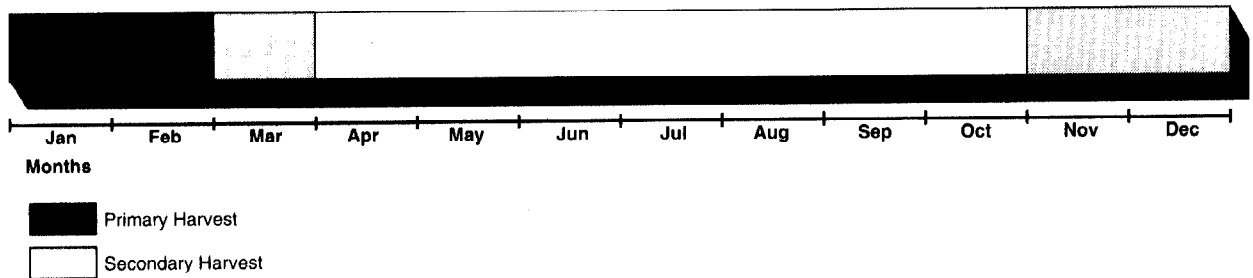
The peak Chilean harvest for both peaches and nectarines takes place in January and February, and the harvest is definitely finished by the end of March. Production in the United States does not begin until May, and the principal U.S. harvest season for both commodities takes place in the summer months (see figs. 4.4 and 4.5). Chilean peaches and nectarines exported to the United States during the month of November face a tariff of 0.4 cents per kilogram. During the other months when these commodities are exported from Chile, they enter duty free.

**Figure 4.4: U.S. and Chilean Harvesting Seasons: Peaches**

**United States**



**Chile**

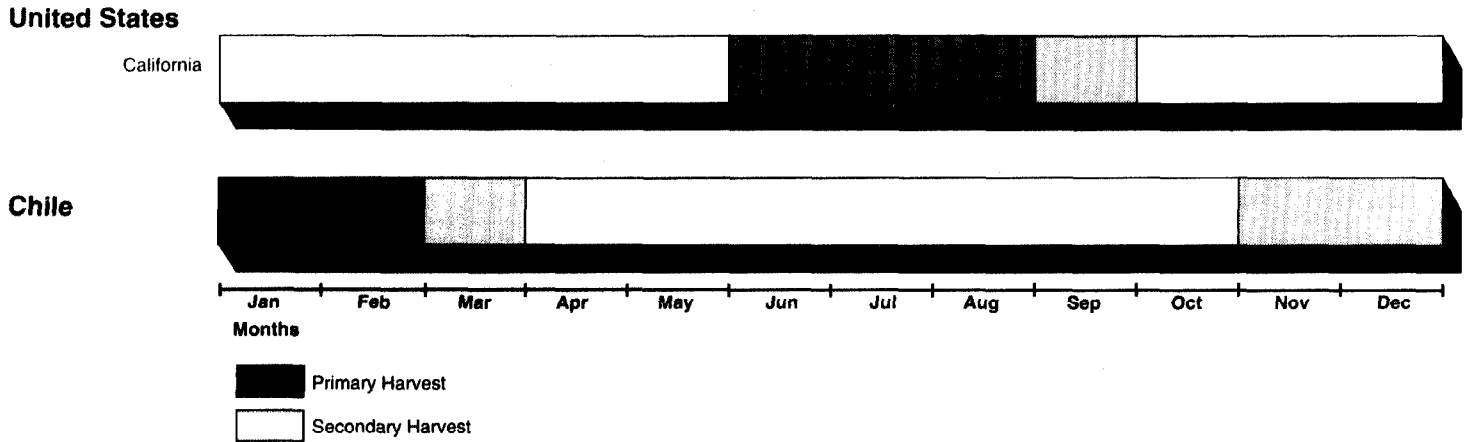


Source: USDA for U.S. data and FEDEFRUTA for Chile data.



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**Figure 4.5: U.S. and Chilean Harvesting Seasons: Nectarines**



Source: USDA for U.S. data and FEDEFRUTA for Chile data.

**Plums**

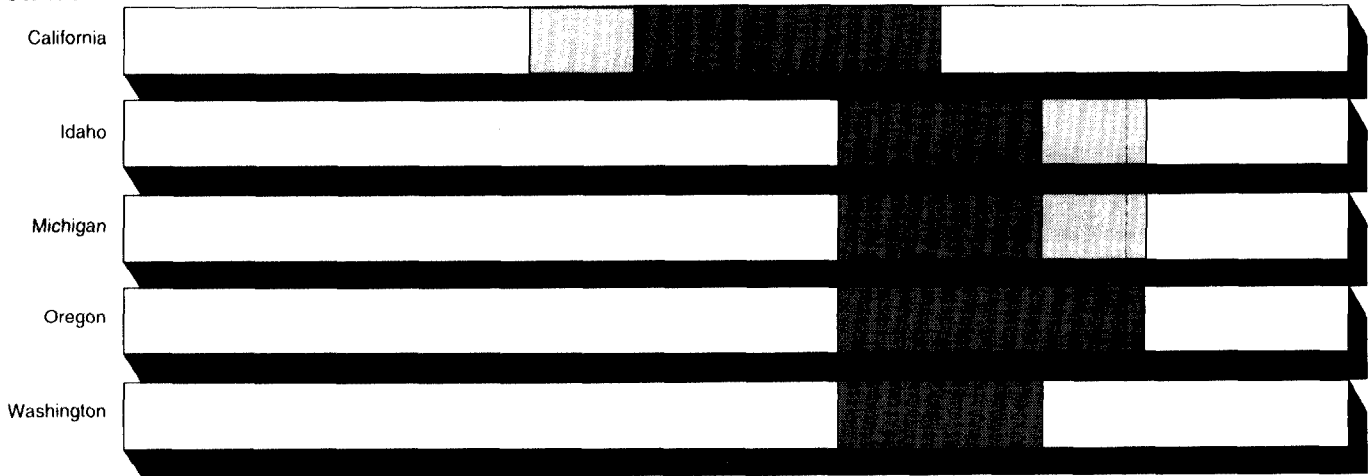
The third largest fruit export from Chile to the United States is plums, including prune plums. In 1991, Chilean plum exports to the United States reached \$28.2 million. Chile is virtually the only foreign supplier of plums to the U.S market. From 1986 to 1991, Chilean plum exports to the United States more than doubled. U.S. domestic production marketed during the same period actually declined by 6 percent. In 1991, the value of Chilean plums exported to the United States represented about 27 percent of the value of domestic U.S. fruit marketed.

The most active harvest period for Chilean plums occurs in January and February, while Chilean exports enter the United States from November through March. Production of plums in California begins in May and is most active from June to August. Production of plums in other areas of the United States does not take place until August (see fig. 4.6). Chilean plums and prunes exported to the United States during the months of November and December face a tariff of 1.1 cents per kilogram. During the other months when these commodities are exported from Chile, they enter duty free.

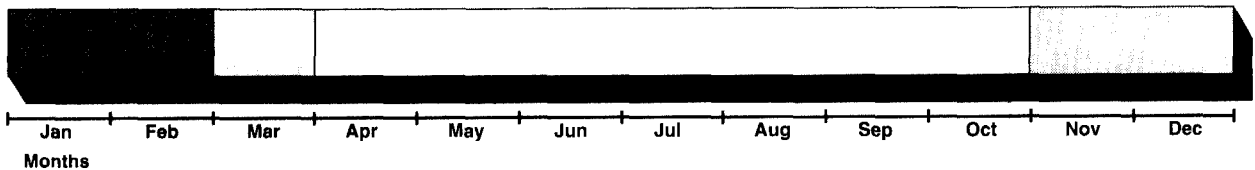
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**Figure 4.6: U.S. and Chilean Harvesting Seasons: Plums**

**United States**



**Chile**



Primary Harvest  
 Secondary Harvest

Note: Includes fresh prunes.

Source: USDA for U.S. data and FEDEFRUTA for Chile data.

**Avocados**

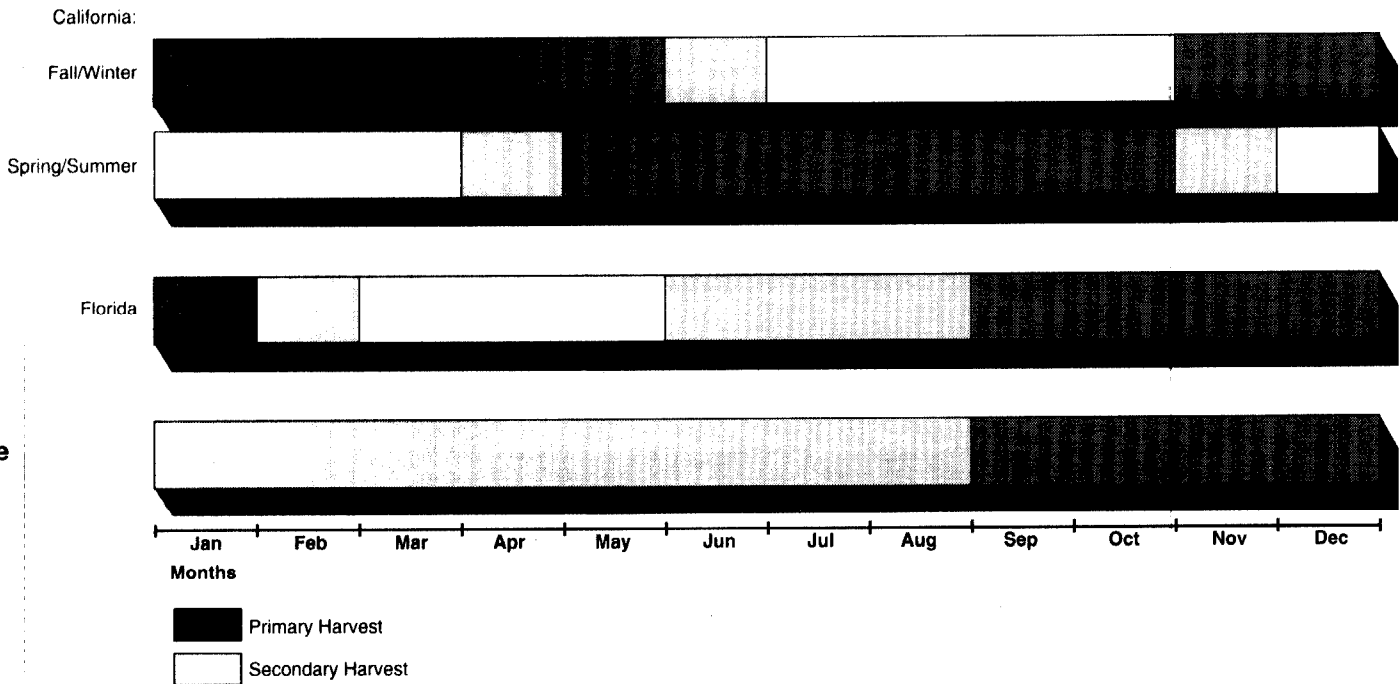
In 1991, Chilean avocado exports to the United States were valued at \$23 million, and avocados were the fourth largest Chilean fruit crop exported to the United States. Since 1988, Chile has been the major foreign supplier of avocados for the U.S. market. The value of Chilean avocado exports to the United States was nearly seven times greater in 1991 than it had been in 1986. Much of this expansion took place in 1990 as the price of avocados in the United States increased.

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Among the top seven Chilean fruit exports to the United States, avocados are the only crop harvested and marketed concurrently in the United States and Chile. According to FEDEFRUTA, Chile produces and markets avocados throughout the year (see fig. 4.7). The principal U.S. domestic production areas are in California and Florida. Florida production runs from June through the end of February, while California produces avocados throughout the year. Chilean avocado exports to the United States are subject to a 13.2 cents-per-kilogram tariff.

**Figure 4.7: U.S. and Chilean Harvesting Seasons: Avocados**

**United States**



Source: USDA for U.S. data and FEDEFRUTA for Chile data.

**Pears**

Pears figure fifth among the largest fruit exports from Chile to the United States. In 1991, Chile exported \$19.6-million worth of pears to the United States. Chile supplies about 59 percent of the market for U.S. pear imports.

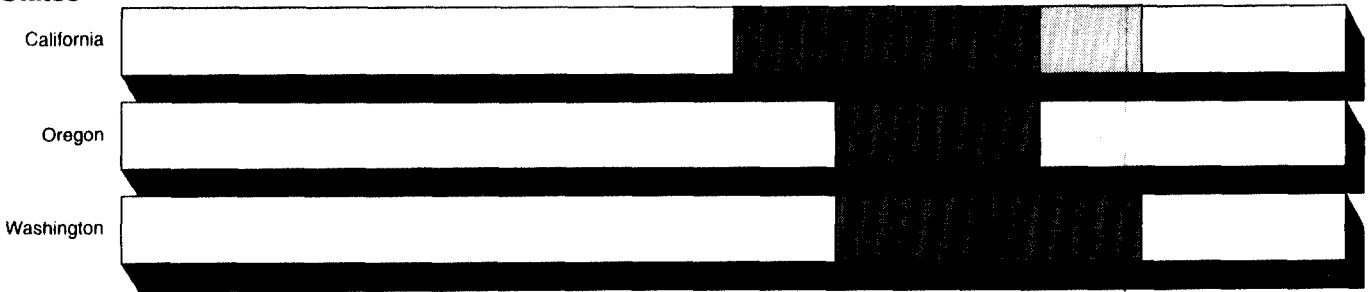
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Chilean pear exports to the United States increased by approximately one-and-one-half times in value from 1986 to 1991. The value of U.S. pear production marketed during the same period grew by 33 percent. In 1991, the value of Chilean pears exported to the United States represented about 11 percent of the value of domestic U.S. fruit marketed.

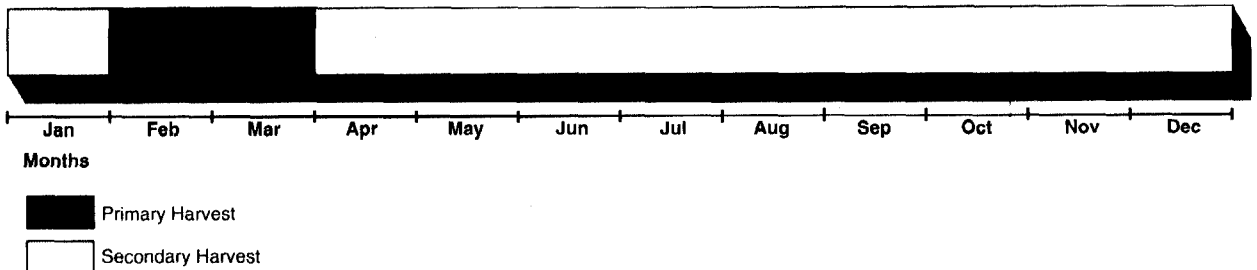
The Chilean pear harvest begins in January and reaches its most active period in February and March. Pear exports to the United States begin in January and continue through May. Pear harvesting in the principal growing areas of the United States takes place between July and October (see fig. 4.8). Chilean pear exports to the United States enter free of duty from January to March 30. During April and May, the other months when Chilean pears are exported to the United States, they are subject to a tariff of 1.1 cents per kilogram.

**Figure 4.8: U.S. and Chilean Harvesting Seasons: Pears**

**United States**



**Chile**



Source: USDA for U.S. data and FEDEFRUTA for Chile data.

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**Apples**

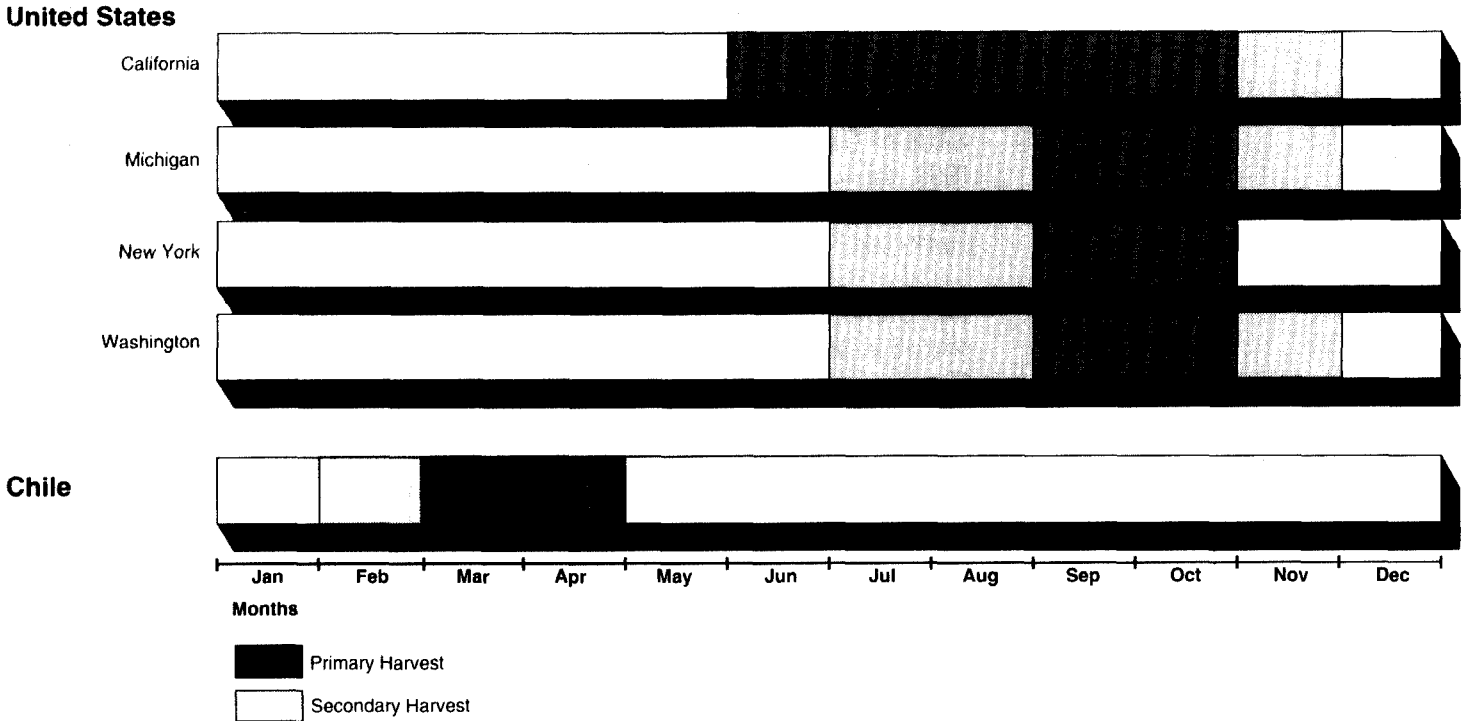
Although Chile is a major apple exporter, most of its apple exports go to Europe rather than the United States. In 1991, Chile exported \$10.8-million worth of apples to the United States. On average, Chile supplies about 25 percent of the market for U.S. apple imports. Unlike most other fruit exports, Chilean apple exports to the United States have actually decreased by 61 percent from 1986 to 1990. During the same period, the value of U.S. domestic production marketed increased by 36 percent. In 1990, the value of Chilean apples exported to the United States represented less than 1 percent of the value of domestic U.S. fruit marketed.<sup>2</sup>

The Chilean apple harvest begins in February and reaches its most active period in March and April. Apple exports to the United States begin in March and continue through June. Apple harvesting in California begins in June. In the other principal growing areas of the United States, apple harvesting begins in July and reaches peak production in September and October (see fig. 4.9). Chilean apple exports to the United States enter free of duty.

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<sup>2</sup>Data on U.S. production marketed in 1991 were not available. Thus, we used 1990 data as a basis for comparison.

**Figure 4.9: U.S. and Chilean Harvesting Seasons: Apples**



Source: USDA for U.S. data and FEDEFRUTA for Chile data.

## Some U.S. Growers Concerned About Increased Chilean Exports

Some U.S. growers are concerned about the influx of fresh fruit and vegetable imports from Chile. A spokesman for a major growers' organization noted that fresh fruit exports to the United States have risen dramatically in recent years and are expected to continue to increase by as much as 40 percent over the next few years. He cautioned that such an increase could adversely affect U.S. producers, particularly in the case of fruits such as apples that have a long shelf life and are marketed throughout the year. He also remarked that although Chilean fruit and vegetable production is complementary to U.S. production, U.S. prices decrease when Chilean exports overlap with domestic production during the beginning or end of the season.

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On the other hand, another representative of a major growers' organization explained that Chilean fruit is not a significant source of competition for domestic producers if these fruits enter the U.S. market primarily during the off season. A spokesman for a growers' organization also noted that U.S. distributors benefit from Chilean imports because such imports enter the market when there is no domestic production.

# Impediments to U.S.-Chilean Agricultural Trade and Efforts to Further Liberalize Bilateral Trade

There are few significant impediments to trade between the United States and Chile. U.S. tariff rates affecting most of Chile's agricultural exports are only about 3 percent. Chile has phased out most nontariff barriers to trade, and in 1990 reduced its tariffs to a flat 11-percent rate. However, U.S. officials note that certain features of Chile's tariff structure still limit opportunities for U.S. agricultural exports. Conversely, Chilean growers and officials argue against U.S. marketing order requirements and have raised questions regarding U.S. quotas under Section 22 of the Agricultural Adjustment Act of 1933, as amended (7 U.S.C. 624). Meeting plant and animal health requirements also presents challenges for bilateral agricultural trade. The governments of the United States and Chile have agreed to address remaining barriers to trade and promote further expansion of trade and investment.

## Chilean Trade Barriers

U.S. officials identify two impediments to U.S. agricultural exports to Chile. One of these barriers is Chile's price support mechanism, known as "price bands." Another type of impediment encountered by U.S. agricultural exports to Chile is related to that country's preferential tariff treatment for products from other members of the Latin American Association for Integration (ALADI).

## Chile's Price Bands

The Office of the U.S. Trade Representative considers Chile's agricultural price band mechanism a major barrier to trade. Price bands are a price support mechanism designed to protect Chilean wheat, wheat flour, vegetable oils, and sugar. Under this mechanism, Chile imposes a variable import levy in addition to the 11-percent tariff on imports of these commodities when their price falls below the minimum price set by the government. The minimum price is based on the price of the commodity over a prior period of 60 months. Chilean officials argue that the price bands are necessary to protect domestic farmers from the effects of international price fluctuations. The U.S. government opposes Chile's reliance on price bands because they limit the competitiveness of U.S. wheat and oilseed exports to Chile.

## Preferential Tariffs for ALADI Products

Most of Chile's imported agricultural commodities come from neighboring countries that are members of ALADI. ALADI member countries receive as much as 30- to 50-percent reductions on tariffs on their exports to Chile. Although these preferential tariffs affect only 6 percent of Chilean imports, they have a direct impact on potential U.S. exports of cotton and oilseed



products. For example, many Chilean importers prefer high-quality U.S. cotton and oilseed products to similar imports from Latin American countries. However, these U.S. products are subject to full tariff rates and therefore are not as competitive as imports from ALADI countries.

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## U.S. Trade Barriers

Chilean growers and officials argue against certain U.S. programs that they regard as barriers for agricultural exports to the United States. From the Chilean perspective, U.S. marketing orders represent a nontariff barrier for certain fruit exports, particularly grapes. Chilean officials also indicate concern over the impact of U.S. Section 22 quotas on potential agricultural exports.

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## U.S. Marketing Orders

A marketing order is a regulatory program administered by USDA. Under such a program, domestic producers seek to regulate the handling and marketing of a given crop by, among other things, preventing the marketing of low-quality products and the occurrence of sharp fluctuations in supply. The United States imposes marketing order requirements on several crops that Chile exports to the United States. Chilean growers and officials have expressed special concern over the U.S. marketing order for grapes.

Grapes marketed in the United States between April 20 and August 15 are subject to a marketing order requirement of "U.S. Number 1 Table grade." Chile has complained that while quality inspection for U.S. grapes is done at the point of origin, inspection of Chilean grapes is done upon entry into the United States. Chilean growers argue that the marketing order's implementation is discriminatory and represents a nontariff barrier, because the Chilean fruit cannot always meet Number 1 Table grade after a 14-day boat trip to the United States.

An official with the U.S. Agricultural Marketing Service explained that commodities subject to marketing orders must pass inspection immediately before entering interstate commerce. The Agricultural Marketing Service is concerned with the state of commodities at this point. U.S. grapes enter interstate commerce upon being harvested, while Chilean grapes enter U.S. interstate commerce when they arrive at a port in the United States. According to this Agricultural Marketing Service official, the condition of Chilean grapes at their point of origin, 14 days before they arrive in the United States, is not an issue.

Other important Chilean fruit exports subject to marketing order requirements are avocados and kiwifruit. Since May 1990, avocados from all foreign countries are required to meet at least U.S. "Number 2 grade," based on grades for Florida avocados. The marketing order requirement on kiwifruit was imposed in March 1991. Kiwifruit shipped to the United States must meet at least U.S. Number 1 grade and must be at least "Size 49," based on the grade, size, quality, and maturity requirements in effect for California kiwifruit. While Chile opposes U.S. marketing orders in general, no specific issues were raised regarding requirements on avocados and kiwifruit.

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## **Section 22 Commodities**

Section 22 of the Agricultural Adjustment Act authorizes the President to impose fees or quotas on imports that would make ineffective or interfere with any domestic price support or stabilization program relating to agriculture commodities. Commodities subject to Section 22 protection include peanuts; cotton; sugar; certain articles containing sugar; and specified dairy products, such as dried milk, dried cream, and various types of cheese.

Chile does not export significant quantities of any of these commodities to the United States. In fact, Chile is a major importer of cotton, sugar, and dried milk. However, according to a recent USDA report, milk production in Chile is nearing self-sufficiency, and exports may soon be possible. Chile has also identified U.S. import quotas for dairy products as an obstacle to access to the U.S. market. Chilean officials indicated they intend to raise the issue of U.S. import quotas in future negotiations leading to a free trade agreement.

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## **Plant and Animal Health Requirements**

The Atacama Desert to the north and the Andes Mountains to the east effectively protect Chile from many agricultural pests and diseases common in other areas of the world (see fig. 5.1). According to U.S. officials, due to Chile's relative geographic isolation, few of its agricultural exports face serious sanitary hurdles entering the United States. In cooperation with Chilean sanitary authorities, USDA maintains a preclearance inspection program covering 38 different fruits and vegetables exported from Chile to the United States. Inspection procedures vary depending on the perceived risk of individual crops.

**Figure 5.1: Map of Chile Showing**  
**Atacama Desert and Andes Mountain**  
**Range**



Although Chile is well protected from most pests, some Chilean crops, such as grapes and a large percentage of peaches, nectarines, and plums, are fumigated with methyl bromide as a precaution against certain fruit mites found in Chile. Chilean officials have complained about difficulties

they faced in meeting U.S. sanitary requirements for new products, such as chirimoyas (custard apples). They blame these difficulties on disorganized and slow procedures on the part of U.S. plant and animal health authorities.

To protect its important agricultural industry, Chile has adopted strict sanitary requirements. These requirements are not always clearly defined, because there is no formal procedure for issuing sanitary standards for agricultural products. U.S. officials argue that this lack of clarity in Chile's plant and animal health requirements impedes the importation of certain U.S. products. U.S. officials object to the fact that there is no process for public comment on Chilean sanitary standards or regulations before they are issued. They also complain about Chile's slow response to requests for information on sanitary requirements for new products.

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## **Efforts to Expand Trade and Investment**

The U.S. and Chilean governments have sought to promote further expansion of trade and investment. The United States has promoted trade with Chile through several mechanisms. The average tariff rate on U.S. imports from Chile is about 3 percent. Moreover, many Chilean exports to the United States enter duty free under the Generalized System of Preferences. Since the mid-1970s, Chile has pursued liberal trade and investment policies. Most nontariff barriers have been eliminated, and Chile's import tariffs have been lowered to a uniform 11-percent rate.

Also in June 1990, the Bush administration launched the Enterprise for the Americas Initiative (EAI), a program designed to strengthen Latin American and Caribbean economies through increased trade and investment and through the reduction of official debt to the United States. As part of EAI, the United States declared a willingness to enter into free trade agreements with Latin American countries. In October 1990, the United States and Chile signed a framework agreement on trade and investment, setting up a bilateral council to develop the basis for a future free trade agreement.

Another component of EAI is a new lending program through the Inter-American Development Bank to support reforms in the investment sector. In June 1991, Chile received the first loan through this program for \$150 million.

Within the framework of the General Agreement on Tariffs and Trade, Chile has supported U.S. efforts calling for liberalization of agricultural

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trade. As a member of the Cairns Group, Chile opposes subsidies for agricultural production.<sup>1</sup> Chile has sought to introduce and strengthen “rules of law” for the agricultural sector and has called for clearer sanitary regulations based on scientific facts subject to public scrutiny.

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<sup>1</sup>The Cairns Group is a bloc of countries within the General Agreement on Tariffs and Trade that are agricultural producers and oppose subsidies for agricultural production.

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