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Fast Track Memos [1]

Stack:	Row:	Section:	Shelf:	Position:
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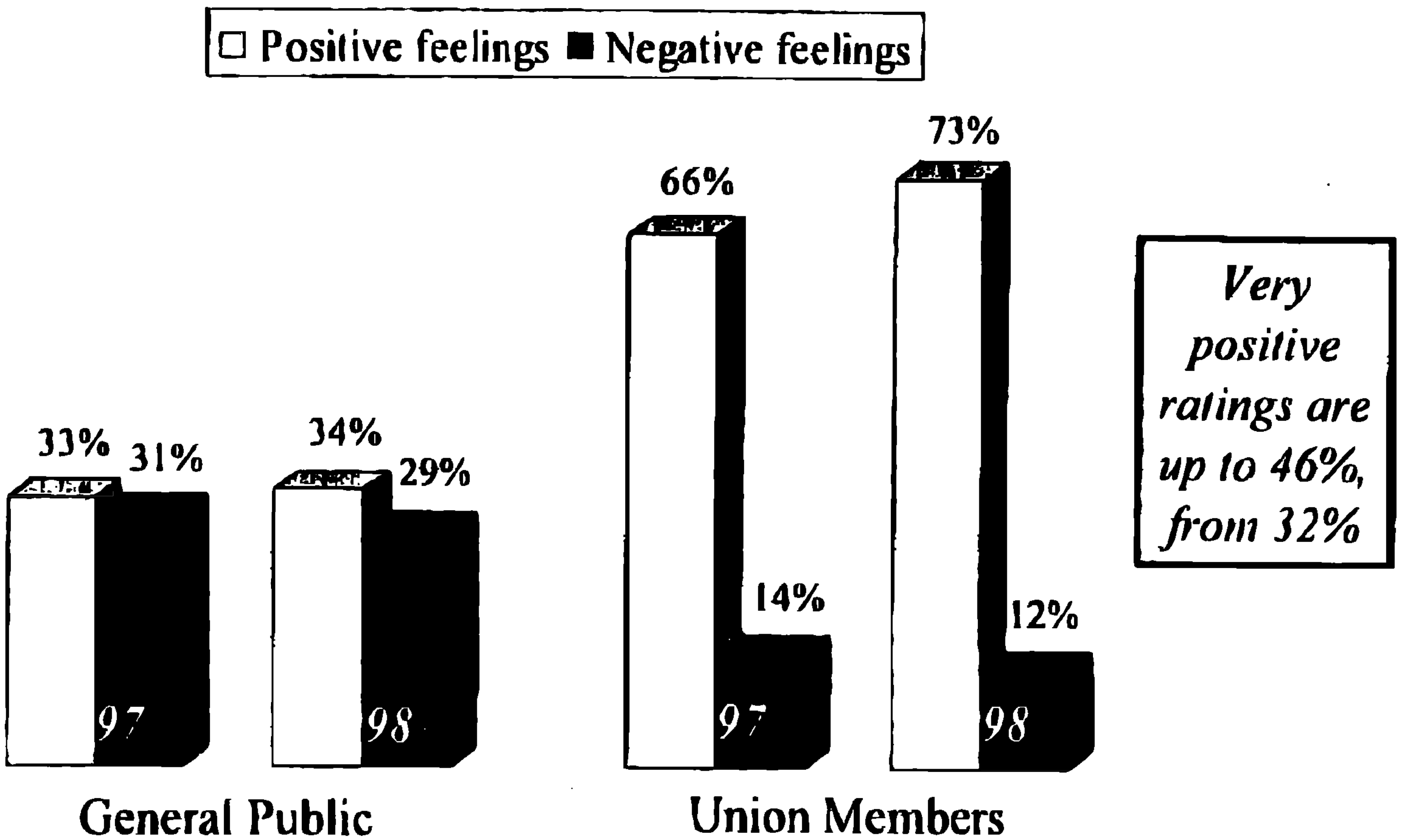
Peter D. Hart Research Associates

Americans' Views On Key National Issues

Nationwide survey among 1,002 general public and 622 union members
January 7-11, 1998

Conducted on behalf of the AFL-CIO

Support For Unions Steady Among Public, Up Among Members



Americans' Views on Issues/Peter D. Hart Research

Americans Want Higher Standards Of Corporate Responsibility

- **By 50% to 32%, Americans favor new laws to hold corporations to a higher standard of responsibility in treatment of employees, "even if government involvement would hurt business competitiveness and cost jobs in the long run."**

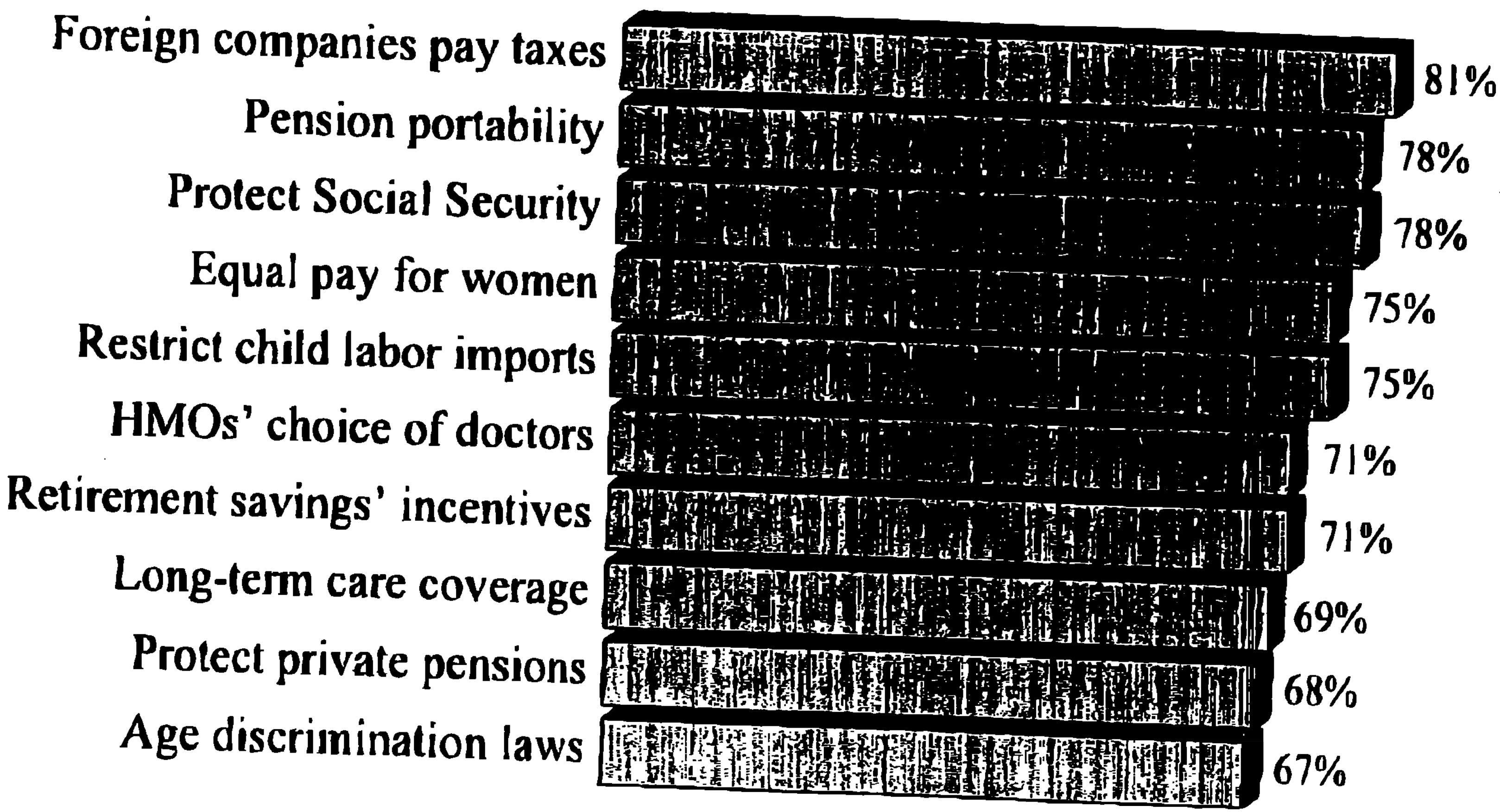
- 82% favor requiring companies with more than 50 employees to provide basic pension benefits (63% strongly favor).

- 81% favor requiring companies with more than 50 employees to provide health benefits and to pay most of the premiums (60% strongly favor).

Americans' Views on Issues/Peter D. Hart Research

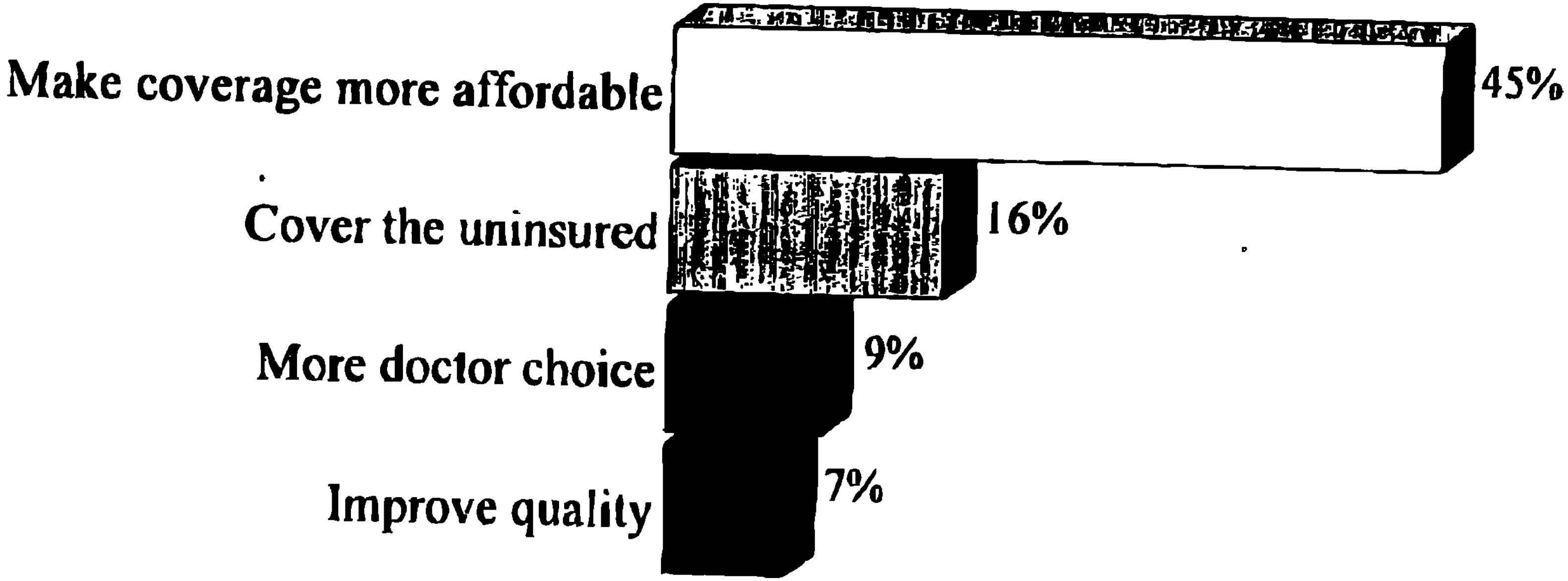
Americans' Top Ten Policy List

(% who strongly support each proposal)



Americans' Views on Issues/Peter D. Hart Research

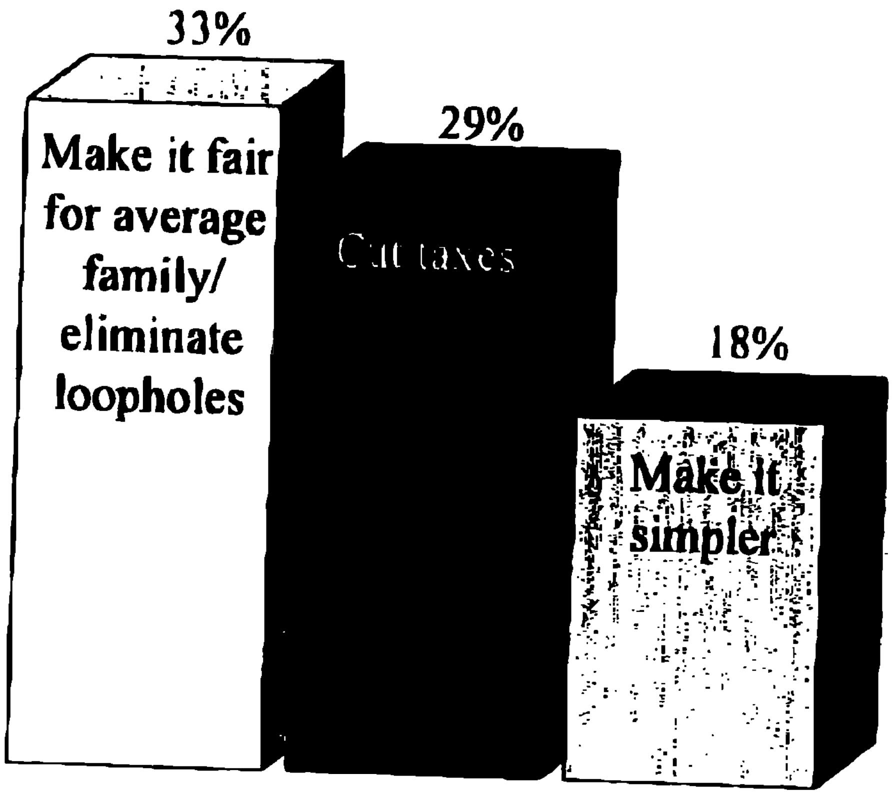
Affordable Coverage Is Top Health Care Priority



Americans' Views on Issues/Peter D. Hart Research

Fairness Is Public's Biggest Tax Priority

Most Important Goal for Income Tax System:

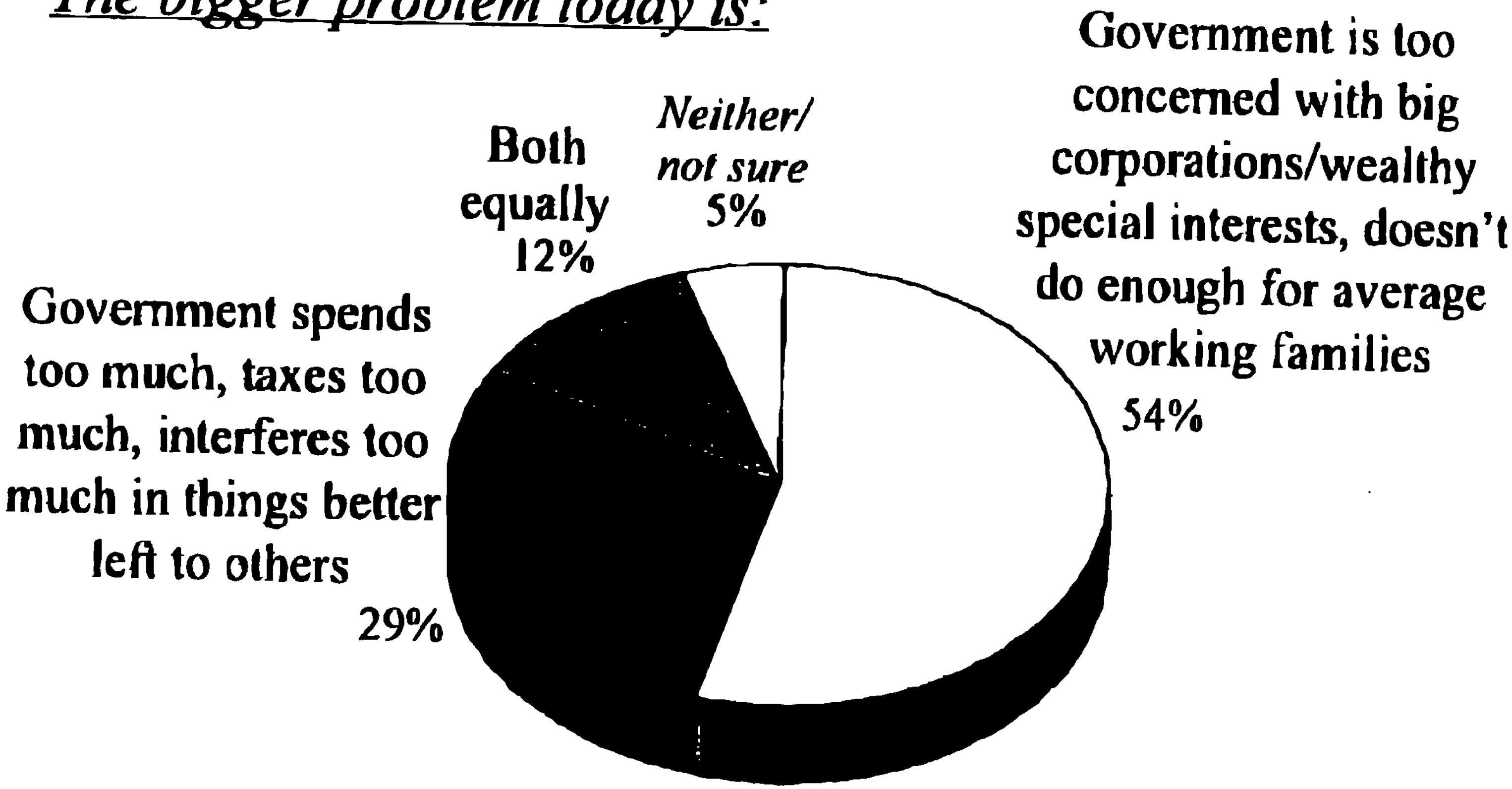


** Cutting taxes is low priority for budget surplus, behind investing in trust funds and paying down debt.*

Americans' Views on Issues/Peter D. Hart Research

How To Fix Government: Put Working Families First

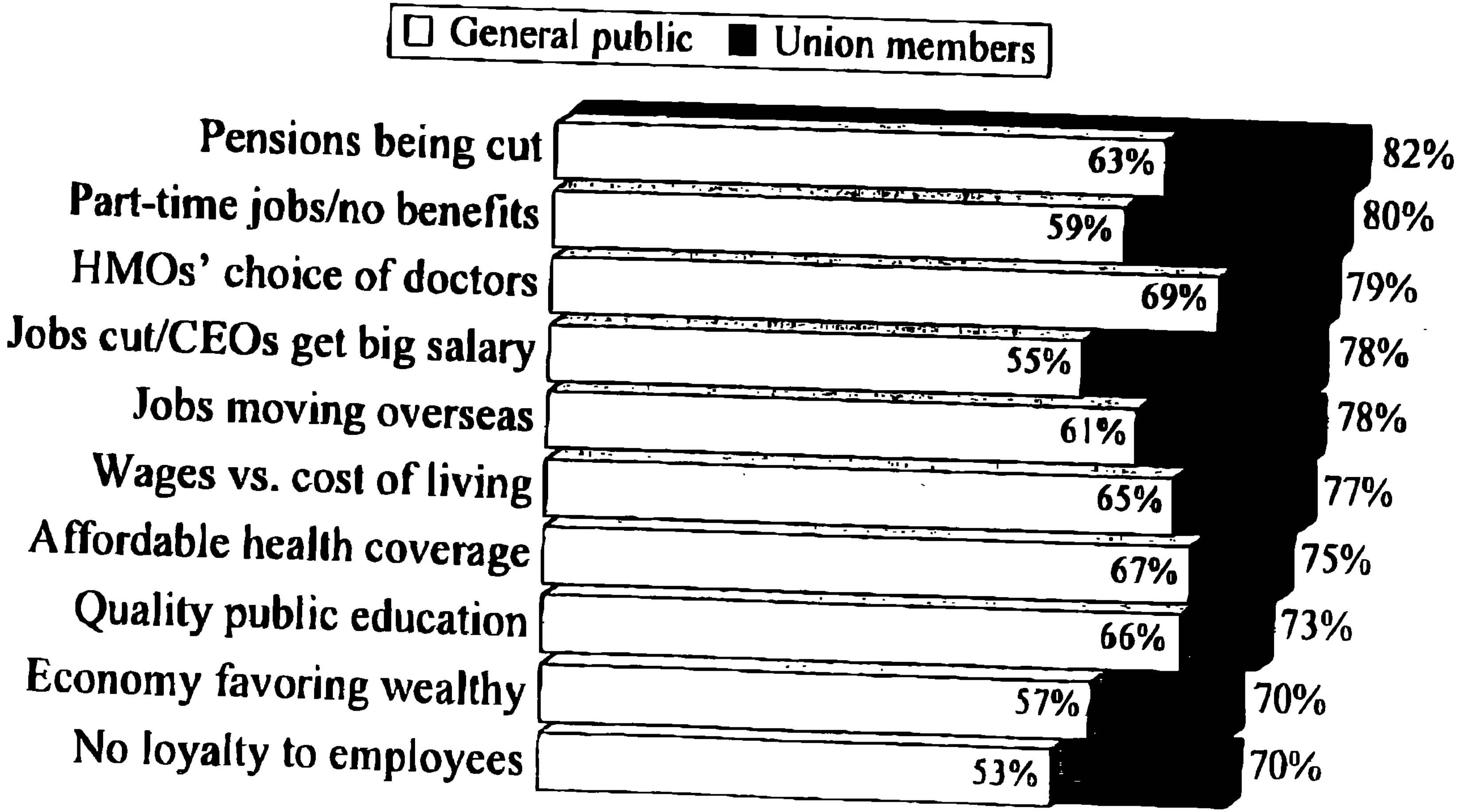
The bigger problem today is:



Americans' Views on Issues/Peter D. Hart Research

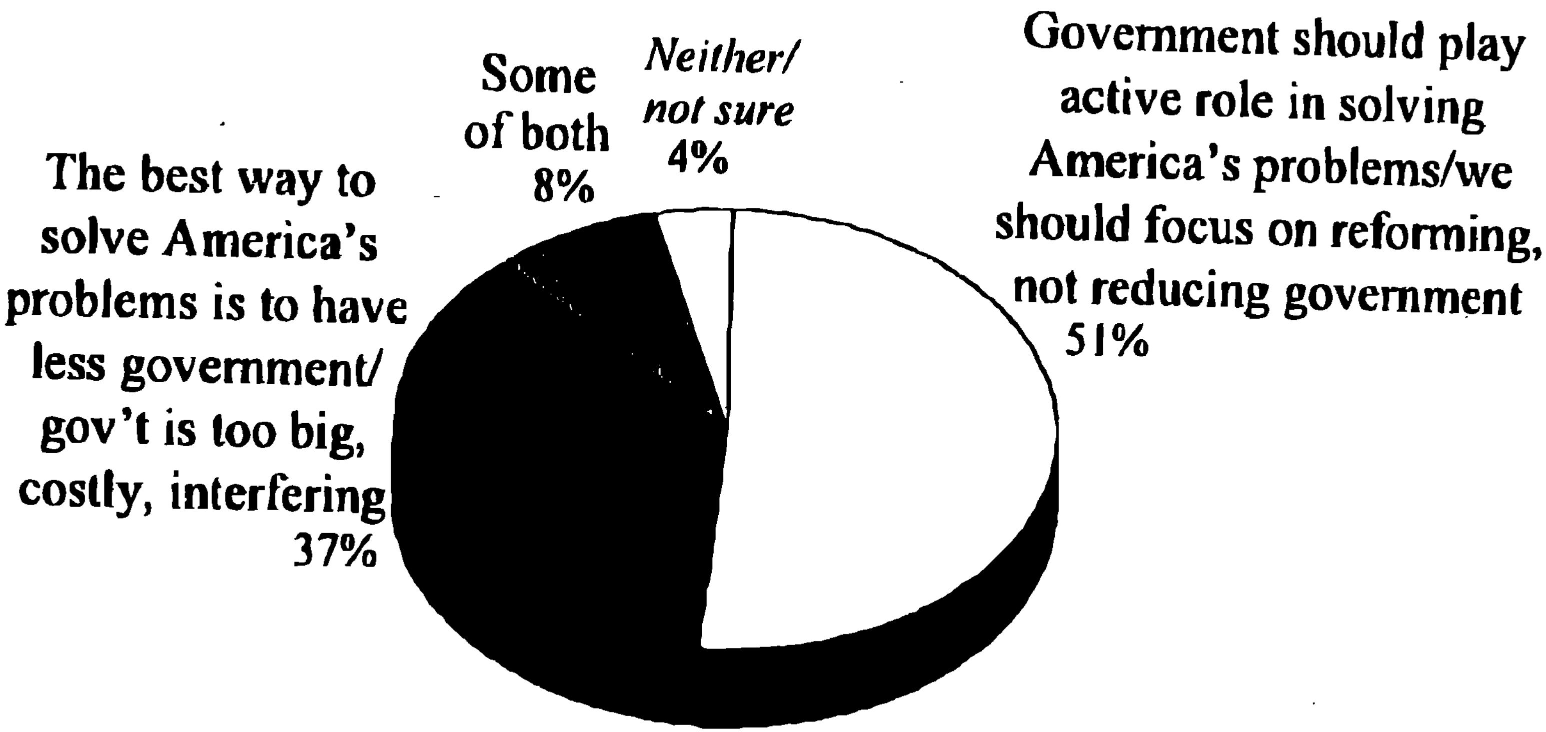
Top Public Concerns: Health Care, Education, Wages, Pensions

(% saying each is serious problem: 8-10 on 10-point scale)



Americans' Views on Issues/Peter D. Hart Research

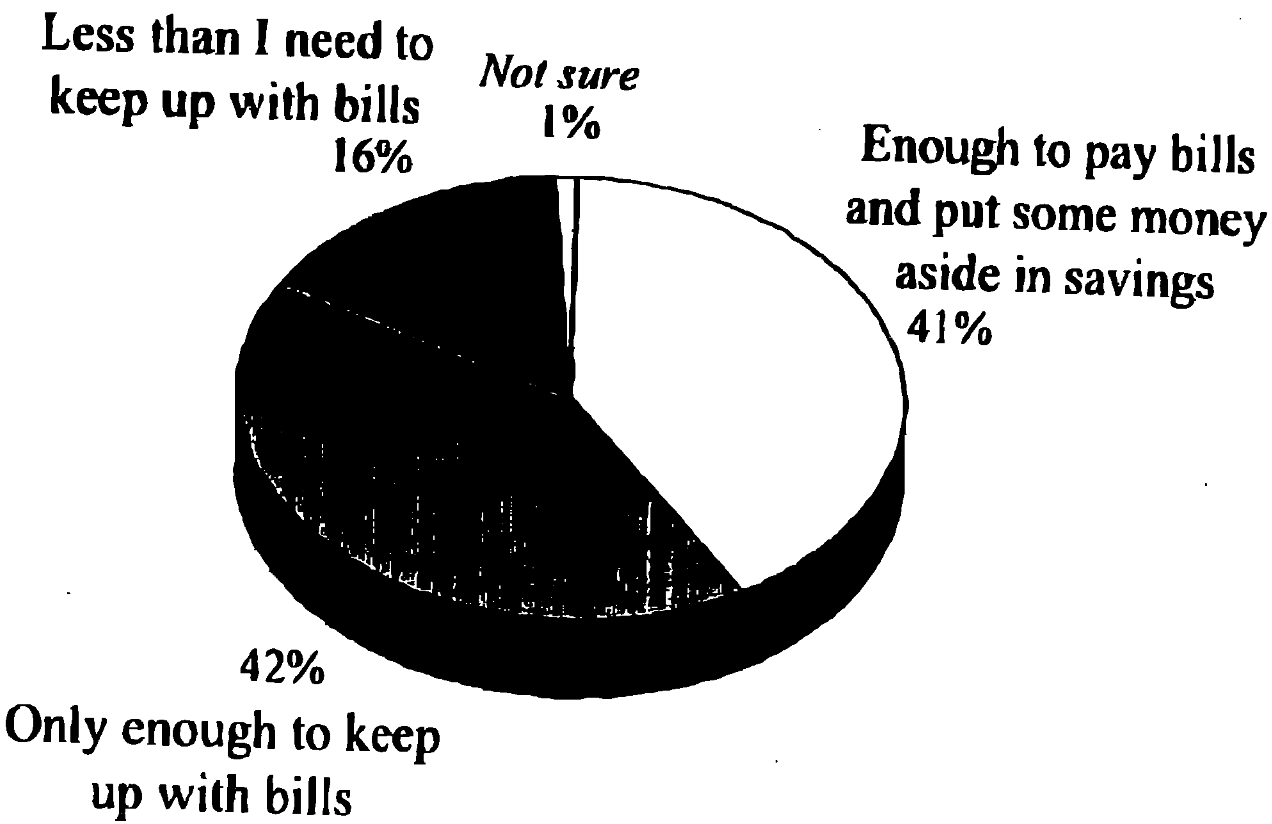
Public Believes Government Has Role To Play



Americans' Views on Issues/Peter D. Hart Research

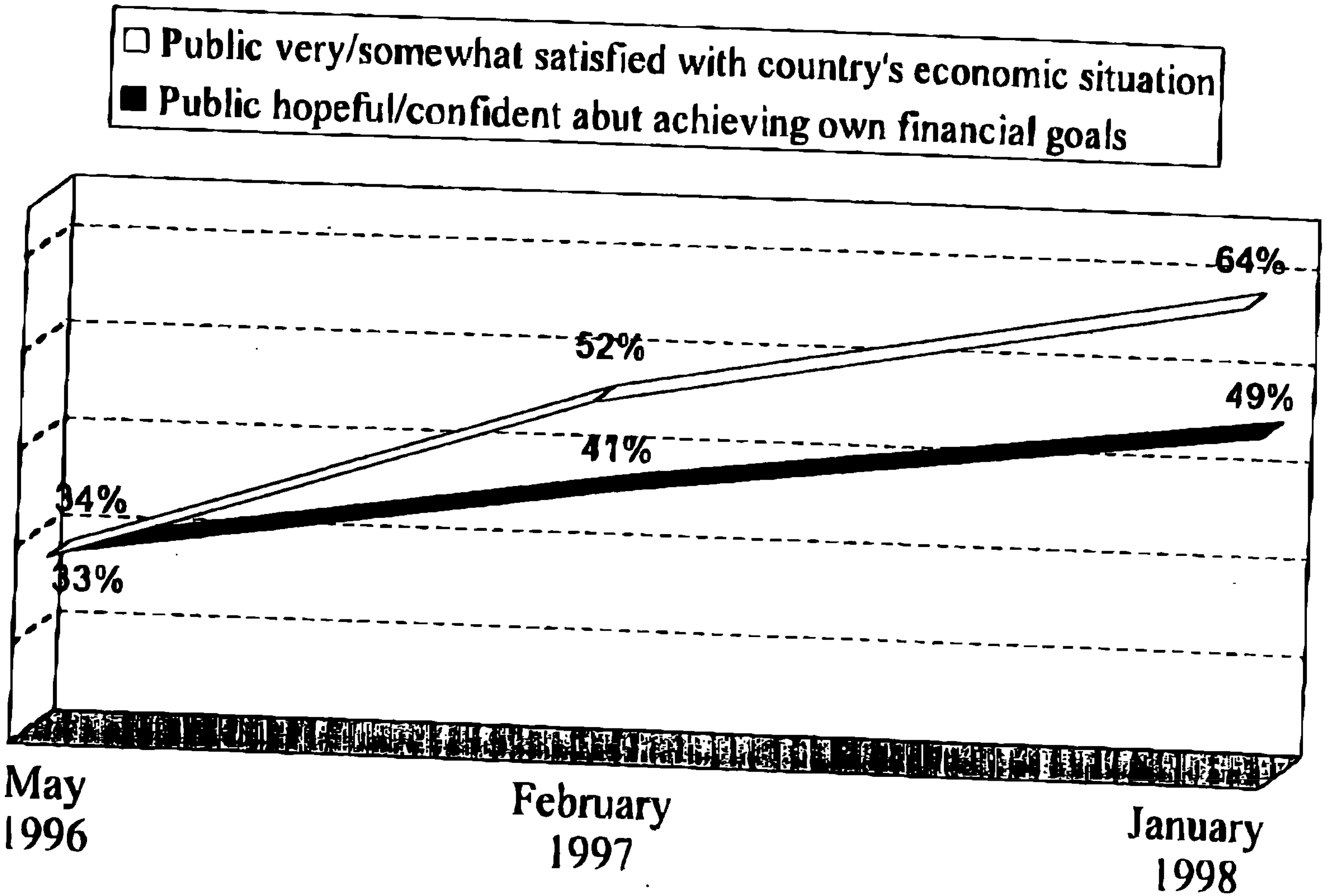
Still, Only Two In Five People Are Able To Put Money Aside

My family income is:



Americans' Views on Issues/Peter D. Hart Research

A More Positive Economic Climate



Americans' Views on Issues/Peter D. Hart Research

Public Citizen

SIDE-BY-SIDE ANALYSIS

REAGAN-BUSH 1988 FAST TRACK VERSUS CLINTON 1997 FAST TRACK PROPOSAL

Clinton Proposal Worse than Reagan-Bush Fast Track

This side-by-side analysis shows how the recent Clinton proposal on fast track takes away the ability for the U.S. President to negotiate and/or have implemented trade agreements containing enforceable labor, environmental or other provisions in their core texts.

Under the Clinton proposal, for the eight years that it would run, the U.S. President would be *affirmatively limited* from including labor, environmental and other standards of the same enforceable, core nature as now are provided for the protection of intellectual property or investors' rights. Indeed, all of the issues left out of U.S. negotiating objectives in the recent Administration proposal would also be kept out, such as: food safety, illegal drug trade, currency stability, human rights, and religious freedom.

Under the fast track established in 1974 and used five times since, the U.S. President had the authority, although was not required to include, labor, environmental and other provisions in trade agreements. It was this authority under which NAFTA was negotiated that allowed President Bush to put the very limited environmental measures he did in the text of NAFTA chapter 11 on investment and chapter 1 on multilateral environmental agreements. The new Administration proposal would remove this discretion, strictly limiting the contents of trade agreements to matters "directly trade related" and limiting further fast track coverage of future trade implementing bills only to the "further clarification" of environmental issues and ODiscussionO of labor rights and only at the GATT-World Trade Organization (WTO.)

SIDE-BY-SIDE OF RELEVANT PROVISIONS

I. Overall Trade Negotiating Objectives

(Sec. 1101(a) 1988 fast track; Sec. 2(a) of Clinton proposal)

Reagan-Bush Fast Track:

1. Open equitable reciprocal markets,

2. Reduction or elimination of barriers and other trade distorting policies and practices,

3. More effective system of international trading disciplines and procedures.

***Clinton Proposal*:**

Addition: Chapeau language specifies that the authority to negotiate granted in this bill is limited to the objectives listed only.

Comment: This provision sets new limits on what issues can even be negotiated in both trade agreements to which fast track approval procedures will be applied and those which can be entered into without a vote. The new limits include those aspects of foreign government policies and practices regarding labor, the environment, and other matters that are odirectly related to tradeo and odecrease market opportunities for U.S. exports or distort U.S. trade.o (A later section in the Clinton proposal further limits environmental and labor issues which can be included in a fast tracked trade implementing bill.)

Addition: Second objective amended to read: "reduction or elimination of barriers or distortions that are directly related to trade and decrease market opportunities for U.S. exports or distort U.S. trade;

Comment: This new language-- odirectly related to tradeo and odecrease market opportunities for U.S. exports or distort U.S. tradeo -- is added to exclude labor or environmental practices which have "trade distorting" effects from being covered as targets for negotiation. Old language was: "Reduction or elimination of barriers and other trade distorting policies and practices" which would have allowed discretion to set rules against child labor or toxics dumping which cause U.S. companies a competitive disadvantage.

Addition: New objective added: "to address those aspects of foreign government policies and practices regarding labor, the environment, and other matters that are directly related to trade and decrease market opportunities for U.S. exports or distort U.S. trade;

Comment: This language serves to tightly limit what the President has authority to negotiate about. The "and" connector means that both conditions must be met. Thus, only aspects of environmental and labor matters that "decrease market opportunities for U.S. exports" AND that are "directly related to trade" can be addressed. The clause "foreign government policies and practices regarding labor, the environment and other matters" is added to empower the President to negotiate for the elimination of other countries' such policies if they limit U.S. exports, a goal which Ways and Means Chair Archer has identified as the purpose of this language. The term "other matters" used here and in the previous fast tracks has meant other broader, unlisted goals such as human rights, food safety, animal welfare or human health.

Addition: New objective added: to foster economic growth, raise living standards, promote full employment in US and to enhance the global economy

Comment: This is rhetoric to counter the enforceable provisions. Given that it is an entirely subjective judgement as to what fulfills these broad goals, the provision is only hortatory.

Addition: New objective added: further strengthen system of international trading disciplines and procedures, including dispute settlement.

Comment: This is a relocation of an objective that was located in the principal trade negotiating objective of past fast tracks.

II. Principal Trade Negotiating Objectives

(Sec. 1101(b) of 1988 fast track; Sec. 2(b) of Clinton Proposal)

Reagan-Bush Fast Track: 1. Dispute Settlement - more effective and expeditious

Clinton Proposal: Moved up to overall negotiating objectives

Reagan-Bush Fast Track: 2. Improvement of GATT and multilateral trade negotiations.

Clinton Proposal: Eliminated

Reagan-Bush Fast Track: 3. Transparency

Clinton Proposal: Moved down to objective 5.

Reagan-Bush Fast Track: 4. Developing Countries - promote adoption of open trading systems and eliminate non-reciprocal benefits to more advanced countries

Clinton Proposal: Eliminated

Reagan-Bush Fast Track: 5. Current Account Surpluses - develop rules to address to address large and persistent current account imbalances of countries, including imbalances which threaten the stability of the international trading system

6. Trade and Monetary Coordination - to develop mechanisms to assure greater coordination, consistency, and cooperation between international trade and monetary systems and institutions

Clinton Proposal: Both objectives eliminated

Comment: Given the 1995 Mexican peso crash and the recent Thai and other Southeast Asian currency drops, it is ill advised to eliminate trade negotiating objectives in this area. Before seeing the Clinton proposal, trade policy experts had assumed that these objective would be strengthened and moved up in priority. This is especially the case because the Clinton Administration has argued that the Mexican peso crash is a leading factor in NAFTA's failure to meet Administration promises of NAFTA benefits. Indeed, the Clinton Administration was urged in congressional hearings in 1993 before House Small Business Committee Chair LaFalce to add currency provisions to the NAFTA because the peso§s crash was predictable. The Administration refused to do so, although the Reagan-Bush fast track provided the authority to do so. By eliminating these negotiating objectives, the Administration takes away its ability to ensure future trade agreements are not susceptible to such currency fluctuations.

Reagan-Bush Fast Track: 7. Agriculture -- more market access, eliminate barriers and subsidies, resolve issues with export subsidies, seek agreements to avoid over production during periods of oversupply, eliminate unjustified sanitary and phytosanitary restrictions.

Clinton Proposal: Moved to objective 6. General language the same.

Addition: for elimination of **"unjustified restriction or commercial requirements affecting new technologies, including biotechnology"** and **"other unjustified technical barriers to trade."**

Comment: The new clause was added to empower the President to attack other countries' policies forbidding or requiring labeling of genetically engineered foods. Recently genetically engineered soy beans and so-called oFrankenfoodo tomatoes with fish genes spliced in were refused entry into the European Union, which has a precautionary ban on growing or importing of such crops.

Reagan-Bush Fast Track: 8. Unfair Trading Practices - discipline forms of subsidy having adverse trade effects

Clinton Proposal: Eliminated

Comment: Eliminating this provision closes yet another possible avenue for requiring environmental and labor provisions be enforced in core trade texts. A leading theory of those promoting binding environmental and labor standards in trade agreements is that the absence of such rules is equal to an unfair subsidy for the company or country exploiting labor or the environment. Thus, dumping of toxics by a foreign factory producing products to import into the U.S., rather than paying for their proper disposal as required of U.S. competitors, is seen as taking a subsidy on public health or environmental quality. It was this provisions under which President Clinton promised some Members of Congress during NAFTA that he would issue a new executive order specifically making labor and environmental failures an unfair trade practice. This executive order was never issued. Elimination of this provisions would restrict future presidential action in this regard.

Reagan-Bush Fast Track: 9.Trade in Services - reduce or eliminate barriers, taking into account "domestic objectives, including, but not limited to, the protection of legitimate health or safety, essential security, environmental, consumer, or employment opportunities interests and the law and regulations thereto."

Clinton Proposal: Moved to objective 2.

> Addition: Previous language replaced by "**reduce or eliminate barriers to international trade in services, including regulatory and other barriers that deny national treatment and unreasonably restrict the establishment and operation of service suppliers.**"

Comment: This change replaces safeguards for health, safety, and the environment and "employment opportunities" with a mandate to "reduce or eliminate" such regulations if they limit trade in services. This provision would cover health care, transportation, telecommunications, broadcast, and all other service sectors.

Reagan-Bush Fast Track: 10. Intellectual Property - enforcement of protections, establish international standards.

Clinton Proposal: Moved up to objective 4.

> Addition: Language added: full implementation of GATT Trade-Related Intellectual Property (TRIPs) Agreement; strengthening enforcement of intellectual property rights through **"accessible, expeditious, and effective civil, administrative and criminal enforcement mechanisms."**

Comment: In the same legislation that withdraws the President's ability to negotiate enforceable labor and environmental provisions, protections for intellectual property are expanded through criminal enforcement. That is to say that U.S. negotiating objectives are to see violations of intellectual property rights punished through criminal, civil and trade remedies, while labor rights cannot be negotiated, much less enforced. This is the first use of obtaining criminal penalties to enforce a trade provision contained in U.S. trade negotiating objectives. This negotiating objective also calls for full implementation of the highly controversial GATT TRIPs agreement that is opposed by hunger activists in developing countries for putting monopoly patents on seeds, by consumer advocates worldwide for eliminating compulsory licensing (and thus affordability for poor consumers) of pharmaceuticals and medical devises and by religious advocates and ethicists worldwide for promoting the patenting of lifeforms.

Reagan-Bush Fast Track: 11. Foreign Direct Investment - eliminate barriers, expand principal of national treatment, develop international agreed upon rules to ensure free flow of foreign direct investment taking into account "domestic objectives, including, but not limited to, the protection of legitimate health or safety, essential security, environmental, consumer, or employment opportunities interests and the law and regulations thereto."

Clinton Proposal: Name changed to "Foreign Investment" and moved to objective 3.

Additions: **"freeing of transfer of funds relating to investments; reducing or eliminating performance requirements and other unreasonable barriers to establishment and operation of investments; establishing standards for expropriation and compensation for expropriation**..."

Comments: This provision now tracks exactly the provisions of the Multilateral Agreement on Investment, the expansive new global investment treaty which has been 90% completed at the OECD. "Expropriate and compensation" are entirely new U.S. trade negotiating objectives. Under this concept, a corporation or investor could directly sue a government for monetary compensation if it felt that its investment was being undermined by government action. A limited provision of the NAFTA incorporating this concept is now being exploited by the U.S. Ethyl Corporation who is suing the government of Canada for $251 million for damage to the name of their gas additive, MMT, which the Canadian parliament was considering banning. MMT is banned in many U.S. states because it destroys catalytic converters and contains substances know to have harmful effects to child development.

Reagan-Bush Fast Track: 12. Safeguards - make transparent, temporary

Clinton Proposal: Eliminated

Reagan-Bush Fast Track: 13. Specific Barriers - to obtain competitive opportunities for U.S. exports substantially equivalent to opportunities afforded foreign exports to US markets

Clinton Proposal: Name changed to "Trade barriers and Distortions" and moved to objective 1.

Deletion: Language on substantially equivalent opportunities.

Comment: Given the growing U.S. trade deficit, it is perverse to eliminate the one negotiating objective that addressed reciprocity in trade policy.

Additions: o**directly related to trade**o added as limitation to definition of barriers and distortions that should be eliminated and further limiting clause added to definition of barriers to be eliminated as those **"that decrease market opportunities for U.S. exports..."**

Comment: These new limitations have the same effect as above in restricting what topics the President may negotiate.

Reagan-Bush Fast Track: 14. Worker Rights - "(A) to promote respect for worker rights; (B) to secure a review of the relationship between worker rights to GATT articles, objectives, and related instruments with a view to ensuring that the benefits of the trading system are available to all workers; (C) to adopt, as a principal of the GATT, that the denial of worker rights should not be a means for a country or its industries to gain competitive advantage in international trade."

Clinton Proposal: Name changed to "Worker Rights and Environmental Protection" and moved to final objective in proposal, number 6.

Additions: The chapeau of the section limits consideration of these issues to **"through the World Trade Organization."**

Comments: This addition relegates to the WTO all future discussion of labor and environmental issues. Sending these issues to the WTO is equivalent to sending them directly to Hell. In its December 1996 Singapore Ministerial Declaration, the WTO announced its refusal to deal with labor issues, declaring that the International Labor Organization (ILO) is the appropriate forum for such discussions. Unlike the powerful WTO, there is no enforcement mechanism at the ILO. The WTO has had a committee on Trade and Environment for almost three years. To the extent that committee has done anything, it has been to identify for elimination environmental measures that limit trade.

Change: Subsection (A) replaced with: "to promote respect for internationally recognized worker rights, including with regard to child labor."

Comment: Previous fast tracks merely referred to promotion of "worker rights." According to the definition of internationally recognized labor rights, child labor is covered. Specific mention here is rhetorical. Oddly, the definition section of he bill also provides a definition for "core labor standards," although that term is not used in the Administration proposal.

Addition: (C) Worker rights modified by "internationally recognized."

Addition: New Subsections: (D) to promote sustainable development; and (E) to seek to ensure that trade and environmental protection are mutually supportive, including through further clarification of the relationship between them."

Comment: As meaningless as the worker rights provisions above are, the environmental provisions are worse. Not only is all discussion relegated to the WTO, but the terms of discussion are only to clarify the relationship between trade and environment.

Addition: **Non-binding hortatory clause added at end: The U.S. will also seek to establish in the International Labor Organization a mechanism for the systematic examination of,**

reporting on, and accountability for the extent to which member governments promote and enforce core labor standards."

Comment: This provision has no legal meaning and is not enforceable. It is not a negotiating objective. Nor, does it relate to U.S. trade negotiations. The provision calls for the U.S. to **"seek to establish"** a reporting system of labor rights violations, a mechanism already in place at the ILO.

Reagan-Bush Fast Track: 15. Access to High Technology - eliminate barriers to US equitable access to foreign-developed technology

16. Border Taxes - Adjust GATT to balance direct versus indirect tax approach in different countries

Clinton Proposal: Both objectives eliminated

NEW SUBSECTION IN CLINTON PROPOSAL 2(c): "Guidance for negotiators (1) In pursuing the negotiating objectives described in subsection (b), US negotiators o**shall take into account**" list of domestic objectives found in Reagan-Bush fast track at 1101(b)(9) and "In the course of negotiations conducted under this Act, the USTR shall" consult with and keep fully apprised of the negotiations private sector trade advisors and to take into account ability of US to retain the ability to rigorously enforce its trade laws.

Comment: This substance of this provision had appeared in the Reagan-Bush fast track as a limitation on a specific negotiating objective. It is unclear what its legal authority is in its new positioning as a oguidance for negotiators.o oGuidance for negotiatorso is not a known mechanism and is not in itself a negotiating objective. Moving this provisions is a clever rhetorical devise because it puts the word health and job opportunity and consumer into a paragraph of the fast track bill, but does so in a way that does not make these matters allowable negotiating objectives.

NEW SUBSECTION IN CLINTON PROPOSAL 2(d): "Adherence to Obligations Under Uruguay Round Agreements" The President shall take into account in decided with which countries to negotiate the extent to which that country has implemented its obligations under the Uruguay Round.

III. TRADE AGREEMENT NEGOTIATING AUTHORITY

(Sec. 1102 1988 fast track; Sec. 3 of Clinton proposal)

Section name changed in Clinton Proposal to "Trade Agreement Procedures"

Reagan-Bush Fast Track: **(a)** Agreements Regarding Tariff Barriers: Gives President authority to enter into trade agreements with foreign countries and to proclaim changes, continuation, setting of duties as he determines to be required or appropriate to carry out any such trade agreement. Authority runs through June 1993.

Clinton Proposal: Maintains same language and updates new extension of authority as existing through October 1, 2005.

> Additions: New section "(6) Other Tariff Modifications" providing that none of the limitations of duration (through 2005) or other specific conditions for proclamation of tariff changes set forth in the new bill will apply to the authority given the President in the 1994 Uruguay Round Agreements Act to proclaim tariff cuts or enter into agreements in the areas that were topics of negotiation in the GATT Uruguay Round. (Subsection B) And extends this broad authority contained in sec. 115 of the Uruguay Round Agreements Act also to "part of an interim agreement leading to the formation of a regional free-trade area." (Subsection A)

Comment: The provision relating to continuation of and superiority of the negotiating authority in the Uruguay Round means negotiations in all areas covered by the Uruguay Round are authorized indefinitely, rather than through the 2004 ending date of this proposed fast track grant. The new authority concerning interim agreements is to allow the president to make concession in APEC (Asian Pacific Economic Cooperation) or the FTAA (Free Trade Area of the Americas, the hemispheric NAFTA) without a specific fast track grant by Congress for APEC or the FTAA.

Reagan-Bush Fast Track: **(b)** Agreements Regarding Nontariff Barriers: provides authority through June 1993 for president to enter into agreements reducing such barriers "only if such agreement makes progress in meeting the applicable objectives described in sec. 1101. (Both overall and principal objectives.)

(c) Bilateral Agreements Regarding Tariff and Nontariff Barriers: provides authority through June 1993 for President to enter into agreements such barriers "only if such agreement makes progress in meeting the applicable objectives described in sec. 1101. (Both overall and principal objectives.) The President must give 60 days written notice to the Ways and Means and the Finance Committees of intention to enter into such an agreement.

Clinton Proposal: These two sections are merged under new title: "Agreements Regarding Tariff and Nontariff Barriers" Duration of authority is extended through Oct. 1, 2005.

> Additions: Authority is newly limited only to agreements making progress in principal, but not overall objectives via 3(b)(2).

Comment: This change means that the matters covered in the first five objectives (including relating to foreign countries environmental and labor measures directly related to trade and limiting US exports) are not to be subject to implementation using the fast track procedure. That is to say, these are items the President would have authority to negotiate, but not to implement in the fast tracked bill. Thus, only measures relating to clarifying the relationship at the WTO of environment and labor issues and trade could be in fast-tracked trade legislation.

> Additions: Section 151 of the 1974 Trade Act (first establishing fast track) is amended by replacing it with: "if changes in existing laws or new statutory authority is required to implement such trade agreement or agreements or such extension, provisions which are necessary or appropriate to implement such trade agreement or agreements or extension and which are related to trade.... and provisions necessary for purposes of complying with sec. 252 of the Balanced Budget and Emergency Deficit Control Act of 1985..."

Comments: This change adds the "**related to trade**" language, plugging any loophole left over by eliminating coverage of all principal trade negotiating objectives. It also newly puts into order for fast track consideration any revenue offsets required by the Balanced Budget Act to make up for revenues lost through tariffs cuts.

IV. OTHER KEY PROVISIONS

Other major changes from the previous fast track include:

1. **Fast Track is automatically extended to NAFTA expansion to Chile and ant agreement implementing the "built in" agenda or "work programs" of the GATT Uruguay Round.**

(Clinton Proposal Sec. 6.) In past fast tracks, Congress has had 60 days to disapprove a President's request to apply fast track congressional procedures to a particular negotiations. This so-called "emergency brake" provision is eliminated.

The provision regarding work plan of the GATT Uruguay Round is one avenue through which the congressional consideration of the MAI could be covered under this fast track. Normally, for an agreement to obtain fast track congressional consideration, the request to Congress for fast track coverage must be done before negotiations start. However, this provision of the Administration's proposal eliminates both the notice requirements and Congress' ability to do anything to stop fast track from applying. Of course, the Uruguay Round's work program included negotiations on an investment agreement. Negotiations have been conducted in parallel at the OECD and the WTO on an investment agreement.

2. **Broad discretion for the President to declare private sector trade advisory committee reports classified**. (Clinton Proposal Sec. 3(c)(4).) Currently, these reports are public records.

RETURN TO HOMEPAGE

TALKING POINTS ON FAST TRACK AND FOREIGN POLICY

Fast Track and American Leadership -- Overview

- **The fast track debate is about much more than trade. It is about American leadership in the world.** Other governments, particularly those in Latin America, view fast track as a test of whether the United States intends to maintain our half century of leadership -- or retreat and turn inward.

- **A failure of U.S. leadership would be a huge mistake.** For over 50 years, we have led the world toward freer markets -- reducing average tariffs from 40% at the end of World War II to about 5% today. That has led to a 90-fold increase in trade, which has enormously benefitted the U.S. We must not turn our back on that progress.

- **American leadership is not divisible. If we fail to lead on trade, our influence will suffer in other areas.** The patterns of trade developed in the coming decades will create patterns affecting our national security, foreign relations and political interests. If Latin America is permitted -- by default in our leadership -- to turn increasingly to Europe and Asia in its trade relations, it will weaken our relationship with Latin America. Rejecting fast track would also send a terrible signal to emerging markets, undermining the developing world trend toward free market policies and democracy.

Exports and U.S. Growth

- **For the U.S., the case for fast track is clear: if we are to sustain our economic growth, we must export.** Since 1993, one-third of our growth has come from exports. Over the next decade, the economies of Latin America and Asia are expected to grow at three times the rate of the U.S. economy. In a world where 96% of the world's consumers live outside our borders, we must export to grow. It's that simple.

- **We are in a perfect position to compete. Our economy is the envy of the world.** We are once again the world's most competitive economy, the world's largest exporter, the leading producer in key industries like automobiles, semiconductors and pharmaceuticals. It makes no sense to sideline ourselves now.

- **But we cannot afford to take our economic leadership for granted.** Throughout the world, other countries are moving to reach trade deals opening their markets. We can either lead this process -- or watch it proceed without us:
  - In Latin America and Asia alone, other countries have reached more than 20 preferential trade agreements without us. Today every major economy in the hemisphere has a preferential trade deal with Chile, except the U.S.
  - The EU is seeking a preferential trade agreement with MERCOSUR, a market of over 200 million people and a GDP exceeding $1 trillion. President Chirac has declared "the future of the region rests with Europe, not the United States."

Fast track and American Foreign Policy

- **Fast track is a test of our foreign policy.** As the sole remaining superpower, the United States has a fundamental interest in aiding both security and prosperity around the world -- particularly in our own hemisphere. Stable trading relationships are critical to that end. In the post Cold-War world, trade agreements serve some of the same purposes security pacts played during the Cold War: They bind nations together through a set of shared interests and common objectives.

- **If the U.S. fails to lead, we risk losing influence by default. The trade patterns set in coming decades will have enormous strategic importance too.** That is part of the strategy behind FTAA and APEC processes. They are not just economic: they are also intended to reinforce broader U.S. engagement in Latin America and Asia, two regions where U.S. foreign policy strategic and security interests are deeply implicated. Rejecting fast track would signal retreat from these initiatives.

- **That would clearly undermine broader U.S. interests.** Latin America sees trade as the linchpin of a stronger hemispheric relations -- our failure to engage would undermine cooperation on a range of issues including drug interdiction, immigration, environmental protection and corruption. In Asia, the industrialization of 3.5 billion people in the arc from Korea to Pakistan will be perhaps the greatest development of the 21st Century. It is critical to America's economic and security interests that we be deeply engaged in the transformation. Without fast track, we are crippled in that effort.

- **The cause of democracy and free markets would also suffer.** After decades of failed experiments and anti-Americanism, many of the world's emerging markets today are embracing free markets, democracy and other American values. Today -- for the first time in history -- one half of the world's population lives under elected rulers. But this fragile progress will continue only if we continue to press countries to embrace free trade policies, build stronger middle classes and strengthen the building blocks of democracy. Rejecting fast track would send a terrible signal that we are not serious about trade liberalization and reform.

Conclusion

- **The United States faces a critical choice.** We can continue to make our economy the model for the rest of the world, open foreign markets, and reaffirm our global leadership. Or we can convince ourselves that we cannot compete, turn inward, and cede that leadership to others eager to take our place. The choice is that stark -- and that important.

GENERAL TALKING POINTS ON THE IMPORTANCE OF FAST TRACK

Introduction

- I think you know the arguments for fast track authority. One-third of our growth since 1993 has come from exports. About 96% of the world's consumers live outside our borders. If we are to continue to grow, we must export. It's that simple. And that's all we are seeking under fast track: the opportunity to negotiate new agreements that break down foreign trade barriers, level the playing field, and increase our ability to export our world-class goods and services.

- We are in a perfect position to compete. Our economy is the envy of the world. We are once again the world's most competitive economy, the world's largest exporter, the leading producer of automobiles, semiconductors, and pharmaceuticals. It makes no sense to sideline ourselves now.

Fast Track and American Leadership

- We also must understand that the importance of fast track extends beyond trade alone; it is about American leadership in the world today. This debate is being viewed in Latin America and other world capitals as nothing less than a test of whether we intends to maintain our leadership role -- or to retreat and turn inward.

- Defaulting on our leadership role would be a terrible mistake. Under our lead, average tariffs have fallen from 40% at the end of World War II to about 5% today. This has led to a 90-fold increase in trade, which has benefited us enormously. One-third of our strong economic growth over the past five years has come from exports. We must not turn our back on those achievements.

- We cannot afford to take our leadership for granted. Throughout the world, especially in Latin America, others are moving to reach trade deals opening their markets. And they are not waiting for us -- with some 20 preferential trade deals already that exclude the United States. The EU is seeking such an agreement with MERCOSUR -- a market of over 200 million people with a GDP exceeding $1 trillion. And President Chirac has stated that "the future of the region rests with Europe, not the United States."

- Let's face it: American leadership is not divisible. If we do not lead on trade, our influence is bound to suffer in other areas as well. The patterns of trade affect our national security and strategic interests as well -- particularly in this hemisphere. Trade agreements can bind us together through shared interests and institutions. If by default in our leadership we permit Latin America to turn increasingly to Europe and Asia in its trade relations, it will weaken our relationship with them in other areas as well -- from drug interdiction to immigration to environmental protection to fighting corruption.

- Rejecting fast track would send the wrong signal to developing countries in particular. After decades of failed experiments and anti-Americanism, many today are embracing free markets, democracy, and other American values. But this progress is still fragile -- and it will continue only if we continue to press countries to embrace free trade policies, build stronger middle classes, and strengthen the building blocks of democracy. Having preached the benefits of open trade to these countries for so long, the United States must not turn in precisely the opposite direction at this critical time.

<u>Efforts to Address Members' Concerns</u>

- I believe that as we expand trade, we should ensure that everyone shares in the benefits. That not only is the right thing to do -- it is also essential if we want to keep public support for a policy of expanded trade. That begins with extending the Trade Adjustment Assistance program -- as the Finance Committee has done with bipartisan support. The Administration has been working on a series of other initiatives to help both workers and communities, which we will be announcing in the next few days.

- Let me also tell you why our critics have it wrong on labor and the environment. I am convinced we can break down foreign trade barriers and advance worker rights and environmental protection at the same time. The Finance Committee bill strikes a sensible, balanced approach to allow us to do just that. And look at it this way: if we have fast track, Chile will conclude labor and environmental side agreements with us -- in fact, they already have agreed to do so. If we don't, they won't. Rejecting fast track is the best way to ensure that labor and environmental concerns simply are ignored in the years ahead.

<u>Conclusion</u>

- This is a very important vote. We face a critical choice. We can continue to make our economy the model for the rest of the world, open foreign markets, and exert global leadership. Or we can convince ourselves that we cannot compete, turn inward, and cede that leadership to others eager to take our place. The choice is that stark – and that important. That's why I feel so strongly about fast track, and why I ask for your support.

POSSIBLE FAST TRACK QUESTIONS AND PROPOSED RESPONSES

Labor and the Environment

Q: Why have you embraced fast track bills in both the Senate and House that treat labor and the environment as second-tier concerns, not fundamental parts of trade agreements?

- Your characterization of these bills is wrong. They contain principal negotiating objectives aimed specifically at worker rights and the environment. That's more than has ever been contained in fast track legislation before. Under the bills, we will be able to use trade agreements to keep other governments from weakening their labor, environmental, or health and safety laws to gain an advantage in trade or investment (House bill)/to attract investment or inhibit U.S. exports (Senate bill).

- The President also retains ample authority to address these issues in a variety of international fora, as my Administration has been doing for the past 4 ½ years. And with fast track, the President also will be able to pursue labor and environmental side agreements where appropriate, including with Chile. Our goal should be to work with other countries to help them better protect the rights of their workers and improve their environments -- whether or not we are engaged in trade negotiations with them at any given point in time.

The Need for Fast Track

Q: How can you claim fast track is needed for trade agreements, when you have concluded over 200 such agreements without it?

- Fast track is needed only when we intend to make changes to U.S. law. Many agreements we negotiate with Japan and other countries include changes only by the foreign government, not us -- usually in response to our pressure to open their markets. But the largest and most important agreements -- like NAFTA and the Uruguay Round, and the future agreements we are seeking on agriculture, services, and in other areas -- require that all countries involved make some changes to their laws. We need fast track for those agreements.

- If we don't have fast track, other countries simply will not negotiate with us. They won't enter into one negotiation with the President, then let Congress unilaterally change the terms of the deal reached -- in effect, a second negotiation. Either the foreign country won't give the Administration their bottom line, best offer (fearing they'll have to make additional concessions to Congress), or they will simply refuse to negotiate in the first place. That's Chile's position; they have refused to negotiate with us unless we have fast track.

- History bears this out. In the late 1960s, the Administration brought back a GATT trade agreement that Congress amended unilaterally. After that, other countries simply refused to negotiate with us for several years. That's precisely why fast track procedures were enacted by Congress in 1974 -- to get us back in the game and leading again on trade.

Effects of NAFTA

Q: Why should we support fast track when we see such negative effects from NAFTA?

- First, I reject the critics' claims about NAFTA. The best available information shows that NAFTA has had a *positive* job impact -- creating 90,000 to 160,000 U.S. jobs, despite the 1995 peso crisis and its effect on Mexico's economy. And thanks to NAFTA, our exports to Mexico are already recovering from that temporary setback -- whereas we needed seven years for our exports to rebound after Mexico's last major financial crisis in the early 1980s. NAFTA has given us the chance to sell more to Mexico -- and to work more closely than ever before on other issues, including labor and the environment.

- But regardless what you think, this fast track debate is not about NAFTA. It is about our global trade agenda, our ability to negotiate new international agreements on agriculture and services and in those sectors in which we are the most competitive nation in the world. And it is about our ability to go after foreign trade barriers that remain much higher than our own -- to work to level the playing field for our workers and firms.

Helping Workers and Communities

Q: Why should I support fast track without guarantees that trade-impacted workers and communities will be helped adequately?

- President Clinton has done more than any other President to ensure that American workers benefit from expanded trade. And for those who may not share in the benefits of our strong economy, this Administration has fought successfully for increased training and educational opportunities. We have doubled the funding for dislocated workers since 1993 to nearly $1.3 billion; have fought to ensure that 13 million children from low-income families benefit from the child tax credit; have made college more affordable with the Hope Scholarship and tuition tax credit programs; and have pushed successfully for a variety of other measures.

- And the President is committed to doing even more to build on this strong record. The Administration has been working on a set of additional initiatives to help both individuals and communities that may be affected by trade flows, and President Clinton will be announcing the details of those plans in just a few more days.

The U.S. Trade Deficit

Q: Why should we move ahead with fast track and new trade agreements when our trade deficit continues to balloon?

- The trade deficit is the result of a range of complex factors, and is not the sign of a weak economy. It is hard to argue that this is harming us when we have been growing at about 3% annually over the past five years, have the lowest unemployment in 23 years, rising income levels, a rapidly shrinking budget deficit, high consumer demand, and record exports.

- And we are seeing some very positive signs: our exports are up 10% this year, despite sluggish growth in many other countries and a strong U.S. dollar. And our trade balances with our NAFTA partners -- now our two largest export markets -- have improved greatly this year, as we have cut the deficit with Canada 24% and with Mexico 15%.

- In any event, the best way to attack the deficit is to increase our exports -- and the best way to do that is through fast track trade agreements that break down foreign barriers. If you are concerned about the trade deficit, you should support giving the President the authority to attack the remaining trade barriers and negotiate tough new agreements to help our exporters.

Trade Agreements with Developing Countries

Q: Why should we negotiate trade agreements with countries where workers earn a fraction of U.S. wages?

- The truth is we are competing quite successfully with low-wage countries. Over the past decade, our exports to those countries are up 240% -- nearly double the increase to richer countries and more than three times the gain in domestic sales. Today, they account for 42% of our total exports -- creating jobs that pay about 15% more than non-export related jobs.

- We remain the strongest economy in the world, with the most productive workers. And we will gain through trade agreements with developing countries, whose existing barriers are several times higher than our own.

KEEPING AMERICA AND ITS WORKERS THE MOST COMPETITIVE IN THE WORLD

America Needs Fast Track to Continue to Create Higher-Paying Jobs for More Americans. Without it, America's role as the largest exporter in the world will be put in jeopardy. And with new markets opening around the world, it is more important than ever to give the President traditional trade authority to break down trade barriers that put American products made by American workers at a disadvantage. We will continue to ensure that America's workers will benefit from expanded trade by fighting for increased training and education opportunities.

I. AMERICAN WORKERS STILL FACE A DISADVANTAGE BECAUSE TOO MANY FOREIGN COUNTRIES PLACE RESTRICTIONS ON AMERICAN GOODS. WE NEED FAST TRACK TO LEVEL THE PLAYING FIELD FOR AMERICAN WORKERS.

What We Inherited. In 1993, President Clinton came into office at a time when the U.S. continued its commitment to free and fair trade, but other countries maintained high tariffs and other obstacles to fair trade to the disadvantage of America's workers.

President Clinton Moved to Address this Disadvantage by Completing the Uruguay Round Agreements, Negotiated Under Fast Track Authority. We have repeatedly leveled the playing field by negotiating tough, fair agreements -- securing more concessions from our trading partners than we had to give up. For example, Australia has cut its tariffs five times more than we have had to, Korea six times more than the U.S. and Peru has cut its tariffs ten times more than the U.S. since the Uruguay Round of GATT. Because of the ongoing benefits from the Uruguay Round, it is estimated that trade will continue to grow by an average of 9% per year until 2000.

American Workers Still Face a Disadvantage. Even with the recent progress in GATT, American exports still face higher tariff rates than our own. For instance, U.S. agricultural exports average 38%, while our own rates average 11%. U.S. electric machinery exports average 5%, while our rates average under 2%. Without Fast track authority, these conditions will only persist when more and more countries negotiate their own preferential trade deals to the detriment of America's workers. American workers deserve better.

Open and Fair Trade is in the Best Interest of American Workers and their Families. As the American people prepare for the challenges of the 21st century, we face a critical choice: We can meet the challenges of the future, write the trade rules and continue America's remarkable economic growth -- or we can turn our back on the world and fail to compete for new markets, new contracts, new business and new jobs. All over America, jobs have been created in small, medium and large companies that would not be here today if we did not have the ability to negotiate fair trade agreements.

- Over the last four years, American manufacturing exports rose 42%, high technology exports jumped 46%, service exports climbed 33% and farm exports rose 41%.
- From 1990-1996, U.S. auto exports to the biggest emerging markets (excluding Mexico) rose $500 million and are estimated to reach $6.1 billion by 2010. U.S. parts exports to these emerging markets are expected to more than triple from the current $3 billion to $10 billion in 2010.
- The U.S. dominates 75% of the global software market. More than one-half million workers are employed in the industry -- double the level a decade ago. This industry is expected to grow 9% *per year* worldwide over the next decade.

- The U.S. once again dominates the world's semiconductor industry -- after trailing Japan for years. More than one-quarter million American are employed in the semiconductor industry -- up 13% over the last three years. The global semiconductor market nearly tripled in size between 1990 and 1995 -- and sales are expected to reach $200 billion by the year 2000 -- a fourfold increase over a decade.
- Exports of goods and services have risen from about 4% of GDP in the early 1960's to over 13% today. Over 15% of the total American workforce is employed in the manufacturing sector. U.S. exports have grown 3 times faster than Japan's, 5 times faster than Germany's since the mid 1980's.

II. TO ENSURE THAT ALL AMERICAN WORKERS BENEFIT FROM EXPANDED TRADE, THE CLINTON ADMINISTRATION HAS FOUGHT FOR INCREASED TRAINING AND EDUCATION OPPORTUNITIES.

We need a growth strategy in which we take every action possible to ensure that all Americans can benefit from economic change. We need to break out of the old arguments that say you are either for blocking change or you are for the market, but everyone has to fend for themselves. Government needs to help workers, communities and those not in the job market realize the benefits of expanded trade.

- **The Administration is developing a comprehensive plan to help communities and workers who have been affected by trade.** President Clinton is building on his strong record of helping workers and families secure more opportunities to improve their educations and obtain higher paying jobs. The President will announce his plan early next week.

A Record of Strong Action to Help Families and Workers

- **Fought To Ensure Low-Income Families Benefitted from Child Tax Credit.** Because of the President's efforts, 13 million children from families with incomes below $30,000 will receive the tax credit -- up to 7.5 million more than under the House plans. Families making under $30,000 -- such as young teachers, police officers, farmers, nurses and others who work hard and play by the rules -- will now receive the child credit.
- **20% Tuition Tax Credit.** The balanced budget deals provides for a 20% tuition tax credit applied to the first $5,000 of qualified education expenses and to the first $10,000 thereafter for college juniors, seniors, graduate students, and working Americans pursuing lifelong learning.
- **$1,500 Hope Scholarship Tax Credit.** The balanced budget deal also includes a $1,500 Hope Scholarship to make the first two years of college universally available. For a student attending the average four-year college, the Tuition Tax and HOPE Scholarship tax credits will provide tax savings of up to $5,000.
- **Doubled Dislocated Worker Funding.** The funding for dislocated workers has been doubled, from $651 million in FY93 to $1,286 million in FY97. This year, the dislocated worker program will assist 580,000 workers, up about 300,000 since President Clinton took office.
- **Largest Pell Grant Increase in Two Decades.** The Balanced Budget agreement boosts the maximum 1998 Pell grant from $2,700 to $3,000, and expands the program to more poor independent students -- that's the largest increase in two decades.

III. IF THE PRESIDENT DOES NOT HAVE THE SAME AUTHORITY THAT EVERY PRESIDENT HAS HAD SINCE 1974, OUR COMPETITORS, NOT AMERICAN WORKERS, WILL REALIZE THE BENEFITS OF THE NEW ECONOMY.

Today, we have the opportunity to permanently create the types of jobs that pay more and provide our workers with more security -- <u>if we continue to increase our exports and open more markets</u>. But if the President does not have the authority to negotiate tough and fair trade agreements with Congress' consent, our competitors will get the best jobs for their workers, while the U.S. will be relegated to the sidelines.

- **Without fast track, the U.S. will lack credibility to push for a fast start on global negotiations scheduled to start at the end of 1999. <u>The United States stands the most to gain in these negotiations because of its comparative advantage in agriculture, commercial services and government procurement.</u>**

  ☞ **Agriculture.** Agricultural exports support nearly a million U.S. jobs. Agriculture remains one of the most protected and subsidized sectors in the world economy. American exports still continue to face trade barriers through high tariffs and preferential trade deals that exclude the U.S.

  ☞ **Commercial Services.** Service exports of U.S. firms supported nearly 4 million jobs in 1996. Unless negotiated away, barriers will inhibit increased U.S. service exports. In Korea, a number of service sectors remain restrictive for foreign investment including telecommunications and insurance. Brazil has restrictive investment laws, lack of transparency in administrative procedures and limits on foreign capital participation. Distribution in the domestic market is restricted in Indonesia.

  ☞ **Government Procurement.** Some sectors relating to government procurement include civil aircraft, energy equipment, environmental technologies and services and medical equipment which employ over 2 million American workers. The vast majority of low and middle-income countries have not signed the WTO Government Procurement Code and the U.S. cannot negotiate government procurement obligations in plurilateral negotiations.

WHY AMERICA WON'T GET ITS FAIR SHARE OF JOBS WITHOUT FAST TRACK

America needs fast track to continue to create higher-paying jobs for more Americans. Without it, America's role as the largest exporter in the world will be put in jeopardy. And with more markets opening around the world, it is now more important than ever to give the President traditional trade authority to break down trade barriers for American goods and services.

The U.S. needs to maintain its leadership role in opening markets through tough, fair trade agreements.

- **Since 1992, 49 states have experienced an increase in overall goods exports and 45 states have experienced an increase in jobs supported by trade.**
- **46 states have higher exports to Mexico and 47 states have higher exports to Japan.**

In the upcoming WTO negotiations, President Clinton needs fast track to have the flexibility to negotiate agreements in **agriculture, commercial services and government procurement.** <u>In each of these areas, the U.S. is the most competitive nation in the world and stands to benefit the most from writing the rules of trade</u>.

AGRICULTURE

The U.S. is the world's largest agricultural exporting country -- shipping a record $60 billion in exports abroad. In 1996, total world agricultural exports totaled $600 billion. U.S. exports accounted for <u>only 10%</u> of that -- $60 billion.

- **U.S. agricultural exports support nearly a million jobs and this number is rising.** Since 1990, the value of U.S. agricultural exports has increased by $20 billion, or nearly 50%. Each week last year, on average, American producers and processors shipped out more than $1.1 billion in farm and food products to foreign markets.

- **Last year, our agricultural exports were twice the level of our agricultural imports -- a claim no other industry sector can make.** Dollar for dollar, we export more corn than coal, more wheat than steel, more meat than aluminum and more fruits and vegetables than CD's, records, and tapes. U.S. exports are growing more than three times as fast as domestic demand for foods.

- **U.S. agriculture will pay a price if fast track is not granted.**
  - ☞ More than 30 bilateral and regional trade agreements are already operating here in the Western Hemisphere, and the U.S. is party to only one -- NAFTA. While these preferential trade agreements multiply, the U.S. share of the region's total agricultural imports is declining.
  - ☞ Chile has already signed trade agreements with Bolivia, Colombia, Ecuador, Mexico, Venezuela, MERCOSUR and most recently Canada. The U.S. has already lost an estimated $500 million in exports to other countries that have duty preferences already in place.
  - ☞ Chilean fresh fruit pays a 2% duty when entering Venezuela (due to the Chile-Venezuela FTA) whereas American producers pay a 15% tariff. The U.S. Embassy estimates that the U.S. market share would grow from its current 39% to 67% if U.S. producers had equivalent access to the Venezuelan market.

Without fast track, the U.S. will lack credibility to push for a fast start on WTO agricultural negotiations scheduled to start at the end of 1999. Agriculture remains one of the most protected and subsidized sectors in the world economy. American exports still continue to face trade barriers through high tariffs and preferential trade deals that exclude the U.S. **Already, since 1992, in Latin America and Asia alone, our competitors have negotiated 20 trade agreements that do not include the United States.**

The best way we can continue to increase our agricultural exports and create more higher-paying jobs is through broad negotiations where the U.S. has the ability to seek additional commitments from other countries to reduce their barriers to American agriculture.

COMMERCIAL SERVICES

Exports of services by U.S. firms supported an estimated 3.9 million U.S. jobs in 1996. U.S. service exports have more than doubled over the last ten years, increasing $135 billion since 1987 and $84 billion since 1990 to $250 billion in 1996. In 1995, U.S. service exports accounted for 16% of global service exports; our closest competitors that year were France (8%) and Germany, Italy, Japan and the U.K. (between 5% and 6%).

- **U.S. exports to emerging markets have grown at impressive rates:** nearly 30% to China, Taiwan and Korea; and over 20% to Hong Kong and Argentina. The U.S. also exported over $1 billion in 1995 to the emerging markets of Argentina, Brazil, China, Hong Kong, the Philippines, India, Indonesia, Korea, Malaysia, Singapore and Thailand.

- **Service exports are estimated to reach $300 billion by 2005 and $350 billion by 2010.** With the expanding electronic commerce market, the growth trend in the service sector may easily surpass these estimates. For example, look at the health care services industry. In 1994, exports reached $812 million. The industry is estimated to grow to $1.03 billion by 1998 and continue its growth to $1.4 billion by 2002.

- **Unless negotiated away, barriers will inhibit increased U.S. service exports.** In Korea, a number of service sectors remain restrictive for foreign investment, including audio-visual services, insurance, telecommunications and advertising. Brazil has restrictive investment laws, lack of transparency in administrative procedures and limits on foreign capital participation. Distribution in the domestic market is restricted in Indonesia.

- **Fast track will strengthen U.S. efforts to reduce trade barriers and expand these international markets which are key to maintaining U.S. competitiveness and innovation.**

GOVERNMENT PROCUREMENT

- **In 1996, government procurement totaled $200 billion in U.S. exports in 1996 in a total world market of $600 billion.** Sectors relating to government procurement include civil aircraft, which supports over 450,000 high-wage jobs, energy equipment supporting 350,000 workers, environmental technologies and services supporting 1.3 million workers and medical equipment employing over 260,000 workers.

Civil Aircraft

- **One out of every two civil aircraft manufactured in the U.S. is exported.** Asia has become the fastest growing foreign market for U.S. civil aircraft, accounting for about 45% of U.S. civil aircraft exports in 1996. Korea is in the midst of a major civil aviation expansion -- a ten year procurement program plans the purchase of some 230 aircraft worth about $20 billion. With ASEAN, there is a large and growing demand for airport and ground support equipment. The Philippines has initiated a $3 billion refleet and modernization program. Almost all of Thailand's demand must be met by imports.

    - **High tariffs and government subsidization are major barriers.** Low and middle income country tariffs range from 3 to 40% while the U.S. has no tariffs.

    - **Competition isn't waiting for U.S. leadership.** Canada is competitive in Latin America, especially in the business and regional jet aircraft sectors. Canada already has a Free Trade Agreement with Chile which will provide a three percentage point tariff advantage over U.S. suppliers by 1997. This tariff deferential, which will increase to 11 percentage points when the FTA is fully implemented, provides the Canadian industry a significant advantage in certain segments of the market.

Energy Equipment

- **Since 1990, U.S. exports of energy equipment have doubled reaching $15.5 billion in 1996 with a trade surplus of $6.5 billion.** U.S. exports to the big emerging markets, China and FTAA countries more than doubled since 1990. Exports account for an estimated 34% of the U.S. industry's product shipments. By 2005, energy equipment exports are expected to exceed domestic shipments.

- **The demand for energy in low and middle income countries is expected to grow at more than twice the rate of industrialized countries.** Thailand is expected to invest $22 billion in new power plants; Indonesia is spending $40 billion developing a natural gas field; China and India represent even larger potential markets as each country attempts to meet increasing demand.

- **Competition doesn't wait for U.S. leadership.** MERCOSUR countries are in the process of privatizing the electricity sector and expect increased demand for generation and distribution equipment. Imports supply approximately one-fifth of the equipment demand, and the U.S. supplies one-third of that. Yet, with tariffs ranging up to 24%, U.S. companies will be at a significant disadvantage if other countries are given preferential access.

  With U.S., German and Japanese companies providing almost equal shares of energy equipment in world markets, any preferential access to low and middle income countries by our competitors will hurt U.S. workers and companies.

- **Fast track will strengthen U.S. efforts to reduce trade barriers and expand these international markets which are key to maintaining U.S. competitiveness and innovation.**

Environmental Technologies and Services

- **U.S. ET exports increased 26% from $11.5 billion in 1994 to $14.5 billion in 1995 -- making the U.S. the world's largest supplier.** Growth in exports was responsible for 40% of the $7.5 billion in 1995 environmental technology industry growth. The global market is projected to grow from about $440 billion in 1995 to approximately $600 billion by the year 2010. While the U.S. enjoys over $14 billion in environmental exports only 8% of the U.S. environmental industry's revenue comes from exports. Major competitors, such as Germany and Japan, export in excess of 20%.

- **Opportunities abound for U.S. environmental technology.** The market in Indonesia exceeds $1.3 billion of which $300 million is from the U.S.). Thailand's market exceeds $1 billion (U.S. exports account for two-fifths of that) and could double over the next five years. Malaysia's market is around $700 million and is expected to grow at 15-20% per year through 2000.

- **Competition doesn't wait for U.S. leadership.** $10 billion in new investment is expected through the year 2000 in Brazil. U.S. exports last year amounted to about $100 million. Tariffs range up to 18%, although MERCOSUR partners receive duty free treatment and other Latin American countries receive a 60% duty reduction.

Medical Equipment

- **Total medical device exports reached $11 billion in 1996 -- a 14% rise from 1995.** Exports as a share of industry shipments were 20% in 1990 and are expected to be 30% by 2005. Since 1990, U.S. medical devices exports to China, ASEAN and the other big emerging markets (excluding Mexico) doubled, reaching $2 billion in 1996. Thailand's medical device market exceeds $600 million, and Indonesia's market has been growing by over 10% annually. Malaysia has budgeted $1.4 billion this year to upgrade health care quality, and Singapore has over $500 million earmarked for redevelopment projects.

- **The industry faces tough barriers in low and middle income countries** which include approval procedures for imported devices; government health care reimbursement policies which discriminate against U.S. products; and non-transparent government procurement policies. MERCOSUR countries are developing import and standard regulations which will negatively impact U.S. medical device manufactures.

Fast track will strengthen U.S. efforts to reduce trade barriers and expand these international markets which are key to maintaining U.S. competitiveness and innovation.

- The vast majority of low and middle-income countries have not signed the WTO Government Procurement Code and the United States cannot negotiate government procurement obligations in plurilateral negotiations.

- Current WTO negotiations on establishing elements of a transparency agreement offer the opportunity to secure more transparency in foreign government bids, to the benefit of U.S. firms and workers.

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CAREER SUCCESS:

Case Studies in Job Transitions

United States Department of Labor
Employment and Training Administration
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NAFTA's CASUALTIES

Employment Effects on Men, Women, and Minorities

by Jesse Rothstein and Robert E. Scott

Since the North American Free Trade Agreement (NAFTA) went into effect in 1994, there has been much debate over its effect on American jobs. This effect, measured as a number of potential jobs created or destroyed, is often used to gauge the impact of a trade policy on the economy. Unfortunately, most existing estimates of NAFTA's employment impact suffer from several serious oversights, ranging from failing to adjust for the effect of inflation on international trade to neglecting to differentiate between industries. Furthermore, many estimates consider only exports without looking at the offsetting effects of imports. In an effort to avoid these methodological pitfalls and to provide a more comprehensive, accurate picture of NAFTA's effects, the model used in this report takes into account both imports and exports and uses industry-level trade, price, and demographic data.

This study's new model indicates that the reduction in net exports to Mexico has eliminated 227,663 U.S. job opportunities since 1993, and the reduction in net exports to Canada has eliminated 167,172 job opportunities in the same period. In total, NAFTA resulted in a net loss of 394,835 jobs in its first three years. This study's model also makes possible an analysis of the demographic composition of NAFTA's impact on employment. The analysis finds that NAFTA has eliminated significant numbers of jobs for women and members of minority groups, as well as white males. Between 1993 and 1996, women lost 141,454 jobs to NAFTA, blacks lost 36,890 jobs, and Hispanics lost 22,520 jobs, numbers closely reflecting these groups' shares in manufacturing industries. Moreover, a disproportionate number of the jobs eliminated by NAFTA were manufacturing jobs, which pay relatively high wages, further contributing to NAFTA's detrimental effect on the distribution of income and wages of working Americans.

Impact on U.S. Jobs

U.S. net exports to Mexico and Canada have declined dramatically under NAFTA (Table 1). According to the most recent measurements, real exports to Mexico grew by 31% and to Canada by 24% between 1993 and 1996. Import growth was far more dramatic, however, at 87% from Mexico and 33% from Canada over the same period. In 1993, the year before the agreement took effect, the U.S. had a trade surplus of $635 million with Mexico (all figures in constant 1987 dollars). By 1996, this had fallen to a deficit of $18.8 billion. The already existing deficit with Canada grew even larger, from $16.7 billion to $29.5 billion during those three years.

Although NAFTA's adherents claimed the agreement would create new jobs, growing imports from Mexico and Canada have cost the U.S. more jobs than exports have generated. While increased exports to Mexico created 158,171 jobs, this growth was more than offset by the 385,834 jobs displaced by an increase in imports from Mexico. Similarly, increased exports to Canada generated 244,309 jobs, but these were dwarfed by 411,481 jobs displaced by Canadian imports. On the whole, imports from Mexico and Canada destroyed a gross total of 797,315 job opportunities. Net losses, after including the gains from exports, were 394,835 jobs.

Even workers who found new jobs in the growing U.S. economy faced a reduction in wages, with average earnings dropping over 16% (Farber 1996). The new jobs created by NAFTA are most likely to be in the service industry—the source of 112% of net new jobs created in the U.S. since 1993—where average compensation is only 77% of manufacturing's average (Mishel et al. 1997, 185).

TABLE 1
U.S. Trade With Mexico and Canada. 1993-96.
Totals for All Commodities (Millions of Constant 1987 Dollars)

			Change Since 1993		
	1993	1996	Dollars	Percent	Jobs Lost or Gained
Mexico					
1. Domestic Exports	$35,450	$46,338	$10,888	31%	158,171
2. Imports for Consumption	34,816	65,162	30,346	87%	-385,834
3. Net Exports	635	-18,824	-19,458	-3066%	-227,663
Canada					
1. Domestic Exports	$80,970	$100,052	$19,082	24%	244,309
2. Imports for Consumption	97,713	129,555	31,843	33%	-411,481
3. Net Exports	-16,743	-29,504	-12,761	76%	-167,172
Mexico and Canada					
1. Domestic Exports	$116,420	$146,390	$29,970	26%	402,481
2. Imports for Consumption	132,528	194,717	62,189	47%	-797,315
3. Net Exports	-16,108	-48,327	-32,219	200%	-394,835

Source: EPI analysis of Bureau of Labor Statistics and Census Bureau data.

Characteristics of the Lost Jobs

This study allows us to examine the demographic characteristics of NAFTA's victims. (See Rothstein and Scott 1997 for state-level estimates of NAFTA's employment impact.)

Most merchandise trade—which made up 79% of total 1996 U.S. trade including services —is in manufactured goods (U.S. Department of Commerce 1996a). Although only 16% of the U.S. labor force works in manufacturing, over 70% of the NAFTA job changes were in this sector. Unsurprisingly, when we examine the demographic composition of NAFTA job losses, they clearly correspond with that of the manufacturing sector, the highest-paid sector of our economy (Table 2). Women make up 35% of manufacturing employment and represent 36% of NAFTA job losses. Blacks and Hispanics represent 9% and 6% of the lost jobs, exactly corresponding with their representation in the manufacturing labor force.

Fourteen percent of the job loss went to college graduates, 26% to workers with some college, 36% to workers with a high school diploma, and 24% to workers with less than a high school education—all of which closely reflect these groups' representation in the manufacturing workforce.

The manufacturing sector is an important source of good jobs for non-college-educated workers. These workers, who have few opportunities for high wages in other areas of the economy, are disproportionately represented in the manufacturing sector and, therefore, hit hard by the job losses precipitated by NAFTA. Workers without any college education make up exactly half of the U.S. labor force but 60% of the NAFTA victims.

In spite of their below-average education levels, manufacturing workers earn significantly more than workers in other sectors of the economy. The NAFTA job losses are skewed toward high-wage jobs. We divide wages into three brackets: low (paying less than the 20th percentile of the real 1979 male wage distribution, or $8.83/hour in 1996 dollars), medium (21st-74th percentiles, or $8.83-$19.08/hour), and high (above the 75th percentile, or more than $19.08/hour). Since 1979, the real wage structure of our economy has moved significantly downward, as increasingly more workers have slipped into lower income brackets. NAFTA contributes to this trend: while only 21% of jobs in the 1989 economy were in the high-wage bracket, 23% of the jobs eliminated by NAFTA trade fall in that category. In contrast, the low-wage bracket represented 36% of 1989 jobs but only 32% of NAFTA casualties (Table 2).

TABLE 2 Employment Impact of Increased Trade With Canada and Mexico, 1993-96 (Thousands of Jobs)				
	Job Changes Induced by Net Exports:*		Share of Labor Force**	
			Whole Economy	Manuf. Only
Total	-395	100%	100%	100%
Men	-253	64%	53%	65%
Women	-141	36%	47%	35%
White	-316	80%	80%	81%
Black	-37	9%	10%	9%
Hispanic	-23	6%	5%	6%
Other	-19	5%	5%	5%
College	-56	14%	19%	14%
Noncollege	-339	86%	81%	86%
Some College	-101	26%	31%	26%
High School	-144	36%	31%	38%
Less Than HS	-95	24%	19%	23%
Wage Bracket***				
High (75-99)	-92	23%	21%	25%
Medium (21-75)	-178	45%	43%	48%
Low (0-20)	-125	32%	36%	28%
Agriculture	-38	10%	3%	.
Manufacturing	-283	72%	16%	.
Services	-69	18%	55%	.
Other	-4	1%	26%	.

* Excluding effects on wholesale and retail trade and advertising.
** Census data on 1989 labor force.
*** Wage brackets are based on the real 1979 wage distribution: numbers in parentheses are percentiles. In 1996 dollars, brackets correspond to hourly wages of less than $8.83, $8.84 to $19.08, and above $19.09

Source: EPI analysis of Bureau of Labor Statistics and Census Bureau data.

Other Studies

Numerous estimates have been made of NAFTA's employment impact in the U.S. (e.g., Scott 1996; Hufbauer and Schott 1993; EOP 1997). Typically, these analyses use the Department of Commerce's calculation of the number of jobs supported by each billion dollars of exports. In 1994, this multiplier was 14,197 (U.S. Department of Commerce 1996b). Using this methodology, President Clinton's July 1997 report to Congress, Study on the Operation and Effects of the North American Free Trade Agreement, estimates that in 1996 2.3 million U.S. jobs were supported by trade with Mexico and Canada, an increase of 311,000 since NAFTA went into effect.

Single-multiplier models of the relationship between trade and employment (like the one used in the president's report) pose many serious problems:

- Total exports are used to estimate the employment impacts of trade. A significant share of U.S. exportsconsist of foreign exports, i.e., goods that are produced in other countries (e.g., grain grown in Canada that is trucked through the U.S. to Mexico). Foreign exports, also called transshipments, have increased sharply under NAFTA and do not generate jobs in the U.S.

- In the crudest models, only exports are considered; the offsetting effect of imports is ignored. This is comparable to balancing a checkbook by adding up the deposits and ignoring the withdrawals. If the U.S. exports 1,000 cars to Mexico, many Americans will be employed in the production and assembly of those cars. If the U.S. imports 1,000 cars from Mexico rather than building them domestically, then a similar number of Americans who would otherwise have been employed in the auto industry will have to find other employment.

- All trade is treated identically, with no consideration given to the significant differences in labor requirements between industries. For example, a million dollars of output in the high-wage, highly automated aerospace industry employs fewer than 14 workers, but the same amount of output in a lower-wage, labor-intensive industry like apparel employs about 27 workers (BLS 1996). Apparel exports will create more jobs—though lower-paying ones—than a similar volume of aerospace exports. A study that does not take into account such differences between industries overlooks an important part of the story.

- Trade data are rarely adjusted for inflation, resulting in measures of trade flows that trend upward far more than they should. If nominal net exports increase significantly, but real trade balances remain constant, most existing methodologies would find significant employment impacts. In reality, if inflation-adjusted net exports are stable, then trade-related employment should also be stable.

Methodology

The analytic techniques used in this study are designed to reduce or eliminate the various problems plaguing past research. While other studies have used total exports or the merchandise trade balance, which include several categories of goods that do not affect U.S. employment, this study analyzes net exports—domestic exports less imports for consumption. The net export measure excludes foreign exports (goods produced in other countries and exported to Mexico or Canada through the U.S.) and imports not for consumption (goods warehoused in the U.S. but with ultimate destinations in other countries), neither of which has significant impact on U.S. employment.

We use Census Bureau (1997) data on domestic exports and imports for consumption at the 3-digit SIC industry level. These data are converted into the 183 industries used by the Bureau of Labor Statistics and then inflation-adjusted to constant 1987 dollars using industry-level price indices (BLS 1997).[1] An input-output model, based on BLS calculations of the number and type of jobs created by production in each industry (BLS 1996), is used to estimate job impacts. These estimates include not merely the direct impact of trade on manufacturing industries, but also the indirect effects on nonmanufacturing industries (like business services) that supply manufacturers.

We assume that NAFTA's casualties and beneficiaries in each industry are demographically similar to that industry's workforce, using Census Bureau data (from the Public Use Microdata Sample of the 1990 Census) on the characteristics of the workforce in each of the 183 industries to estimate the impacts on various populations.

1. An exception is made for the "Computer and Office Equipment" industry (BLS Industry 43), for which we use nominal dollars. The price index for this industry shows massive deflation, reflecting explosive improvement in computer technology. A given amount of money buys a lot more computer power today than in 1987; however, roughly the same number of worker-hours are used to produce a Pentium computer now as a 286 computer several years ago. Therefore, it is reasonable to assume that the number of workers employed by a million dollars of computer production has not changed dramatically. This assumption is not of great consequence for the results; deflating this industry normally produces only minor changes in the macroeconomic results.

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Economic Policy Institute

David

9/26/97

MEMORANDUM TO THE DEPUTY SECRETARY

FROM: GERI PALAST

RE: DRAFT FAST TRACK HOUSE LEGISLATIVE STRATEGY

Attached is the draft OCIA House Fast Track Strategy plan. To date, the White House focus and assignments have been directed solely toward House members. (Note: I understand the Secretary was given at least one Senate assignment today, Sen. Landrieu. If there are others, please let us know.)

In addition to the voting records within the plan, we have available detailed tables of votes by states, caucuses, and strength of support for trade. These tables are useful for reference as we work with members through the legislative process.

The OCIA Fast Track Team includes Teri Bergman, Carl Haacke, David Luna and myself.

As we mentioned today, the Senate Fast Track mark-up scheduled for Wednesday is likely to include a simple extension of TAA and NAFTA-TAA. During the NAFTA debate, we took primary responsibility for managing this piece on the Hill. I have reached out to both Susan Brophy and Anne Lewis regarding this issue, and I would like to discuss your view of our role as soon as possible.

Let's talk. Thanks.

OCIA's PROPOSED STRATEGY ON FAST-TRACK

Opportunities and Challenges: Job Growth and Job Transition in the Global Economy

I. Strategy: Congressional Outreach- Listen, inform, employment success stories

A. Individual Member Briefings (Dep. Sec, ILAB, ETA, OCIA)

- Listen: The Congressional Hispanic Caucus (CHC) experience tells us that a big obstacle facing the Administration for some members is being insensitive to the plight of those who are negatively impacted by trade -- the Secretary made a great impression because *she gets it*. Therefore, any briefing should begin by *listening* to the concerns of members and what they are hearing from their constituents.

- Inform: Show our understanding of the impact of trade in their state and district. In particular, dispel some of the myths that while some people are dislocated, the impact has not been as deep or widespread as some may believe.

  Demonstrate what is currently available for people impacted by trade: UI, Title III, TRA etc. (flow chart to be developed by ETA).

- Success Stories: Bring regional news clips and Department of Commerce information about new firms opening and export job creation in their districts. These are the growth stories.

  Bring ETA success stories describing those workers and communities who have successfully made the transition to new jobs.

  [Outstanding Questions:
  Which districts have the good transition assistance facilities; effective One-Stops? (ETA)
  What districts have export driven firms with recent new hires? -Commerce]

B. Congressional State Delegation Briefings at the Staff Level: Caucus Focus

- Aside from caucus briefings already done (CBC, CHC) the Freshmen caucus who are not familiar with Fast Track would benefit from an educational outreach and ILAB information on how labor agreements would work will be important.

- Sympathetic members can help talk with fellow caucus members who are uncertain. For example, there are Fast Track champions within the California/ New York/ Texas caucuses who can help lead the discussions.

Outstanding questions:

-- Are there key members who are Fast Track supporters who will champion DoL issues at briefings -- particularly the successes of Title III, TAA, NAFTA-TAA in their districts -- that can be recruited to speak on our behalf?

-- **We need more congressional intelligence.** What are the issues concerning undecided and leaners? We need more information from the WH on which members are likely DOL targets. What do they need for them to find fast-track palpable? Loss of US Jobs? Improvements on NAFTA-TAA/TAA? Negative AFL-CIO Ads hurting upcoming election? Want programmatic changes, expansion?

C. The Trade Adjustment "Tour" for Members and Press

Showing the human face of employment growth and transition.
(ETA/CHECO/ILAB/OPA/ Department of Commerce)

- The Department of Labor should not only be responsible for addressing job loss. We work on all labor issues and should also be associated with job gains. For too long we have be relegated to carriers of bad news, when there is a good side to the story.

- Facts, data, economic theories demonstrating the positive face of trade need to be humanized to be successful. The painful human story of US worker layoffs is already out there and will be pushed hard. The administration cannot be left callously responding to the "families left behind" with charts and graphs alone.

  Undecided Members of Congress need to feel more comfortable that these images of worker dislocations will not haunt them. We need to give them first-hand contact with those people who have directly benefited from trade and those who are making a successful transition out of trade impacted jobs. These positive images will give Members something to point to when they are attacked by critics.

  The people benefiting from growth and making successful transitions to new jobs need to become familiar faces for members as well as the press. These people are not yet visible.

- Growth: OCIA/OPA organize a tour with Commerce for key members and press to demonstrate the reality of growth and transition. Site visits in key districts to new export driven firms and meet the workers who now have new jobs. Any such firm that hires welfare recipients would be an extra bonus. This demonstrates trade=growth and jobs.

- Transition: OCIA/OPA organize with ETA site visits to successful one-stops, title III, trade programs, to show what is being done to help workers upgrade their skills to insure a successful transition to secure employment.

  Arrange visits by Secretaries Alexis Herman and Daley to pull in press attention as well as supportive members.

D. Information Outreach on Labor Issues (ILAB) and Worker Adjustment Programs (ETA)

The need to publicize the Pro side of Fast Track, both in terms of exports and jobs worker adjustment, is covered in OPA's Fast Track communication plan. Where feasible, supportive Members should be integrated into OPA events, such as One-Stop visits.

F. IGA state/ local linkages

-- Coordinate outreach with Mayors and Governors along w/ with WH IGA.

II. Identifying Congressional Target Groups

A. Swing Voter analysis (WH)

As of September 25, 1997, the White House believes that there were approximately 141 House Members who were undecided. The White House Whip Count also indicates that there are 70 members leaning "Yes" while 97 members are leaning to oppose fast-track. The White House also believes that there are 43 members who are solidly behind voting for fast-track while 82 are firmly set on voting against the bill. (Complete Voting Records Available)

	Democratic	Republican	Total	Cumulative Total	Votes need to win
Support	16	27	43	43	All
Lean Support	12	58	70	113	All
Undecided	34	107	141	**254***	105
Lean Oppose	75	22	97		
Oppose	69	13	82		

*** Need all Supports, Lean Supports and 105 Undecided to reach 218 votes.**

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*** Need all Supports, Lean Supports and 105 Undecided to reach 218 votes.**

D. <u>Segmentation within target states</u>:

Even within our target states, there are some factors which may argue for a different approach to briefings and member meetings. For example:

<u>California</u>: Northern vs. Southern -- Northern California members are more likely to support trade authority since the economy of the region results in more winners than losers; the Southern half of the state contains industries and communities (such as agricultural and border communities) that are more likely to be negatively impacted by trade and the members will focus on different issues than their northern counterparts.

<u>New York</u>: similarly, the New York City delegation will have a different focus that the balance of the State. Trade certifications in NYC are predominantly apparel (where there is a large Hispanic workforce), while the rest of the state is more likely to be electronics and traditional manufacturing.

<u>Border cities</u>: As we have learned, a specialized strategy for border communities such as El Paso and Brownsville, Texas and San Diego and Watsonville, CA (check -- border?) may be warranted. Any decision by the NEC on a community-based strategy or by Justice on a border communities initiative will be critical to this strategy.

<u>Key Manufacturing districts</u>: Districts such as Eire, PA and Elizabeth, NJ may have different issues -- such as a more traditional labor focus -- which may have to be addressed, especially if a merger of the two trade programs is proposed.

<u>Key Agricultural districts</u>: Areas such as Watsonville, CA and districts in Florida may require different approaches, including more information on linkages with migrant and seasonal farm worker programs.

E. <u>AFL-CIO 13 districts (Bill Samuel/ Susan King)</u>

The AFL-CIO has decided to target the entire California Congressional state delegation as well as the following 13 districts: Skaggs, (CO); Johnson (CN); Thomas/Deutsch (FL); Shimkus (IL); Luther (MN); Pappas (NJ); Lazio (NY); Lowey (NY); Sawyer (OH); Fox (PA); English (PA); and Goode (VA). [Voting records available]

Many of the targeted members have long-standing pro-trade voting records and there is some evidence (recent pro-Fast Track announcement by Skaggs is an example) that the ad campaign may backfire.

F. <u>Caucuses: CHC / CBC</u>

The Secretary has already demonstrated her effectiveness with these groups and this should continue to be a priority for the Secretary's time.

CHC - 17 Members: CHC Members who represent regions hit hard by NAFTA, have been critical of the "flaws in the structure and implementation of NAFTA" which displaced workers in their communities. In particular, they argue that the programs intended to alleviate NAFTA-related job losses have not worked as originally conceived. These programs include NAFTA's Transitional Adjustment Assistance Program (NAFTA-TAA), and programs sponsored by the North American Development Bank (NADBank) -- e.g., the Community Adjustment and Investment Program (CAIP). Moreover, they argue that these programs have accomplished little in the three years NAFTA has been in effect. (Voting records available)

-- The Secretary committed to working with the CHC on worker adjustment issues and, once the NEC has completed its work on options for program reform/expansion, it is imperative that the Secretary consult with CHC members (particularly Becerra and Reyes) on the package.

-- While reports show the number of Fast Track votes within the CHC may be few, there are issues of restoring faith at play here, and even a small number of pickups will help the Administration's overall position on Fast Track, especially given the opposition attempt to characterize it as "NAFTA II".

CBC - 39 Members: Members of the CBC have concerns about job losses in their districts, NAFTA parity (CBI), and attaching trade with South Africa to the fast-track bill. (Voting records available)

G. <u>Other caucuses: Blue Dogs and Freshmen</u>

The **Blue Dogs Coalition** is a group of 23 moderate-to-conservative Democrats. A closer examination demonstrates that Their voting record on trade is mixed and they do not appear to be a coherent group that should be part of the strategy. (Voting Record available)

Freshmen: There is a lot of concern about the misinformation about the nature of Fast Track authority and the way which the labor agreements have worked in the past. One natural target for a "Myth vs. Fact" campaign on what the President is seeking are the 42 first-term Democrats, particularly those who have already voted "Yes" on the one vote we can track -- MFN for China. (Voting record available)

H. Other.

-<u>One minutes for supporters</u> -- This has been an effective message tool in the past, and has been used by the Anti-Fast Track supporters (Bonior, Kaptur). We should work with the WH and OPA to shape daily message pieces for supporters to use in one minutes or other floor statements.

THE WINNING TRACK TO FAST TRACK

Vote Count on Major Trade Legislation

83 Always Voted YEA

BUT
3 opposed
4 leaning opposed
19 undecided

→ 83 Votes Total

62 Frequently Voted YEA

BUT
4 oppose
9 leaning oppose
29 undecided

→ 145 Votes Total

210 Swing Voters
(need 73 to reach 218 votes)
BEST CHANCE
6 supporters
29 leaning support
78 undecided

→ **218 VOTES !**

These members have voted YEA on all the recent major trade bills.
BUT according to the White House, 3 are opposed, 4 are leaning opposed and 19 are undecided.
They ALL should be natural supporters.

Member			Fast Track Lean 9/24	China MFN 1997	Fast Track 1993	NAFTA	GATT	Fast Track 1991
Brown, George	D	CA	Oppose	yea	yea	yea	yea	yea
Farr	D	CA	Oppose	yea	yea	yea	yea	
Frost	D	TX	Oppose	yea	yea	yea	yea	yea
Meehan	D	MA	Lean oppose	yea	yea	yea	yea	
Ortiz	D	TX	Lean oppose	yea	yea	yea	yea	yea
Pastor	D	AZ	Lean oppose	yea	yea	yea	yea	
Pickett	D	VA	Lean oppose	yea	yea	yea	yea	yea
Edwards	D	TX	Undecided	yea	yea	yea	yea	yea
Lowey	D	NY	Undecided	yea	yea	yea	yea	yea
McDermott	D	WA	Undecided	yea	yea	yea	yea	yea
Skelton	D	MO	Undecided	yea	yea	yea	yea	
Boehlert	R	NY	Undecided	yea	yea	yea	yea	yea
Cunnigham	R	CA	Undecided	yea	yea	yea	yea	yea
DeLay	R	TX	Undecided	yea	yea	yea	yea	yea
Franks, Bob	R	NJ	Undecided	yea	yea	yea	yea	
Goss	R	FL	Undecided	yea	yea	yea	yea	
Hansen	R	UT	Undecided	yea	yea	yea	yea	yea
Hoekstra	R	MI	Undecided	yea	yea	yea	yea	
Johnson, Nancy	R	CT	Undecided	yea	yea	yea	yea	yea
Lewis, Jerry	R	CA	Undecided	yea	yea	yea	yea	yea
Morella	R	MD	Undecided	yea	yea	yea	yea	yea
Nussle	R	IA	Undecided	yea	yea	yea	yea	yea
Oxley	R	OH	Undecided	yea	yea	yea	yea	yea
Porter	R	IL	Undecided	yea	yea	yea	yea	yea
Smith, Robert	R	OR	Undecided	yea	yea	yea	yea	yea
Thomas	R	CA	Undecided	yea	yea	yea	yea	yea

These members have frequently voted YEA on major trade bills, but 4 are oppose and 9 leaning opposed.

- What are their concerns that are holding them back from following their voting history on trade?

- We need to help those who are 29 undecided.

Member			Fast Track Lean 1997	China MFN 1997	Fast Track 1993	NAFTA	GATT	Fast Track 1991
Gordon	D	TN	Oppose	nay	yea	yea	yea	yea
Kennedy, Joseph	D	MA	Oppose	nay	yea	yea	yea	yea
Roybal-Allard	D	CA	Oppose	yea	nay	yea	yea	
Slaughter	D	NY	Oppose	yea	yea	nay	yea	yea
Baesler	D	KY	Lean oppose	yea	yea	yea	yea	nay
Boucher	D	VA	Lean oppose	yea	yea	nay	yea	yea
Dixon	D	CA	Lean oppose	yea	yea	nay	yea	yea
Jefferson	D	LA	Lean oppose	yea	nay	yea	yea	yea
Manton	D	NY	Lean oppose	yea	yea	nay	yea	yea
Meek	D	FL	Lean oppose	yea	nay	yea	yea	
Pelosi	D	CA	Lean oppose	nay	yea	yea	yea	yea
Riggs	R	CA	Lean oppose	yea				yea
Walsh	R	NY	Lean oppose	yea	yea	nay	yea	yea
Cardin	D	MD	undecided	nay	yea	yea	yea	yea
Deutsch	D	FL	undecided	yea	yea	nay	yea	
Johnson, EB	D	TX	undecided	yea	nay	yea	yea	
Kennelly	D	CT	undecided	yea	yea	nay	yea	yea
Markey	D	MA	undecided	nay	yea	yea	yea	yea
McNulty	D	NY	undecided	yea	yea	nay	yea	yea
Minge	D	MN	undecided	yea	yea	nay	yea	
Roemer	D	IN	undecided	yea	yea	nay	yea	yea
Schumer	D	NY	undecided	yea		nay	yea	yea
Barton	R	TX	undecided	nay	yea	yea	yea	yea
Buyer	R	IN	undecided	yea	yea	yea	yea	nay
Callahan	R	AL	undecided	yea	yea	yea	yea	nay
Cox	R	CA	undecided	nay	yea	yea	yea	yea
English	R	PA	undecided	yea				yea
Fowler	R	FL	undecided	nay	yea	yea	yea	
Goodling	R	PA	undecided	nay	yea	yea	yea	yea
Hobson	R	OH	undecided	nay	yea	yea	yea	yea
Istook	R	OK	undecided	yea	yea	yea	nay	
Kasich	R	OH	undecided	nay	yea	yea	yea	yea
Knollenberg	R	MI	undecided	yea		yea	yea	
Paxon	R	NY	undecided	nay	yea	yea	yea	yea
Regula	R	OH	undecided	yea	yea	nay	yea	yea
Saxton	R	NJ	undecided	yea	yea	nay	yea	yea
Schiff	R	NM	undecided		yea	yea	nay	yea

Member			Fast Track Lean 1997	China MFN 1997	Fast Track 1993	NAFTA	GATT	Fast Track 1991
Skeen	R	NM	undecided	yea	yea	yea	nay	yea
Smith, Nick	R	MI	undecided	nay	yea	yea	yea	
Talent	R	MO	undecided	yea	yea	nay	yea	
Tauzin	R	LA	undecided	yea	yea	nay	yea	yea
Upton	R	MI	undecided	nay	yea	yea	yea	yea
Molinari	R	NY		nay	yea	yea	yea	yea
Weldon, Curt	R	PA		yea	yea	nay	yea	yea

These are the swing voters. We need 56 of these, plus those who always and frequently vote for trade.
- There are 6 supporters and 29 leaning support, we need to hang on to these.
- There are 78 Members who are undecided among these swing voters.
- 134 of the 210 listed here have only voted for China MFN. Those who are leaning support would benefit most from a ILAB/OCIA/CHECO educational outreach.

Member			Fast Track Lean 1997	China MFN 1997	Fast Track 1993	NAFTA	GATT	Fast Track 1991
Tauscher	D	CA	Support	yea				
Davis	D	FL	Support	yea				
Blumenauer	D	OR	Support	yea				nay
Latham	R	IA	Support	yea				
Christensen	R	NE	Support	yea				nay
Kelly	R	NY	Support	yea				
Snyder	D	AR	Lean support	yea				
Sherman	D	CA	Lean support	yea				
Boswell	D	IA	Lean support	yea				
John	D	LA	Lean support	yea				
Ford	D	TN	Lean support	yea				
Bentsen	D	TX	Lean support	yea				
Doggett	D	TX	Lean support	yea				
Dickey	R	AR	Lean support	nay	yea	yea	nay	
Salmon	R	AZ	Lean support	yea				
Gallegly	R	CA	Lean support	yea	yea	nay	nay	yea
Weller	R	IL	Lean support	yea				
McIntosh	R	IN	Lean support	yea				
Moran, Jerry	R	KS	Lean support	yea				
Ehrlich	R	MD	Lean support	nay				
Emerson	R	MO	Lean support	yea				
Wicker	R	MS	Lean support	yea				
Myrick	R	NC	Lean support	nay				
Chabot	R	OH	Lean support	yea				nay
Watkins	R	OK	Lean support	yea				
Watts	R	OK	Lean support	nay				
Sanford	R	SC	Lean support	nay				
Brady	R	TX	Lean support	yea				
Granger	R	TX	Lean support	yea				
Thornberry	R	TX	Lean support	yea				
Davis	R	VA	Lean support	yea				
Hastings, Doc	R	WA	Lean support	yea				
Nethercutt	R	WA	Lean support	yea				
White	R	WA	Lean support	yea				
Sensenbrenner	R	WI	Lean support	nay	yea	yea	nay	yea
Filner	D	CA	Undecided	yea	nay	nay	yea	

Member			Fast Track Lean 1997	China MFN 1997	Fast Track 1993	NAFTA	GATT	Fast Track 1991
Hill	R	MT	Undecided	yea				
Coble	R	NC	Undecided	yea	nay	yea	nay	yea
Jones	R	NC	Undecided	nay				
Taylor, Charles	R	NC	Undecided	yea	yea	nay	nay	yea
Bass	R	NH	Undecided	yea				nay
Sununu	R	NH	Undecided	yea				
Frelinghuysen	R	NJ	Undecided	yea				
LoBiondo	R	NJ	Undecided	nay				
Pappas	R	NJ	Undecided	nay				
Redmond	R	NM	Undecided	yea				
Gibbons	R	NV	Undecided	nay				
Gilman	R	NY	Undecided	nay	yea	nay	yea	nay
McHugh	R	NY	Undecided	yea	yea	nay	nay	yea
Ney	R	OH	Undecided	yea				
Coburn	R	OK	Undecided	nay				
Largent	R	OK	Undecided	yea				
Fox	R	PA	Undecided	yea				
Peterson, John	R	PA	Undecided	yea				
Pitts	R	PA	Undecided	yea				
Shuster	R	PA	Undecided	yea	nay	nay	yea	yea
Graham	R	SC	Undecided	nay				
Thune	R	SD	Undecided	yea				
Bryant, Ed	R	TN	Undecided	yea				nay
Jenkins	R	TN	Undecided	yea				
Sessions	R	TX	Undecided	yea				
Cannon	R	UT	Undecided	yea				
Cook	R	UT	Undecided	nay				
Wolf	R	VA	Undecided	nay	yea	yea	nay	yea
Klug	R	WI	Undecided	nay	yea	yea	nay	yea
Cubin	R	WY	Undecided	nay				

Member			Fast Track Lean 1997	China MFN 1997	Fast Track 1993	NAFTA	GATT	Fast Track 1991
Harman	D	CA	Undecided	yea		nay	yea	
Lofgren	D	CA	Undecided	yea				
Millender-McDonald	D	CA	Undecided	yea				
Wexler	D	FL	Undecided	nay				
McGovern	D	MA	Undecided	yea				
Baldacci	D	ME	Undecided	yea				nay
Kilpatrick	D	MI	Undecided	nay				
Luther	D	MN	Undecided	yea				
McCarthy, Karen	D	MO	Undecided	yea				
McIntryre	D	NC	Undecided	nay				
Price	D	NC	Undecided	yea				
Pomeroy	D	ND	Undecided	yea	nay	nay	yea	
LaFalce	D	NY	Undecided	yea	yea	nay	yea	nay
Maloney, Carolyn	D	NY	Undecided	yea	nay	nay	yea	
Hall, Tony	D	OH	Undecided	nay	yea	nay	yea	yea
Fattah	D	PA	Undecided	yea				
Hall, Ralph	D	TX	Undecided	yea	yea	nay	nay	yea
Kind	D	WI	Undecided	yea				
Aderholt	R	AL	Undecided	nay				
Hutchinson	R	AR	Undecided	yea				
Hayworth	R	AZ	Undecided	yea				
Shadegg	R	AZ	Undecided	yea				
Bilbray	R	CA	Undecided	yea	yea	nay	nay	yea
Radanovich	R	CA	Undecided	yea				
Rogan	R	CA	Undecided	nay				
Hefley	R	CO	Undecided	nay	yea	yea	nay	yea
McInnis	R	CO	Undecided	nay	yea	yea	nay	
Schaffer, Bob	R	CO	Undecided	nay				
Bilirakis	R	FL	Undecided	yea	yea	nay	nay	yea
Weldon, Dave	R	FL	Undecided	nay				
Norwood	R	GA	Undecided	nay				
Ganske	R	IA	Undecided	nay				
LaHood	R	IL	Undecided	yea				
Shimkus	R	IL	Undecided	yea				
Pease	R	IN	Undecided	yea				
Souder	R	IN	Undecided	nay				
Ryun	R	KS	Undecided	yea				
Snowbarger	R	KS	Undecided	yea				
Northup	R	KY	Undecided	yea				
Whitfield	R	KY	Undecided	yea				
Cooksey	R	LA	Undecided	yea				
Bartlett	R	MD	Undecided	nay	yea	nay	yea	nay
Ehlers	R	MI	Undecided	yea				
Gutknecht	R	MN	Undecided	yea				
Blunt	R	MO	Undecided	nay				
Hulshof	R	MO	Undecided	yea				
Pickering	R	MS	Undecided	nay				

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THE FAILED EXPERIMENT

NAFTA at Three Years

June 26, 1997

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EMBARGOED until 8 a.m., Thursday, June 26 **CONTACTS:** See Page 2

NAFTA A FAILURE THUS FAR, GROUP REPORTS, SHOULD BE REPEALED OR DRASTICALLY REVISED
Treaty Failed to Fulfill Predictions Made by Promoters

WASHINGTON – The North American Free Trade Agreement (NAFTA) has failed to perform as promised and should be repealed or significantly restructured, reports a coalition of six policy-research organizations. Although NAFTA has benefited some sectors of the economy, its overall impact on working families in the three signatory countries – the United States, Canada and Mexico – has been negative.

In anticipation of the release by President Clinton of a congressionally mandated "comprehensive study on the operation and effects" of NAFTA, the group has prepared a report that examines the overall impact of NAFTA since its implementation. ***The Failed Experiment: NAFTA at Three Years*** evaluates the promised benefits of the agreement in several broad areas: the general economies of the participating countries, the living standards of their populations, labor relations throughout North America, and the continent's environment. It finds that NAFTA has fallen far short in each of these areas.

In the United States, NAFTA:

* Put downward pressure on wages and living standards;
* Created "deep and probably chronic" trade deficits with its neighbors;
* Displaced more than 400,000 jobs;
* Weakened workers' rights and reduced employee bargaining power;
* Exacerbated environmental and public-health damage along the U.S.-Mexico border;
* Compromised food safety standards; and
* Increased drug trafficking due to insufficient border inspections and heavier truck traffic from Mexico.

In Mexico, NAFTA:

* Precipitated the 1994 peso collapse, which led to an economic depression;
* Eliminated more than 2 million jobs;

* Reduced real hourly wages by 27 percent from 1994 levels;
* Caused the failure of more than 28,000 small businesses; and
* Weakened labor standards and increased violations of worker rights.

Canada, too, has suffered the continued effects of a recession that began in 1989 with the ratification of the original U.S.-Canada Free Trade Agreement. The effective merger with the U.S. economy has increased unemployment and forced Canada to begin to dismantle its longstanding social safety net, resulting in falling standards of living for the average Canadian.

The six organizations that contributed to the report concluded that NAFTA should be scrapped or significantly revised in order to create a trade agreement that complements the goal of high and rising living standards for all workers.

The organizations are the Economic Policy Institute; the Institute for Policy Studies; the International Labor Rights Fund; Public Citizen's Global Trade Watch; the Sierra Club; and the U.S. Business and Industrial Council Educational Foundation.

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THE FAILED EXPERIMENT: NAFTA AT THREE YEARS

Executive Summary

The President is required to submit "a comprehensive study on the operation and effects" of NAFTA to Congress by July 1st. In this report, several organizations concerned with the well-being of working families and the environment perform their own evaluation of NAFTA's track record. Although NAFTA clearly has been good for some North Americans, the costs – to *many more* North Americans – have been much heavier:

U.S. Wages

For nearly two decades, the real wages of American blue-collar workers have been declining. Imports from low-wage countries are an especially important cause of increasing wage inequality, and Mexico is one of America's most important low-wage trading partners.

- Between 1993 and 1995, Mexican goods made up 26.7% of the increase of U.S. imports from non-industrialized, low-wage countries. Mexico was also responsible for 43.5% of the increase in U.S. deficits with these countries.

- Many firms have used the threat of moving to Mexico as a weapon against wage increases and union organization. In a survey commissioned by the NAFTA Labor Secretariat, Professor Kate Bronfenbrenner of Cornell found that over half of the firms used threats to shut down operations to fight union organizing drives. When forced to bargain with a union, 15% of firms actually closed part or all of a plant—triple the rate found in the late 1980s, before NAFTA.

Trade Balances and Job Losses in the U.S.

- In 1996, exports were 36.3% higher to Mexico and 33.4% higher to Canada than in 1993. *Growth in U.S. imports from Mexico and Canada, however, was much larger—82.7% and 41.1%, respectively, over the same period.* As a result, a U.S. surplus with Mexico of $1.7 billion in 1993 became a deficit of $16.2 billion in 1996. America's overall deficit with the NAFTA countries hit $39 billion in 1996, an increase of 332% from 1993.

- Based on standard employment multipliers, the increase in the U.S. trade deficit with Mexico and Canada has cost the U.S. 420,208 jobs since 1993 (250,710 associated with changes in the trade balance with Mexico, and 169,498 with Canada). NAFTA was responsible for 38% of the decline in manufacturing employment since 1989. NAFTA and globalization generally have changed the composition of employment in America, stimulating the growth of lower paying services industries and accelerating the deindustrialization of our economy.

NAFTA and the Peso Crisis

- The 1995 peso crisis is commonly used to excuse the sharp deterioration of the U.S. trade balance with Mexico. However, NAFTA was the foundation for an aggressive export-led growth strategy in Mexico. This assumed that expanding Mexico's exports would create jobs for Mexico's rapidly expanding workforce and steadily increase living standards. The peso *had* to fall in order for this strategy to succeed. As Professor Robert Blecker of American University put it, "*Mexico had to devalue the peso in order to attract the direct foreign investment and export-oriented manufacturing that the NAFTA agreement was designed to promote.*"

- The peso crisis is also intricately linked with the politics of NAFTA. The artificially high peso held down inflation in Mexico, helped to win votes in the U.S. Congress for passage of NAFTA in 1993, and improved the electoral prospects of Mexican Presidential candidate Ernesto Zedillo in 1994.

- The real value of the peso has been climbing steadily since late 1995 at 5 – 7% *per quarter*. The Mexican government has been stimulating the economy in advance of next month's elections. Past experience suggests that Mexico's next sudden devaluation, and even deeper depression, are only a matter of time.

Mexico

- The peso collapse has devastated Mexico's economy. The number of unemployed workers doubled between mid-1993 and mid-1995, to nearly 1.7 million. Additionally, there were 2.7 million workers employed in precarious conditions in 1996. To make ends meet, many families are forced to send their children—as many as 10 million—to work, violating Mexico's own child labor law. An estimated 28,000 small businesses in Mexico have been destroyed by competition with huge foreign multinationals and their Mexican partners. Real hourly wages in 1996 were 27% lower than in 1994 and 37% below 1980 levels. Of the 1995 working population of 33.6 million, 19% worked for less than the minimum wage, 66% lacked any benefits, and 30% worked fewer than 35 hours per week. During three years of NAFTA, the portion of Mexican citizens who are "extremely poor" has risen from 32 to 51%, and 8 million people have fallen from the middle class into poverty.

Canada

- Canada has been mired in recession since shortly after entering into the U.S.-Canada Free Trade Agreement in 1989. Unemployment increased from 7.5% in 1989 to 11.3% in 1992. Joblessness fell back to 9.4%, but has risen slightly in 1997, to 9.6%. Canada's policies and practices are being harmonized with those of the rest of North America -- downward. Between 1989 and 1995, Canada's real interest rate was 2.9% higher than in the U.S. As a result, Canada is cutting government outlays sharply and dismantling its social safety net, while increasing its unemployment rate.

NAFTA and Labor Rights

Significant areas of labor rights are excluded from effective review by NAFTA enforcement agencies.

- To date the North American Agreement on Labor Cooperation (NAALC) has completed only five public reviews of complaints of labor violations. Four of these five complaints have centered upon labor rights violations in Mexico. None of the workers involved in these complaints - more than 200 in total – was reinstated or compensated for serious labor rights violations. A new section is needed in the NAFTA agreement to provide real remedies for labor violations.

The Environment and Public Safety.

Three years of evidence demonstrate conclusively that the unregulated expansion of North American trade has made an already heavily polluted border region much dirtier and more dangerous; and that the institutions created by NAFTA to handle environmental and public safety problems are utterly inadequate.

- The NAFTA clean up plan for the U.S. Mexico border has failed, generating only 1 percent of the promised clean-up money. Ozone levels in El Paso have increased steadily since NAFTA. The rate of Hepatitis-A in the border region rose to between 2 and 5 times the U.S. average.

- NAFTA opened the U.S. borders to trucks that don't meet U.S. safety standards. Fewer than 1 percent of the 3.3 million trucks entering the U.S. each year are inspected. 50% of those inspected are rejected for major safety violations.

- NAFTA has weakened food safety inspections. Strawberries, head lettuce, and carrots from Mexico have violation rates of 18.4%, 15.6% and 12.3%, respectively, for illegal pesticide residues.

- The Ethyl Corporation of Virginia has filed a $250 million suit against Canadian government, under NAFTA rules, after Canada banned a toxic gasoline additive. If Ethyl wins its case, governments will have to pay polluters not to pollute in order to protect public health.

- NAFTA weakened border inspections of U.S. trade. A tragic side effect was to increase the transshipment of illegal drugs. Transshipment of illegal drugs through Mexico has increased greatly. 80% of the cocaine now entering the U.S. comes through Mexico.

Conclusions

Before it can be expanded, NAFTA should be revised to include enforceable labor and environmental standards, effective adjustment assistance, financial market regulation, and protection of national safety nets for those left out of the benefits of trade.

* * *

INTRODUCTION

During the debate over the North American Free Trade Agreement (NAFTA), supporters and opponents based their cases largely on divergent predictions of the treaty's likely impact. Supporters expected NAFTA to produce major benefits for the economies of the three signatory countries (the United States, Canada, and Mexico), the living standards of their populations, labor relations throughout North America, and the continent's environment; opponents foresaw worsening problems on all fronts.

Today, the agreement has been in effect for three and a half years. Just as important, the policies of breakneck deregulation that Mexican governments have followed in preparation for greater, NAFTA-style North American economic integration have been in effect for a decade. Thus, NAFTA has begun to establish a track record. There is no more need to rely on predictions.

The President is required to submit "a comprehensive study on the operation and effects" of NAFTA to Congress by July 1. This report will no doubt reiterate the position taken consistently by the Administration for the last three years—that the treaty has either fulfilled expectations or is moving steadily in that direction. Indeed, the Administration considers NAFTA to be so successful as to justify its extension to include the entire Western Hemisphere. NAFTA critics strongly disagree.

In this report, several organizations concerned with the well-being of average men and women throughout the continent perform their own evaluation of NAFTA's track record and the economic strategies that produced it.

The organizations behind this report believe that the overriding goal of economic policy should be the creation of conditions that lead to high and rising standards of living, including improvements in environmental quality, health, and social conditions, throughout society. Except as they support this goal, increased employment, reduced inflation, higher productivity, greater volume of trade, even faster overall economic growth cannot be ends in themselves. Economic policy is successful only if it produces better lives up and down the income ladder, and it fails if it does not achieve these results. The evidence presented in this report makes abundantly clear that, by this test, the NAFTA approach to North American economic integration has failed dismally. NAFTA should not be extended, but rather repealed or drastically modified.

NAFTA clearly has been good for some North Americans. Exports to Mexico and Canada have produced many new jobs in the United States. U.S. and Canadian investments in Mexico now enjoy strong legal protection. Financial speculators in North America and around the world benefited from a U.S. taxpayer-financed bailout of Mexico. And employers in North America and worldwide have been able to hire workers in the United States, Mexico, and Canada at ever lower wage and benefit levels.

But the costs -- to *many more* North Americans -- have been much heavier. Wages and living standards have seen downward pressure in all three countries, and workers' rights and bargaining power have been weakened. Damage to the North American environment has intensified. Food supplies are increasingly at risk of contamination. The cross-border trade in illegal drugs has accelerated. For the average citizen of any of the three signatory countries, NAFTA has been a failure.

Rather than produce large and growing U.S. trade surpluses with its neighbors, as proponents guaranteed, NAFTA has plunged America's regional trade into deep and probably chronic deficit. Instead of the promised net new jobs in the United States, NAFTA-encouraged trade and investment patterns have displaced more than 400,000 American jobs on net. Most important, NAFTA has helped to depress U.S. wages and living standards. Workers have been hurt by the availability of cheap labor in Mexico and by great reductions in the bargaining power they hold with their employers. NAFTA's labor side agreement has failed utterly to protect the rights of workers or the enforcement of labor standards. U.S. environmental and public health laws have been subverted, and the quality of the U.S. food supply has been dangerously compromised.

In Mexico, the costs of NAFTA have been even worse. NAFTA-style economics mired the country in slow growth and, after the treaty's passage, led directly to the peso's collapse in 1994. The toll: more than 2 million lost jobs; 28,000 small businesses destroyed; weaker, less enforceable labor standards and rampant violations of existing worker rights; a rise in already high levels of official corruption; a slowing of the democratic reform process; and the outbreak of revolutionary movements such as that in Chiapas. Indeed, one of the greatest ironies of NAFTA is that a treaty aimed in large part at stabilizing Mexico has heightened social and political disorder. In addition, environmental and public health conditions in the U.S.-Mexico border area have significantly worsened.

Canada's experience, too, has been negative. Canada entered a recession shortly after entering the U.S.-Canada Free Trade Agreement in 1989 and, as a result, has not escaped high levels of unemployment and poor wage growth. Free trade makes impossible Canada's strategy of high social spending and a strong safety net. International financial markets are making Canada pay dearly for this strategy and are forcing its gradual abandonment. Health care, education, and pension systems in Canada are being dismantled in the name of increased competitiveness under NAFTA.

The strategies and rules that produced such results should not be perpetuated, let alone extended. Instead, the entire NAFTA approach to North American economic development should be scrapped. The United States should take the lead in developing new, enforceable rules of trade capable of bringing the benefits of trade expansion to working people throughout North America and eventually the rest of the Western Hemisphere.

JOBS, WAGES, AND THE ECONOMY

United States

This section was prepared by the Economic Policy Institute

The Clinton Administration and other NAFTA supporters portray the agreement as an unqualified boon for the U.S. economy. The facts, however, tell an entirely different story: NAFTA and the policy of unregulated trade that it represents have harmed many more Americans than they have helped.

NAFTA's principal beneficiaries have been multinational investors. This result has followed naturally from the negotiating strategies of the Bush and Clinton administrations. Protections for the interests of investors and owners of intellectual property were their highest priorities and were included in the treaty's main text. The interests of workers and the environment were much lower priorities and were addressed only in weak side agreements.

Yet improving corporate profits is not the sole or even the most important measure of success for a nation's trade and other economic policies. The overriding concern should be promoting high and continually rising standards of living for the great majority of citizens. If economic policies do not achieve this goal, they must be judged failures. By this test, NAFTA has failed. In fact, since the passage of NAFTA and the adoption of NAFTA-style economics in Mexico years before, living standards have fallen in all three countries and for the great majority of North Americans. NAFTA was not a primary cause of this trend, but it has clearly made it worse.

Wages

Income inequality has risen substantially in the United States in recent years. For nearly two decades, the real wages and compensation of American blue-collar workers have been declining. Hourly compensation for non-supervisory production workers fell by about 9.5% between 1979 and 1995 (Mishel, Bernstein, and Schmitt 1997).

Several explanations for deteriorating living standards have been offered, including declining rates of unionization, erosion in the real value of the minimum wage, the globalization of the economy, large immigration inflows, and technological change. Disentangling the impact of these factors is difficult, because they interact in many ways. An emerging consensus, however, holds that trade policy alone is responsible for 15% to 25% of the growth in the income gap that has occurred in the 1980s and 1990s. The real effect may be substantially larger: Mishel *et al.* (1997) find that, between 1979 and 1989, trade can explain 29.8% of the relative decline in the wages of non-college-educated workers and an even larger share of the decline in production worker wages.

Imports from low-wage countries appear to be especially important causes of increasing wage inequality. Mexico is one of America's most important low-wage trading partners. Between 1993 and 1995, Mexico was responsible for 26.7% of the increase of U.S. imports from non-industrialized, low-wage countries. Mexico is also responsible for 43.5% of the increase in U.S. deficits with these countries (Scott 1997). By encouraging increased imports from Mexico, NAFTA plainly has worsened the already substantial income inequality effects of current U.S. trade policies.

Trade with low-wage countries like Mexico drives down U.S. wages in several ways. First, it increases trade deficits, which destroy high-paying jobs in goods-producing industries. When the economy is at full employment, this is manifest as an increase in the share of overall employment in lower-paying non-traded-goods industries (e.g., services). As will be discussed later, by producing skyrocketing U.S. deficits with Mexico, NAFTA has led to precisely these results. Second, the import of parts and other production inputs reduces U.S. employment per unit of output. This hollowing out of production processes reduces the demand for blue-collar workers. Third, imports of lower-priced goods, especially from low-wage countries, depress wages by reducing the marginal value of worker output. Fourth, flows of investment abroad reduce investment in domestic goods production, lowering potential productivity and capacity at home. Fifth, and perhaps most important, wages in the goods-producing sectors have historically set the pattern for wages in the rest of the economy. The decline of U.S. manufacturing employment, and of manufacturing wages, puts severe downward pressure on blue-collar wages in the services sector, which accounts for the great majority of output and employment in the United States.

Finally, outward foreign direct investment (FDI) has had a chilling effect on the labor bargaining climate in the United States. Specifically, many firms have used the threat of moving to Mexico as a weapon against wage increases and union organizers. In a report commissioned by the NAFTA Labor Secretariat, Professor Kate Bronfenbrenner of Cornell University (1996) conducted a major survey of firms facing union organizing and contract campaigns. She found that over half of these firms used threats to shut down operations to fight union organizing drives. NAFTA has made these threats more credible. When forced to bargain with a union, 15% of firms actually closed part or all of a plant—triple the rate found in the late 1980s, before NAFTA (Bronfenbrenner 1996).

Indeed, corporations are using NAFTA and unregulated trade with other low-income countries to roll back most of the gains that American workers have won over the last century. In veiled threats, they warn—quite correctly—that any effort to maintain or upgrade labor standards in the U.S. will mean more job flight. NAFTA itself, for example, has been one of the biggest sticks used to fight such proposed measures as an increase in the minimum wage.

Worse, since NAFTA's implementation U.S. and foreign multinationals have found Mexico's wage rates more attractive than ever. As discussed below, due largely to the NAFTA-related peso crisis, during the 1990s the already wide wage gap between U.S. and Mexican workers widened further—from a roughly [illegible] ratio on the eve of NAFTA's implementation to 11:1 today (Blecker 1997). Even with a first-class retraining program for American workers—which neither the administration nor Congress has been willing to finance—U.S. workers cannot be made anywhere near 11 times as productive as Mexican workers in competing industries. And U.S. workers' remaining productivity advantage will surely erode, for labor that is cheap to hire is also cheap to train.

Finally, continued high levels of immigration from Mexico also help drive down American wages. Americans were promised that NAFTA-induced prosperity would reduce illegal immigration from Mexico. Instead, the loss of 28,000 small businesses and 2 million jobs (Imaz 1997), along with a real wage drop of 20% (Blecker 1997) have had predictable results: many Mexicans continue to seek their fortunes in the United States.

Trade Balances

As promised by NAFTA supporters, U.S. exports to Mexico and Canada both rose quickly after passage. In 1996, exports were 36.3% higher to Mexico and 33.4% higher to Canada than in 1993. *Growth in U.S. imports from Mexico and Canada, however, was much larger—82.7% and 41.1%, respectively, over the same period.* As a result, a U.S. surplus with Mexico of $1.7 billion in 1993 became a deficit of $16.2 billion in 1996. The overall U.S. deficit with the other NAFTA countries hit $39 billion in 1996, an increase of 332% from 1993 (Scott and Lee 1997).

The trade deficit with Canada stems primarily from the appreciation of the U.S. dollar vis-à-vis the Canadian dollar between 1991 and 1996. This appreciation has resulted in large deficits in industries ranging from vehicles to wood to paper to steel.

The Office of the U.S. Trade Representative (USTR) argues that "the sharp negative swing" in the U.S.-Mexican trade balance was the result of "Mexico's peso crisis and resulting recession, not the NAFTA" (USTR 1997a). *But the peso crisis is a false alibi.* The adverse trends in U.S. imports from Mexico began well in advance of the peso crisis, and import growth has outpaced export growth in every year since. Indeed, the U.S. already had a monthly trade deficit with Mexico in October 1994 (months before the December 26 peso devaluation). More important, as will be discussed later, the peso crisis was itself a result of the Mexican growth strategy that NAFTA was intended to promote.

Most of the growing U.S. deficit with Mexico is concentrated in high value-added manufacturing industries. Transportation equipment has suffered an increased deficit with Mexico of $11.5 billion since 1993, or 64% of the deficit's total increase. In the slightly narrower sector of vehicles and auto parts, the U.S. deficit jumped by more than 400%, to $14.6 billion. Other industries with large losses include electrical and non-electrical machinery (Scott 1997).

These findings contradict predictions that Mexico, under NAFTA, would specialize in the export of low-wage, low-tech manufactured goods such as clothing and textiles: The motor vehicle industry is a high-wage, high-skilled sector. The NAFTA experience shows that Mexican workers can easily be trained to perform some of the best jobs that U.S. industry creates.

Job Losses in the U.S.

In 1993, backers of NAFTA claimed that increased trade with Mexico would create at least 200,000 good jobs in the U.S. These claims were based on forecasts of sizable trade surpluses with Mexico for about 15 years. Despite the United States' large NAFTA deficits, however, USTR still claims that nearly 311,000 new jobs have been created by trade with the NAFTA countries (USTR 1997d). These claims are based on the obvious point that exports create jobs. Yet they completely ignore the flip side—that the far greater flows of NAFTA imports have been displacing many more jobs.

The USTR notes that not all imports destroy jobs, because many imported goods are not available in the United States. Yet this point is only minimally relevant to current U.S. trade with Mexico, because the great majority of the increase in imports has occurred in manufactured products such as motor vehicles and parts. These could easily have been produced in the United States, and jobs are destroyed when these goods are imported.

In addition, a large portion of U.S. exports to Mexico consists of components used in the manufacture of products that are then re-exported back to the United States. In many cases, the manufacture was formerly done in U.S. factories, without exports. When those factories closed and moved to Mexico (or Canada), the parts followed the facilities to their new location. *These "new" exports in no way result in the creation of any new jobs or output in the U.S.* Therefore, since a significant share of U.S. exports to Mexico and Canada are used to produce goods for the U.S. market, the only sensible, consistent way to measure the impact of trade is to use changes in the trade balance.

USTR's insistence on considering only the effects of exports while ignoring imports in evaluating NAFTA's impact raises serious questions about the office's intellectual integrity. Its position amounts to permitting only the benefits, but none of the costs, of NAFTA to be examined—to balancing a checkbook by counting only deposits, but not withdrawals.

When imports are included, Scott and Lee (1997) have shown that the increase in the U.S. trade deficit with Mexico and Canada has cost the U.S. 420,208 jobs since 1993 (250,710 associated with changes in the trade balance with Mexico, and 169,498 with Canada).

Many NAFTA proponents counter that the kinds of export sector jobs NAFTA has created pay higher-than-average wages, allegedly so high that they make up for net job losses. Thus USTR argues, "Our export industries are among our most productive and dynamic of all U.S. industries. The jobs they support pay wages that are 13% to 16% higher than the U.S. national average wage" (USTR 1997d). But the relevant comparison for export jobs is not with the national average. The national average includes plenty of low-wage service jobs that are not directly subject to international competition. Industries in which imports are increasing rapidly pay wages well above the national average. In fact, an Economic Policy Institute analysis found that average wages in these industries are slightly higher than wages in industries where exports are growing rapidly.

Part of the legislation accompanying NAFTA's passage provided for worker training and other adjustment programs for workers displaced by NAFTA-generated trade. These programs must also be counted as failures. The Department of Labor has certified that, by May of this year, 127,000 workers had lost their jobs because of increased imports from Canada or Mexico. Only 5,300 workers have actually received NAFTA transitional adjustment assistance (USTR 1997d). Clearly, these programs are helping only a tiny fraction of the population they were intended to reach.

The USTR notes that 8.6 million workers were involuntarily displaced from their jobs between January 1994 and October 1996. They then argue that NAFTA was responsible for a tiny share of these displacements. However, imports compete primarily with the manufacturing sector, which is a relatively small part of the total economy. Between 1989 (the last cyclical peak) and 1996, the U.S. lost 1.1 million manufacturing jobs (Bureau of Labor Statistics 1997). The NAFTA Trade Adjustment Assistance Program (NAFTA-TAA) certified job losses were 11.5% of this total. If we instead use our estimate of 420,000 jobs lost, which includes job opportunities that were not created, then NAFTA was responsible for 38% of the decline in manufacturing employment since 1989. NAFTA was clearly a major factor in the continued decline of U.S. manufacturing employment.

Fortunately, U.S. economic growth has been strong over the last three years. Many displaced workers have found alternative work. Even in 1995, however, the median number of weeks that workers spent looking for work was 13.7 (USTR 1997d). The USTR lauds this as a positive sign; however, few families have the resources to support themselves through such a long "transition" period. The bottom 40% of American families have only enough assets, on average, to survive two weeks without employment (Rasell 1997).

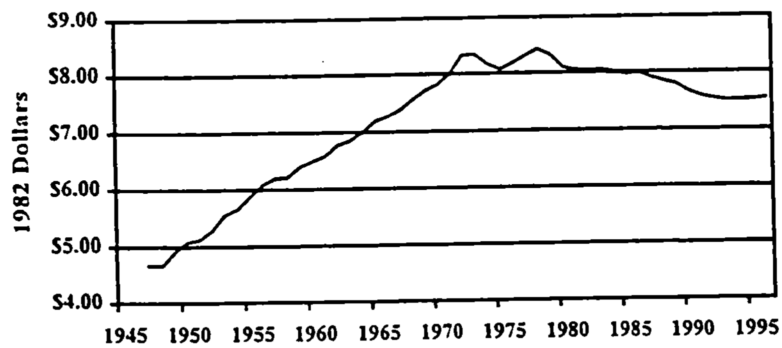
Why, however, does this NAFTA damage not affect U.S. macroeconomic indicators more substantially? After all, as the USTR points out, the U.S. economy saw a net increase of 1.7 million jobs in 1995 (USTR 1997d). The answer is simple, though usually overlooked.

The United States is currently in the midst of one of the strongest and most prolonged economic upswings in decades. Unemployment, at last notice, is down to 4.8%. This is very good news. But economies forever swing between expansion and recession; despite our best efforts, this cycle has never been conquered. The bottom of the last U.S. recession came in 1991-92; since then, the economy has been in expansion. It is impossible to attribute this economic expansion to NAFTA; it began well in advance of the beginning of freer trade with Mexico, and is far too large to have been produced by U.S. trade with Mexico.

This expansion, moreover, has obscured many of NAFTA's negative effects. Extraordinarily strong job creation in the domestic market has more than made up for the number of jobs lost to Mexico. But the U.S. unemployment rate will not remain below 5% forever, and when the next downturn comes, the jobs lost due to NAFTA will be sorely missed. Even now, wage growth is lower than it would have been had those jobs been kept.

In real terms, U.S. wages increased by about \$.03 per hour in 1996 (see Figure 1). However, this still leaves workers about \$.04 per hour below where they were in 1991. At this late stage in the recovery, it is normal to see an uptick in wages. They increased \$.02/hour in 1983 and \$.03/hour in 1986. However, there is *no evidence that any reversal has taken place in the long-run trend of declining real wages,* which began in 1973. Between 1947 and 1973 real wages increased, on average, by \$.14/hour. Next to this performance, even 1996's cyclical increase is tiny. On average, wages have been falling by \$.035/hour since 1973.

Figure 1. Real Hourly Earnings of U.S. Production and Non-supervisory Workers, 1947-1996



Source: Bureau of Labor Statistics, *Employment and Earnings*; Council of Economic Advisors, *Economic Report of the President*; Economic Policy Institute

Just as important, NAFTA and globalization generally have changed the composition of employment in America, stimulating the growth of lower-paying services industries and accelerating the deindustrialization of our economy.

NAFTA and the Peso Crisis

The 1995 peso crisis is commonly used to excuse the sharp deterioration of the U.S. trade balance with Mexico. Indeed, NAFTA supporters portray the crisis, which threw the Mexican economy into its deepest depression in history, as a shocking bolt from the blue that had nothing to do with the trade agreement. As the USTR's office writes, "The reason for the sharp negative swing [in the U.S. trade balance] with Mexico was Mexico's peso crisis and resulting recession, not the NAFTA" (USTR 1997a).

The facts, however, say otherwise. Between 1987 and 1994, the peso appreciated by about 75% in real terms against the U.S. dollar. As a result, Mexican labor became much more expensive in dollar terms, rising by 56% from 1990 to 1994 (Table 1). Mexico began to run unsustainable current account deficits, and eventually was forced to devalue. When the crisis hit, the peso lost about 50% of its value in 1995 (Figure 2), and the Mexican depression began.

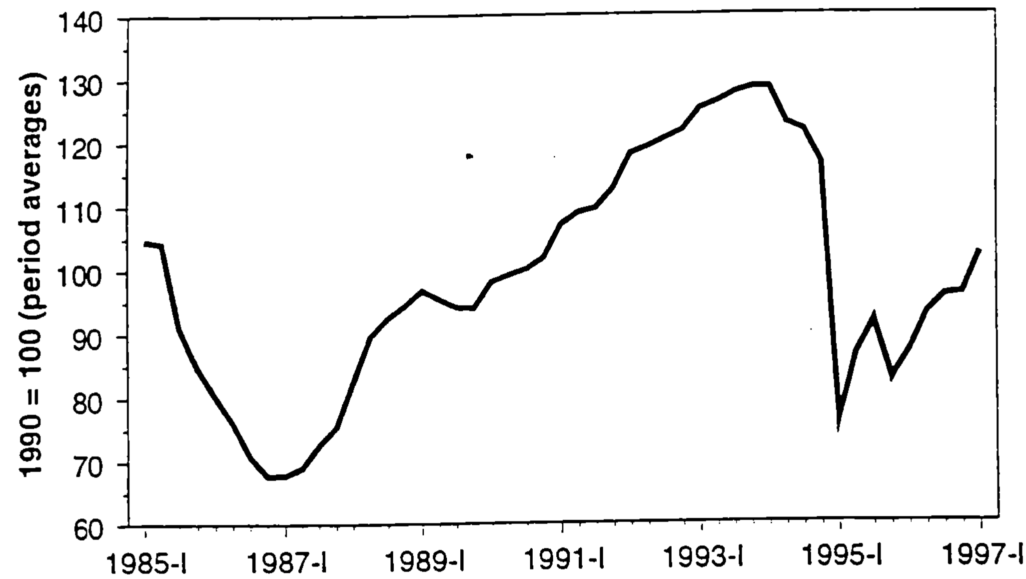
What role did NAFTA play? As Blecker (1997) points out, NAFTA was the foundation for an aggressive export-led growth strategy in Mexico. The peso *had* to be kept low or devalued if it rose in order for this strategy to succeed. "Simply put," in Blecker's words, "*Mexico had to devalue the peso in order to attract the direct foreign investment and export-oriented manufacturing that the NAFTA agreement was designed to promote.*" Indeed, attracting foreign investment was one of former Mexican President Carlos Salinas de Gortari's main reasons for supporting NAFTA in the first place.

The peso crisis is also intricately linked with the politics of NAFTA, in which the United States consciously promoted the regime of Carlos Salinas as a government of competent reformers. Now all agree that the Mexican government's handling of the financial collapse was disastrous. Had the Mexican government begun to devalue the peso earlier during its rise, a more gradual, less brutal adjustment might have been possible. Yet the Salinas government postponed the devaluation to serve its political goals. First, keeping the peso high held down inflation at home because the high peso made Mexican imports artificially cheap and made Salinas popular with Mexican voters. Second, postponing the devaluation until after the 1994 presidential election helped the electoral chances of Salinas' hand-picked successor, Ernesto Zedillo. (The overvalued peso, supplemented by a sudden boost in government spending immediately before the election, was instrumental in securing Zedillo's victory.) Finally, the high peso helped to win votes in the U.S. Congress for passage of NAFTA in November 1993. The overvalued Mexican currency gave the United States a temporary trade surplus with Mexico in 1991-93, creating the illusion that NAFTA would be a net job creator instead of a net job loser for Americans.

Because political considerations and short-term financial pressures are still perpetuating irresponsible Mexican macroeconomic policies, another peso crisis and Mexican economic crash seem to be approaching. Mexico's still-towering unemployment rate, its lack of strong, independent unions, and its rising labor surplus are preventing Mexican wages from rebounding even to their modest pre-crisis levels. With Mexican labor costs still 40% below these levels,

FIGURE 2

Real Value of the Mexican Peso, Quarterly, 1985 to 1997



Source: International Monetary Fund, International Financial Statistics, various issues, and author's calculations.

TABLE 1

Hourly Compensation Costs for Production Workers in Manufacturing in the U.S. and Mexico, in U.S. Dollars, 1990-96

	United States	Mexico	Mexico as Percentage of U.S.
1990	$14.91	$1.58	10.6%
1991	15.58	1.84	11.8
1992	16.09	2.17	13.5
1993	16.51	2.40	14.5
1994	16.86	2.47	14.8
1995	17.20	1.51	8.8
1996 (*estimated*)	17.77	1.51	8.5

Source: U.S. Department of Labor, Bureau of Labor Statistics, "International Comparisons of Hourly Compensation Costs for Production Workers in Manufacturing, 1995," Report 909, September 1996, and author's calculations.

foreign investors have been rushing back in (Blecker 1997). Thanks to the deregulation of Mexican finance required by NAFTA, the Mexican government is powerless to stop or even control these inflows. Thus, as a result of this new investment boom the peso has risen to unsustainable levels once again.

The real value of the peso has been climbing steadily since late 1995. It has already regained about 30% of its pre-crisis value, and is now growing about 5-7% *per quarter*. Moreover, the Mexican government has recently increased spending in order to stimulate the economy in advance of July's congressional elections. The result is a picture remarkably similar to that of early 1994. If past experience is any guide, Mexico's next sudden devaluation and an even deeper depression are only a matter of time.

Another round of devaluations will likely provide more convenient excuses for NAFTA's continued poor performance. Mexico will become even more attractive as an export platform. As new and expanded plants are completed in the maquiladora zone and elsewhere in Mexico, the bilateral trade deficit should soar ever higher. But Mexico's economy will be ever more tightly locked into a vicious cycle of financial boom and real economic bust. This vicious cycle is part of the current NAFTA package. Despite the supporters' protestations, we can't have one without the other. Given this reality, NAFTA should be revised to include safeguards to dampen excessive financial market volatility in Mexico.

Mexico

This section was prepared by the Economic Policy Institute and the United States Business and Industrial Council Educational Foundation

A NAFTA that hurts American workers might be partially justifiable if it spurred sound, vigorous economic development in Mexico. Yet as suggested above, a decade of NAFTA-like economic policies has shown no sign of jumpstarting desperately needed Mexican economic growth or of bettering the lives of the great majority of Mexicans. Indeed, despite promises that NAFTA would strengthen Mexico's stability, these policies are accomplishing exactly the opposite, by widening the already daunting gap between rich and poor.

Since the mid-1980s, Mexico's development strategy has aimed at "export-led growth." Mexican and U.S. leaders have predicted that boosting Mexico's exports will create jobs for Mexico's rapidly expanding workforce and steadily push living standards upward—as happened in East Asia. Tragically for Mexican workers, however, the Mexican government neglected many of the policies responsible for East Asia's success—e.g., sharply reducing rural poverty, improving education, and promoting high levels of domestic savings and investment. Instead, Mexican leaders viewed simple, NAFTA-driven liberalization of trade and foreign investment flows as a panacea.

Creating a more investment-friendly Mexico has done a world of good for multinational corporations who take advantage of Mexico's cheap wages to improve their own bottom lines and global competitiveness. In fact, Mexico has become a remarkably effective export platform to the United States. Many of the new U.S. exports to Mexico are parts to be further manufactured or assembled in maquiladoras; over 80% of Mexico's exports are sent to the United States (Hinajosa *et al.* 1996). Yet this NAFTA- and FDI-centered strategy does not contribute to Mexican economic development. Because these factories interact so little with the Mexican economy, they do not provide boosts to other firms. Quite the contrary: 28,000 small businesses in Mexico have been destroyed by competition with huge foreign multinationals and their Mexican partners. Wages remain low and profits are sent abroad. Exports boom, but domestic markets remain virtually unaffected.

Indeed, the maquiladora sector is coming to dominate the Mexican economy. By the end of 1996, maquiladora sales accounted for 40% of Mexico's total exports and 47% of manufactured goods exports (MWFB 1997). Maquiladoras employ an estimated 811,000 workers, up 60% since 1992 alone (Shaiken 1997).

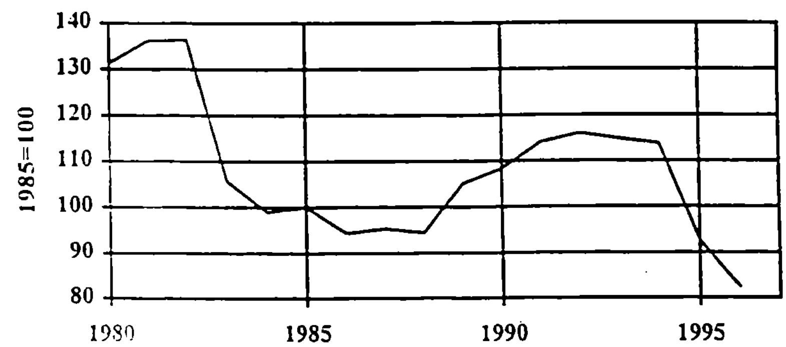
The "export platform" strategy, however, has done little to promote broad prosperity in Mexico. Experts can argue about how much of Mexico's current woes are due to the peso crisis alone. But Mexico's experiment with NAFTA-style economics began in the mid-1980s, and the inadequacy of that policy had been established well before the latest financial collapse. During the six years of Salinas' reign, for example, the Mexican economy expanded by only 2.6% annually—far too low to create jobs for the roughly 1 million Mexicans entering the labor market every year. In fact, in late 1995, the U.S. Embassy in Mexico City reportedly estimated that a stunning 35% of all economically active Mexicans were either unemployed or underemployed (Moore and Anderson 1996).

But such joblessness did not start with the peso crisis, either. Mexican manufacturing employment peaked in 1991, at about 1.4 million, and has since fallen to 1.33 million. One big reason: Mexican manufacturing productivity rose 6.6% annually between 1988 and 1993 (Wise 1997). These productivity increases should at least have been increasing wages for employed Mexicans. But even in 1994, just before the peso collapse, real hourly wages stood 13% below 1980 levels.

The pre-NAFTA decade also saw major increases in economic inequality in Mexico. During this period, the wealthiest 10% of Mexicans' share of national income rose from 34% to 41%. Every other decile's share declined. During the same period, only the top 20% of households experienced increases in real monetary income greater than 1% annually. Moreover, as in the United States, before the peso crisis, middle-class Mexican families were able to tread water mainly because women have flooded into the workforce (Wise 1997).

The peso collapse has simply been the coup de grace for Mexico's development hopes. The figures are staggering. Unemployment in Mexico continues to skyrocket: the number of unemployed workers doubled between mid-1993 and mid-1995, to nearly 1.7 million (RMALC 1997). Additionally, there were 2.7 million workers employed in precarious conditions in 1996. To make ends meet, many families are forced to send their children to work, in opposition to Mexican law. UNICEF reported 800,000 children living and working on the streets of Mexico City alone (*Reforma*, December 14, 1996).

Figure 3. Real Wages in Mexico
(nominal wages over consumer prices)



Source: International Monetary Fund, *International Financial Statistics* and Economic Policy Institute

Consequently, the impoverishment of millions of Mexicans deepens. In 1996, as shown in Figure 3, estimated real hourly wages were 27% lower than in 1994 and 37% below 1980 levels. Of the 1995 working population of 33.6 million, 19% worked for less than the minimum wage, 66% lacked any benefits, and 30% worked fewer than 35 hours per week (RMALC 1997). During three years of NAFTA, the portion of Mexican citizens who are "extremely poor" has risen from 32 to 51% (UNAM 1996), and 8 million people have fallen from the middle class into poverty (Imaz 1996).

Nor do the dismal wage numbers reflect productivity trends. Since NAFTA was implemented, the manufacturing sector has grown by a solid 9.8% and productivity has increased 12.6%. Yet average maquiladora wages remain about half of the country's manufacturing average—thanks in large part to NAFTA's failure to prevent Mexico from continuing to repress independent labor unions.

Combine these developments with Mexico's mounting political troubles and on-again, off-again guerilla uprisings, and a sobering irony emerges: NAFTA-style economics could well produce the very chaos that the agreement was supposed to prevent.

Canada

This section was prepared by the Economic Policy Institute

NAFTA and globalization have affected Canada differently than either Mexico or the United States. Canada has benefited from an improving trade balance with the U.S. Employment in autos and in a number of other industries has moved north because of declining Canadian wages (resulting from a declining Canadian dollar). Yet Canada has been mired in recession since shortly after entering into the U.S.-Canada Free Trade Agreement, which took effect in 1989. Unemployment in Canada began to increase almost immediately thereafter, from 7.5% in 1989 to a high of 11.3% in 1992. Joblessness fell back to 9.4% in 1996, but has begun increasing again in 1997, and now stands at 9.6% (*Economist* 1997).

The reasons for Canada's difficulties are straightforward. Between 1989 and 1995, the real interest rate in Canada (defined as the federal funds rate minus the consumer price index) was 2.9% higher than in the U.S., on average (IMF 1997). Until last year, the real rate in Canada was higher in every year. As a result, the government is cutting outlays sharply. They are projected to fall from 50% of GDP in 1992 to 44% in 1997. Canada is essentially being forced to dismantle its social safety net while increasing its unemployment rate. This lose-lose situation stems directly from Canada's decision to merge its economy with that of the United States and Mexico, which employ radically different social and economic systems. Canada's policies and practices are being harmonized with those of the rest of North America—downward.

Recommendations

Greater North American economic integration need not produce such abysmal results. But a stronger, more equitable North American economy requires fundamental changes in the current NAFTA-centered integration approach. Labor rights provisions will need to be made stronger and more enforceable, to prevent employers from oppressing Mexican workers and arbitraging the difference between U.S. labor rules and their weaker Mexican counterparts. As explained below in the Labor Rights section of this report, these agreements should include provisions on minimum wages, health and safety standards, the right to organize unions, prohibition of child labor, and other measures. Provisions to safeguard labor (and environmental) standards should be just as effective as the existing provisions protecting intellectual property and other investor interests.

The United States, the International Monetary Fund, and other foreign institutions and organizations also need to start giving the Mexican government dramatically different policy advice. Mexico needs to stimulate growth by raising, not lowering, the incomes of its workers. Mexico must rely less on exports as the main source of growth and work more on the development of domestic markets. A substantial increase in Mexico's minimum wage and renewed public spending on infrastructure would help to jumpstart its domestic economy. A more progressive tax system, targeting the excess profits of foreign investors as well as the ebb and flow of portfolio capital would help solve Mexico's financial problems.

A prosperous Mexico whose population enjoyed political democracy and social justice could be a valuable trading partner for the United States and Canada. Great possibilities exist for mutually beneficial North American trade that respects workers and the environment in all three countries. The United States and Canada could do well exporting capital equipment and high-technology products to an expanding Mexican economy. Good jobs and good wages can be created throughout the continent. But this potential will not be realized under today's NAFTA-centered economic and social regime.

NAFTA AND LABOR RIGHTS

This section was prepared by the International Labor Rights Fund

During his first election campaign for president, candidate Bill Clinton expressed alarm that workers in North America faced a serious threat to their income and job security from a North American Free Trade Agreement (NAFTA) that failed to include enforceable labor standards. Clinton observed that multinational corporations (MNCs) could take advantage of "their ability to move money, management, and production away from a high-wage country" to a low-wage country. "We can also lose incomes," Clinton said, "because the companies who stay at home can use the threat of moving to depress wages, as many do today" (Clinton 1992).

MNCs operating in Mexico, according to candidate Clinton, presented special concerns: "[I]f you look at the experience of the maquiladora plants, those who moved to Mexico right across the border, there is certainly cause for alarm. We can see clearly there that labor standards have been regularly violated" (Clinton 1992).

But the actual NAFTA ignores this concern and simply preserves the status quo by relying upon each NAFTA country to enforce its own existing labor laws. This labor "side agreement," the North American Agreement on Labor Cooperation (NAALC), provided no effective means to alter the verified Mexican record of not enforcing its labor laws and was wholly inadequate to deal with the complex issues of cross-border labor regulation. Likewise, it failed to address the significant shortcomings of U.S. and Canadian labor laws and the trend toward labor deregulation as a strategy for retaining and attracting capital investment. Subsequent experience under NAFTA demonstrates that, without serious enforcement mechanisms to improve domestic enforcement of labor laws and some process for maintaining reasonable minimum standards to resist deregulation, worker rights will remain abandoned by NAFTA.

The NAALC diluted the enforcement of labor laws under NAFTA even further by creating three tiers of rights for which different levels of scrutiny would be applied. After a very long dispute resolution process, which may take up to three years to complete, the NAALC provides for penalties only when a panel rules that a violation has occurred in the area(s) of workplace health and safety, child labor, or minimum wages. In theory, violations in this category entitle workers to benefit from the full range of redress offered by the NAALC, including consultation mechanisms, expert evaluations, and a dispute resolution panel. However, if there is a violation of a right considered to be a technical labor standard (including such issues as forced labor, labor protection for children and young persons, minimum employment standards, employment discrimination, equal pay for men and women, prevention of occupational injuries and illness, workers' compensation, protection of migrant labor, etc.), the only sanction available is a consultation and/or expert evaluation process. At no time can any technical labor standard violation, even if the breach is consistent with a widespread pattern of non-enforcement, lead to a trade penalty.

A fundamental set of labor principles—the freedom of association and protection of the right to organize, the right to bargain collectively, and the right to strike—are also eligible only for consultation; they are ***exempt*** under the agreement from all other enforcement mechanisms. In other words, a justified complaint concerning the non-enforcement of these fundamental rights or those considered technical labor standards by a party to the side agreement cannot lead to *any* tangible legal sanctions under the NAALC.

To date the NAALC has completed only five public reviews of complaints launched by labor unions and human rights organizations. One other case is pending. Four of these five complaints have centered upon labor rights violations in Mexico relating to the inability of workers to freely organize and form labor unions. Workers in these cases were fired, harassed, and intimidated by their employers for attempting to exercise their domestic legal rights to join independent labor unions. Despite a review of these cases by the National Administrative Offices (NAO), the workers involved in each complaint—more than 200 in total—were not reinstated or compensated for labor rights violations, due to the limitations of NAALC remedies. The NAOs generally refrained from overt criticism of the MNCs involved in the complaints; instead, they commissioned academic studies, organized government seminars, and provided informational sessions concerning the labor rights of workers in the respective NAFTA countries.

The United States Trade Representative (USTR) cites case No. 940003 as an example of the success of the NAALC (USTR 1997c). In that case, Mexican workers attempted to organize an independent union in accordance with domestic law. The employer, a subsidiary of Sony, discharged many of the workers. A rigged election confirmed the existing leadership of the Mexican Workers Confederation (CTM) affiliate, a union which is closely allied with the Institutional Revolutionary Party (PRI). The election triggered a worker demonstration at the plant, which was violently suppressed by police acting in concert with Sony.

The provisions of NAALC did nothing to change the situation at Sony. A subsequent attempt to organize an independent union was thwarted when the government's Conciliation and Arbitration Board, which included members of the sitting CTM union and the government, refused to register the union. The NAO process did not alter the biased manner in which Mexican labor tribunals, which regularly include CTM and PRI members, reject applications of independent unions. The workers who were fired and beaten for attempting to organize the union remain terminated and uncompensated. Moreover, the NAALC did not punish the employer in any concrete way. That USTR cites this case as a successful application of NAALC indicates the utter ineffectiveness of labor rights protections under NAFTA.

With such a small number of cases over three and a half years, labor unions and human rights groups across North America do not feel that NAALC offers a useful tool for addressing labor rights violations. The approach of MNCs to NAALC proceedings reinforces the perception that nothing serious is at stake: every MNC noted in a complaint chose not to publicly participate in hearings. MNCs, like labor unions, workers, and NAALC complainants, have realized one key point. In the words of the USTR, "[n]othing in the agreement requires the U.S. to change its laws or the enforcement of those laws" (USTR 1997c). This statement is equally true of Canada and Mexico. In short, the NAALC has done nothing significant to enforce labor laws in North America. As candidate Bill Clinton realized back in 1992, it leaves many workers vulnerable to gross exploitation.

The denial of basic worker rights is not confined to Mexico. U.S. and Canadian workers are also being denied their rights to associate and organize unions, and are forced to accept lower wages and benefits. MNCs have taken advantage of the NAALC's weakness and have influenced wage bargaining and union organizing by threatening to move production to Mexico. Kate Bronfenbrenner, Director of Labor Education Research at Cornell University, was commissioned by the U.S. NAO to study plant closings in the U.S. under NAFTA. She found that "NAFTA has created a climate that has emboldened employers to more aggressively threaten to close, or actually close their plants to avoid unionization. The only way to create the kind of climate envisioned by the original drafters of the NLRA, where workers can organize free from coercion, threats, and intimidation, would be through a significant expansion of both worker and union rights and employer penalties in the organizing process both through substantive reform to U.S. labor laws and by amendments to the [NAALC]" (Bronfenbrenner 1997).

The NAALC cannot serve as a vehicle for improving the enforcement of labor laws. It simply was not intended to serve this function. In order for workers to benefit from NAFTA, labor unions and their partners must insist that a labor clause, reflecting the need to improve enforcement of labor laws in North America, be a central part of the NAFTA agreement. It must not be relegated to the uncertain status of a "side agreement." At a minimum, the labor clause must:

- Create real remedies for labor violations. Article 43 (Private Rights) of NAALC, which prevents a right of action under domestic law against another party (country) on the ground that that party has acted in a manner inconsistent with the agreement, should be repealed. An express private right of action must be created that allows workers, unions, and other groups to bring legal actions in domestic courts against corporations that operate in two or more NAFTA nations and violate NAALC's principles. Parent and/or partner corporations should be made fully liable for NAALC violations performed by subsidiaries or joint ventures, thereby eliminating corporate veil defenses against these violations. Finally, targeted trade sanctions (i.e., the loss of favorable NAFTA trade benefits) should be permitted against businesses found liable under domestic law for violation of NAALC labor principles and/or a Code of Conduct created under NAALC.

- Eliminate the "three-tier" division of rights enforcement that excludes the most fundamental labor rights (freedom of association, right to organize, right to bargain, right to strike, prohibition of forced labor, sanctioning of discrimination, equal pay, workers' compensation, protections for migrant labor, etc.) from sanctions.

- Adopt an enforceable Corporate Code of Conduct for businesses operating in two or more NAALC countries, modeled on the codes already recognized by the U.S., Canada, and Mexico in the Organization for Economic Cooperation and Development (OECD) *Guidelines for Multinational Enterprises* and the International Labor Organization (ILO) *Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy*.

- Require an annual Labor Information Audit for all businesses operating in two or more NAALC countries. This should include specific information on the terms and conditions of employment for all employees, and report information pertaining to all the company's operations, whether under its own corporate form or through subsidiaries, joint ventures, or other business forms.

THE ENVIRONMENT AND PUBLIC SAFETY

This section was prepared by Public Citizen's Global Trade Watch, the Institute for Policy Studies, and the Sierra Club

The Clinton Administration promised that NAFTA would improve the environment in the U.S.-Mexico border region and strengthen the enforcement of environmental laws and regulations, as well as laws affecting other aspects of public health and safety, in all three NAFTA countries. Officials also assured that NAFTA would protect the rights of member countries to establish and enforce their own laws in these fields.

We now have three and a half years of experience under NAFTA, however, and the evidence demonstrates conclusively that the unregulated expansion of North American trade has made an already heavily polluted border region much dirtier and more dangerous. The institutions created by NAFTA to handle environmental and public safety problems are utterly inadequate.

Pushing Border Ecology to the Breaking Point

In October 1992, presidential candidate Bill Clinton stated, "Before we implement the [NAFTA], we must establish an environmental protection commission with substantial powers and resources to prevent and clean up water pollution" (Clinton 1992). Clinton's promise reflected the expectation that the great expansion of trade predicted as a result of NAFTA would strain the ecology of the fragile border region to the breaking point. After Clinton's election, his Administration promised that NAFTA would eliminate the incentive for factories to continue crowding into the Mexican border free-trade zone (Clinton Administration 1993).

Yet new industry, along with a huge influx of new workers and residents, continues to concentrate along the border. In fact, the number of maquiladora workers rose 50% during the first three years of NAFTA (Shaiken 1997). As of mid-1995, 85% of these workers were employed in one of the six Mexican states that border the United States (SECOFI; *El Mercado Valores* 1995). Development in the maquiladora region brings much needed jobs to Mexican workers. However, these jobs do not begin to make up for the overall job loss in Mexico under NAFTA. Moreover, the environmental results have been intensified air and water pollution, and greater threats to public health.

As a result of this unrestrained industrial buildup, dangers from hazardous waste in the border region have increased. According to Environmental Protection Agency (EPA) official Joe Schultes, hazardous waste coming across the border increased 30% in 1995 (Schultes 1995; Public Citizen 1996). The same year, surveys of water from wells in U.S. border communities found sulfate concentrations of nearly twice what is considered safe for drinking water, along with high levels of arsenic contamination (Lopez 1995). Ozone levels in El Paso have steadily increased since NAFTA: in 1992, El Paso had dangerous ozone levels 53% of the year; this increased to 58% in 1993, 67% in 1994, and 75% in 1995 (El Paso Air Quality Project, as reported in Public Citizen 1996, 42).

Not surprisingly, the incidence of disease linked to environmental contamination and crowding has also increased. The incidence of hepatitis-A—transmitted through water and food contaminated by untreated sewage—in the border region rose to between 2 and 5 times the U.S. national average (Varady and Mack 1995). In Maverick County, Texas, the rate doubled from 5.3 times the state average in 1993 to 10.3 times in 1994. Webb County, El Paso County, and Cameron County had, respectively, 2.7, 1.8, and 1.8 times the Texas rate in 1994 (Texas Department of Health 1995).

Unsafe Food Enters the U.S.

NAFTA's safety hazards are not confined to the border region. NAFTA's passage has greatly increased the amount of tainted food and illegal drugs coming into the United States. Increased shipping volume, NAFTA requirements that limit inspections, and inadequate funding have combined to overwhelm government inspection systems charged with guaranteeing the safety of imported food. Reduced inspections under NAFTA have also had the tragic effect of increasing imports such as drugs.

Between 1993 and 1995, imports of fresh and frozen fruits from Mexico increased 45.2%; vegetables rose 31.4% (Blankenship 1997). The U.S. border inspection service is completely unable to handle the increased traffic. A May 1997 Government Accounting Office (GAO) study (GAO 1997b) of border inspections found that:

- fewer than 1% of the 3.3 million trucks entering the U.S. each year are inspected,

- at "the Mexican border crossing with the heaviest passenger vehicle volume in the country, a supervisory inspector said the staff were inspecting less than 0.1% of the passenger vehicular traffic because of the high volume of traffic,"

- NAFTA importers "have put pressure on APHIS [the Animal and Plant Health Inspection Service] to carry out its increased inspection responsibilities more quickly." At most of the ports studied, the APHIS inspection program could not keep up with the increasing demands. Due to heavy workloads, APHIS inspectors do not conduct complete inspections, allowing possibly unsafe agricultural products into the U.S., and

- "Because of staffing shortages, one work unit along the U.S.-Mexican border can provide inspector coverage of a busy pedestrian crossing for only 8 out of the 18 hours of port operations."

The inspection system's failure allows a greatly increased amount of produce contaminated with illegal pesticides to enter the United States from Mexico. The non-government Environmental Working Group (EWG 1995) analyzed Food and Drug Administration (FDA) pesticide records on 42 fruits and vegetables that comprise 96% and 83% of domestic fruit and vegetable consumption, respectively. EWG found that:

- Imported crops from Mexico contained very high rates of illegal pesticides. Strawberries, head lettuce, and carrots have violation rates of 18.4%, 15.6%, and 12.3%, respectively; and

- Illegal pesticides were underreported by FDA on crops from Mexico. The FDA publicly reports that 4% of crop imports from Mexico contained illegal pesticides; its internal records indicate that the rate was actually 7.4%. Worse, the FDA-reported rate for strawberries was 10%; EWG found the actual rate to be 18%.

Toxic chemicals and illegal drugs also slip through the loose inspection net. According to the U.S. Drug Enforcement Agency, 70% of the cocaine entering the United States now comes across the U.S.-Mexico border (*Washington Post*, September 25, 1996). Also, two years after NAFTA's passage, more than a quarter of the approximately 5,000 Mexican trucks that crossed into Texas each day carried corrosives, chemicals, explosives, jet fuel, poisons, toxic waste, or pesticides (Office of the Attorney General, State of Texas 1995).

Unsafe Trucks Enter the U.S.

U.S. highway safety has suffered under NAFTA, as cross-border truck traffic increased dramatically with the boom in imports from Mexico. Inspectors are no more successful at finding and stopping unsafe trucks than unsafe cargo. Mexican truck safety standards are dangerously weaker than in the U.S. For example, Mexico does not require front brakes on tractor-trailers; they are required in the U.S. Just as worrisome are the weak Mexican standards for truck drivers: for instance, the U.S. limits drivers to 10 consecutive hours behind the wheel, while Mexico permits 13 (Chua-Eoan 1995). NAFTA has provided neither the financial support nor regulatory incentives to bring Mexican standards up to U.S. levels.

Unsafe trucks will eventually gain legal access to U.S. highways under NAFTA rules that subordinate public health and safety concerns to trade expansion (NAFTA 1993). In December 1995, the Clinton Administration postponed a NAFTA requirement to allow Mexican trucks to travel freely throughout the border states. It is now considering lifting the temporary freeze, despite the lack of inspection capacity or adequate inspection funding. Foreign trucks are to be allowed unimpeded access to the entire United States by the year 2000. The Department of Transportation delegates most inspection duties to the states, yet the GAO characterized the efforts of Texas and Arizona, where 75% of Mexican trucks enter this country, as "less than comprehensive" (GAO 1997a).

Massive Social Dislocation and Reduced Food Security in Mexico

Mexico's poor majority, much of it concentrated in rural areas, has been hard hit by NAFTA. Many of the Mexican farmworkers currently living in the country's north have been victimized twice by NAFTA. Most are indigenous peoples from Mexico's south, who were displaced from their lands when NAFTA opened the Mexican market to a flood of cheap, subsidized U.S. corn.

In 1992, a Mexican farmer, discussing a U.S. proposal for elimination of the Mexican import license system for corn, said, "If the U.S. sends subsidized corn into Mexico, send it in trains with benches to bring back the Mexican farmers who will need jobs" (Quoted in Suppan 1997). Mexican corn imports totaled nearly $1.1 billion in 1996, by themselves as large as the Mexican trade deficit for the agricultural and forestry sectors combined (de Ita 1997). Today, having been forced to move north to work as wage laborers in export agriculture, the former corn farmers live in deplorable conditions.

The health, safety, and labor conditions of Mexican farmworkers are also deteriorating, exerting a competitive squeeze on their U.S. counterparts. In the Culiacan Valley in the state of Sinaloa, for example, Mexican growers contract with U.S. agribusiness companies to supply nearly half the winter fresh fruits and vegetables consumed in the United States. Many of these U.S. buyers look the other way as the valley's 250,000 farmworkers slather the fields with pesticides that are often prohibited in the United States, without benefit of safety equipment, clean water, or sanitation facilities (Schrader 1995). Due to the lack of adequate housing, many of the workers are forced to camp in the fields and bathe in pesticide-contaminated drainage ditches. Not surprisingly, investigators have found a high incidence of leukemia among farmworkers in the valley, nearly 3,000 of whom are hospitalized each year for pesticide poisoning (Schrader 1995). The typical Mexican farmworker earns only $3 working sunup to sundown. Often growers hire entire families—including small children—to work in the fields and packing plants.

NAFTA's impact on Mexican farm families clearly belies the predictions of one administration official, who stated before the NAFTA vote, "We do not expect many displacements [of people] as a result of NAFTA, and few communities will face difficult adjustment" (Shafer 1993).

Now that NAFTA has put Mexico's corn farmers out of business, Mexico is facing food security problems. In June 1996, an interagency task force coordinated by the Mexican Commerce Ministry declared that Mexican corn farmers could not supply Mexico due to drought. It decided to import 7 million tons of corn duty-free, declining to collect the then-existing 189% tariff.

Farm organizations were not consulted about this decision, advocated by U.S. exporters such as Cargill, Continental, Purina and Pilgrim's Pride, as well as by Mexican companies with direct ties to the government (de Ita 1997).

Weakened Standards

"The Environmental Agreement," the Clinton Administration promised, "establishes a framework for the United States, Mexican and Canadian cooperation on environmental matters and commits the parties to effective enforcement of their environmental laws," (Clinton Administration 1993). Yet each NAFTA country has repeatedly violated its commitment to stronger environmental enforcement.

In the United States, the Environmental Protection Agency has responded to industry pressure by relaxing the restriction on how quickly farmworkers can re-enter fields sprayed with several dangerous pesticides. The re-entry period for captan, a potent carcinogen widely used to kill fungus in strawberry fields, was reduced in 1994 from four days to one. As a result, captan use has doubled while worker exposures have climbed to levels several hundred times higher than those considered "safe" (Boyd 1997).

Timber giant Boise Cascade, which under NAFTA has moved mill operations from Oregon and Idaho to Guerrero, Mexico, has exploited job insecurity in the U.S. to wrest more timber from U.S. national forests. With thinly veiled threats like "How many more mills will be closed depends on what Congress does....The number of timber sales will determine our decision to move south," Boise extracted a law from the 104th Congress that mandated a vast increase in logging in the national forests. The same law suspended all environmental protections, as well as the citizen's right to seek redress in court (Ross 1996).

Mexico, in October 1995, announced it would no longer require environmental impact statements for investments in such highly polluting sectors as petrochemicals, refining, fertilizers, and steel. Officials admitted that this was done to "increase investment" (Hall 1995). Another law, enacted in December 1996, further waives the environmental assessment requirement for new maquiladoras on land previously zoned for industrial use. As a result of these laws, nearby residents and businesses will have no idea what environmental effects to expect from new facilities and no opportunity to prevent contamination of their communities (LGEEPA 1996).

Canada is currently learning that NAFTA's investor protections can be used to prevent signatory countries from even establishing their own environmental protection and public health laws. Ethyl Corporation is suing the Canadian government for $251 million, on the grounds that a recent Canadian environmental law violates NAFTA. The law in question bans the use of MMT, a fuel additive that is also illegal in California. The manganese in MMT is considered a threat to public safety; MMT is also believed to damage emissions control equipment in cars. Ethyl is seeking restitution to cover losses resulting from the "expropriation" of both its MMT production plant in Canada and its "good reputation."

NAFTA's investment chapter requires member countries to compensate investors when their property is "expropriated" or simply reduced in value. Ethyl claims that the Canadian law, by preventing future profits from the sale of MMT, is an expropriation. If Ethyl Corporation wins this lawsuit, the implications for public health and the environment are staggering: governments will have to compensate investors for reduced earnings potential whenever they impose regulations to protect public health and the environment. Since any and all investors affected by a new environmental rule could claim damages, compensation costs to government could be astronomical, effectively prohibiting regulatory protections. This lawsuit, brought by a corporation directly against a national government, is possible only due to the unprecedented "private legal standing" granted to corporations by NAFTA's investment chapter, which enables them to sue governments for monetary damages (Sforza and Vallianatos 1997).

NAFTA's Fatally Flawed Environmental Institutions

Central to the Clinton Administration's promises of improved environmental and public safety conditions under NAFTA were the creation by the treaty of three institutions designed to deal with these issues. These institutions are the Commission on Environmental Cooperation (CEC), to promote joint projects on environmental issues and hear complaints about failures to enforce environmental laws; the Border Environmental Cooperation Commission (BECC), to help communities develop clean-up projects and certify projects for financing; and the North American Development Bank (NADBank), to arrange financing for BECC-certified projects.

Clinton Administration officials concede that the progress made by these institutions during their first three years has been slower than promised. Yet they insist that these agencies are on the right track and provide three reasons for their ineffectiveness: factors such as the peso crisis, which diminished the ability of border communities to borrow from the NADBank; the failure of citizens' groups to file complaints with the CEC; and the lengthy delays in establishing the BECC caused by the public participation required in the process.

In fact, three years after NAFTA's implementation, it is clear that these institutions have neither the enforcement powers nor the resources to clean up the border or alleviate other trade-related environmental problems. A fundamental re-negotiation of NAFTA would be required to give them real enforcement power.

The office of the USTR boasts that "the BECC has certified 12 projects in just two years of existence....NADBank has approved financing for four of these projects" (USTR Environment). But the USTR fails to mention that NADBank has so far allocated only about 1% of the promised $2 billion of clean-up funds and has not issued a single check. Indeed, due to U.S. and Mexican budget cutbacks, work on some water treatment plants under construction *before* NAFTA has been stalled.

USTR also fails to note that BECC's criteria have been attacked for their exclusion of the most needy communities. As predicted by critics of NAFTA's environmental side agreement, border communities are simply too poor to take out NADBank loans, which charge market interest rates. However, BECC has approved a project to subsidize infrastructure for a private industrial park development.

Even if the NADBank did allocate its entire budget, it would amount to only a small fraction of what is needed to address the border's pollution problems. A 1992 EPA study—which did not account for the explosion of maquiladora factories that has occurred since NAFTA's passage—estimated the need at $8 billion (Bentsen 1993). In 1993, the Sierra Club estimated the cost of needed cleanup and infrastructure improvements on the border at $20 billion (Seligman 1993).

The maquiladoras, meanwhile, are exempt from the taxes needed to support such basic community services as clean drinking water and sewers. As a result, workers earning $5 or $6 a day in some of the world's most technologically advanced factories go home to neighborhoods of cardboard shacks without running water, sewers, paved streets, or trash pick-up. Some argue that the NADBank's failures were caused by the peso's collapse, and had nothing to do with NAFTA. But, as discussed previously in this report, the peso crisis was directly related to NAFTA and the integration of the North American economies.

The CEC has also proved to be a weak institution. Although some groups involved in submitting complaints say that the CEC has been useful in drawing public attention to trade-related environmental issues, the CEC is widely criticized as an ineffective enforcement mechanism. Of the 10 complaints filed during the organization's three-plus years of existence, not a single one has led to either enforcement orders or economic sanctions against any NAFTA government. In addition, the CEC's refusal to hear numerous cases has dampened the enthusiasm of environmental organizations for bringing new cases.

Lack of support from the NAFTA governments has repeatedly undermined the CEC's efforts. In particular, a CEC project to evaluate NAFTA's environmental effects through case studies of three industrial sectors is stalled due to pressure from the Mexican government (DePalma 1997). Another project, to establish principles to define "high levels of environmental protection," has been twisted by pressure from industry and governments into advocacy of a narrow "regulatory reform" agenda (CEC 1996).

Conclusion

More than three years of experience with NAFTA have proven that unregulated trade between the U.S., Canada, and Mexico weakens environmental, health, and public safety standards and threatens public well-being in all three countries. The failure of the NAFTA-related environmental institutions to protect citizens and the environment can be traced to its structural flaws: at the heart of NAFTA are strong presumptions against government regulation of corporations and investors and against government enforcement of environmental, health, and safety standards. Instead of providing effective clean-up and enforcement mechanisms, the NAFTA institutions assume that private actors can be bribed to do the right thing by making capital available via government-guaranteed, market-rate loans. NAFTA's record to date shows these assumptions were completely wrong.

NAFTA AND THE WESTERN HEMISPHERE

This section was prepared by the International Labor Rights Fund and the Institute for Policy Studies

The Clinton Administration has declared it a priority to expand NAFTA to the rest of the hemisphere, beginning with Chile. The USTR argues that the United States needs rapid progress toward this hemisphere-wide "Free Trade Agreements of the Americas" (FTAA); otherwise we will lose Latin American market share to Asian and European competitors. According to the USTR web site, "the U.S. is not the only country that recognizes the region's potential. Competitors from Europe and Asia are actively engaging the region and seeking to change the trade rules of the game to their advantage. . . . It would be unacceptable if U.S. competitors in Asia and Europe were to negotiate better access and treatment for their goods and services than the U.S. achieves" (USTR 1997e).

This is a manufactured threat, with little basis in reality. Of course our European and Asian competitors want to sell to Latin American markets, but Latin American countries are unlikely to open their markets to imports from Europe and Asia without reciprocal access for their own exports. Both Europe and Japan have historically refused to open up their markets to goods from the Third World; neither has shown any signs of changing this fundamental policy. Among the major advanced nations, the United States takes by far the largest share of goods from the developing world.

The most serious threat to U.S. workers comes not from foreign competition but from NAFTA itself. USTR does not address how to avoid multiplying the effect of these problems as part of any NAFTA expansion. NAFTA fundamentally failed to set reasonable and enforceable substantive standards on issues like labor rights and environmental protection. This leaves the participating countries in a "race to the bottom": each country is forced to compete for foreign investment by trying to offer the most favorable regulation waivers to multinational firms. To now open the process up to other American economies, even more desperate for foreign investment, without democratic processes to include input from the affected people will lead to the further erosion of standards.

If, as the Clinton Administration repeatedly claims, the U.S. joined NAFTA to benefit U.S. workers, then there should be little objection to the inclusion of a meaningful labor clause. This clause should include reasonable minimum standards to ensure that U.S. workers are not forced to compete over wages and labor rights with millions of low-wage workers throughout the hemisphere. This policy would directly improve conditions for workers inside and outside the U.S. Done well, it can allow impoverished Latin American workers to join a new consumer class that will serve as an engine of growth throughout the Americas.

Part of the reason for the current emphasis on fast track authority and expanding NAFTA to the Western Hemisphere is that lobbyists and other agents of the multinational business community, shamelessly pursuing their own special interests, have been the major driving force behind U.S. trade policy. They have been accommodated by U.S. officials who have confused the interests of multinational corporations with the interests of American working families and the communities in which they live.

It is time to open up this process:

- There must be a process to include trade unions, non-governmental organizations, and other representative organizations in shaping any new trade agreements to emphasize sustainable development. Trade is not an end in itself and must instead be viewed as a tool for bringing prosperity to all, particularly those at the lower end of the economic spectrum; and

- Future agreements must have enforceable social and environmental provisions that address key issues of respect for worker rights, protection of the environment, and provision for economic development of those people who have traditionally been left out of the benefits of trade (especially migrant workers, indigenous peoples, and campesinos). Without such provisions, national laws will be subverted in a race to attract capital investment by slashing regulations and safety nets.

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LOCAL COMMUNITIES CHALLENGE PRESIDENT CLINTON'S UPBEAT ASSESSMENT OF NAFTA

New Voices Join Chorus Asking for Major Overhaul of Trade Rules

FOR IMMEDIATE RELEASE
June 26, 1997

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WASHINGTON, D.C. — On the eve of the Clinton administration's release of its congressionally required three-year review of NAFTA, local activists across the U.S. are joining with an expanding coalition of national organizations to highlight NAFTA's failed promise.

"The White House can't 'spin' its way out of the reality that the trade rules established under NAFTA have hurt, not helped, the average American family," said Citizen's Trade Campaign Chairman Brent Blackwelder. "The hard data has started to come in and the picture isn't pretty. The President needs to own up to the problems with his trade rules and fix them before he signs any new NAFTA-style agreements." Blackwelder also serves as president of the international environmental group, Friends of the Earth.

At a Washington, D.C. news conference today, Blackwelder will be joined by economists, representatives of professional organizations, consumer groups, organized labor, environmentalists and ordinary citizens to present a more realistic performance evaluation of NAFTA than the glowing tribute expected from the White House.

Jeff Faux, President of the Economic Policy Institute (EPI), will unveil the findings of a comprehensive report on NAFTA performance at the Washington, D.C., news conference. EPI, the Institute for Policy Studies, Public Citizen, the International Labor Rights Fund, the U.S. Business and Industrial Council and the Sierra Club jointly researched and wrote the report. It details specific problems with NAFTA trade rules in the areas of wage levels, job loss, erosion of environmental standards, consumer health and safety, border inspection, and negative impacts in Mexico and Canada.

Representatives of professional and environmental organizations that were not in the forefront of the 1993 NAFTA debate also will be represented at the news conference. These organizations are coming forward anew after seeing NAFTA's effect on their constituencies. American Nurses Association board member Mary Foley will speak on NAFTA's detrimental effect on the nursing profession. Also on the program is Defenders of Wildlife legal director Bill Snape to address the movement toward greater NAFTA opposition within the environmental community.

The Washington, D.C., event is only one among local news conferences and events planned by the Citizens Trade Campaign in seventeen U.S. cities over the next few days. In each location, CTC affiliates will release information on NAFTA's specific effect on their states:

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NEWS FROM PREAMBLE

For Immediate Release

Contact: Naomi Walker, (202) 265-3263

Ground-breaking NAFTA Lawsuit Sets Off Alarms as Clinton Assesses Impact of Agreement's First Three Years

U.S. Chemical Company Uses Key NAFTA Provision to Challenge Popular Canadian Environmental Law

Little-Known NAFTA Rule Lets Firms Sue Countries when they Believe Regulations Violate their Rights; Groups Fear $251 Million Lawsuit by Ethyl Corp. Could Spur Host of Challenges to Safeguards in the U.S., Mexico and Canada

As the White House prepares to issue its July 1 assessment of the impact of the North American Free Trade Agreement, a lawsuit by an American chemical firm is raising new concerns about NAFTA's potential impact on environmental and other public health safeguards.

A briefing paper prepared by the environmental group Friends of the Earth and the research organization Preamble assesses the lawsuit and its implications. The paper is available today from Preamble by fax, mail or e-mail.

Richmond, VA-based Ethyl Corporation, a leading manufacturer of leaded gasoline and other fuel additives, is using a little-known provision of NAFTA to sue the government of Canada over a newly-passed environmental law. The law bans the import and transport of MMT, a gasoline additive. Canadian lawmakers consider MMT, which contains the heavy metal manganese, to be a potential public health hazard (as does the U.S. EPA which has discouraged MMT's use and the state of California, which has banned MMT outright).

Chapter 11 of NAFTA allows corporations in one country to sue the government of another country when they believe a law in that country violates their rights under the

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agreement. Among the benefits NAFTA extends to investors is a guarantee that their assets will not be "expropriated" without full compensation. Ethyl claims that Canada is expropriating its property, in violation of NAFTA, by denying the company the profits it expected from Canadian sales of MMT. Ethyl is seeking $251 million in compensation from Canadian taxpayers.

Friends of the Earth, Sierra Club and other groups fear that a legal victory for Ethyl could encourage other corporations to use NAFTA to contest environmental safeguards in the U.S., Mexico and Canada.

Said Brent Blackwelder, President of Friends of the Earth, "Corporations will watch the Ethyl case closely. If Ethyl wins, we could see a wave of litigation – in the U.S. as well as Canada – that could have a chilling effect on our ability to protect the environment."

Said Michelle Sforza, a senior researcher at Preamble, "When the assets of a corporation are arbitrarily seized, that corporation deserves to be compensated and NAFTA is properly designed to ensure such compensation. The problem is that the drafters of the agreement failed to make a distinction between unreasonable seizure and reasonable regulation to protect the public. This invites investors to claim that legitimate safeguards are actually a form of expropriation for which they should be compensated. It may also allow investors to use the *threat* of litigation to deter legislators from passing future regulations."

NAFTA is the first multilateral economic agreement to grant investors legal standing to sue governments. Other agreements, like GATT (the General Agreement on Tariffs and Trade), only allow government-to-government litigation – which means that corporations that want to challenge a law must convince their government to bring a case on their behalf.

"The Ethyl case shows how the new rights created for investors under NAFTA could supersede the right of the public to clean air and water," stated Blackwelder. "NAFTA provides corporations a new avenue to challenge environmental laws – challenges which will be heard in closed venues where neither the public's elected representatives nor domestic courts have any say."

"Surely the Clinton Administration did not intend for NAFTA to become a vehicle for undermining needed environmental safeguards," noted Sforza. "But the Ethyl case suggests that when private individuals and corporations are granted the power to seek enforcement of an agreement directly, they may use that power for purposes the drafters did not intend."

She continued, "As the President and the Congress consider NAFTA's past and future impact, and as they negotiate new international agreements, they should carefully assess the implications of Ethyl's ground-breaking lawsuit. The U.S. is now in the final stages of negotiation of a new pact, the Multilateral Agreement on Investment (MAI), which would grant investors in member countries the same right to sue as NAFTA. But, unlike NAFTA, this new pact would apply worldwide. We should, to say the least, proceed with caution."

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The suit is also discussed in a report on NAFTA being released Thursday, June 26, at 1:00, at National Press Club, by Public Citizen's Global Trade Watch, Economic Policy Institute (EPI) and other groups. For information on this report, call Nan Gibson at EPI, (202) 775-8810.

Preamble **Briefing Paper**

Ethyl Corporation v. Government of Canada: Chemical Firm Uses Trade Pact to Contest Environmental Law

Prepared by: Michelle Sforza, Preamble
Mark Vallianatos, Friends of the Earth

Ethyl Corporation's $251 million lawsuit against a new Canadian environmental law is sure to set off alarm bells throughout the public interest world. The suit, brought under the terms of the North American Free Trade Agreement, demonstrates how present and future international economic pacts could pose a danger to environmental regulations and other safeguards.

In early April, the Canadian Parliament acted to ban the import and interprovincial transport of an Ethyl product – the gasoline additive MMT – which Canada considers to be a dangerous toxin. Ethyl (the company that invented leaded gasoline) responded on April 14 by filing a lawsuit against the Canadian government under NAFTA. Ethyl claims that the Canadian ban on MMT violates various provisions of NAFTA and seeks restitution of $251 million to cover losses resulting from the "expropriation" of both its MMT production plant and its "good reputation."

MMT is a manganese-based compound that is added to gasoline to enhance octane and reduce engine "knocking." Canadian legislators are concerned that the manganese in MMT emissions poses a significant public health risk. In addition, automobile manufacturers have long argued that MMT damages emissions diagnostics and control equipment in cars, thus increasing fuel emissions in general.[1] Ethyl is the product's only manufacturer.

The Environmental Defense Fund (EDF), which tracks the use of MMT, reports that the additive is used only in Canada. The United States EPA has banned its use in reformulated gasoline,

[1]While automobile manufacturers may be legitimately concerned with clean air standards, their primary opposition to MMT is that they must bear the costs of repairing the cars' damaged pollution control systems.

which includes approximately 1/3 of the U.S. gasoline market. An EDF survey of the remaining producers reports that none use the additive.[2] California has imposed a total ban on MMT.

Canadian legislators wanted to ban the *use* of MMT in order to protect the Canadian public. Because they could not do so under Canadian Environmental Protection Act (CEPA) provisions, they chose the best available alternative: banning MMT's import and transport.[3]

NAFTA requires member countries to compensate investors when their property is "expropriated" or when governments take measures "tantamount to expropriation." Ethyl claims that the MMT ban constitutes such an expropriation. The company argues that the ban will reduce the value of Ethyl's MMT manufacturing plant, hurt its future sales and harm its corporate reputation. The case will be an important test of how expropriation is to be defined in NAFTA and future agreements.

A key provision of NAFTA makes the lawsuit possible. Under NAFTA's investment chapter, for the first time in a multilateral trade or investment agreement, corporations are granted "private legal standing" – or the ability to sue governments directly and to seek monetary damages. This "investor-to-state" dispute resolution mechanism diverges from dispute resolution systems in previous international economic agreements in two ways: First, previous agreements allow only national governments to bring suits. Second, these agreements do not allow for monetary compensation. The most a government can do if it is successful in a suit is impose tarriffs on the violating nation.

This lawsuit is the third, and largest, under NAFTA's investor-to-state dispute mechanism. According to an official at the International Centre for the Settlement of Investment Disputes (ICSID), the institution that arbitrates most of the world's investment complaints, the $251 million Ethyl seeks is higher than any amount requested in an ICSID investor-to-state proceeding.[4]

The Ethyl suit raises a host of issues that should be of concern to policymakers – particularly since the U.S. is negotiating the expansion of NAFTA as well as a new multilateral investment agreement (MAI) that would apply NAFTA-like standards worldwide.

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[2]Ivanovich, David. "Collision Course – Slow Start for Gas Additive – MMT's Effect on Air, Cars Debated," *Houston Chronicle*, April 16, 1996; EDF, personal communication, 4/22/97.

[3]Because adequate data on the health risks of long-term exposure to lower-level manganese emissions was not available, Health Canada could not consider MMT a health risk under CEPA provisions. In addition, the fuel standards established in CEPA are not sufficiently broad to cover a ban on substances that may damage pollution control systems in cars, even if such damage leads to increased emissions. The Canadian Minister of the Environment reports that certain key provisions of CEPA are being rewritten, and may allow a future ban on the use of MMT (personal communication 4/19/97).

[4]ICSID staff, personal communication 4/22/97.

- **The Ethyl case could set a precedent where, under NAFTA and similar agreements, a government would have to compensate investors when it wishes to regulate them or their products for public health or environmental reasons.** If Ethyl wins its case, a precedent will be set whereby the legal right of corporations to be compensated when public health regulations affect a company's bottom line is given the same weight as the public's right not to be harmed by industrial toxins. This could send the message to investors that seeking compensation from the public for the cost of complying with environmental regulations constitutes a legitimate business strategy. Thus, in pacts like NAFTA, groups opposed to strong environmental regulation may find an effective mechanism for advancing the radical "takings" agenda for which they have not been able to build public or legislative support.

- **Effective limitations on the frequency and impact of lawsuits are removed when investors are granted the right to sue national governments on their own behalf.** When governments are the only entities that have legal standing to bring a case against a regulation or other law under an international agreement, political and diplomatic pressures reduce the likelihood that frivolous lawsuits will be initiated. The investor-to-state dispute resolution clause in NAFTA (and in the proposed MAI) removes this limitation, allowing corporations and individual investors to sue directly and to seek monetary compensation. The Ethyl suit is an example of this new dispute resolution mechanism in operation.

- **If claims like Ethyl's are successful and proliferate, the costs to governments could be burdensome.** Under investor-to-state dispute resolution, corporations can request compensation for actual *and* future earnings losses as well as for the cost of repairing their "tarnished images." Damage claims can therefore be very high, as in the Ethyl case. In addition, multiple investors can consolidate their suits, thereby multiplying a government's potential liability. If such cases were to become commonplace, governments would have to give due consideration to the potential fiscal costs before passing needed regulations.

- **The threat of suits like Ethyl's could be used to pressure lawmakers who are considering new regulations.** Ethyl submitted an intent to file suit *six months before the MMT ban was passed* in the Canadian legislature. Ethyl hoped that the threat of a lawsuit would deter policymakers from passing the bill. While Ethyl failed in this instance, the ability of investors to use their private legal standing to credibly threaten major suits could lead to successful efforts in the future to intervene in the democratic decision-making process and alter the outcome of legislative debate. Ethyl also claims that *the legislative debate itself constituted an expropriation of its assets* because public criticism of MMT damaged the company's reputation. Thus, Ethyl is using NAFTA to file what is, in effect, a SLAPP-suit against the Canadian Parliament. Far from worrying about the implications of such actions, U.S. trade officials have argued that the ability of investors to use legal threats to influence legislative debates is a healthy innovation that will prevent governments from passing laws that violate international agreements.[5]

- **In cases like Ethyl's, international panels, not domestic courts, will have ultimate legal authority.** No Canadian court will rule on whether the MMT ban violated NAFTA. Under NAFTA, Ethyl can pursue its case before an international tribunal – where the proceedings are conducted in secret, the records are not publicly accessible and the decision is legally binding. The panel will be comprised of one person chosen by Ethyl, one by the Canadian government, and the third jointly by the first two appointees. If it loses, the Canadian government will have no recourse to appeal in domestic courts. Claims that go to international arbitration are often expedited; lawyers for Ethyl predict that the case will be settled by the end of the year.

- **The Ethyl case suggests that critics of NAFTA and GATT may have been correct in arguing that these agreements could pose a threat to national sovereignty.** The likelihood that NAFTA, and other agreements like it, could restrict the ability of democratically elected governments to legislate on such matters as public health and safety and environmental protection was downplayed by many advocates of the agreement. Yet the Ethyl case suggests that critics' concerns were not misplaced. Indeed, as Ethyl's attorneys recently argued: "[T]he potential for lawsuits under this [investor-to state dispute resolution] process is far-reaching since it could be used by more than 350 million individuals and corporations throughout the NAFTA countries."[6] Under the proposed MAI, which will cover investors from 29 of the world's industrial countries, the numbers would of course be higher.

For more information, please contact:
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[5]U.S. Department of Treasury Staff, Briefing on the MAI and the Financial Services Agreement to the House Committee on Banking, Housing and Urban Affairs, 4/21/97.

[6]Appleton & Associates, "First-Ever Lawsuit Against Canadian Government Using NAFTA Investor-State Process Brought," press release dated October 9, 1996.

NATIONAL FARMERS UNION

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NEWS RELEASE

For Immediate Release
June 27, 1997

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Study Proves NAFTA Creates Big Problems

WASHINGTON--National Farmers Union President Leland Swenson said today that more than 3 years of the North American Free Trade Agreement (NAFTA) have cost U.S. jobs and weakened U.S. health and safety standards. Swenson cited a new report that documents how NAFTA has cost 420,208 U.S. jobs since 1993 and has crippled U. S. border inspection efforts due to the massive influx of goods entering the U.S.

In the report, "The Failed Experiment: NAFTA at Three Years," the Economic Policy Institute (EPI) found that the $1.7-billion U.S. trade surplus with Mexico before NAFTA has become a $16.2-billion U.S. trade deficit today. The EPI report concludes that "America's overall deficit with NAFTA countries reached $39 billion in 1996, an increase of 332 percent since 1993."

"Given the huge trade deficit that has resulted since NAFTA, leading to hundreds of thousands of U.S. jobs lost, how can lawmakers even consider expanding and agreement that has so damaged this country?" Swenson asked. The Clinton administration plans to introduce legislation this fall to expand NAFTA to other countries, and many lawmakers in Congress support the Clinton plan. "Farmers Union is completely opposed to NAFTA expansion because serious problems have been created due to this agreement," Swenson added.

The report goes on to describe that less than 1 percent of the 3.3 million trucks entering the U.S. each year are inspected. Fifty percent of inspected trucks fail, due to major violations of U.S. standards. Foods entering the U.S. from Mexico have been found to contain high levels of pesticide residues.

"The fact that such an minute number of trucks entering our country are inspected is appalling," Swenson declared. "The American taxpayer has invested a great deal of money to ensure that the food we consume in this country is safe--since NAFTA, unlimited amounts of foods flow into the U.S. from other countries containing harmful pesticides and other residues largely unchecked," he said.

"Despite the fact that U.S. border inspection has been crippled due to the massive influx of imports since NAFTA, free-trade proponents are urging inspectors to speed up the flow of goods across U.S. borders. Such a policy threatens not only the health and safety of our domestic crops and livestock, but more importantly, this nation's food supply," Swenson said.

NFU supports the NAFTA Accountability Act, which calls for a review of NAFTA and a renegotiation of the agreement if U.S. standards are not met. NFU also supports legislation to enforce the labeling all imported agricultural products.

NFU is a general farm organization representing 300,000 farm, ranch and rural families.

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STATEMENT OF WILLIAM J. SNAPE, III
LEGAL DIRECTOR, DEFENDERS OF WILDLIFE
JUNE 26, 1997

My name is Bill Snape, and I am legal director at Defenders of Wildlife, a non-profit advocacy group with over 200,000 members nationwide that seeks to protect native plants and animals in their natural habitats.

During the first Congressional and public debate over passage of the North American Free Trade Agreement (NAFTA) in 1993, Defenders did not oppose final passage of NAFTA and its implementing legislation. In fact, in the months leading up to the Congressional votes on the issue, we remained quite supportive of the Clinton administration's attempts to balance trade and environment concerns in the NAFTA context.

Since the Congressional votes on NAFTA, Defenders has become increasingly disillusioned with how environmental protection is treated during trade negotiations and in trade agreements. We will be unable to support, and indeed will actively oppose, a fast-track proposal on Chilean accession to NAFTA or any other international trade agreement that does not meaningfully integrate and incorporate real natural resource protection. Because I believe the President and Congress will be unwilling or unable to do this, I today formally announce our opposition to the present course of negotiations on NAFTA accession.

Our fundamental problem with existing international trade agreements is the tremendous deregulatory pressure they place on democratically passed environmental standards. When multinational corporations cannot get the deal they want from a national legislature, they are now literally able to use the dispute settlement bodies of NAFTA and the World Trade Organization (WTO) as a sword to attack strong domestic and even international environmental laws -- this is what the recent Ethyl case is all about. In addition, contrary to the rhetoric of some, there is no evidence that NAFTA or the WTO is magically making citizens around the globe wealthier, and thus more inclined to support and promote stronger environmental protection; this certainly has not been the short-term effect in Mexico since passage of NAFTA.

Three points underscore Defenders' contention that an expansion of NAFTA will weaken American environmental standards, perpetuate environmental degradation throughout the Americas, and specifically promote unsustainable development in Chile:

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NEWS

FOR IMMEDIATE RELEASE
Thursday, June 26, 1997

Contact: (202) 463-5682 Frank Coleman/Thomas Love
(888) 249-NEWS (press@uschamber.com)

FIRST THREE YEARS OF NAFTA HAVE BEEN HUGE SUCCESS; THE U.S. CHAMBER SAYS

WASHINGTON – The first three years of the North American Trade Agreement have been a huge success for American business and workers, the U.S. Chamber of Commerce said today.

"Under NAFTA, American companies have increased their exports to Mexico by 35.7 percent. In 1996 alone, exports to Mexico were up 23 percent while imports from Mexico grew just 18 percent," said Willard W. Workman, Chamber vice president international. "For example, U.S. automobile exports to Mexico grew from 1.4 percent of the total Mexican market before NAFTA to 24.6 percent in 1996.

"The $57 billion in exports to Mexico support more than 1 million U.S. jobs, not counting the jobs created by imports from Mexico," he added.

"NAFTA has been especially beneficial for small and medium-sized businesses which need clear and predictable rules because they cannot overcome the trade hurdles that large firms can handle," he continued. "Between 1993 -- before NAFTA went into effect -- and 1996, the number of small American companies which earned at least 10 percent of their income from exports went from 10 percent to 20 percent."

Workman pointed out that the stable trade and investment rules under NAFTA have given U.S. companies a clear advantage over their Asian and European competitors trying to export to the growing Mexican market. American businesses increased their market share in Mexico from 70 percent in 1994 to 75 percent in 1995, and it continues to grow.

However, the benefits of NAFTA would be even greater if the agreement were not hampered by delays in implementing border-crossing rules – including the delayed trucking provisions -- and modernizing border infrastructure, Workman said, calling on the Clinton administration to speed the process.

The Chamber called on the administration and Congress to implement fast-track negotiating authority. Without the authority, the United States is forced to sit on the sidelines while our competitors negotiate their own trade pacts, Workman said.

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97-88

FALLOUT FROM NAFTA

Special to The News: Associated Press

Irma Estrada and Gricelda Rodriguez fill out a racial discrimination complaint at a Mujer Obrera meeting for El Paso-area workers who were displaced by NAFTA. Ms. Rodriguez's son Hugo accompanied her.

Laid-off workers struggle with retraining efforts

By Steven H. Lee

Staff Writer of The Dallas Morning News

EL PASO — For 28 of her 45 years, Gricelda Rodriguez toiled in El Paso's garment factories without learning to speak English. She never needed to. Her bosses paid her more than $6 an hour and full benefits to run sewing machines, not to speak.

That changed in February 1995 when she was fired and her job was sent to Mexico. She entered a federal program that promised "rapid" and "timely" job retraining for workers displaced in the wake of the North American Free Trade Agreement.

Now, after 18 months in the program, she hasn't received job training — just English classes. She may never get the chance to learn a skill: On Sunday, her program benefits run out.

"Without any money, what's going to happen to my children?" said Ms. Rodriguez, a widow who supports three sons. She spoke in Spanish, still unable to converse in English.

More than 1,000 of about 1,300 El Paso workers enrolled in the program are currently in English or high-school

Please see LAID-OFF on Page 10D.

Special to The News: Associated Press

Rozio Alacanter (left) and Marie Fang take computer classes at the Center for Employment Training in Socorro, a program that is turning out some NAFTA program students in as little as six to eight months.

Last page

MEMORANDUM FOR THE DEPUTY SECRETARY

FROM: **Carl Haacke through Geri Palast**

RE: **FAST-TRACK ROUND II STRATEGY**

DATE: **November 25, 1997**

Summary of Strategy

The second round of the Fast Track debate creates an opportunity to address more thoroughly the economic issues facing workers at home and abroad. Through congressional and media outreach, the Administration can demonstrate its strong record of assisting these workers to successfully manage the difficult transition into the new economy and highlight our commitments to doing more.

This memo discusses the economic issues that create problems for Fast Track, the Administration's record, its strategy for new initiatives, international labor issues, broader strategies to assist workers, the "human face" of export jobs and communications strategy to raise awareness.

I. The Problem: The Challenge Facing Fast Track

- There is broad and deep concern about the negative impacts of trade on US employment and wages. For example, Rep. Timothy Roemer (D-Ind) is quoted as saying, *"People see it as a litmus test on whether you are sympathetic with how precarious their job stability might be...we have low unemployment in Indiana, but thousands of people are hanging on by their fingernails to $6 and $7 an hour jobs, and they could be the first ones displaced"*

- Economic data show that wages have suffered in recent years, particularly for dislocated workers. The real value of U.S. trade has grown 174 percent since 1979, while the real median weekly earnings for male high school graduates has declined 18 percent.

  Dislocated workers who are re-hired often earn lower wages than during their original jobs. Transportation workers, for example, who were displaced between January 1991 and December 1993, were re-employed at 74 percent of their original wage by February 1994.

  One piece of good news is that while apparel workers are now certified the most as trade impacted under NAFTA-TAA and TAA, they actually show a wage increase once they are re-hired. See Chart 1.

- There are job loses due to trade. Since January 1, 1994 whan NAFTA was implemented 143,041 workers have been certified as impacted by trade under NAFTA-TAA. During the same period there were 434,802 workers certified under the TAA. (It is important to note that not all of these workers were laid off. Many certified workers are never laid off or are moved to other plants. Also, many of these workers were certified under both programs so the two numbers cannot totaled.)

- Both "experts" and the public think that trade agreements in general are good for the economy. However, 68 percent of the public agreed with the statement that companies sending jobs overseas was an important reason the economy was not doing better. Fifty-one percent said that trade agreements like NAFTA and GATT are mostly bad for workers.

II. Administration Record: Demonstrate the Administration's record on assisting workers successfully manage transition into the new economy

- To address the economic realities and public perceptions described above it is necessary to demonstrate that the Administration already has a good record of assisting dislocated workers adjust to changes in the labor market. Dislocated workers do face a tough challenge to find or prepare for new jobs, but they are not left in the cold.

- We should highlight these programs as examples of the Administration's commitment to assist dislocated workers and to reduce worker anxiety about economic change.

- Unemployment Insurance, Title III for Dislocated workers, Trade Adjustment Assistance (TAA) and NAFTA-TAA, One-Stop, and Employment Services, collectively provide an array of training, counseling and income support assistance geared to help workers manage the difficult transition. Studies which follow up with Title III participants show that their new wage is 94% of their original wage, on average.

- See Attachment 1 & Chart 2.

III. New Initiatives: Show that we are committed to doing more to provide broader access to services

- Despite some positive results from dislocated worker programs, we can acknowledge that more needs to be done to reach those not yet served and to improve the quality of information about program outcomes. The President has already addressed these issues in the following ways:

- The President has committed to new resources for expansions to workers affected by shift in production to countries other than Canada and Mexico and secondary workers affected by trade.

- The Department has also promised to expand outreach to help workers get access to services.

- The President's FY 99 budget will demonstrate a commitment to triple Title III funding since he took office (from $517m in FY 93 to $1.6 billion in FY 2003).

- The Department will improve collection of outcome data for TAA/ NAFTA-TAA.

- The President as proposed $250 million for focused community assistance for trade impact areas.

IV. International labor issues: Highlight what we are doing to address international labor conditions

- The Fast Track debate was most heated around international labor and environment protections.

- The Administration can do more to highlight the specific efforts and successes that have been made to improve worker rights in Mexico.

- The Administration can also highlight its achievements in advancing a growing international consensus around international labor standards.

- See Attachment 2.

V. The Broader Worker Assistance Effforts: Emphasize what are we doing to insure that all workers share in economic prosperity and that no one is left behind

- One of the arguments we've heard from Democrats in Congress is the need for more job creation. The Department has been increasing investment in programs to help all workers share in America's economic prosperity. These are often targeted to assist the most economically disadvantaged populations and communities.

- See Attachment 3.

VI. Bring to the Forefront the "Human Face" of Export Jobs

- Press coverage of trade has focused on job losers, while the positive story of trade related job growth has been left to the experts to discuss. If we want to respond effectively to worker anxiety about job loss, workers with new export jobs must become familiar characters as part of the trade debate.

- We should create press coverage of export oriented plant openings to highlight newly created jobs.

- We should also highlight success stories of workers who successfully move through training programs into new sustainable jobs.

VII. Communicating Record and Reaffirming Commitment

The educational effort must communicate to congressional leaders, the press and the public the record of the Administration and its commitments to assisting workers move forward into the new economy. We must also show how the Administration is going to expand on those efforts.

Congressional Strategy

- Congressional briefings on existing efforts to assist workers, organize site visits of successful programs with Administration officials. Focus on swing voters and key caucuses.

Press Strategy

- Press response to highlight:
  -Show export oriented plant openings. Highlight the personal stories of new export jobs.
  -Follow up on plant closings to highlight services available to dislocated workers.
  -Workers making the successful transition from dislocation into new sustainable jobs.

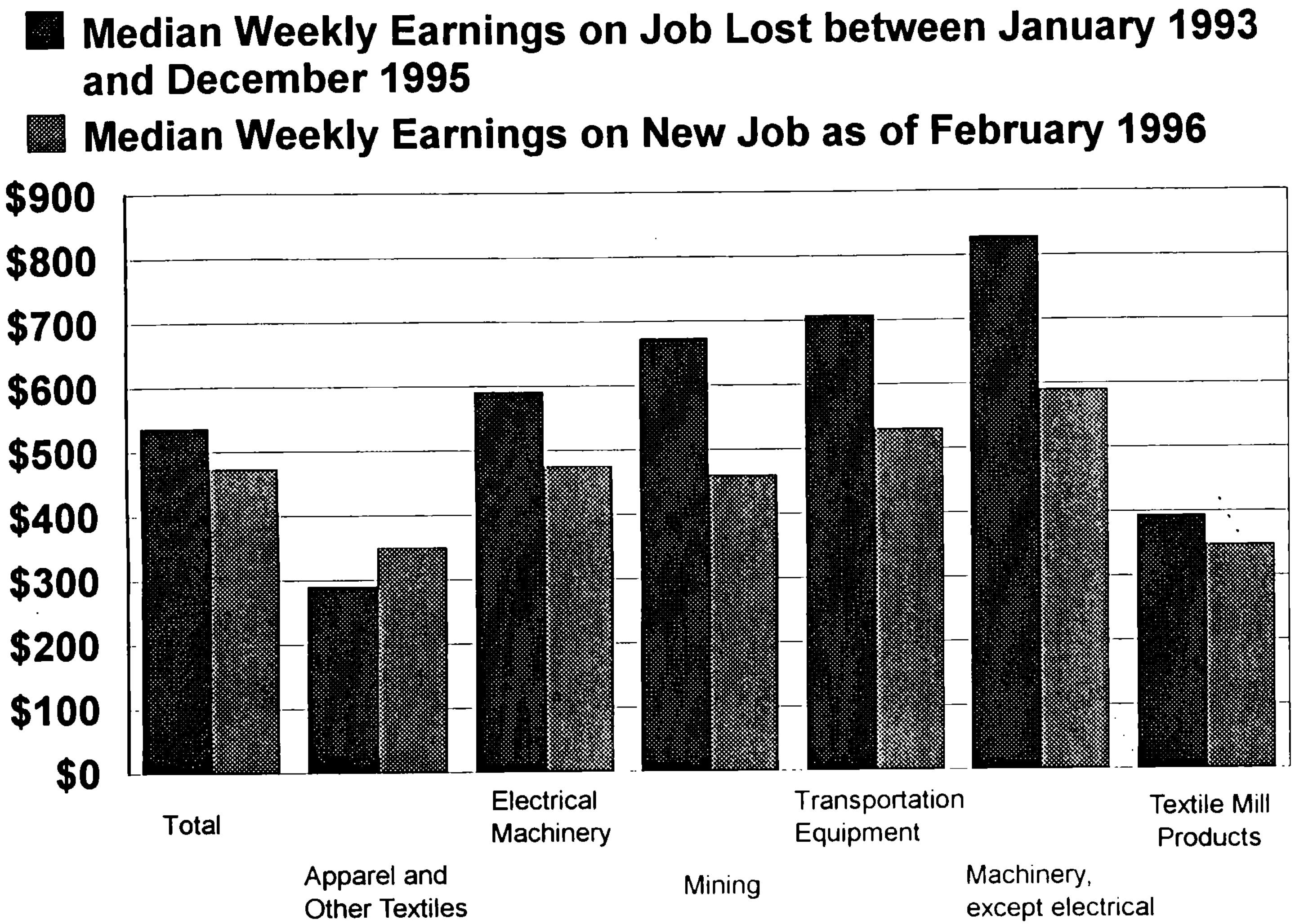
- Print Press
  -Erskine Bowles NYT editorial around holidays to describe what is next on Fast Track. Address head on the concerns of those who may face dislocation as a result of trade. Highlight what the administration has been doing to assist workers adjust to the new economy and new initiatives to improve that effort.

  -Secretary of Labor Op-Eds in big city papers and targeted media markets to echo the message Bowles message.

  -Editorial board meetings.

Chart 1

Reemployment Wage of Displaced Workers



Source: 1996 Displaced Worker Survey, Bureau of Labor Statistics. Earnings data is for workers who lost full-time wage & salary jobs between January 1993 & December 1995 and who had a new job in February 1996.

Attachment 1

CHRONOLOGY OF CURRENT SERVICES AVAILABLE FOR DISLOCATED WORKERS.

- Worker assistance often begins by a Worker Adjustment and Retraining Notification (WARN) which requires many employers to provide at least 60 days advance notice of a plant closing or mass layoff to workers, local government and State Dislocated Worker Units. Employers or employees can also petition the Department of Labor for certification under TAA or NAFTA-TAA.

- WARN, petitions/certifications, or other public announcements trigger the deployment of a Federally financed, but State-run, rapid response team which informs affected workers that they qualify for benefits and services and assists them in the application process.

- Unemployment Insurance is available for workers laid off involuntarily and need income support while they search for other work. It is generally available for six months, but is collected for only about 3 months, on average. UI can be used as income support while a worker is in approved training.

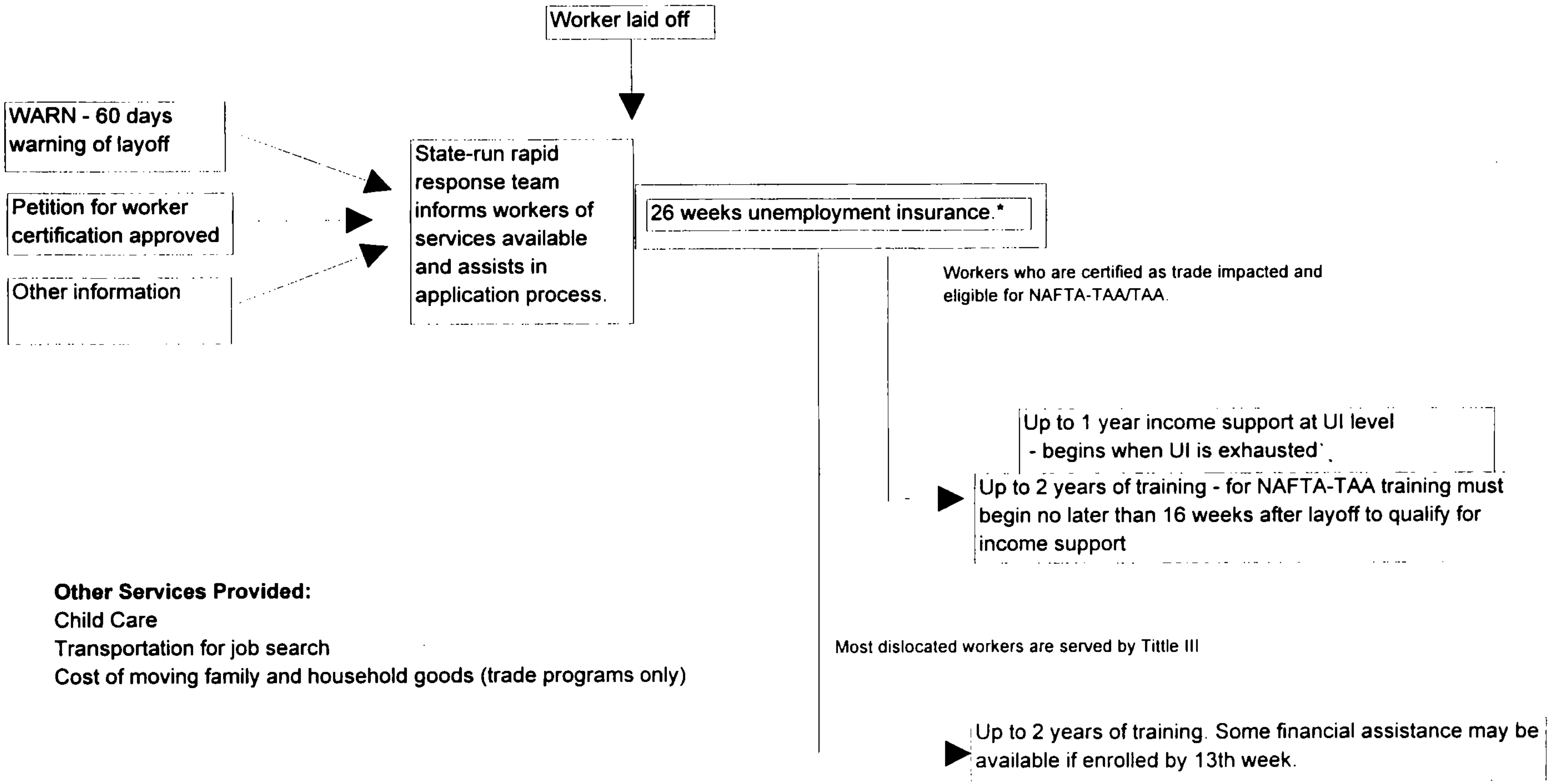
- Most dislocated workers get assistance through the JTPA Title III program. This program provides help to 500,000 participants with job search assistance and other forms of reemployment services. For workers who need new skills, Title III provides for retraining courses. Follow-up studies show that 13 weeks after leaving the program, 74% of these workers are re-employed and on average their new wage is 94% of their original wage.

- There are enhanced services for trade impacted workers through TAA and NAFTA-TAA. Workers are eligible for training that can last up to 2 years. In addition, trade impacted workers who exhaust UI benefits may receive up to an additional year of income support at their UI level while in training. Workers also receive re-employment services, financial assistance for job search, counseling, and child care. The average duration of trade benefits is 28 weeks and approximately 12% use the full 52 weeks of income support.

- The Department is helping States to transform their service delivery system into a One-Stop service delivery system. These offices provide access to high quality local information on available jobs, skill requirements, and training provider performance -- information which is critical to their job preparation and often the key to landing a job.

- Efforts are already under way to improve information available on the Internet to assist dislocated workers and their representatives (Congress, unions etc.) to access quality information.

WORKER DISLOCATION CHRONOLOGY



Other Services Provided:
Child Care
Transportation for job search
Cost of moving family and household goods (trade programs only)

* 30 weeks in Washington and Massachusetts.

Attachment 2

INTERNATIONAL INITIATIVES AND ACHIEVEMENTS

- Through the North American Agreement on Labor Cooperation, the labor supplemental agreement to the NAFTA, we have been able to influence labor standards in Mexico through cooperative programs and through a mechanism that allows public submissions about lack of enforcement of labor law by the Mexican government.

- We have made progress in building an international consensus around core labor standards: Freedom of association; the right to organize and bargain collectively; a prohibition on forced labor; a prohibition on discrimination in employment; and a prohibition on exploitative child labor.

  -- The Administration was successful in getting on the agenda of the 1998 ILO Conference a discussion of a declaration that would reaffirm the commitment of members to core labor standards together with a follow-up mechanism.

  -- In the May 1997 Declaration of San Jose, agreed to by President Clinton and Central American leaders, language was included that recognized the importance of the rights of workers.

  -- In December 1996, at the WTO Ministerial in Singapore, the Administration was successful in obtaining language in the Declaration in which countries "renew their commitment to the observance of internationally recognized labor standards." This was the first explicit commitment made by trade ministers in the half-century of the GATT/WTO.

  -- In May 1996, under the New Transatlantic Agenda, the U.S. and the EU signed an MOU establishing a joint Working Group on Employment; one of the agenda items for the working group is labor standards in the international context.

  -- In March 1995, at the UN Summit for Social Development in Copenhagen, the United States succeeded in a commitment by over one hundred heads of State and Government to greater implementation of "core labor standards." Nearly identical language was subsequently adopted at the Fourth World Conference for Women in Beijing (September 1996) and in the Habitat Agenda (June 1996).

  -- In June 1994, the Administration led a successful effort at the OECD Council to request the Secretariat to conduct a study of the relationship between trade and labor standards. The Study was completed in 1996.

- The Department of Labor has provided $5.1 million to the ILO's International Program for the Elimination of Child Labor (IPEC) in the last three years. These funds have been used for programs in Bangladesh, Pakistan, Thailand, the Philippines, Africa, and Brazil.

For example, the Department provided $860,000 for a project to get Bangladeshi children out of garment factories, an initiative that was very favorably reviewed by Fred Hiatt in a November 16 *Washington Post* op-ed piece.

- We have also taken some steps to internationalize the effort on building partnerships to improve labor conditions. In November 1997, leaders of the Apparel Industry Partnership made a presentation on their objectives to Labor Ministers from Central America, Panama, the Dominican Republic and Belize gathered in Washington at a meeting chaired by Secretary Herman. Secretary Herman and EU Commissioner Flynn have agreed to hold a tripartite meeting in Europe in February 1998 to discuss codes of conduct issues.

EXAMPLES OF EFFORTS TO ENSURE THAT ALL AMERICANS SHARE IN ECONOMIC PROSPERITY

- Aside from Title III, JTPA has several programs to that focus more generally on the economically disadvantaged: Title II-A is for the Economically Disadvantaged, II-B is for Summer Youth and Title II-C is for youth year round.

- The Department of Labor is administering a new $3 billion program to provide States and localities with resources to assist TANF participants in the transition from welfare-to-work.

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- Efforts are already under way to improve information available on the Internet to assist dislocated workers and their representatives (Congress, unions etc.) to access quality information.

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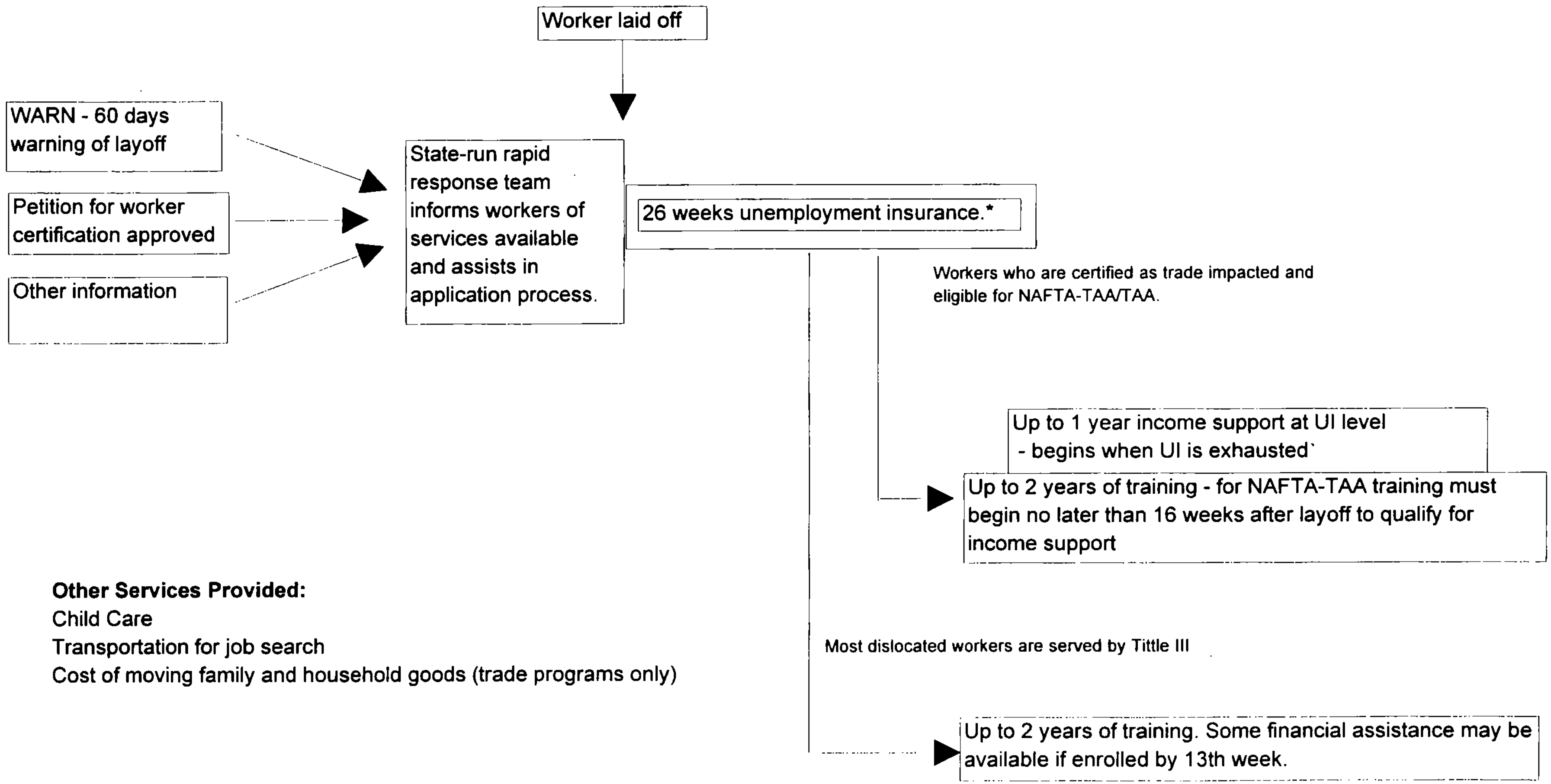
WORKER DISLOCATION CHRONOLOGY



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MEMORANDUM FOR THE DEPUTY SECRETARY

FROM: Carl Haacke through Geri Palast

RE: FAST-TRACK ROUND II STRATEGY

DATE: November 25, 1997

Summary of Strategy

The second round of the Fast Track debate creates an opportunity to address more thoroughly the economic issues facing workers at home and abroad. Through congressional and media outreach, the Administration can demonstrate its strong record of assisting these workers to successfully manage the difficult transition into the new economy and highlight our commitments to doing more.

This memo discusses the economic issues that create problems for Fast Track, the Administration's record, its strategy for new initiatives, international labor issues, broader strategies to assist workers, the "human face" of export jobs and communications strategy to raise awareness.

I. The Problem: The Challenge Facing Fast Track

- There is broad and deep concern about the negative impacts of trade on US employment and wages. For example, Rep. Timothy Roemer (D-Ind) is quoted as saying, *"People see it as a litmus test on whether you are sympathetic with how precarious their job stability might be...we have low unemployment in Indiana, but thousands of people are hanging on by their fingernails to $6 and $7 an hour jobs, and they could be the first ones displaced"*

- Economic data show that wages have suffered in recent years, particularly for dislocated workers. The real value of U.S. trade has grown 174 percent since 1979, while the real median weekly earnings for male high school graduates has declined 18 percent.

  Dislocated workers who are re-hired often earn lower wages than during their original jobs. Transportation workers, for example, who were displaced between January 1991 and December 1993, were re-employed at 74 percent of their original wage by February 1994.

  One piece of good news is that while apparel workers are now certified the most as trade impacted under NAFTA-TAA and TAA, they actually show a wage increase once they are re-hired. See Chart 1.

- There are job loses due to trade. Since January 1, 1994 whan NAFTA was implemented 143,041 workers have been certified as impacted by trade under NAFTA-TAA. During the same period there were 434,802 workers certified under the TAA. (It is important to note that not all of these workers were laid off. Many certified workers are never laid off or are moved to other plants. Also, many of these workers were certified under both programs so the two numbers cannot totaled.)

- Both "experts" and the public think that trade agreements in general are good for the economy. However, 68 percent of the public agreed with the statement that companies sending jobs overseas was an important reason the economy was not doing better. Fifty-one percent said that trade agreements like NAFTA and GATT are mostly bad for workers.

II. Administration Record: Demonstrate the Administration's record on assisting workers successfully manage transition into the new economy

- To address the economic realities and public perceptions described above it is necessary to demonstrate that the Administration already has a good record of assisting dislocated workers adjust to changes in the labor market. Dislocated workers do face a tough challenge to find or prepare for new jobs, but they are not left in the cold.

- We should highlight these programs as examples of the Administration's commitment to assist dislocated workers and to reduce worker anxiety about economic change.

- Unemployment Insurance, Title III for Dislocated workers, Trade Adjustment Assistance (TAA) and NAFTA-TAA, One-Stop, and Employment Services, collectively provide an array of training, counseling and income support assistance geared to help workers manage the difficult transition. Studies which follow up with Title III participants show that their new wage is 94% of their original wage, on average.

- See Attachment 1 & Chart 2.

III. New Initiatives: Show that we are committed to doing more to provide broader access to services

- Despite some positive results from dislocated worker programs, we can acknowledge that more needs to be done to reach those not yet served and to improve the quality of information about program outcomes. The President has already addressed these issues in the following ways:

- The President has committed to new resources for expansions to workers affected by shift in production to countries other than Canada and Mexico and secondary workers affected by trade.

- The Department has also promised to expand outreach to help workers get access to services.

- The President's FY 99 budget will demonstrate a commitment to triple Title III funding since he took office (from $517m in FY 93 to $1.6 billion in FY 2003).

- The Department will improve collection of outcome data for TAA/ NAFTA-TAA.

- The President as proposed $250 million for focused community assistance for trade impact areas.

IV. International labor issues: Highlight what we are doing to address international labor conditions

- The Fast Track debate was most heated around international labor and environment protections.

- The Administration can do more to highlight the specific efforts and successes that have been made to improve worker rights in Mexico.

- The Administration can also highlight its achievements in advancing a growing international consensus around international labor standards.

- See Attachment 2.

V. The Broader Worker Assistance Effforts: Emphasize what are we doing to insure that all workers share in economic prosperity and that no one is left behind

- One of the arguments we've heard from Democrats in Congress is the need for more job creation. The Department has been increasing investment in programs to help all workers share in America's economic prosperity. These are often targeted to assist the most economically disadvantaged populations and communities.

- See Attachment 3.

VI. Bring to the Forefront the "Human Face" of Export Jobs

- Press coverage of trade has focused on job losers, while the positive story of trade related job growth has been left to the experts to discuss. If we want to respond effectively to worker anxiety about job loss, workers with new export jobs must become familiar characters as part of the trade debate.

- We should create press coverage of export oriented plant openings to highlight newly created jobs.

- We should also highlight success stories of workers who successfully move through training programs into new sustainable jobs.

VII. Communicating Record and Reaffirming Commitment

The educational effort must communicate to congressional leaders, the press and the public the record of the Administration and its commitments to assisting workers move forward into the new economy. We must also show how the Administration is going to expand on those efforts.

Congressional Strategy

- Congressional briefings on existing efforts to assist workers, organize site visits of successful programs with Administration officials. Focus on swing voters and key caucuses.

Press Strategy

- Press response to highlight:
  -Show export oriented plant openings. Highlight the personal stories of new export jobs.
  -Follow up on plant closings to highlight services available to dislocated workers.
  -Workers making the successful transition from dislocation into new sustainable jobs.

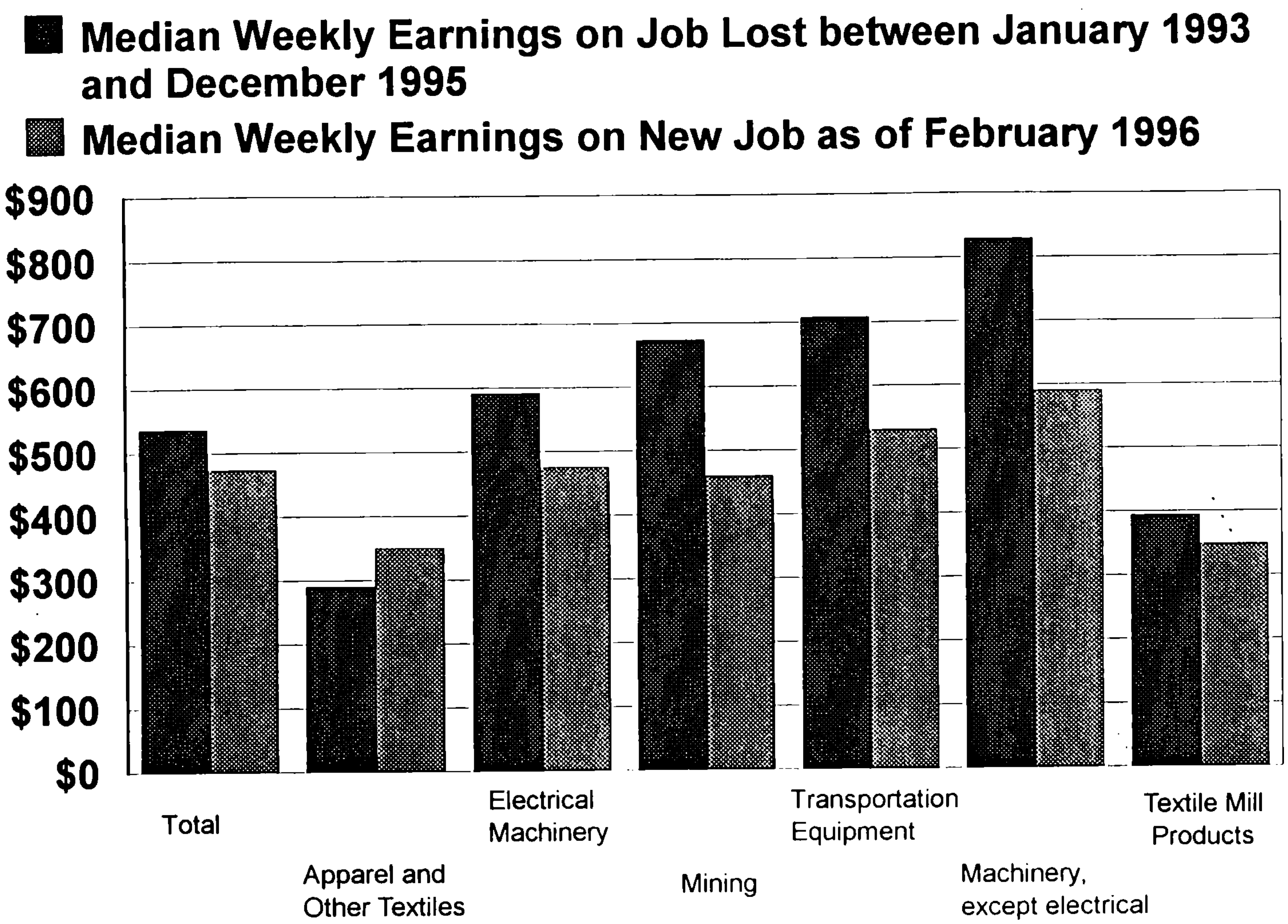
- Print Press
  -Erskine Bowles NYT editorial around holidays to describe what is next on Fast Track. Address head on the concerns of those who may face dislocation as a result of trade. Highlight what the administration has been doing to assist workers adjust to the new economy and new initiatives to improve that effort.

  -Secretary of Labor Op-Eds in big city papers and targeted media markets to echo the message Bowles message.

  -Editorial board meetings.

Chart 1

Reemployment Wage of Displaced Workers



Source: 1996 Displaced Worker Survey, Bureau of Labor Statistics. Earnings data is for workers who lost full-time wage & salary jobs between January 1993 & December 1995 and who had a new job in February 1996.

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WORKER DISLOCATION CHRONOLOGY

Worker laid off

WARN - 60 days warning of layoff

Petition for worker certification approved

Other information

State-run rapid response team informs workers of services available and assists in application process.

26 weeks unemployment insurance.*

Workers who are certified as trade impacted and eligible for NAFTA-TAA/TAA.

Up to 1 year income support at UI level
- begins when UI is exhausted

Up to 2 years of training - for NAFTA-TAA training must begin no later than 16 weeks after layoff to qualify for income support

Most dislocated workers are served by Tittle III

Up to 2 years of training. Some financial assistance may be available if enrolled by 13th week.

Other Services Provided:

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For example, the Department provided $860,000 for a project to get Bangladeshi children out of garment factories, an initiative that was very favorably reviewed by Fred Hiatt in a November 16 *Washington Post* op-ed piece.

- We have also taken some steps to internationalize the effort on building partnerships to improve labor conditions. In November 1997, leaders of the Apparel Industry Partnership made a presentation on their objectives to Labor Ministers from Central America, Panama, the Dominican Republic and Belize gathered in Washington at a meeting chaired by Secretary Herman. Secretary Herman and EU Commissioner Flynn have agreed to hold a tripartite meeting in Europe in February 1998 to discuss codes of conduct issues.

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EXAMPLES OF EFFORTS TO ENSURE THAT ALL AMERICANS SHARE IN ECONOMIC PROSPERITY

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