

COMMISSIONER HILLS: Thank you very much.
We have a number of Commissioners who have questions.

Commissioner Wessel?

COMMISSIONER WESSEL: Thank you. I appreciate everyone's testimony. It's been very helpful. I have two questions. First is to address the funding issue which has come up a number of times today.

Mr. Cooke, in your testimony you said the need equals \$9 billion, and I heard that mid-ground I believe was 3.3 billion. How do these -- why do these numbers differ and how is this going to be resolved over time?

MR. COOKE: We can have a good roundtable discussion on this topic. It depends upon what you're looking at as the needs are, and if you include -- what media that you include and how you define infrastructure and if whether you're looking at it in terms of current need or projected needs. I was looking at a more projected -- I'm looking to the future as opposed to what is now.

Victor, was it -- if you were looking at 3 to 4 billion for current needs -- isn't that right? What was your --

MR. MIRAMONTES: If I may? This problem is a problem we've encountered the whole course of our development. There is a lot of need. What we have to find out is what projects are viable or near completion or are supported by communities. That's why when we did our study, we went for the minimum that we could find based on projects in design and going into construction and then projecting only off of those for a ten-year period.

So we know that with that minimum baseline -- it's 2.1 billion, and there has not been a lot of TA work done yet. So I suspect the number is at least two times that, but we know what the number is for the 2.1 billion.

COMMISSIONER WESSEL: The other question -- and I may be wrong, but I didn't hear anyone mention the International Boundary and Water Commission and quite frankly, I don't know whether it's still in existence. What is the role of that institution -- does it have a role as we look at the border needs in the future?

MR. SILVA: Well, that's a good question. An important point is that when the NAFTA negotiations were going on, the decision was made to put IBWC on the

board of the BECC, so that both Commissioners are on our Board of Directors.

What's been happening is that it has been a transition from the IBWC taking on the main role of planning, design and construction management of border projects to the new BECC-NADBank model. This has been unfolding over the last three or four years. Originally what would happen is that projects would come forward and then Congress would appropriate money directly to the communities in question, for example, San Diego-Tijuana or Laredo-Nuevo Laredo, for specific projects.

When the phasing out began, the EPA gave planning money to IBWC for six communities along the border. Four of those have already been constructed.

What happened is that basically IBWC did the planning work and then the BECC stepped in and did the certification and then the NADBank also came in and did the funding for construction. So it's been a phasing out from the old model of IBWC doing the construction to the new BECC-NADBank model.

However, what's important is that IBWC is still a very big player in water quality and water resources issues as it relates to the two countries. I

don't think the BECC and the NADBank will ever -- at least as far as I can see, get involved in those issues.

COMMISSIONER HILLS: Commissioner Thurow?

COMMISSIONER THUROW: There's been a phrase that's actually quoted in several of these testimonies is, If it can't happen, it won't happen, and if there isn't water for 25 million people there won't be 25 million people; even what there might be if there was water. And I think this brings us back to Wayne Angell's question that he asked the last panel.

There are two ways to solve a problem like this. One is you scratch your head and you say, "How can we spend enough money to build the infrastructure to support 25 million people on the border." The other question you ask yourself is, "How do we rechange the incentives so 25 million people never live on the border?" You spread out the economic activity.

And see, there is a mystery here. When Spain joined the Common Market, its income wage differential with say France was huge, but economic activity did not pile up on the border. You go to the Pyrenees, it's empty on both sides of the border. The integration of Spain into the Common Market led to

general economic development of Spain very favorably, but it wasn't piled up on the border.

So maybe it was history, as the last panelist said, as to why it did pile up on the border, but the question I'm going to ask of you is what could we do to stop it from piling up on the border, so let's say if today's population is 12 million, it's never going to be higher than 12 million.

Economic growth will continue to occur but it will spread across a wider swath of Mexico and a wider swath of the United States, because there is something very peculiar going on here. You can't find a place like this anywhere else in the world, where the integration of two economies gives you border congestion.

COMMISSIONER HILLS: One might think of China -- Mainland China and Hong Kong and the south of China, but that's just a thought.

MR. SILVA: Some of it is just history. The fact that the two countries have had -- as part of Mexico originally --

COMMISSIONER THURLOW: See, I'm not asking for an explanation of history. I'm going to accept the

last panel's explanation. The question is what do we do to stop it now?

MR. MIRAMONTES: Let me go back -- let me ask the question, how do you stop growth in Boston or New York or Los Angeles? L.A. has less water resources than the border does, so I coming from the border can't accept that you can stop growth in the border and it can be allowed in other parts of the country. It is part of the United States and so the dilemma --

COMMISSIONER THUROW: I don't mean you're going to pass a law stopping growth. How do you change the incentives --

MR. MIRAMONTES: Well, let me just make a couple of points, because this is one of the issues that comes up, and it's a difficult one.

For one thing, we have to come up with policies that channel growth to the right places. I agree with that. Stopping it -- the problem you have with the economic disparity is there's no place in the world where you have a disparity where one person can cross the border and increase their wages by ten or 100 times. Nowhere in Europe and nowhere that I --

COMMISSIONER THUROW: Try Russia and Finland.

MR. MIRAMONTES: Well, Russia and Finland -- it's a little cold --

COMMISSIONER THUROW: There's a huge disparity.

MR. MIRAMONTES: Yes. But anyway, my point is I have not done the research for worldwide disparities but you have a history where the northern part of the U.S.-Mexico border used to be Mexico, so there's a cultural link there for many, many years. I'm sure Finland has the same relationship. But you can't stop the growth.

I think every policy that tries to stop growth does not work. Channeling will work.

Now, I agree with the point that the resources will be stretched to the limit, but right now the greatest source of water probably in the entire United States other than the Mississippi River is located on the border. It's the Colorado River.

The Colorado River though is being pumped to L.A., so if the water will stay in the ecosystem, the Colorado River Valley, you have water for 50 million

people, so there is other policies that affect the resources on the border as well as the water quality in the Rio Grande, which is primarily agricultural use.

So 25 million is not a number that can't be sustained. The problem is what else do you have to provide: education, streets, housing, et cetera? So again, the issue of how you stop growth -- I don't have an answer to --

COMMISSIONER THURLOW: I didn't say stop. Spread out. You're not answering my question.

MR. COOKE: Well, I think that there were economic incentives to create the maquiladoras on the border to begin with, pre-NAFTA, and one of the theories, at least as I understood it of the NAFTA -- and far be it for me to ever venture that before this panel, but was that some of the growth would be spread out in the interior of Mexico and not pile up along the border as a result of free trade.

And ultimately it seems that that indeed is one of the -- as long as there are jobs on the border that are better than the ones in the interior and you need a job, where are you going to go? So that's one of the most --

MR. MIRAMONTES: If I may, I did make a note, because I listened, and want to respond to Mr. Angell when he asked the question of the last panel, the reason why historically growth occurred on the border is just in time inventory systems. There is no infrastructure in Mexico to make sure a truck leaves a factory in certain parts of the interior -- makes it on time to where it's supposed to be.

If the four-lane highway from 35 going south from Dallas went through Laredo went all the way to Mexico City without any major interruptions in quality, you would have distribution of facilities all the way along that facility. The problem is it stops at the border from a four, five, ten lane facility to two lanes, and then there's nothing except for a very expensive toll road.

So the dilemma -- the reason why it's stopped is because business does not want to go to the interior because it isn't profitable. They have other problems. Infrastructure is a key component, not the only one. But when he asked the question I scribbled to write down that the reason why it stopped in El Paso and Juarez

and Tijuana is you go south of there, drive the roads, drive the freeways --

COMMISSIONER THUROW: Forget Mexico. How do we spread it out on the American side of the border?

MR. MIRAMONTES: The majority of trade is not on the border. It's in the interior of the United States, the production capacity. The U.S. adds very little -- I agree with your question about computers and diamonds. Very little value added is after the border. That's why we have 26 percent unemployment in most -- in some communities on the border. That is the problem.

We need more productive capacity on the border as opposed to the interior, and if you look at the numbers, the great bulk of production is not on the border --

COMMISSIONER THUROW: You mean on the American side?

MR. MIRAMONTES: Right. Exactly.

MR. MUMME: I'd just point out, historically and currently growth rates on the Mexico side of the border -- at the border are nearly twice as high as the U.S. side of the border, and that's a long-term deeply institutionalized pattern that predates the North

American Free Trade Agreement. And it is related to economic opportunities at the border and the lure of that and the advertising of that in the interior and the social relations that are in place along the border.

And I think that it's going to be very difficult to reverse, but obviously part of the answer is creating economic opportunities in Mexico, and we all know that, and we have to address that part of it. I think that's one of the issues that is just out there.

COMMISSIONER THURLOW: One particular question. Given that Los Angeles is not going to give up its water, how much water is there for how many people?

MR. MUMME: Well, the truth of the matter is Los Angeles is rather giving up some of its water because Bruce Babbitt has just negotiated an agreement between the parties in the southern California area that is going to create a somewhat different distributional model. That's important because making more efficient use of your water is the way in which we deal with problems along the border.

MR. SILVA: On the Mexican side I would say they're limited, because of the fixed allocation, to 1.5

million acre-feet a year, but on the U.S. side it's simply farmers versus urban areas. It's happening on the Mexican side also.

COMMISSIONER HILLS: Commissioner Zoellick?

COMMISSIONER ZOELLICK: Thank you.

I want to compliment all of you, not only on your presentations but on the daily work that you do.

It's very important and I actually have a concern that is not generally recognized or understood for the NADBank, as you undoubtedly know, since I saw from your bio you've been with it for a while. I think there's still an impression left by the inability to get early loans out that it hasn't been productive, and clearly, as your testimony suggests, it's been very productive.

And similarly, I think on some of the border environmental work obviously there's a tremendous amount to do but I think there's also been a significant amount accomplished that probably never would have been accomplished if these institutions hadn't been created.

So I urge through your own channels that you try to tell your story more.

And that really brings me to my question which is that as in the last panel with the labor

agreement, I'd like to explore a little bit some of the lessons of the environmental side agreement. Many people in the United States have a reflexive approach. They want to insist on U.S. standards. They want to insist on U.S. enforcement. They want to insist on U.S. penalties.

And my recollection of this negotiation was that the side agreements were built on a very different concept. They were built on trying to recognize mutual interests with Mexico. They were built on trying to have a sense of mutual respect, which is very important; a sense of cooperation among the parties, of how to stimulate public attention and pressure. I think the agreements are also related to a concept of helping to develop a civic society in Mexico on some of these issues.

I have always felt that to make these issues sustainable in Mexico it's important to be able to root them in public interest and not have them be something that is seen as a requirement of the Gringos of the north. And I think this combination has done that.

But you live with this every day; I do not. So I'm curious as to your sense about what lessons we've

learned about this approach, since it might be applicable elsewhere. What's worked and frankly what should be changed?

MR. SILVA: I'll start. What's really different about the BECC-NADBank model is the term sustainable development. In making sure that when you give a grant or funding to a community for infrastructure that you also make sure that the community can operate and maintain that system and can pay for that system for the long term so that you're not building that same system three or four years down and the road and duplicating costs, because the costs are -- the funds are so limited.

And so, besides the concrete and steel, the biggest contribution that we both have made is starting to instill that thought on the Mexican side especially, but even on the U.S. side in the smaller communities where that's missing. And we've done that primarily through public participation, especially on the Mexican side.

Let me tell you a story. When I was on the board, the first meeting we had, the Mexican board members -- what they wanted to do for public

participation was to have the full Board agree on a public release statement and then give it to the press.

That was going to be the public participation for the Board.

We've gone from that now to where we pretty much handle all business in public, and that's a testimony to the Mexican side about how they have seen the value of having public participation, having the sustainable development criteria in all things that we do.

I think that's been the big difference. Obviously funding is the other one. You need to have appropriate funding. Having the public involved, having the states involved and not just having it come from the Federal Government telling the local people what to do is a very important key.

MR. COOKE: I was going to say that the decentralization issues that we raised earlier is very important. When the EPA started with the Mexican government prior to the creation of BECC and NADBank it was a strictly federal relationship. Now as public participation has continued to grow through the BECC-NADBank model, equally has fueled the desire for greater

public participation at a variety of levels in other issues other than infrastructure, such as standards and other work groups that we have.

And Professor is right. We've got to add to the greater participation of different levels, including that of states as we did and now additional levels of participation. So the model -- the lesson learned for us in one perspective is that public participation does lead the way and that we have a better process as a result of it, and we need to open up our all-too federal process to include different levels of participation.

MR. MIRAMONTES: If I may just very briefly?

The point I made earlier in my statement about mutual respect, that's fundamental for any relationship, whether it's husband and wife or two countries. But what happens on the border is it's not brought up. You don't talk about mutual respect. It's there. You're neighbors. You've been there forever. You might be even cousins.

So the dialog is a good dialog, so if you decentralize and take the decision from where the issue may be another issue, drugs and an interference with a water project, on the border, the drug issue is an issue

but separate from the water. And so you start with that mutual respect.

And then the thing that's been hard though is yes, there are tremendous institutions in Mexico City and Washington with a great deal of skills. If you decentralize, you must train people how to run their own business.

And I again, share Mr. Thurow's comment earlier about first you have, for example, jobs identified. If you look at the CAIP document, there's program in New Mexico where the job is identified first. The employees from the neighborhood are trained for those jobs and when they come out they have a job. There's a 100 percent linkage on jobs.

So again, you give local people the choices and decisions and there's some amazing things happen. You have some pretty good programs come out.

COMMISSIONER HILLS: Thank you.
Commissioner Lewis?

COMMISSIONER LEWIS: I have one factual question I'd like to ask you, Mr. Miramontes, and I'd like to repeat what Bob Zoellick said. Thank you for your presentation and for the work you're doing.

Your written statement said today 320 loans and loan guarantees valued at over \$320 million have been made. Is it possible to break down the loans and loan guarantees? How much is loans, how much is loan guarantees?

MR. MIRAMONTES: I can't do it and let me tell you why. I work for the International Institution. The CAIP is a federal program which is administered through the Treasury, so they sent the document to me. I can get that to you --

COMMISSIONER LEWIS: Could you, please?

MR. MIRAMONTES: I can get that to you, but basically the way the program works is a lot of those loans have gone through existing agencies. Part of the model for the BECC and the Bank is don't recreate the wheel. If there's SBA, let SBA do the lending and you just fund the loan.

COMMISSIONER LEWIS: Right.

MR. MIRAMONTES: So a lot of these SBA loans that are funding by the CAIP -- they may be Department of Labor projects funded by the CAIP. So I'll have to get that list to you.

COMMISSIONER LEWIS: The capital of your bank is over \$150 million or so?

MR. MIRAMONTES: The paid-in capital of the bank from the U.S. government is approximately right now about \$150 million. Mexico has the same amount of paid-in capital. There is callable capital also, but the cash we have is about 150 million. Yes.

COMMISSIONER LEWIS: I'd appreciate if you could get to the amount of the loans and the amount of the loan guarantees.

MR. MIRAMONTES: Now, the loans that we've done --

COMMISSIONER LEWIS: Yes.

MR. MIRAMONTES: -- let me very clear on this, very little. Why? When this was done during the NAFTA debate, the bank was designed quite frankly at the eleventh hour.

COMMISSIONER LEWIS: Excuse me?

MR. MIRAMONTES: Eleventh hour before the vote. If you look at the capacity for the border region to support loans, it's not there. But for the EPA funding of the Border Environment Infrastructure Program,

which we put together -- it was our product but EPA funded it -- we would not be successful today. Period.

COMMISSIONER LEWIS: Do you mean the capacity is not there in terms of a commercial way of looking at a loan?

MR. MIRAMONTES: No. It's the capacity of pay rate -- a utility rate. The income level is so low -- and you don't look at the historic backlog of infrastructure, they cannot afford the 100 and 200 percent rate increases that must occur to make it a financially viable project.

So there's a transition for the -- that's part of our strategy. Over ten years we have to transition people from a very low rate base to a much higher rate base so that in ten years they can support much higher loans. Today they can't.

So we have right now I'd say \$11 million dollars. Out of \$600 million of projects we're doing, \$11 million is our money, of loans. Now, we have another \$211 million of grants which we have funded through the EPA as well as some of our earnings. So there are some very stark realities here that we have to --

COMMISSIONER LEWIS: Your bank has made \$11 million in loans?

MR. MIRAMONTES: I don't have the exact -- but that's about right. Again -- but that should not be a surprise, especially in a place like the Federal Reserve. You have to look at the capacity for a loan to be repaid, and our objective was not to make loans. Our objective is deliver projects to communities that are affordable and sustainable in the long term.

So we'd much rather that the rate structure go to support the operation and maintenance the first two or three years then over time build the capacity for capital improvements, because if you build something with a 100 percent grants and they can't run it, you've just squandered your money.

COMMISSIONER LEWIS: Thank you very much.
Thank you.

MR. MIRAMONTES: And I'll get that information.

COMMISSIONER HILLS: Any more questions from the Commissioners?

(No response.)

COMMISSIONER HILLS: Well, this has been a superb panel. We thank each and every one of you. I think you've added a great deal to our deliberations and we'll take a three-minute break.

(Whereupon, a short recess was taken.)