

Originally Processed With FOIA(s):
S; 1999-0062-F

FOIA Number:

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Record Group/Collection: George H.W. Bush Presidential Records
Collection/Office of Origin: Speechwriting, White House Office of
Series: Snow, Tony, Files
Subseries: Subject File, 1988-1993

OA/ID Number: 13896
Folder ID Number: 13896-006

Folder Title:
[NAFTA 12/91]

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THE WHITE HOUSE
WASHINGTON

Ecol Trade / NAFTA

To: Tony Snow
Re: J. Vaht

FYI → Anecdotes re:

Mexico FTA —

A good reference
for future speeches —

Cheers —
J.

THE NORTH AMERICAN FREE TRADE AGREEMENT

MYTHS AND REALITIES

I. Myth Number One: Mexico is too poor to buy our products.

Between 1986 and 1990, U.S. exports to Mexico rose by \$16 billion in response to the partial liberalization of the Mexican economy and the economic recovery. As a result, the U.S. trade balance with Mexico swung from a deficit to a surplus in non-oil trade of over \$3 billion, for a swing in our net export position of nearly \$5 billion. With no other country have we experienced such strong export growth. Somebody in Mexico was buying our products.

II. Myth Number Two: Exports to Mexico do not create U.S. jobs.

American workers were employed making those extra exports. Using a rule of thumb of 30 U.S. jobs created for every one million dollars in net exports, that means an extra 144,500 jobs were created in the United States during 1986-90 because of trade with Mexico. Many more American workers would be unemployed were it not for exports to Mexico. Even if the relationship between job creation and exports is less than generally assumed, there is no doubt that there has been a very positive impact for American workers from developments in Mexico over the past four years.

III. Myth Number Three: Mexico is already open so there are no extra barriers for the U.S. to eliminate.

Mexico continues to maintain considerable barriers to U.S. exports. Autos are a good example.

The U.S. has a two and one half percent tariff. Mexico has a twenty percent tariff and other barriers to access. Mexico is a market of 500,000 vehicles. If that market were truly open, and if the Mexican economy continues to grow, it is easy to imagine the U.S. selling

100,000 U.S. made vehicles there. That alone would translate into an extra \$1 billion in U.S. exports to Mexico on a sustained basis.

Another example is agriculture. At present, restrictive licensing inhibits 40 percent of our agricultural exports to Mexico.

IV. Myth Number Four: The benefits for the U.S. will be the same whether or not we have a Free Trade Agreement.

A major incentive to negotiate a Free Trade Agreement with Mexico is to achieve additional liberalization of the Mexican economy as well as lock in what has been done thus far. An agreement with the United States would go a long way to ensuring that the opening of the Mexican economy outlives the current Salinas Administration. Certainty and predictability are essential for business planning.

No doubt, President Salinas also understands the importance of predictability. Mexicans are finally regaining confidence in their own economy after the disastrous 1980's. An agreement would provide an extra boost to confidence inside Mexico, which in turn could lead to a boom in the Mexican economy.

With a Free Trade Agreement, Mexico could easily experience 5 percent real growth over the next ten years. Given that 70 cents of every dollar spent on imports in Mexico is spent on U.S. goods, the potential benefit for American workers and American jobs is enormous.

If we lock in the opening of the Mexican economy with a Free Trade Agreement, what will we sell? Everything you can think of and things we cannot even conceive of now. A few examples:

- Caterpillar is the main supplier of heavy equipment to build new roads in Mexico. The infrastructure of Mexico is terrible and badly in need of upgrading. President Salinas has an innovative program funded by the private sector to build major new roads in Mexico. Already, Caterpillar's sales in Mexico have doubled every year since 1988.

- In 1989, General Electric's exports to Mexico totaled over \$100 million dollars. These exports included locomotives, power generation equipment and diagnostic imaging equipment. GE's exports to Mexico are projected to grow fourfold in 1991, reaching \$430 million. With a Free Trade Agreement, GE expects its exports to continue to increase at a comparable pace.
- Proctor and Gamble's net exports of finished products, raw materials, equipment and services to Mexico supports roughly 1,500 jobs in the United States. Their best estimate is that a free trade agreement will increase this figure by about 2,000 jobs for a total of 3,500. Some of those new jobs will be in Proctor and Gamble, but many will be in their U.S. suppliers' businesses.
- Union Pacific Railroad is already adding jobs in Texas to handle the additional trains moving across the border and is likely to add more.

These stories can be repeated over and over again by hundreds of American companies. One final one about my own company, Kodak.

- In 1990, Kodak exports to Mexico were \$126 million. We expect in the 1990s, with a free trade agreement, that Kodak's exports will at least double. As a result, in our sensitized goods operations, we expect U.S. employment which supports operations in Mexico to double, as well.

Mexico is our natural market. Let's lock it in.

V. Myth Number Five: A Free Trade Agreement with Mexico will result in massive job loss in the U.S as we are flooded with Mexican imports.

The fact is that the U.S. economy is mostly open to Mexican imports now, and we have hardly experienced a flood. The average U.S. tariff on Mexican imports is only 3.9 percent.

Nor should further liberalization between our two countries be disruptive for the U.S. economy overall. This is confirmed by each of

the economic studies on the impact of a U.S.-Mexico Free Trade Agreement done thus far-- from the University of Maryland study for the Department of Labor, to the ITC study to the one done by Peat Marwick. In fact, each of these studies indicates that on balance a comprehensive agreement with Mexico will be beneficial for the United States and American workers.

VI. Myth Number Six: A Free Trade Agreement will result in massive U.S. job loss as American manufacturing moves South of the Border.

On many counts this is wrong. First, an important incentive for U.S. companies to invest in Mexico will disappear with an Agreement. My company, as well as many others, invested in Mexico in the 60's and 70's to get inside a closed market. It was the only way we could sell there. With the barriers down, an important reason for relocating is gone.

Second, opponents assume that the cost of labor is the key variable in investment decisions by U.S. manufacturers. Other factors are at least as important, like transportation, communications infrastructure, financial and business services, high quality, reliable suppliers, proximity to market, and above all an educated, skilled, productive workforce.

With regard to this particular matter, I would like to quote Jacques Delors, President of the European Communities, since opponents like to say that there is no analogy between our situation with Mexico and that of the Community with the accession of Spain and Portugal:

"Of course there will be investment in those countries where labor costs are lower, where social security is less and where employees -- and thus also the machines -- work longer hours. But on the other hand, I ask myself if the European Community did not exist, if Spain and Portugal were not members of the European Community, would the problem really be different? We should not forget that the work factor is not the only criterion governing the company's choice of location. Financial

conditions, training opportunities, availability of information and speed of access to information also are crucially important. The risk that a company might choose to set up elsewhere therefore should be viewed in perspective."

(1992 - The Social Dimension, Feb. 1990, p. 56)

Mr. Delors made these arguments to counter opponents in the northern countries, and to urge limited European intervention because "social dumping" would not be a risk except in isolated cases.

Third, let's not forget that U.S. manufacturing production is at post-war high (23 percent of GNP). Even with substantial productivity gains, employment in manufacturing has stayed relatively constant over the last several years, although certainly the current recession is hurting. The reason is that manufacturing in this country has developed new products and new markets and new ways to maintain competitiveness. Surely, this would not be the case if our major preoccupation was cheap labor. To the contrary, the favorable trends are due in large measure to our growing export competitiveness.

Fourth, opponents forget that Mexicans are and will be the primary source of investment in the Mexican economy. Anywhere from \$80 billion to \$100 billion in Mexican money sits in American and foreign banks waiting to see whether there is stability and growth over a sustained period. Flight capital already is returning to Mexico in substantial amounts. More will come as confidence returns. So the biggest source of new investment in Mexico will be the Mexicans, themselves. Most investment is likely to be for infrastructure, such as transportation and communications to catch up after the very depressed levels of investment in the 1980's. We are the logical suppliers of the capital equipment and services to rebuild Mexico's infrastructure.

Furthermore, investment in Mexico, whatever the source, directly benefits the United States. For every extra dollar earned in Mexico, 20 cents is spent on U.S. goods. With no other country does the United States have such a direct, beneficial economic relationship.

Finally, why are we so afraid of investment by U.S. companies in Mexico? There has always been some and there will no doubt be more. In many instances, U.S. companies invest in some parts of production in Mexico to maximize global competitiveness, and as a result, maintain production and high value added jobs in the United States. Without some assembly in Mexico, often there would be no production in the United States at all. Rather, production would move off-shore entirely, or companies would simply stop making that particular product.

For example:

- Dana Corporation, a major auto parts manufacturer currently exports two dollars of product from the United States to Mexico for every dollar it imports. With a Free Trade Agreement, Dana, the second largest auto parts manufacturer in the world, estimates that its exports will rise even further. This is contrary to the popular notion that auto parts in the United States will be damaged by free trade.
- General Motors' Packard Electric Division produces powered signal distribution systems for GM and many non-GM customers. Components from Packard's U.S. operations are shipped to Mexico for labor intensive assembly. By placing subassembly in Mexico, and retaining high technology operations in the United States, Packard has been able to enhance its competitiveness and secure significant business with non-GM customers, which in turn has created new component business in the U.S. The local union leadership of the International Union of Electrical Workers is supportive of this co-production and recognizes that it is essential to maintain competitiveness and jobs in the United States.
- In a recent petition to the USTR requesting duty free status for ceramic magnets imported from their Mexican operation, the local union of the International Union of Electrical Workers joined with the management of another division of GM, to argue that their Mexican operation helps them to be more competitive.

- AT&T has shifted repair of its cordless phones from Singapore to Mexico. The turnaround time on the repair work is now one quarter of what it was. This has allowed AT&T to become more competitive which has led to lower prices and created more sales jobs in the United States.
- Another example from Kodak. In 1986, Kodak moved its harness assembly for copiers from Rochester to Mexico because the operation was not cost-competitive. The choice was to move it to Kodak Mexico or out-source to the most competitive non-US supplier. By moving it to Mexico, Kodak had the time to develop new technology which was less labor intensive for Rochester, as well as value added services such as product design, drafting, and other activities necessary to stay in the business and enhance world-wide competitiveness. By moving the assembly operation to Mexico, we saved 300 jobs in Rochester.

To say that there is no direct benefit to the United States in co-production is simply not true.

VII. MYTH NUMBER SEVEN: Everyone in Mexico makes 57 cents an hour.

According to the U.S. Dept. of Labor, hourly compensation in Mexico by major occupation is as follows: \$1.89 for unskilled laborers, \$2.38 for semi-skilled workers, \$2.97 for clerical workers and \$14 per hour for professional/managerial workers.

According to the Wharton Group, the average compensation of a maquiladora worker is \$1.60 per hour. The Wharton group estimates that in 1989, technicians and administration personnel in the maquiladoras made up to \$4.50 per hour.

It is true that the minimum wage in Mexico is very low, but workers in manufacturing are not receiving that wage, and it is these workers that opponents say we are competing against. Let's also remember that the U.S. worker is far more productive than his Mexican counterpart. The wage gap reflects the huge productivity gap.

Opponents assume that Mexico deliberately is pursuing a low wage strategy for exports. They conveniently forget that Mexico suffered a major debt crisis in the 1980's which prompted a real decline in wages, not a deliberate strategy to keep the Mexican worker down. In 1980, Mexican manufacturing compensation was \$3.00 an hour. The Salinas Administration's ultimate goal is to get back to that level and exceed it, not keep wages down.

VIII. Myth Number Eight: We have no commitment in this country to handle economic adjustment.

First, The Business Roundtable strongly endorses the idea that we will need appropriate transition periods for certain sectors of the U.S. economy to ensure a smooth transition and adjustment.

Second, The Business Roundtable supports inclusion of an escape clause in the agreement in the event a surge of imports is the substantial cause of serious injury.

Third, while I would certainly be the first to say that we need to do a much better job of educating, training, and retraining our workforce to ensure rising living standards in this country in the years ahead, to say that little is being done in this area is false. U.S. companies spend \$30-\$50 billion in hard cash and incurred another \$150-\$170 billion in expenses for benefits, salaries, and lost time every year training and retraining American workers.

There are government programs, as well, such as the Job Training and Partnership Act designed to help dislocated workers. Rather than saying that we cannot move ahead with negotiations with Mexico, the public and private sectors should consider creative ways to target programs more effectively.

Finally, The Business Roundtable has made a major 50 state commitment to improve levels and standards of education in this country. In each state, Roundtable companies are working closely with the governors to achieve important results by the year 2000. We are doing this because we are concerned that we will not have the workforce we need to maintain our competitiveness in the years ahead.

Roundtable companies would not be putting this much effort into improving education in this country if we were not committed to maintaining production in the United States.

IX. Myth Number Nine: Mexico has no environmental laws and workers rights.

In 1988, Mexico passed a comprehensive environmental law patterned after ours. New investments must now include a detailed assessment of their environmental impact, and the impact must meet regional environmental standards. Investment approval is tied to compliance. Criminal penalties and administrative sanctions exist for non-compliance.

Mexican laws on workers rights are codified in their constitution. They ensure the right of association, the right to organize and bargain collectively, the prohibition of forced or compulsory labor, a minimum age for employment of children, as well as set minimum wage levels and maximum hours of work. The same labor rights and standards apply throughout Mexico, including the maquiladoras. Mexican laws are at least as comprehensive and stringent as ours, and in some cases more so.

So, lack of laws providing adequate protection in the areas of the environment and workers rights is not the problem. The major problem is enforcement.

Opponents assume that companies will rush to Mexico to take advantage of lower environmental enforcement and standards. As with wage rates, they make the mistake of assuming that diverging environmental standards drive investment. Many factors are far more important. Besides, most major companies today have global environmental standards which means investments any where in the world will be made to the same high standards.

Furthermore, no intelligent businessman today would flee to Mexico for environmental reasons when investment is a ten year project. It would be very foolish to assume that Mexican enforcement will not be

substantially improved in that time period. In fact, Mexico is already showing a strong commitment to the environment. The Salinas government has promised that all new investment in Mexico must conform to its new environmental laws. With respect to existing investment, new efforts are underway. For example, they shut down a major oil refinery outside Mexico City, and altogether have closed 900 operations for non-compliance with the law.

Nevertheless, it is important that the United States and Mexico intensify their efforts to address these issues in parallel with the FTA negotiations. Achieving real progress and substantive results on the environment and workers rights must be a high priority of an enhanced U.S.-Mexican relationship in the years to come.

OFFICE OF THE UNITED STATES
TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT
WASHINGTON
20506

December 3, 1991

MEMORANDUM

FROM: Torie Clarke
202-395-3350

SUBJECT: North American Free Trade Agreement

In an effort to keep the NAFTA interagency team apprised of developments in the negotiations, we have collected some recently produced documents you may find of interest and use.

Included are the following:

- o A letter sent to all Members of Congress summarizing the negotiations thus far
- o Updated fact sheets on the NAFTA, its benefits and related issues (e.g. the environment)
- o A summary of recent NAFTA activities undertaken by the Small Business Administration

It is absolutely vital that all agencies stay in touch as the negotiations progress. Please let us know of any NAFTA related issues on your front; we'll make sure your colleagues know about them.

*File -
Free Trade
Mexico
NAFTA*

A NAFTA WOULD CREATE ONE OF THE WORLD'S LARGEST FREE TRADE AREAS

- o A North American Free Trade Agreement (NAFTA) would create an enormous market, encompassing some 360 million consumers and total output of more than \$6 trillion.
- o The progressive elimination of barriers to the flow of goods, services and investment, and strengthened protection of intellectual property rights would benefit a broad spectrum of businesses, workers, farmers and consumers.
- o The successful implementation of a NAFTA would be a catalyst for economic growth and development in the United States, Mexico and Canada through increased trade, investment and jobs.

THE IMPORTANCE OF NORTH AMERICAN TRADE

- o Canada and Mexico are America's first and third largest trading partners, respectively. In turn, the United States accounts for over two-thirds of their total trade. In 1990, three-way trade came to about \$237 billion.
- o Since 1980, U.S. exports to Mexico and Canada have doubled, rising from \$55.3 billion to \$111.4 billion. Our exports to our neighbor have grown substantially faster than those to the rest of the world.

REMOVAL OF BARRIERS WOULD CREATE NEW TRADE AND INVESTMENT OPPORTUNITIES

- o Since Mexico joined the General Agreement on Tariffs and Trade (GATT) in 1986 and started its unilateral policy of lowering trade barriers, U.S. exports have more than doubled, growing from \$12.4 billion to \$28.4 billion.
 - U.S. agricultural exports to Mexico totalled \$2.5 billion in 1990, our third largest market.
 - Consumer goods exports from the United States to Mexico have tripled since 1986, rising from \$1 billion to \$3 billion.
 - U.S. exports of capital goods have grown from \$5 billion in 1986 to about \$9.5 billion last year.
- o We can do better. Mexico has greater barriers to U.S. exports than we impose on Mexican shipments to the United States. For example:
 - Mexican tariffs average 10 percent, compared to the average tariff of 4 percent we impose on Mexican exports to us.

-- Mexico still maintains a restrictive import licensing regime, one which affects 40 percent of U.S. agricultural exports to Mexico.

- o In addition, while Mexico has liberalized its investment regime, it is still closed to many U.S. investments, both in manufacturing and in services, and performance requirements distort export opportunities for U.S. products.
- o Mexico has already pledged to improve its protection for intellectual property rights, and we expect action on those pledges in the near future. A NAFTA will make those reforms secure.

A NAFTA OFFERS BENEFITS TO U.S. PRODUCERS, WORKERS, AND CONSUMERS

- o Economic analyses show that a NAFTA will have a positive impact on the U.S. economy and U.S. employment.
- o U.S. producers and workers will benefit from a NAFTA through increased sales opportunities, improved operating efficiencies and strengthened competitiveness against competitors in Asia and Europe.
- o U.S. consumers will enjoy increased access to lower-cost, higher quality products.

A NAFTA STRENGTHENS THE BROADER NORTH AMERICAN RELATIONSHIP

- o A NAFTA would help cement the extensive historical, familial, cultural and language links the United States has with both Mexico and Canada.
- o More prosperous neighbors are better neighbors and better customers for U.S. goods and services.
- o We have a broad agenda with both Mexico and Canada that goes well beyond trade, economic and investment links. By boosting economic prosperity in all three nations, a NAFTA will help us make progress on issues such as the environment, drugs and immigration.

JOB CREATION, COMPETITIVENESS AND INVESTMENT

OVERALL IMPACT OF NAFTA ON U.S. EMPLOYMENT SHOULD BE SMALL, BUT POSITIVE

- o Nearly 20 formal economic studies have concluded that a NAFTA will be favorable to U.S. employment overall. Studies which assume full employment in the U.S. economy suggest that a NAFTA would increase U.S. average real wages. Other studies suggest small gains in overall U.S. employment.
- o Two or three studies -- at variance with the majority -- suggest significant losses to U.S. employment from a NAFTA, but their results must be read with caution.
 - For example, it is difficult to make a judgement about the negative employment findings in the study by the Economic Strategy Institute (ESI) since -- unlike many other published studies -- the ESI analysis contains little information on its methodology.
 - In another example, reduced employment in the United States cited in a study from the Economic Policy Institute results not from rising U.S. unemployment, but from a reduced number of immigrants from Mexico seeking employment in the United States as a NAFTA acts to improve living and working conditions in their home country.
- o An econometric analysis prepared for the Department of Labor suggests that a FTA with Mexico would result in a net increase of 44,000 to 64,000 jobs in the United States over 10 years, the bulk of these in manufacturing.
- o The overall impact of a NAFTA on U.S. employment should be positive, but small. The Mexican economy is only about 1/25 the size of the U.S. economy and imports from Mexico now account for only about 6 percent of total U.S. imports. And, since we have a FTA in place with Canada, additional effects on our trade with Canada would be limited.
- o Mexican trade barriers are higher than those in the United States. Eliminating these barriers should result in increased U.S. exports, exports that will help generate jobs in the United States.
 - Since Mexico started its trade liberalization in 1986, U.S. exports to Mexico have more than doubled -- from \$12.4 billion in 1986 to \$28.4 billion in 1990. It is estimated that each \$1 billion worth of merchandise exports generates over 19,000 U.S. jobs.

U.S. WORKERS ARE AMONG WORLD'S MOST PRODUCTIVE

- o U.S. manufacturing investment and production grew strongly through much of the 1980s. In 1988, the latest year for which constant dollar data are available, manufacturing's share of the U.S. economy stood at a post-World War II high (23.1 percent).
- o U.S. workers are among the most productive in the world. U.S. labor productivity in manufacturing showed strong growth in 1990 (up 2.5 percent).
 - Since 1980, output per person employed in U.S. manufacturing has grown 2.5 times faster than in Mexico.
- o Some computations suggest that the United States is as much as 5 or 6 times more productive than Mexico.
- o Higher real incomes and wages in the United States reflect superior U.S. productivity.

THE UNITED STATES IS AMONG THE WORLD'S MOST ATTRACTIVE LOCATIONS FOR INVESTMENT

- o Both U.S. and foreign investors will continue to invest heavily in the United States because low wage levels alone are inadequate to assure competitiveness. Among the factors that help compel investment in the United States are:
 - an educated, skilled, and highly productive U.S. work force;
 - a fully developed and reliable transportation, communications, and business and financial infrastructure;
 - proximity to high quality, dependable suppliers;
 - proximity to the marketplace in which one sells; and
 - political and economic stability.

- o These U.S. advantages will not disappear in a NAFTA. Nor will the manufacturing sector be weakened. Rather, the elimination of trade and investment barriers will expand market opportunities for exports for all three countries. The U.S., Mexican and Canadian manufacturing sectors are likely to be strengthened, in terms of production volumes and average real wages.

INVESTMENT IN MEXICO CAN BOOST U.S. COMPETITIVENESS

- o When U.S. firms do invest in Mexico, such investment strengthens their ability to meet the global competitive challenge.
- o A 1988 study by the U.S. International Trade Commission revealed that the vast majority of the 900 firms surveyed felt that assembly in Mexico had improved their overall international competitiveness.
- o Most of the firms indicated that the alternative to moving part of their labor-intensive assembly operations to Mexico, where a substantial amount of U.S. components are used, was to move their U.S. operations to East Asia, which would result in the usage of fewer U.S. components and machinery.

INVESTMENT IN MEXICO HELPS SAVE U.S. JOBS

- o A NAFTA would help save U.S. jobs by strengthening the ability of U.S. firms to compete against Asian and European companies.
- o Joint production arrangements with Mexico have helped save existing U.S. jobs and even created new jobs. For example:
 - As a result of a move of part of its operations to Mexico, a U.S. electronics company's sales rose 400 percent and its U.S. employment by 50 percent. One medical equipment company says it would be out of the health care business without its Mexican operations, which are supported by millions of dollars in U.S. sales.
 - USTR has received a petition requesting duty-free GSP treatment for ceramic magnets imported from the Mexican subsidiary of a U.S. company. These magnets are used in electrical motors that, for example, power air conditioners and heater blowers in automobiles. The local U.S. labor union (representing some 3,000 employees) supports the petition, arguing that Mexican magnets help the U.S. facility to be more competitive.

- o Investment in Mexico is likely to provide greater links back for U.S. exports. Of every dollar Mexico spends on imports, 70 cents goes to purchase U.S. goods.
- o As investment in Mexico boosts the income of Mexicans, it enhances their ability to buy U.S. exports.

TRANSITIONAL MEASURES WILL FACILITATE ADJUSTMENT

- o In cases where immediate elimination of tariffs or non-tariff barriers would create hardship for U.S. producers, we will negotiate transitional measures, such as phase-in periods and safeguard procedures, to minimize adjustment pressures.

October 1991

NAFTA and the Environment

U.S. ACTIONS

Public Participation:

- o Representatives of non-governmental environmental organizations will be appointed to the Advisory Committee on Trade Policy and Negotiations and have been appointed to five subsidiary Policy Advisory Committees: Intergovernmental, Services, Investment, Industry and Agricultural.

Environmental Review:

- o USTR has completed a first draft of a comprehensive review of U.S.-Mexico Environmental Issues, addressing the possible environmental effects of a free trade agreement. The Review makes recommendations for treatment of environmental issues in the parallel cooperation program and (in some cases) in the negotiation proper.

Three important conclusions emerge from the study:

- o Our findings indicate that a NAFTA should not lead to systematic shifts in investment based on expected differences in pollution abatement costs between the countries.
- o It is possible that removal of trade barriers through a free trade agreement would reinforce the recent tendency of maquiladora-type plants to locate in the less congested, less expensive Mexican interior, modestly reducing future environmental stress on the border.
- o Over the long term, a NAFTA will contribute to the generation of higher economic growth that will be of great importance to Mexico in generating resources for environmental investment, particularly in the border areas.

Integrated Border Environment Plan:

- o The initial draft of the U.S.-Mexico Border Plan was released for public comment August 1. As part of the

process for public comment, EPA and SEDUE held well-attended public hearings on the plan in sister cities along the border. The plan is being revised based on public input. Appropriation requests in support of the plan will be included in the President's FY '93 budget request.

Enforcement:

- o A new bilateral Working Group on Enforcement has been established as part of the cooperative process for consultation on enforcement. The Working Group is developing a work program to enhance cooperative efforts in enforcing environmental regulations in both countries. Enforcement actions by the U.S. and Mexico have increased, especially in the border region.

Technical Cooperation and Training:

- o A U.S.-Mexico Business Environmental Committee has been established with the initial goal of helping Mexican business in the Border Area and Mexico City to meet priority goals regarding compliance with environmental regulations.
- o U.S. and Mexican agencies are working together in a wide range of activities in this area, including: the comprehensive study of Mexico City air pollution, which is entering its next phase; training of Mexican enforcement officials; and, establishing an environmental technology clearinghouse in Mexico City.
- o The National Park Service met with Mexican officials in July and made progress on establishing sister parks along the border. Cooperative work on forest conservation and resource management issues is proceeding between the U.S. Forest Service, the Agency for International Development and the National Marine Fisheries Service and their Mexican counterparts.

NAFTA Negotiations:

- o U.S. environmental officials have been included on NAFTA negotiating teams, at all levels. EPA is represented on interagency policy committees.
- o EPA and FDA officials co-chair negotiating subgroups on agricultural product standards and health and environmental standards.

MEXICAN ACTIONS

Public Participation:

- o To gather public comment on the Integrated Border Environment Plan, Mexico held its first ever public policy advisory hearings. The Mexican Government has announced that the next draft of the Plan will be the object of a second round of public comment.

Environmental Review:

- o Mexico is conducting its own environmental review of the NAFTA, which is expected to be completed by late November. The Mexican Government has allocated additional financial resources to SEDUE (Mexico's secretariat with environmental protection responsibilities) for this Review, to allow use of consultants and technical experts. Canada is also preparing an environmental review of the NAFTA.

Border Infrastructure Improvements:

- o Even in advance of completion of the Border Plan, President Salinas has directed that \$460 million be allocated to priority environmental infrastructure projects in the border area over the coming three year period. Nearly \$142 million will be provided in 1992 alone.
- o These funds will be allocated as follows: water supply and wastewater treatment: \$223 million; municipal solid waste: \$26 million; highway, bridge and border crossing projects: \$120 million; and provision of housing areas with necessary utilities: \$44 million.
- o Additional funding will be available for lines of credit for acquisition of public transport equipment and Interamerican Development Bank loans.

Enforcement:

- o Mexico has decentralized SEDUE, providing the border zone office with increased staff and authority. By the end of 1991 there will be 200 trained environmental inspectors on duty in the border area. SEDUE Secretary Chirinos has announced that funding for border zone environmental monitoring and enforcement will be \$6.2 million in 1992, an increase of 450% over 1991.

NAFTA Negotiations:

- o Mexico has included its regulatory agencies, including SEDUE on its NAFTA product standards negotiating teams.

Conservation:

- o In September, President Salinas announced a new national program for dolphin conservation. This included Mexico's commitment to limits on total dolphin mortality incidental to commercial fishing operations by penalizing fishermen who exceed new and strict "incidental take" limits set by the government. The President also committed to have 100 percent observer coverage on board Mexican tuna vessels. The United States will train Mexican observers in November; Mexico will place the observers on board the tuna fleet by the end of 1991.
- o In addition, President Salinas said Mexico would devote greater priority and resources to research into equipment and techniques designed to reduce dolphin mortality.
- o To stem the trade in endangered and threatened species, the Government of Mexico acceded to the Convention on International Trade in Endangered Species (CITES) in July. The Fish and Wildlife Service is working with Mexican officials on CITES procedures and other wildlife issues.

THE NEGOTIATING GROUPS

As the chart below shows, the structure of the negotiations is broken into six broad negotiating areas, with 19 working groups. Some of the groups are sector-specific, while many cover cross-cutting issues. In general, each of the groups has met three to five times since June. Not all of the groups will necessarily result in a specific agreement. In some cases, particularly in the sector-specific groups, an important role is to give guidance and support to the cross-cutting groups such as tariff negotiations.

There follows a listing of the objectives of the various negotiating groups and some background on each issue.

NAFTA NEGOTIATING GROUPS

MARKET ACCESS

- Tariffs/non-tariff barriers
- Rules of origin
- Government procurement
- Agriculture
- Automobiles
- Other industrial sectors
 - Textiles
 - Energy

TRADE RULES

- Safeguards
- Subsidies and trade remedies
- Standards
 - Sanitary/Phytosanitary
 - Health/Environment
 - Industry

SERVICES

- Principles for services
 - Temporary Entry
- Financial
- Insurance
- Land transportation
- Telecommunications
- Other services

INVESTMENT (Principles and restrictions)

INTELLECTUAL PROPERTY RIGHTS

DISPUTE SETTLEMENT

TARIFFS/NONTARIFF BARRIERS

U.S. Objectives: Through the NAFTA, we seek the immediate or phased elimination of all tariffs (duties) among the United States, Mexico and Canada. We also seek the reduction of nontariff trade barriers (NTBs), whether imposed at the border or not. For both tariffs and NTBs, our goal is to maximize the gains from liberalizing trade while minimizing adjustment pressures in sensitive sectors through gradual phase-ins and other measures.

Background: This exercise is one of the most labor-intensive underway, with over 27,000 tariff line items under negotiation. The average tariff in the United States is 4 percent, versus 10 percent in Mexico.

Initial, conditional tariff offers were made in Dallas on September 19. Tariff elimination will proceed from actual applied rates as opposed to nominal rates. In addition, all three countries have agreed that no products would be excluded from the tariff negotiation. In their conditional offers, each country proposed an allocation of products to immediate, medium-term or long-term staging categories, depending on the sensitivity of the various products. We have been analyzing these proposals and in November started a line-by-line review of how each country thinks tariffs should be eliminated. Our aim is to negotiate a balanced and mutually advantageous schedule for tariff elimination.

The group also is responsible for examining non-tariff trade barriers. Non-tariff measures under review include import licenses, quotas and other practices that burden imports as opposed to domestically-produced goods. In functional areas (government procurement, standards, services, investment and intellectual property rights), and in sectoral areas (agriculture, autos, textiles and apparel, and energy/petrochemicals), the appropriate NAFTA work group will deal with the NTBs in its area of responsibility.

RULES OF ORIGIN

U.S. Objectives: We plan to build on the rules of origin in the U.S.-Canada Free Trade Agreement, which generally employs a "change in tariff classification" rule as the basis for determining substantial transformation. In addition, we will seek to strengthen the value-content-based rule of origin in certain sectors, such as automobiles. All three parties wish to ensure that NAFTA rules of origin maximize benefits for North American producers, and are seeking one set of rules of origin to cover trade among all three countries for tariff preference

purposes. The United States also seeks the elimination, over time, of drawback and performance-related duty remission programs. Finally, we seek to harmonize Customs procedures and documents, to facilitate entry of goods in all three countries.

Background: Rules of origin determine a product's country of origin for purposes of duty assessment, import programs, and statistics. With companies increasingly sourcing their components from different parts of the world, this is not as easy a question as it might appear. So far, the parties have reviewed the rules of origin for about half of the chapters in the tariff schedule with the Mexicans and Canadians. Work also is proceeding in the area of developing a more precise, and less costly to administer, value-content rule (where such a rule is applicable).

With respect to duty drawback, the United States has set out its position that such programs should be eliminated, but the parties have not yet agreed on the issue.

GOVERNMENT PROCUREMENT

U.S. Objectives: The United States is seeking to apply the rules of the U.S.-Canada government procurement agreement to Mexico and to achieve greater liberalization when feasible. A key objective is to provide greater transparency, and predictability in the competition for supplying goods to governments and parastatal enterprises by firms from any of the NAFTA countries.

Background: The government procurement measures in the U.S.-Canada Free Trade Agreement are based on GATT Government Procurement Code provisions (to which the United States and Canada belong but Mexico does not). The CFTA, however, provides for a lower-than-GATT threshold for goods and it includes services, so the scope is much broader than the GATT Code. In addition, there is an effective set of bid protest procedures which do not exist now under the Code.

AGRICULTURE WORK GROUP

U.S. Objectives: The U.S. goal is to enhance the free flow of agricultural products by eliminating tariff and nontariff barriers to trade in North America. We also seek an effective transition mechanism to enable sensitive sectors to adjust to trade liberalization, as well as a timely safeguard provision for certain agricultural items.

Background: Agriculture is an important component of North American trade, with U.S. trade with Mexico and Canada totaling \$13 billion in 1990. Trade flows are affected by a host of

government policies in all three countries. Many of these policies are under multilateral negotiation in the Uruguay Round, and the Round may be the most appropriate forum for handling certain issues, such as subsidies. The group therefore is focusing its initial efforts in areas such as designing a special NAFTA safeguard for certain agricultural items.

AUTOMOTIVE WORK GROUP

U.S. Objectives: The NAFTA should result in an integrated, rationalized and competitive North American automotive industry, chiefly by eliminating government practices that distort trade and investment. Specifically, the United States seeks to eliminate restrictions under the Mexican Automotive Decrees, including investment restrictions, export performance requirements, and import restrictions. The parties agree that there should be transition provisions to allow adjustment to increased competition. We also seek a stronger rule of origin than in the U.S.-Canada FTA.

Background: Automotive trade (including parts) comprises about \$59 billion in three-way trade for the NAFTA members. It also is a sector in which government policies -- including the Mexican Auto Decrees and the U.S.-Canada Auto Pact -- have had a major impact on trade and investment flows. The principal task is to liberalize trade and investment in the sector and to make the U.S. and North American industry more competitive vis-a-vis the rest of the world.

OTHER INDUSTRIAL SECTORS -- TEXTILES AND APPAREL

U.S. Objectives: The parties wish to eliminate trade-distorting practices in textile and apparel trade, but with a sufficiently strong origin rule to ensure that the advantages of tariff elimination accrue to North American producers. In addition, the United States seeks a transition period so that U.S. companies and workers will have time to adjust.

Background: We have reached conditional agreement on the definition of the textile and apparel sector for purposes of the NAFTA negotiations, exchanged information on country practices, and had preliminary exchanges of views on the timing of phase-outs on tariffs, quotas and licensing requirements. We have also discussed, but not yet agreed on, rules of origin, safeguards, customs cooperation and enforcement, and labeling requirements.

OTHER INDUSTRIAL SECTORS -- ENERGY AND PETROCHEMICALS

U.S. Objectives: We seek to incorporate provisions in the NAFTA that strengthen the important role of energy and energy products in North America, while respecting Mexico's constitutional restraints.

Background: Energy/petrochemicals is an important, and sensitive, area in the NAFTA negotiations. The United States and Canada have agreed that they would respect Mexico's constitutional provisions on energy, but there still remain important areas in which progress could be made to enhance cooperation in this sector in all three countries.

SAFEGUARDS

U.S. Objectives: In the NAFTA, the United States seeks a two-track safeguard system:

- (1) a bilateral provision that would allow parties to respond effectively and quickly if there are injurious increases in imports from either NAFTA partner in any industry or farm sector; and
- (2) a global provision that will maintain the ability to limit NAFTA imports as part of a safeguard action on imports from all sources, provided the NAFTA products are partly responsible for the injury.

Background: While the NAFTA should result in new export opportunities for many sectors in America, the Administration is committed to easing the adjustment pressures that might be created by trade liberalization.

Each country agrees that it is important to have certain "safeguards" in place in case imports of a certain good increase to such an extent that they harm a domestic industry or farm sector. The focus of the trilateral discussions has been on ensuring that the safeguard process is transparent, including rights for private parties to make their views known.

ANTIDUMPING, SUBSIDIES AND COUNTERVAILING MEASURES

U.S. Objectives: We seek better cooperation between the authorities in each country and greater transparency of laws and regulations against unfair trade (i.e., making them easier to understand). Our goal is to maintain strong and effective defenses against unfairly traded goods, without unduly burdening business in North America.

Background: All three sides have laws against unfair pricing and subsidized goods, but there are significant differences in the administrative and judicial procedures related to these laws. Mexico has questioned the applicability of AD/CVD laws in a free trade area, arguing that the economic logic of the laws is no longer viable when trade barriers are eliminated. The United States believes that without the practical experience of a completely liberalized trading area, it is inappropriate to have separate AD/CVD regimes for the NAFTA as compared to the rest of the world. So far, there have been extensive discussions of the administrative/procedural aspects of each country's AD/CVD laws.

STANDARDS

U.S. Objectives: The United States wants the NAFTA to contain disciplines that prevent the use of product standards and technical regulations as discriminatory or unnecessary trade barriers. An equally important goal is to preserve the U.S. right to apply standards and technical regulations, including those that are more stringent than international standards, to protect human, plant or animal health or safety and to protect the environment. Those standards must be based on a scientific justification and a level of risk that the party issuing the standards considers appropriate.

Background: Disciplines for standards setting and enforcement are needed to deal with the possibility that, as tariffs and other trade barriers are eliminated, standards might be used to establish unwarranted barriers to trade to protect affected domestic producers in agriculture and industry.

The standards groups is not negotiating about specific standards per se, but rather on the process by which standards and technical regulations are established. This includes elements such as transparency, equal treatment, scientific basis, risk assessment and other aspects of the standards-setting process. We also are working to encourage the enhancement of standards, consistent with law and regulation in all three NAFTA countries.

SERVICES WORK GROUPS

U.S. Objectives: We seek to eliminate barriers to trade in services in NAFTA to the maximum extent possible. This includes removing barriers to investment in services within North America, as well as removing barriers that prohibit trade of services across the border. It will likely also include specific rules for a limited number of sectors, such as insurance, financial services, telecommunications, and land transportation.

Background: NAFTA negotiators are wrestling with the same issues as are being considered in the GATT Uruguay Round of multilateral trade negotiations. Services trade comprises multiple sectors, such as insurance, financial services, transportation, telecommunications, professional services (doctors, lawyers, accountants) and others.

The various working groups on services -- Services (Principles), Financial Services, Insurance, Land Transportation, Telecommunications, and Other Services -- are attempting to eliminate unnecessary hurdles to service providers so far as possible. A key tenet is national treatment: foreign service companies should have the right to establish and operate a company and to offer services in the country on the same basis as a country national. The same holds true for individual service providers, but subject to each nation's immigration requirements. As practical examples, a foreign bank should be able to establish its operations under the same prudential guidelines as a domestic institution; and an accountant ought to be able to audit and prepare corporate reports without being a national of the country.

So far, information about trade in services and existing barriers has been exchanged. After consultations with the Congress and the private sector, the United States presented a draft in November that is designed to achieve the goals described above.

There are also working groups on specific services sectors, as follows:

- o The Financial Services group has focused on the list of services and financial institutions that will be covered by the agreement and the rules that will govern trade in financial services, specific barriers to be eliminated, and cross-border transactions. All parties recognize that there may be exceptions to any rules as well as a transition period.
- o The Insurance group seeks a similar set of rules on insurance as to that in the financial services group. It is anticipated that the rules will be substantially the same in all areas.
- o The Land Transport group is charged with negotiating liberalization of current restrictions on the transportation industry, such as laws prohibiting foreign-owned or -operated motor carriers from doing business in a country, and addressing other barriers that impede transportation efficiency among the three countries. The parties have agreed that for discussion purposes, the scope should include railroads, local/intercity transit service, trucking, warehousing,

non-petroleum pipelines, arrangement of freight services, vehicle maintenance and repair, and passenger transportation for the bus and rail industry (with a few other categories still under discussion), as well as a possible transition period. A subgroup is addressing questions involving enhancement of technical and operating safety standards.

- o In Telecommunications Services, we seek to ensure access and use of the services of the public telecommunications network for the provision of covered goods and services. Additionally, we want to ensure the greatest possible liberalization of the Mexican and Canadian telecommunications sectors.
- o Finally, in Other Services, the Parties are discussing barriers to service providers in miscellaneous fields, most important of which may be regulations pertaining to professionals (doctors, lawyers, accountants, architects, and engineers). Canada and the United States have urged that, with respect to the professions, the U.S.-Canada FTA provides a good blueprint.

Finally, a subgroup on the temporary entry of professionals has been created under the Services (Principles) group. The objective is to facilitate the temporary entry within North America of NAFTA-country professionals and managers who are engaged in trade and investment activities. In recognition of the special trading relationship which the U.S.-Canada Free Trade Agreement created, that accord created new arrangements and procedures for easing the temporary entry of business visitors, traders and investors, professionals and intra-company transferees between the signatory countries. In similar fashion, the NAFTA subgroup is addressing current practices within the three countries with a view toward simplifying temporary entry procedures for persons engaged in business activities.

INVESTMENT WORKING GROUP

U.S. Objectives: The United States seeks to establish a foundation of principles to apply to investment in all goods and services industries. For the United States, this means the principles customarily included in bilateral investment treaties, such as national treatment, right of establishment, right to repatriate profits, guarantees against unfair expropriation, and access to arbitration for settlement of disputes.

Background: The parties generally agree that North American firms should be able to establish subsidiaries or branches, operate partnerships or take over other companies in any of the

three nations. Each side recognizes that there may have to be certain sectors in which open investment is "off limits," but the United States wants to keep these to the minimum necessary to ensure the protection of vital national interests. The parties have agreed that the principles negotiated by the investment group would govern investment in all goods and services, with exceptions to be negotiated.

INTELLECTUAL PROPERTY

U.S. Objectives: The United States seeks to codify obligations on accession to the current texts of the Paris, Berne, Geneva, Patent Cooperation and UPOV Conventions; according national and MFN treatment among the NAFTA countries; providing adequate and effective protection for patents, trademarks, copyrights, trade secrets and integrated circuit lay-out designs; and, establishing measures necessary for timely and effective border and internal enforcement.

Background: The protection of intellectual property is one of our chief global trade goals. Fortunately, President Bush's commitment to strong IPR protection in North America is shared by President Salinas and Prime Minister Mulroney.

So far, the Parties have exchanged information on national laws and practices in areas of enforcement and protection of intellectual property rights and identified issues which need to be resolved. We have generally agreed on the structure of the chapter on intellectual property, and the United States presented an initial text of an intellectual property rights chapter in November.

DISPUTE SETTLEMENT

U.S. Objectives: We wish to create a flexible, pragmatic oversight and consultation mechanism for the NAFTA. When consultations are not sufficient to resolve a problem, we seek establishment of fair, speedy, and effective panel procedures for the resolution of controversies. Since the United States generally has a more open market, it is in our interest to see an effective dispute settlement mechanism incorporated in the NAFTA.

Background: One of the keys to a successful trade agreement is swift and fair dispute settlement procedures. Business leaders have frequently called for such procedures to handle their complaints. Nevertheless, actual drafting of text will probably have to take place at a later stage of the negotiations, once the substantive and legal framework of the NAFTA becomes clearer.

LABOR AND THE ENVIRONMENT

While the NAFTA negotiations proper are about reducing impediments to trade and investment in North America, the President has an equally strong commitment to ensuring that progress is made across the broad range of issues affecting U.S., Mexican and Canadian relations, especially in the areas of labor issues, environmental concerns, and matters concerning infrastructure development at the borders.

LABOR ACTIVITIES

Occupational Safety and Health

- o A general comparison of each country's occupational safety and health systems is underway.
- o Mexican and U.S. officials responsible for occupational health and safety will hold a conference on a high hazard industry (iron and steel) on December 16-17, in Mexico City. The conference will include participants from industry, labor and government. Similar conferences on the construction and chemical industries are contemplated for 1992.
- o A Mexican technician visited the OSHA industrial hygiene testing laboratory in August for information on how a similar testing program might be established in Mexico. Until such time as the Mexican program is better established, OSHA will provide industrial hygiene testing for selected specialized Mexican samples.
- o U.S. and Mexican officials agreed to exchange visits of inspection personnel to observe enforcement methods.
- o During October and November, OSHA assisted its Mexican counterpart in presenting a series of seminars on health, safety and medical programs for managers of maquiladora plants.
- o OSHA will send expert personnel to Mexico to conduct a series of training courses for Mexican inspectors and technicians in late 1991 or early 1992.
- o OSHA and its Mexican counterpart have agreed to distribute English translations of Mexican occupational safety and health laws and regulations to multinational firms operating in Mexico.

Employment Standards/Child Labor

- o A meeting of enforcement officials from both countries was held on May 31 to exchange information on enforcement programs and techniques.
- o A joint child labor study should be completed in late November. Plans are to present the results at a conference in early 1992.
- o The Departments of Labor and Education will collaborate with Mexican counterparts to assess stay-in-school policies and programs and how they affect child labor.

Labor Statistics

- o The Department of Labor and Mexican agencies responsible for national statistical programs have collaborated in developing a series of activities that will modernize Mexican social and economic data collection and analyses.

Workplace Training

- o In mid-September 1991, a delegation of Mexican officials, led by their Director of Employment Services, visited Employment and Training Administration sites in California, New York and Puerto Rico for further information on training and other employment services programs.

Quality and Productivity

- o U.S. and Mexican officials met in September to exchange information on productivity and human resources. Discussions covered high performance workplaces, trends in labor/management relations and innovative reward systems. The discussions included case studies and site visits.

Informal Sector

- o The United States and Mexico have agreed to analyze the economic and social policy effects of the informal sector and implications for workers, economic growth, and trade development. The first meeting was held on November 7 in Mexico City.

Worker Rights-Labor Management Relations Systems

- o The Department of Labor and its Mexican counterpart agreed to hold discussions to gain further mutual understanding of how each country provides basic worker rights -- freedom of association and the right to organize and bargain collectively, including the cultural, legal and economic

context as well as the prevailing labor management relations policies, processes and practices.

Worker Adjustment Programs in the United States

- o The Administration is committed to working with the Congress to ensure that an effective, adequately funded worker adjustment program is in place when the NAFTA takes effect.

ENVIRONMENTAL ACTIVITIES

Public Participation

- o Representatives of non-governmental environmental organizations have been appointed to the Advisory Committee on Trade Policy and Negotiations and to five subsidiary Policy Advisory Committees: Intergovernmental, Services, Investment, Industry and Agricultural. These groups provide direct input to the negotiators of the NAFTA, as well as to all trade policy negotiations.

Environmental Review

- o In October, USTR released a study, in coordination with EPA and other concerned agencies, addressing the possible environmental effects of a free trade agreement, drawing in particular on our analysis of border environmental issues. Mexico has announced that it will undertake a similar review. USTR seeks public comment on the study, which is available from USTR, in order to issue a final report in December.

Integrated Border Environment Plan

- o The initial draft of the U.S.-Mexico Border Plan was released by EPA for public comment on August 1. As part of the public comment process, U.S. and Mexican environmental officials held public hearings on the plan in sister cities along the border during September. The plan is expected to be finalized by late fall.

Border Infrastructure Improvements

- o Even in advance of the completion of the Border Plan, Mexico announced that \$460 million will be allocated over the next three years for environmental infrastructure projects along the border, with over \$142 million to be provided in 1992 alone.
- o The funds will be allocated as follows: water supply and wastewater treatment: \$223 million; municipal solid waste:

\$26 million; highway, bridge and border crossing projects: \$120 million; and provision of housing areas with necessary utilities: \$44 million.

Enforcement

- o A new bilateral Working Group on Enforcement has been established as part of the cooperative process for consultation on enforcement. The Working Group has met several times and is developing a work program to enhance cooperative efforts in enforcing environmental regulations in both countries.

Technical Cooperation and Training

- o A U.S.-Mexico Business Environmental Committee has been established with the initial goal of helping Mexican business in the Border Area and Mexico City to meet priority environmental protection goals.
- o U.S. and Mexican agencies are working together in a wide range of activities in this area, including: the comprehensive study of Mexico City air pollution, which is entering its next phase; training of Mexican enforcement officials; and, establishing an environmental technology clearinghouse in Mexico City.

Conservation

- o To stem the trade in endangered and threatened species, the Government of Mexico acceded to the Convention on International Trade in Endangered Species (CITES) in July. The Fish and Wildlife Service is working with Mexican officials on CITES procedures and other wildlife issues.
- o The National Park Service met with Mexican officials in July and made progress on establishing sister parks along the border. Cooperative work on forest conservation and resource management issues is proceeding between the U.S. Forest Service, the Agency for International Development and the National Marine Fisheries Service and their Mexican counterparts.

BORDER CONGESTION & INFRASTRUCTURE

In addition, with increased trade flows as a result of a NAFTA, land transportation traffic levels are expected also to increase, with potential environmental consequences. The draft U.S.-Mexico Environmental Review examines and makes recommendations in regard to these consequences, including safety and environmental

protection for transport of hazardous wastes and materials, noise levels, and pollution from trucks and buses.

Beyond the environmental impact, there are concerns about infrastructure from representatives and citizens on both sides of the border, including concerns about delays crossing the U.S.-Mexico border. The U.S. General Services Administration (GSA) has undertaken an ambitious Southwest Border Capital Improvements program, to be completed in 1994, that should provide sufficient physical inspection facilities at virtually all ports of entry.

Despite this program, there are concerns that existing border facilities, including customs inspection stations, access roads, bridges, and related infrastructure have not kept pace with the increase in traffic, including commercial traffic, in recent years. It is said that limitations on inspection agency staff, inadequate coordination between U.S. and Mexican Customs agencies, and delays resulting from clearance procedures for trucks entering the United States have further contributed to the border congestion problem.

In some instances, the solution to any such problems may lie in relatively low-cost measures. For examples, delays going into Mexico at Nuevo Laredo were substantially ameliorated by the installation of additional computer equipment by Mexican Customs and expansion of the Mexican import compound.

The Department of Transportation, GSA, and the U.S. Customs Service -- working with other relevant agencies, such as the Immigration and Naturalization Service and the Department of Agriculture -- are evaluating each of these border infrastructure and congestion problems and will recommend solutions for negotiation either within or in parallel to the NAFTA.

THE UNITED STATES TRADE REPRESENTATIVE
Executive Office of the President
Washington, D.C. 20506

November 25, 1991

THE FOLLOWING LETTER WAS FORWARDED TO ALL MEMBERS OF CONGRESS

With the Congress about to recess and knowing of your and your constituents' keen interest in our negotiations with Mexico and Canada for a North American Free Trade Agreement (NAFTA), I thought it might be useful if I shared with you an overview of what has happened since the negotiations started in June and what work lies ahead.

This letter summarizes the major developments in our work over the past five months, both with respect to the negotiations and our consultations with Congress and the public. I also am enclosing a summary of the objectives of each of the negotiating groups, and additional complementary activities in the fields of labor and the environment as foreseen by the Administration in its "Response to Issues Raised in Connection with the Negotiation of a North American Free Trade Agreement."

We also will be publishing a NAFTA newsletter within the next few weeks. This newsletter will be the first in a series designed to keep you, your staff, and the public abreast of progress in the NAFTA and related activities.

Status of the Negotiations

As you are aware, we initiated NAFTA negotiations on June 12 in Toronto. My counterparts, Mexico's Secretary of Commerce and Trade, Dr. Jaime Serra Puche, and Canada's Trade Minister, Michael Wilson, and I agreed to form 19 working groups to carry out the detailed work of the negotiations (chart attached). My Deputy, Ambassador Julius Katz, is our chief negotiator, and experts from USTR and other agencies are serving as leaders for the U.S. side of the groups.

During the summer and early fall, the working groups largely focused on organizing their work, exchanging information, and setting out the issues for the negotiation. When my counterparts and I met in Seattle in August, we agreed that while the groups had made a good start, more work needed to be done, both in terms of trilateral discussions and with our respective legislatures and private sectors, before we could begin to exchange initial negotiating texts.

On October 25-28, my counterparts and I met for the third trilateral ministerial, this time in Zacatecas, Mexico. We used this meeting to try to get a better understanding of some key areas in the negotiation, including tariffs/nontariff barriers, autos, textiles, duty drawback, investment/services, antidumping and petrochemicals/energy.

We decided at Zacatecas that the time had come to put pen to paper in many of the negotiating areas. In fact, following consultations with the Congress and committee staff, as well as the private sector, the United States last week shared with Mexico and Canada draft texts in the areas of tariff and nontariff border measures, services, investment, and intellectual property rights. I should note that there are gaps even in some of these proposals, and there is much work ahead. We will continue to do drafts in other areas in December, while drafts for sectoral areas such as agriculture and autos will come some time thereafter. That said, I can assure you that all three ministers are determined that the substance will drive the timing of the negotiations, and not the reverse.

Congressional and Public Outreach

In developing our initial proposals, we are relying heavily on the advice we obtain from the Congress and the private sector. Forty advisory committees, composed of over 1,000 private sector representatives (and one committee of state and local government officials) provide us with continuing advice on all our trade negotiations.

In an effort unprecedented in its scale, we held public hearings in six cities during late August and early September to solicit a broad spectrum of advice from the public. Our hearings were conducted in San Diego, Houston, Atlanta, Cleveland, Washington and Boston. We received oral testimony from 289 witnesses ranging from farming to manufacturing interests. Additionally, we received written submissions from 150 individuals. Even beyond these formal solicitations of views, we are constantly receiving and evaluating a steady stream of advice from individual citizens, companies, unions and associations.

In addition to the private sector consultations, we have been holding extensive consultations with members of Congress and Congressional committee staff with jurisdiction over the negotiations and will continue to do so throughout the negotiating process. Our meetings have covered all areas under negotiation including rules of origin, textiles, energy, autos, tariffs and services. We are consulting with approximately 18 House and Senate committees, and have held almost 90 staff consultation sessions since the negotiations commenced. The issues under negotiation are many and complex, and my staff has spent substantial time with Congressional staff reviewing them.

I have met with a number of committees and members, and expect to be actively engaged in consultations throughout the negotiating process. I welcome the chance to discuss with you our objectives in these negotiations as well as hear your concerns and guidance.

Labor and the Environment

At all three ministerials to date, I have discussed with my counterparts the key areas of labor and the environment. Each time, I have reiterated the importance of continuing progress on these issues. We are proceeding to implement each one of the Administration's commitments in both of these areas. Labor Secretary Martin has been working with her Mexican counterpart on a number of issues of mutual concern, as summarized in one of the attached reports. These activities include the organization of a conference in December on a high hazard industry (iron and steel), with additional conferences planned for 1992 on the construction and chemical industries. Moreover, OSHA has agreed to perform industrial hygiene testing of certain Mexican samples until Mexico can establish its own testing lab. OSHA is assisting Mexican officials in setting up this testing facility.

On the environment, the Administration is pursuing a comprehensive, multi-agency program with Mexico. On August 1, EPA set out for public comment the initial draft of the U.S.-Mexico Border Plan. EPA currently is working with Mexico to revise the Plan in light of the comments received. In October, USTR released a draft review of the U.S.-Mexico environmental issues, including an evaluation of the possible environmental effects of a NAFTA. In addition, we have added a number of prominent environmental experts to key private sector advisory committees. We have been consulting with environmental groups as we proceed in our NAFTA negotiations and in the parallel efforts promised in the "Response of the Administration to Issues Raised in Connection with the Negotiation of a North American Free Trade Agreement."

Conclusion

We are determined to negotiate an agreement which is in the best economic interest of the United States. At the same time, we are well aware that the Congress and the public will be evaluating our efforts in addressing labor and environmental concerns, and indeed the broader state of our relationship with Mexico on a spectrum of other issues.

I hope the attached summaries of the work groups and related activities will give you more detail on the range of issues involved in our negotiations. We firmly believe, and the evidence shows, that the NAFTA will lead to greater export opportunities and jobs in the United States. The NAFTA will give us the chance to eliminate tariffs in Mexico, which are two-and-

one-half times as high as in the United States; it will open up North America to our services providers and to our investors; it will ensure solid protection for our intellectual property rights holders; and it will strengthen the ability of our companies and our farmers to compete against Asian and European producers.

In the months ahead, we will continue to consult on a detailed basis with the Congressional committees responsible for the various issues under negotiation, as well as with our private sector advisory committees. Let me again affirm my commitment to regular, meaningful and substantive consultations as these negotiations proceed. A strong consultative mechanism is integral to the success of our negotiations and the fast-track process. I welcome your thoughts and advice, and strongly encourage you to follow our progress and let me know your views as these negotiations intensify.

Sincerely,

A handwritten signature in black ink, appearing to read "Carla A. Hills", with a long horizontal flourish extending to the right.

Carla A. Hills

Attachments

MAQUILADORA EXPERIENCE

MAQUILAS HAVE IMPROVED U.S. COMPETITIVENESS, SALVAGED JOBS, AND GENERATED BUSINESS FOR U.S. FIRMS

- o Maquilas are export-oriented assembly plants that operate under special Mexican regulations and U.S. tariff codes that allow the maquila to import components duty-free from the U.S. and re-export finished and semi-finished products to the U.S. subject to import tariffs only on the non-U.S. components and Mexican value-added.
- o Production sharing has enabled firms to become or remain price competitive, expand their sales and line of products, and hire more U.S. workers to produce them.
- o Many firms have said that they would have been forced to shut down their U.S. operations without the maquila program.
- o The assembly in Mexico of U.S. components has created or maintained thousands of U.S. production jobs that would have been lost if production has been shifted to the Pacific Rim.
- o A survey of San Diego firms showed that 15 percent do business with maquilas; 12 percent of that group's employment stems from sales to maquilas.

THE JOBS RETAINED IN THE U.S. ARE BETTER-PAYING

- o By placing the most labor-intensive and low-paid operations in Mexico, the U.S. plants can retain and create the higher-skilled and more capital-intensive operations that have higher paid jobs and avoid shifting entire operations to Asia in order remain competitive.

MOST U.S.-AND JAPANESE-OWNED MAQUILAS COMPLY WITH MEXICAN ENVIRONMENTAL REGULATIONS

- o Large U.S. and Japanese parent companies are careful to abide by standards that meet EPA specifications and conduct audits to ensure compliance.
- o The smaller companies are usually the culprits.
- o To guard against abuse, the Mexican government issued a maquiladora decree in 1989 that tightened regulations on the disposal of industrial waste and scrap materials.
- o On-site inspections, and the planned creation of new inspector positions and increased funding, should strengthen enforcement of environmental regulations.

WORKING CONDITIONS ARE OFTEN COMPARABLE TO THOSE IN THE U.S.

- o Maquila workers' right of association and right to strike are guaranteed under Mexico's Constitution and labor legislation; however, relatively few maquilas are unionized.
- o Mexico's child labor laws set a minimum working age of fourteen (versus 15 in the U.S.), and efforts to verify that applicants meet the minimum age requirements appear adequate.
- o Maquilas tend to uphold the same standards as their parent company--ventilation, lighting, safety notices, and protective gear are usually comparable to similar plants in the United States.

MAQUILAS SUPPLEMENT WAGES WITH COMPETITIVE NON-WAGE BENEFITS

- o Although many maquila workers earn the minimum wage, their hourly compensation is effectively higher than the minimum wage once fringe benefits are included.
- o Competition for labor and a high turnover rate have prompted maquila owners to draw up non-wage packages aimed at attracting and keeping workers.
- o Many maquiladoras extend benefits other Mexican firms do not provide, such as transportation allowances, subsidized lunches, savings plans, food coupons, and bonuses for attendance, productivity, and punctuality.

ECONOMIC DEVELOPMENT/BORDER

- o A North American FTA offers Mexico the stability in its economic environment to better manage and plan growth along the U.S./Mexico border, thereby avoiding some of the problems of the past.
- o For example, communities along the border will want to improve sewer systems and enforcement of health regulations. Federal as well as state and local officials already are striving to catch up on the infrastructure gap created by the maquiladora boom of the late 1980's.
- o Cooperation on border issues has improved substantially in recent years, in part as a result of the growing economic interdependence of the border states.
- o The International Boundary and Water Commission (IBWC) is working to resolve border sanitation problems.
 - The IBWC is constructing a joint sewage treatment plant in Nuevo Laredo to greatly improve the quality of water in the Rio Grande.
 - A major expansion of the international waste water treatment plant at Nogales, Arizona will be completed in 1992.
 - A long-awaited joint sewage treatment project has begun in the Tijuana/San Diego region and studies are underway for cleaning up the waters of the New River near Mexicali, Baja California/Calexico, California.
- o The 1983 La Paz Border Environment Agreement set up a comprehensive process for environmental coordination and problem solving through action-oriented annexes and the establishment of joint working groups on air pollution, water pollution, problems of hazardous waste, emergency response to chemical and other hazardous spills, and environmental enforcement.
- o At their November 1990 Monterrey meeting, Presidents Bush and Salinas instructed their environmental authorities to develop a comprehensive, integrated plan to deal with border pollution problems.
 - That plan has been completed in draft and underwent intensive public review in September. Accordingly, the plan is being extensively revised prior to developing its financial underpinning and publication in early 1992.

A NAFTA WILL SPUR GROWTH THROUGHOUT MEXICO, NOT JUST ON THE BORDER.

- o In the past, maquiladoras were viewed as a border phenomenon. Unlike the maquiladora program, a NAFTA will be from its inception a national program.
- o Because it will be a national commitment to increased trade, as opposed to a regional one limited to northern Mexico, Mexico's federal government will be more involved in anticipating and addressing development problems.
- o As Mexico liberalizes the economy, in part through a solid NAFTA, more and more of the "informal" (untaxed and unregulated) economic activity will come above ground.
- o This will enable better enforcement of existing and future laws. For example, a NAFTA should bring improved cooperation on customs issues which would expedite trade between the two countries.
- o Mexico and the U.S. have separately conducted environmental reviews of the impact of the NAFTA in each country. The U.S. review has been subject to extensive comment by interested parties. These comments are being incorporated into the final U.S. report.
- o Economic development goes hand in hand with sound environment and labor practices. Development brings both an awareness of the importance of living conditions and the added resources to develop and enforce higher standards.

NORTH AMERICAN FREE TRADE AGREEMENT
AUTOMOTIVE SECTOR

A NAFTA WILL REMOVE IMPEDIMENTS TO TRADE AND INVESTMENT

- o The further integration of North American manufacturing facilities and the resulting product rationalizations would increase trade and the competitiveness of U.S. producers.
- o U.S. companies operating in both Mexico and the United States will be able to reduce costs through product rationalization. They will no longer have to make the same vehicle, or the same parts for those vehicles, in two countries.
- o Removal of internal distortions and the resulting economies of scale would enhance the international competitiveness of the North American automotive industry.
- o A NAFTA should increase exports of U.S. motor vehicles to Mexico by removing high Mexican trade barriers to U.S. exports such as tariffs, local content requirements and other distortions mandated in the Automotive Decrees. (U.S. trade barriers on automobiles are already low.)
- o Consumers would benefit from the lower car prices that could result from the greater efficiency of the North American automotive industry.

AND ENHANCE AUTOMOTIVE EXPORT OPPORTUNITIES

- o Ending protection of Mexico's parts industry would create increased export opportunities for U.S. parts producers.
- o Increased access to the Mexican market would eliminate incentives to move to Mexico to avoid the many existing barriers to U.S. exports.
- o Production planning and investment decisions would be determined by economic factors and not by artificial government barriers.
- o There would be greater certainty and longer term perspective in making investment decisions.

A NAFTA WILL EXPAND AND CREATE OPPORTUNITIES FOR U.S.-AUTO COMPANIES

- o A NAFTA would give the "big Three" manufacturers an incentive to produce in Mexico themselves those entry-level products currently produced in the Far East for them by their joint-venture partners.

MAJOR STEEL TRADE ASSOCIATIONS SUPPORT NEGOTIATION OF A SATISFACTORY NORTH AMERICAN FREE TRADE AGREEMENT.

- o The American Iron and Steel Institute, which represents companies accounting for 80 percent of domestic raw steelmaking capacity, and the Steel Manufacturers Association; whose members include most minimills, endorsed extension of fast track authority to enable negotiations of a North American Free Trade Agreement.
- o Industry interests in a Free Trade Agreement include maintaining strong trade laws related to subsidies and antidumping, improving market access, and developing rules of origin similar to those under the U.S.-Canada FTA.

MANY OF THE MARKET OPENING OBJECTIVES OF AN FTA WILL COMPLEMENT CURRENT NEGOTIATIONS TO INCLUDE A MULTILATERAL STEEL AGREEMENT.

- o The United States is currently negotiating a multilateral steel agreement with virtually all major steel trading partners, including Mexico. The principal objective is to achieve a meaningful agreement eliminating trade-distorting practices in the steel sector. The agreement would prohibit most subsidies and most nontariff barriers to trade, and commit signatories to eliminate tariffs, inter alia.
- o In 1989, Mexico signed an open-ended bilateral agreement with the United States that prohibits most subsidies to the steel industry and includes a commitment to eliminate most nontariff barriers and reduce or eliminate tariffs.

NORTH AMERICAN FREE TRADE AGREEMENT
AND
UNITED STATES/MEXICO STEEL TRADE

U.S. EXPORTS OF STEEL MILL PRODUCTS WILL VERY LIKELY INCREASE IF MEXICO'S TRADE BARRIERS ARE REMOVED.

- o Mexico's relatively high tariffs on steel mill products (8.2 percent on a trade-weighted average vs. 4.7 percent for the United States) are frequently cited by steelmakers as the greatest impediment to increasing exports to that country.
- o The boost to the Mexican economy from implementation of the North American Free Trade Agreement will probably increase demand for certain steel products. Demand for oilfield pipe and tube products also will increase along with infrastructure needs. In the early 1990's, Mexican producers are not expected to have sufficient capacity to meet domestic demand for a number of products, including structurals and flat-rolled products.
- o Elimination of Mexico's "Buy National" regulations pertaining to projects by Mexican government and parastatal companies would open up this market to American exports. Pipe and tube products for energy development and structural products for construction should be the major beneficiaries of this liberalization.

THE UNITED STATES STEEL INDUSTRY IS COMPETITIVE WITH MEXICO IN MANY STEEL PRODUCTS, ESPECIALLY HIGH VALUE PRODUCTS.

- o For several years the United States has maintained a large trade surplus (measured in dollars) in steel mill products. U.S. exports to Mexico totaled \$486 million in 1990 or 75 percent higher than U.S. imports from Mexico that year.
- o Mexico is an important market for American steel, especially high value products such as sheet and strip and certain structurals. Mexico counted for nearly 18 percent of the total exports (measured in dollars) in 1990. Only Canada, with a 42 percent share, is a larger export market.
- o Imports from Mexico did not fill the current quota under the President's voluntary restraint agreement. Mexican steel products have been subject to a VRA since President Reagan's steel program was implemented in September, 1984. The agreement limits steel imports to 1.5 percent of the domestic market in 1991. The ceiling was approximately three-quarters filled in 1990. The VRA will expire in March 1992.

- o This could:
 - strengthen U.S. companies' competitive position vis-a-vis the East Asians;
 - increase sourcing from U.S. parts producers;
 - transfer jobs and wealth from the Far East to Mexican consumers, who buy more U.S. products than workers in the Far East.
- o A stringent rule of origin will ensure that Mexico is not used as an export platform to the United States by third-country producers.
- o U.S. parts producers, who now must manufacture under minority ownership provisions in Mexico, will have the opportunity to buy majority ownership or liquidate their Mexican operations and attempt to supply their customers from existing U.S. plants.

A NAFTA WOULD ENHANCE U.S. AUTOMOTIVE JOBS

- o Increase U.S. exports of parts and motor vehicles would enhance job opportunities in the United States.
- o An integrated North American motor vehicle market would increase U.S. vehicle manufacturers' overall competitiveness and thus job security.
- o A NAFTA would not pull jobs and investment from the United States because lower labor costs in Mexico are offset by costs associated with Mexico's underdeveloped infrastructure and relatively lower productivity. Furthermore, labor costs are a decreasing component of automotive manufacturing costs.

LABOR LAW AND PRACTICE ISSUES

MEXICAN LABOR LAW IS COMPREHENSIVE

- On a legal, statutory basis, Mexico's labor standards are for the most part comparable to those in the United States, Europe, and other industrialized countries.
- These rights and standards apply throughout Mexico, including maquiladora operations.
- In terms of the labor standards most frequently referred to, Mexico provides:
 - Freedom of Association and Right to Organize and Bargain Collectively: Article 123 of the Mexican constitution guarantees workers and employers the right to form unions and professional associations of their own choosing. Workers are protected against anti-union discrimination.
 - Mexican unions may freely form federations and belong to international associations.
 - Mexican workers have the right to strike.
 - Child Labor: Mexican law provides that children must be 14 to work, can only work a maximum of six hours/day and in non-hazardous jobs until sixteen--these laws are observed strictly in large and medium-sized firms.
 - Forced or Compulsory Labor: Mexico is a signatory to International Labor Organization (ILO) conventions prohibiting forced or compulsory labor and there have been no complaints of violations of these conventions for many years.
 - Health and Safety at the Work Place: Mexico has very detailed and comprehensive occupational safety and health regulations.
 - Most firms are legally required to set up plant-level health and safety monitoring bodies.
 - Mexico has ratified 67 ILO conventions dealing with worker health and safety standards.
 - Minimum Wage: The Constitution provides for a minimum daily wage, set by a tripartite body with labor representation. The current national average minimum is 10,786 pesos per day (about \$3.64). In the industrial areas of the north, the minimum wage is 11,900 (about \$4.20). In 1989, the average Mexican industrial worker received a wage equivalent to 4.5 times the minimum wage.

SOME MEXICAN LABOR STANDARDS EXCEED U.S. STANDARDS

- o The Mexican social security system, for example, provides medical and maternity care, pensions, and payment for temporary and permanent disability.
- o The Mexican social security system contains benefits which in the U.S. would be negotiated in collective bargaining agreements. Instead, the Mexican system serves as a guarantor of minimal benefits and protection for all wage earners, leaving it to management and trade unions to bargain about possible supplemental benefits.

ENFORCEMENT OF MEXICAN LABOR PRACTICES COULD BE IMPROVED

- o Safety and health enforcement strategies differ in the United States and Mexico.
 - Overall, the U.S. Occupational Safety and Health Administration (OSHA) places greater emphasis on targeting violators and assessing penalties, an approach that is designed to deter other employees from committing similar violations.
 - In Mexico, emphasis is placed on achieving compliance through negotiation and conciliation with employers.
 - Authority exists to impose sanctions--including fines and closure of plants--but these penalties are imposed only as a last result if all else fails.
- o In the twenty-two industry and service sectors subject to Federal jurisdiction, each workplace is legally required to set up a joint labor-management health and safety committee. These committees, which are the backbone of the Mexican safety and health enforcement system, perform several functions, including monthly worksite surveys, investigations of accidents and illnesses, and safety and health training.
- o The joint labor-management safety commissions tend to be most effective, and more easily established, in large firms which have stronger union representation. In practice, only about 20 percent of the workplaces covered by federal jurisdiction have formed such committees. Mexican officials are developing procedures to increase the number of safety and health committees.
- o In some cases, Mexican safety and health inspectors do not have adequate training in industrial hygiene. The U.S. is providing Mexico technical assistance in that area through our bilateral cooperation program on labor issue (see below).
- o Observers consistently report that firms in Mexico's export sector frequently exceed existing standards. This is

particularly true of maquiladora plants, which compete for both skilled and unskilled workers through fringe benefit packages.

DIALOGUE WITH MEXICO ON LABOR ISSUES

- o On May 3, Secretary of Labor Lynn Martin and her counterpart, Mexican Secretary of Labor and Social Welfare Arsenio Farell Cubillas, signed a Memorandum of Understanding (MOU) calling for cooperative activities in various areas such as occupational safety and health measures; general working conditions, including labor standards and their enforcement; labor statistics; and resolution of labor conflicts.
- o Activities in the critical areas of child labor and occupational safety and health have received priority attention. A high level meeting of child labor enforcement officials was held in May and a joint study of child labor is underway. A joint tripartite conference on a high hazard industry (iron and steel) is scheduled for early December in Mexico City.
- o On September 9, representatives of the Mexican Department of Labor and Social Welfare (STPS) and the U.S. Department of Labor concluded the first formal meeting of the labor working group under the auspices of the U.S.-Mexico Binational Commission. At the meeting, agreement was reached to expand cooperative activities into two new areas--the informal sector and basic worker rights, such as the right to organize and bargain collectively and freedom of association.

PROGRAMS TO ASSIST DISLOCATED WORKERS

A free trade agreement with Mexico will benefit the U.S. economy and increase access to an expanding market for U.S. manufacturing goods. Under Mexico's trade liberalization program, U.S. exports of labor-intensive manufactures, like steel and textiles, have increased. While concerns have been expressed about the loss of U.S. jobs, recent studies are demonstrating that an FTA with Mexico is likely to have a positive net effect on U.S. manufacturing employment and that any worker dislocation is unlikely to be substantial. These analyses suggest that concerns about employment losses are exaggerated.

Nonetheless, there is an obvious need to assist any dislocated workers who may have difficulty returning successfully to employment. Effective programs are in place to address this need, should dislocations occur.

EDWAA -- A FLEXIBLE PROGRAM FOR ALL DISPLACED WORKERS

There are currently two major programs for assisting workers who lose their jobs:

- o The Unemployment Insurance (UI) system which provides at least 26 weeks of wage replacement to eligible workers, and
- o The Economic Dislocation and Worker Adjustment Assistance Act (EDWAA--Title III of JTPA) a flexible, comprehensive program for all dislocated workers whose job loss (for any reason) means they are unlikely to return to their previous industries or occupations.

EDWAA was crafted with broad bipartisan Congressional and Administration support as the program of choice for assisting dislocated workers now and in the future.

- o It was enacted in 1988 when the Omnibus Trade and Competitiveness Act amended Title III of JTPA,
- o It has been successfully applied to such major industries as auto, timber, electronics, copper, food processing, aerospace, defense, and steel.

Funding has nearly doubled in the last two years. Program year (PY) 1989 funding was \$284 million; in PY 1991, this was increased to \$527 million. EDWAA uses a local delivery system to meet the unique needs of different states and communities:

- o Eighty percent of total funds are allocated to every State and sub-state area. Funds are thus immediately available to assist workers in every State, county, and Congressional District.

- o Twenty percent of funds are retained for discretionary use by the Secretary of Labor to assist workers affected by multi-state or industry-wide dislocations and for areas of special need.

EDWAA is a highly flexible, comprehensive system. Eligibility is broad-based, easy to determine and covers:

- o All workers who have been terminated or laid off from their job (or have received notice) for any reason, who are unlikely to return to their previous industry or occupation. Any worker in any company/industry is eligible without need of time-consuming certifications.

EDWAA offers a comprehensive set of flexible services including:

- o Rapid Response: on-site rapid response to plant closing and mass layoffs.
- o Basic Adjustment Services: outreach and intake, development of individual readjustment plans, labor market information, job development, job search and placement, supportive services relocation assistance and pre-dislocation readjustment programs.
- o Retraining Services: includes classroom, occupational skills, and/or on-the-job training, basic and remedial education, and entrepreneurial training.
- o Needs Related Payments: because services are provided so rapidly under EDWAA, many workers are able to complete training before exhausting UI benefits. However, dislocated workers who have exhausted UI may receive needs-related payments to help complete training if they were enrolled in training by the 13th week of their initial UI benefit period.

The program has been highly successful since its inception. Over the past three years it has served over 700,000 workers. Fully 66 percent of participants served were placed in jobs identified by the local business community, at an average wage of \$7.50 per hour. The cost per individual served is approximately \$1,200.

TRADE ADJUSTMENT ASSISTANCE--COSTLY, NARROW, ENTITLEMENT

Trade Adjustment Assistance (TAA) is much less effective at meeting the needs of displaced workers:

- o It is considerably more costly than EDWAA and results in significantly lower placement rates.

- Under TAA, average cost per participant estimated as approximately \$7,000. This compares to \$1,200 for EDWAA training.
 - This difference occurs largely because TAA workers often do not enter training until well after their dislocation and UI benefits are ending. This often leads to unsuccessful training and a much lower success rate in obtaining employment.
 - In contrast, under EDWAA workers enter training to get retrained and much earlier after their dislocation, while UI benefit eligibility remains substantial.
 - As a result, 32 percent of TAA-assisted workers obtained jobs, compared to 66 percent under EDWAA.
- c TAA requires a time-consuming, complex investigation/certification process to determine a select group of workers eligible for program benefits.
- TAA benefits are available only to displaced workers in companies where increased imports contributed importantly to decreased sales or production;
 - Unlike EDWAA, where workers can get benefits even before plants close, the TAA certification process can only begin after plant closing or job loss occurs and takes about two more months to complete; and
 - TAA results in inequities by discriminating among workers doing similar tasks in the same plant and by excluding entirely secondary and tertiary workers.
- o In short, TAA is a costly entitlement program which, by targeting only a narrow group of workers, is considerably less effective in addressing worker dislocation.

MEXICO'S ANTI-NARCOTICS EFFORTS

MEXICO IS COMMITTED TO THE WAR ON DRUGS

- o President Salinas, recognizing that illegal narcotics pose a national security and public health threat to his own people as well as those of the United States, has committed his government to an aggressive campaign against drugs.
- o Salinas instructed his Attorney General to ensure that counter-narcotics operations are conducted with respect for human rights and the law.
 - New Attorney General Ignacio Morales Lechuga has moved to root out corruption, end human rights abuses, improve efficiency, and increase the professionalization of the federal police.
 - We would hope to see continued progress in the reduction of human rights violations and corruption.

MEXICO TAKES THE INITIATIVE

- o In 1991 Mexico took unprecedented steps to further the effectiveness of the war on drugs, including passage of new drug laws with stiffer penalties for traffickers and corrupt officials.
- o More than five hundred government employees, including several high-ranking officials, have been removed from office for corruption.
- o Major trafficking figures, previously believed above the law, were arrested, convicted and jailed.
 - Rafael Caro Quintero, implicated in the murder of DEA agent Enrique Camarena, remains imprisoned after a Mexican court upheld his conviction on other criminal charges.

OPERATION HALCON

- o Under the rubric of Operation Halcon, Mexico initiated the Northern Border Response Force, an elite rapid response force which uses helicopters and sophisticated aircraft acquired from the United States and seized from traffickers during interdiction operations.
- o Operation Halcon has become an effective deterrent to cocaine smugglers.
 - Since April 1990, Operation Halcon has seized over 36 tons of cocaine having a U.S. street value well over one billion dollars.

- o More one hundred Mexican police officers and military personnel have lost their lives in the fight against drugs.

THE UNITED STATES AND MEXICO: WORKING TOGETHER TO CONTROL DRUGS

- o Although marijuana and opium production and cocaine transshipment remain a major concern, cooperation between the United States and Mexico has improved significantly in the last year.

- The U.S. and Mexico have signed a Mutual Legal Assistance Treaty and formed a Mixed Permanent Commission on Drug Abuse, greatly enhancing antinarcotics coordination.

COOPERATION BRINGS RESULTS

- o Under Salinas the Attorney General's Office (PGR) has seized:
 - 135 tons of cocaine
 - 513 kilograms of heroin
 - 1,467 kilograms of marijuana
 - 172 aircraft, 34 boats
 - 9,884 vehicles
 - 9,688 firearms of various calibers
 - The PGR has arrested 44,672 drug suspects, and destroyed 56 heroin labs.
 - More than 1,000 clandestine strips have been destroyed.
- o Concrete steps to improve eradication programs produced a major reduction in marijuana production, and increased opium eradication.
- o While more can be done, the United States and Mexico have forged an effective partnership that has produced concrete results in the war on drugs.

IMMIGRATION

- o U.S. immigration interests with Mexico are facilitation of legitimate cross-border traffic for trade and other interchange, and control of illegal migration.
 - The North American Free Trade Agreement (NAFTA) will not substantially affect U.S. immigration law.
 - However, improvements in the Mexican economy from NAFTA should reduce the impetus for illegal migration of Mexican workers seeking employment opportunities in the United States and stimulate legal border traffic.

Illegal Immigration

- o The resident illegal population in the U.S. is estimated to be between 1.5 and 3 million. Mexican nationals constitute about 90 percent of the resident and nearly 100 percent of the seasonal illegal populations.
 - In 1991, there will be an estimated 1.1 million apprehensions for illegal entry along the U.S. southern border, up from a recent low of 900,000 in 1989 after the enactment of employer sanctions.
 - Mexicans account for 90 percent of these apprehensions.
- o The Commission for the Study of International Migration and Cooperative Economic Development reported to Congress and the President in 1990 that economic growth in the home countries of migrants is the single most important long-term remedy to the problem of unauthorized migration to the United States.
 - Lack of jobs in Mexico and the availability of jobs in the US at better wages will continue to be the greatest inducements for undocumented migration into the US.
- o NAFTA, by stimulating economic growth in both countries, will make it easier for the Mexican economy to absorb new entrants to its labor market and will improve the opportunities available to all Mexican workers at home.
 - A February 1991 study by the International Trade Commission states that a free trade agreement would likely decrease slightly the economic disparity between the U.S. and Mexico, diminishing the incentive for migration from Mexico to the United States.

Facilitation of Legal Cross-border Traffic

- o The United States has agreed with Mexico that labor mobility and U.S. immigration laws are not on the table in NAFTA talks, with the possible exception of a narrow provision facilitating temporary entry of certain professionals and managers.
 - A subgroup of the Services Principles Negotiating Group has been formed to discuss the issue of temporary entry.
- o U.S. immigration law requires that every Mexican citizen wishing to visit the U.S. have a visa or border crossing card.
- o In fiscal 1990, over one million applications for nonimmigrant visas were received by the U.S. Embassy and consulates in Mexico, the great bulk of which were for tourist visas.
 - NAFTA is expected to stimulate the demand for tourist and business travel to the United States at the same time it reduces illegal migration.
- o Increases in travel between the United States and Mexico will mean additional work loads at U.S. Consulates in Mexico and at ports of entry along the border.

BORDER VIOLENCE

SHARED CONCERNS OVER VIOLENCE

- o Both the U.S. and Mexico have expressed serious concern about acts of violence directed at Mexican citizens crossing the border as well as violence which is directed against U.S. citizens in Mexico.
- o This problem is a long-standing one and should be kept in perspective as the vast majority of border crossings and the vast majority of U.S. tourist visits to Mexico are safe. The proper treatment of citizens in each country is a question of reciprocal interest, and mutual consultation.
- o Both Governments want to control the criminal elements on either side of the border which contribute to the border violence problem.

PRESIDENTS TAKE LEAD IN SEEKING SOLUTIONS

- o During their summit meeting in Monterrey, Mexico in November 1990, Presidents Bush and Salinas directed their respective officials to develop recommendations and mechanisms to deal with the problem of border violence.
- o Following these instructions Mexico's Undersecretary for Foreign Relations, Sergio Gonzalez Galvez, led a delegation of Mexican Officials to Washington on October 25, for a full day of talks on border violence. That meeting resulted in the following actions:
 - Special coordinators for border violence issues in the US Department of Justice and the Mexican Foreign Ministry were appointed. The coordinators will begin meeting soon to consider the proposals made at the October meeting.
 - The Government of Mexico offered to host a follow-up to the October 25, meeting. This meeting will be held in Monterrey, Mexico, sometime within the next few months.

COOPERATIVE RESPONSE TO THE PROBLEM

- o Although incidents still occur, joint U.S.-Mexican efforts - especially at the state and local level - are having positive results. The level of border violence decreased during the past twelve months.

- o The US Border Patrol, in cooperation with military reserve units, is repairing and replacing dilapidated fencing along the border near San Diego. This, along with the installation of powerful floodlights, has contributed to the decline in violent incidents.
- o In addition, the Border Patrol continues to review its training and field tactics to determine in an effort to reduce or eliminate injury or deaths along the border.
- o Mexican law enforcement agencies established a special force - called "Grupo Beta" - for dealing with crimes along the border. US law enforcement authorities give Grupo Beta high marks for its success.
- o The Mexican Government has also indicated that its newly established National Commission on Human Rights will look into complaints of abuse of U.S. citizens or mistreatment of prisoners made by the United States.

TEXTILES AND APPAREL IN A NORTH AMERICAN FREE TRADE AGREEMENT

THE TEXTILE AND APPAREL SECTOR CAN GAIN FROM A NAFTA

- o We are exporting apparel fully made in the United States to Mexico (as well as yarns, fabrics and household furnishings such as carpeting). In fact, we had a bilateral trade surplus for the second year in a row in textiles and apparel. For 1990, U.S. exports were nearly \$1 billion and our trade surplus amounted to \$16 million. We expect this trend to improve as trade barriers come down.
- o Imports of apparel from Mexico will continue to be an important source for our apparel industry. This trend, along with co-production arrangements, i.e., apparel assembled in maquiladora operations from American fabrics, will be key to the long run competitiveness of our apparel industry.
- o As Mexico's largest trading partner, we have been a major beneficiary of their recent trade liberalization measures. Our exports of textiles and apparel have increased at an average annual rate of 25 percent from 1986 -- when Mexico became a member of the GATT -- to 1990. The textile mill sector, which employs 700,000 workers in the United States, has played a significant part in this growth. This is just an indication of the potential gains from a NAFTA.
- o Mutually beneficial trade under a NAFTA will depend on a number of critical issues such as rules of origin, improving the conditions for market access in Mexico and the timing of the phase-out of tariffs and quotas.

UNITED STATES OBJECTIVES IN THE NAFTA

The U. S. will seek to eliminate trade distorting practices in textile and apparel trade. Specifically, we will seek to:

- o Promote U.S. exports by eliminating Mexican tariffs and non-tariff barriers;
- o Phase out U.S. quotas and tariffs gradually over a sufficient transition period;
- o Work with Rules of Origin group on establishment of rules of origin that insure that NAFTA benefits accrue principally to NAFTA partners;
- o Create effective methods to prevent illegal transshipment and fraud; and
- o Negotiate a transition period so that U.S. companies and workers will have time to adjust.

MEXICO'S ECONOMIC REFORMS

TRANSFORMATION OF THE ECONOMY

- o Under the direction of Presidents de la Madrid and Salinas, Mexico has instituted far-reaching economic reforms based on fiscal discipline, trade liberalization, deregulation, and privatization.
 - Mexico now ranks as one of the world's more open, outward-looking and market-oriented countries.
 - Protectionist barriers are disappearing, and Mexico's participation in the North American Free Trade Agreement will complement its commitment to liberalized trade embodied in its 1986 GATT accession.
- o More than 25 different areas of the Mexican economy have been deregulated or are currently being reviewed for deregulation.
 - For example, Mexico has deregulated trucking; rates have dropped by an average of 25% (some by 50%). The liberalizing effect of new trucking rules on the maquiladora industry is likely to reduce costs and improve economies of scale.
 - Financial services, transport, and communications have also been deregulated.
- o In a sweeping privatization process expected to be completed by 1992, the Mexicans have been withdrawing or dramatically scaling down its presence in a wide variety of sectors, including airlines, steel, drugs, chemicals, mining, food processing, and construction materials.
 - Recent highly successful sales included the telecommunications monopoly TELMEX, sold to a consortium of Mexican and foreign firms, including Southwestern Bell, and 9 of the 18 commercial banks nationalized in 1982. The major divestitures planned for 1992 include steel interests and the remaining commercial banks.
 - In 1982, the Mexican Government owned 1,155 entities. By late 1991, that had declined to 269. Government ownership and control is expected to continue in such sectors as petroleum, electricity and railroads, although private sector involvement in various ways is increasing.

- Government expenditures as a percentage of GNP --
another measure of the size of the state sector --
dropped from 50% in 1982 to 28% in 1990.

GREATLY REDUCED IMPORT BARRIERS

- o Mexico has reduced its maximum applied tariff from a level of 100% in 1986 to a current level of 20% or less. The trade-weighted average Mexican tariff is now only about 10%.
- o Since acceding to the GATT, Mexico has moved from an extremely restrictive import regime in which some 4,500 import classifications were subject to an import permit, to an open system in which import licenses are required for only about 211 products, primarily affecting agricultural products.
- o Mexico is reforming its customs service in a serious effort to improve the technical competence and professional integrity of its customs officials. While problems remain, they have made impressive progress.
- o The changes in Mexico's tariff laws has allowed our trade with Mexico, our third leading trade partner, to grow substantially. Our exports to this fast growing market more than doubling in the past 4 years. We supply almost 70% of Mexico's imports; of every dollar of additional growth in Mexico, 15 cents is spent on U.S. goods.
- o Mexico signed an FTA with Chile in September. This is strong evidence of Mexico's commitment to trade liberalism and willingness to move to a free trade agreement with the U.S. and other countries.

IMPROVED ACCESS FOR FOREIGN INVESTORS

- o In May 1989, Mexico made substantial reforms to its rules governing foreign investment, providing for greater transparency, increased foreign participation, and greater efficiency in the application process.
- o The new regulations broadened the range of economic sectors expressly open to 100% foreign ownership (e.g., glass, cement, iron, steel, and cellulose).
- o In an effort to deregulate the petrochemical industry and provide greater opportunities for private investment, Mexico announced on August 14, 1989, that it would permit foreign ownership of up to 40% of companies manufacturing secondary petrochemicals.

- o Allowable foreign investment in Mexican insurance firms has been raised from 15 to 49%. In 1989 and 1990, new regulations opened Mexican financial intermediaries to limited foreign participation.
- o Under certain conditions, foreign investors may obtain up to 49% ownership of most financial intermediaries. Banks and stock brokerages are exceptions (30% limit on total foreign participation).
- o A 1989 decree established a single a single government contact point for negotiations with potential maquiladora investors and extended indefinitely the term for maquiladora licenses (previously limited to 2 years).

REDUCTION AND MANAGEMENT OF DEBT

- o In 1989, Mexico reached agreements for large new loans from the IMF and World Bank and for debt rescheduling in the Paris Club.
- o In 1990, the Mexican government signed an agreement for debt reduction and new money from commercial banks.
- o As a result of these agreements, the Mexican government estimates that net external financial transfers will fall from an average of 5.75% of GDP during 1982-88 to an average of 2.43% of GDP, or by \$4 billion annually.
- o Mexico's external debt, \$103 billion in 1991, fell as a ratio to GDP from 74 % in 1987 to an expected 38 % in 1991.
- o One of the major benefits in 1991 of the 1990 debt agreement, besides its direct impact on the balance of payments, has been greater confidence in Mexico among investors and creditors, which has resulted in large capital inflows and the reopening of international credit markets to Mexican borrowers at progressively more favorable terms.

REFORMS MEAN STRONGER ECONOMY WITH GOOD GROWTH PROSPECTS

- o The Mexican gross domestic product (GDP) is expected to grow 4.5% in 1991, the highest rate in ten years--as compared to 3.9% in 1990 and 3.1% in 1989. President Salinas attributes this growth to policies of sound monetary policy, strict control of public spending, a competitive tax system, debt reduction, deregulation of trade, extensive structural reforms, and the promotion of investments and exports. Increased business confidence has spurred the return of flight capital.

o Rapid growth and investment will also lead to a large increase in Mexican imports, most of which come from the United States. The Mexicans have run a larger trade deficit in 1991, supported by capital inflows. For the first 8 months of 1991, the U.S. has had a trade surplus with Mexico of \$1.2 billion compared to a deficit of \$1 billion in the first 8 months of 1990.

- o Since the May 1989 decree liberalizing foreign investment, new foreign investment totaling \$3.5 billion has been approved. The investment growth rate in recent years has been three times that of the economy as a whole, registering more than 12% annually.
- o Inflation has reached a 16-year low, from 159% in 1987, to 30% for 1990, to about 17% expected in 1991, due to a multi-year economic stabilization pact, sound monetary policies and tight fiscal policies.
- o The Mexican Government budget deficit has fallen (16% of GDP in 1987; under 2% expected in 1991) thanks to strict fiscal discipline, increasing tax revenue collection, and privatization.

POLITICAL REFORMS UNDER SALINAS

- o In concert with his widely acclaimed economic program, President Salinas has launched a number of key political reforms. Economic development and modernization support these reforms and encourage greater political participation by creating incentives for increasingly larger segments of the population to be actively engaged in political issues.
- o President Salinas' reforms - aimed at guaranteeing clean elections and wider voter registration - have bolstered the credibility of the political process and strengthened the position of his party, the PRI.
 - In a sweeping victory in the August mid-term elections, the PRI received more than sixty-one percent of the total national vote. The voter turnout - about 65 per cent - was exceptionally high.
 - The PRI won 290 of the 300 federal deputy races, 31 of 32 contested senate seats and four of six governorships in the August 18 midterm elections.
 - The National Action Party (PAN) lost ground, winning only a few important seats, including one senate seat, and only 10 deputy seats nationwide by majority vote.
 - The senate seat in Baja California was a first for the PAN, and reflects that party's strength in the state where in 1988 it won its first governorship.
 - The Party of the Democratic Revolution (PRD), led by Cuauhtemoc Cardenas, did not win any directly-elected federal deputy seats, and lost two senate seats.
- o President Salinas and PRI president Luis Donaldo Colosio issued strict instructions to party members and candidates that the 1991 elections should be clean and the voters will should be respected.
 - Opinion and exit polls conducted by reputable U.S. firms mirrored the official results, particularly in the Federal District, where the PRI made its strongest comeback.
 - Credible opposition claims of irregularities surfaced in two state gubernatorial elections and several mayoral races.
 - In the case of two contested gubernatorial elections in the states of Guanajuato and San Luis Potosi, Salinas used political clout and the moral suasion of the Presidency to encourage the replacement of the PRI candidates, whose victories were challenged, with interim governors.

- In Guanajuato a popular PAN mayor was chosen to serve as interim governor; in San Luis Potosi, where opposition leaders acknowledged that even though fraud had occurred, the PRI candidate would have legitimately won the election, a PRI interim governor was named and new elections were scheduled for April 1993.

The victory of the PRI in the 1991 elections contrasted with the 1988 elections where the opposition, profiting from widespread public discontent with the economy and perceptions of corruption, made significant gains.

- o With his personal popularity reaching unprecedented levels and his mandate for reform strengthened by the August 18 results, Salinas wants to maintain a "national dialogue" with a credible, democratic opposition.

In his November "State of the Nation" address Salinas announced his intention to adopt further reform measures to guarantee clean elections, such as improved voter credentials, and better vote-counting and registration procedures.

- o Conclusion of the NAFTA is a key part of President Salinas' reform efforts. The NAFTA will not only consolidate economic reform but is likely to reinforce and stimulate the process of political and social change. Throughout the world, market liberalization and democratic development have often gone hand in hand, mutually reinforcing each other.

HUMAN RIGHTS

- o Human rights abuse, particularly involving the police, has traditionally been a problem in Mexico, and after 1988 began to draw increasing criticism from human rights organizations such as Amnesty International and Americas Watch.
 - Both Amnesty International (AI) and Americas Watch (AW) issued reports in 1991 which were critical of human rights practices in Mexico, and alleged that torture was practiced with impunity.
 - The AI and AW reports drew heavily on old cases that had either been resolved or previously investigated by the Mexican government.
 - In spite of the critical tone adopted by AI and AW, President Salinas thanked both organizations during his November 1991 State of the Nation address for their contributions.
 - In fact, Salinas had already taken many concrete steps to address the complaints raised by the two organizations.
 - Salinas' Attorney General also admitted that torture had been employed in the past but stated emphatically there would be no impunity for coercion or torture, present, past, or future.
- o Under President Salinas' strong leadership, Mexico has made significant progress in protecting human rights by developing institutions and new laws designed to protect individuals and taking specific steps to reduce instances of torture and extrajudicial killings.
 - In 1991 Salinas appointed a new Attorney General who has aggressively investigated and prosecuted cases of official abuse, torture, forced confessions and corruption.
 - The President and the Attorney General have publicly stated that official impunity will not be permitted, and human rights violators and corrupt officials will be prosecuted.

National Commission on Human Rights

- o To promote human rights reform, Salinas established the National Commission on Human Rights (CNDH) in May 1990.
- o The politically-independent Commission, headed by respected jurist Jorge Carpizo, has received wide support for its work in identifying and correcting human rights violations.

- o The Commission's efforts have been applauded by human rights organizations and international jurists.
 - President Salinas announced his intention to amend the constitution in order to make the CNDH an **independent** entity with its own budget authority.
 - Mexican human rights activists and the political opposition applaud this approach which removes the CNDH from the control of the Secretariat of Government.
- o The CNDH has conducted special investigations on disappearances, attacks on journalists and prison reform, among others.
 - It also helped push through a key change in the Federal rules of evidence that makes confessions inadmissible unless both a judge or prosecutor and a representative of the accused are present during interrogation.
- o Perhaps the CNDH's greatest contribution over the year has been the significant strides it has made, with full Presidential support in changing what Dr. Carpizo and other human rights activists call the "culture of human rights abuse" and in breaking the shield of impunity that has surrounded abusers.

Curbing Abuse

- o In October 1990, Salinas announced a twelve-point plan to curb torture and ensure that the Mexican police respect human rights in their treatment of detainees. Since that time, violations have dropped significantly.
- o A large number of cases of alleged abuse involved the anti-narcotics police forces. Many of those officials involved in human rights abuses have been arrested or dismissed.
 - Criminal attorneys report a decline in pretrial torture because of the change in the admissibility of confessions and the fact charges of torture are being brought against police.
 - Our consulates report a downturn of more than thirty percent in reports of abuse of U.S. citizens arrested in Mexico this year.
 - In September 1990, Dr. Carpizo announced that seventy seven public servants have been sanctioned as a result of CNDH recommendations: Penal action has been taken against thirty eight; eighteen have been dismissed and 21 have been suspended from their jobs.