

UNITED STATES-MEXICO FREE TRADE AGREEMENT

HEARINGS
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
ONE HUNDRED SECOND CONGRESS
FIRST SESSION

—————
FEBRUARY 6 AND 20, 1991
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UNITED STATES-MEXICO FREE TRADE AGREEMENT

WEDNESDAY, FEBRUARY 6, 1991

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:17 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Also present: Senators Baucus, Bradley, Riegle, Daschle, Breaux, Packwood, Roth, Danforth, Chafee, Heinz, Symms, and Grassley.
[The press release announcing the hearings follows:]

[Press Release No. H-1, Jan. 18, 1991]

FINANCE COMMITTEE TO HOLD HEARINGS ON U.S.-MEXICO FTA; WITNESSES TO FOCUS ON ECONOMIC EFFECTS OF AN AGREEMENT

WASHINGTON, DC—Senator Lloyd Bentsen (D., Texas), Chairman of the Senate Finance Committee, announced today that the Committee will hold hearings next month on the prospect of free trade negotiations with Mexico.

The hearings will be held at 10:15 a.m. on Wednesday, February 6 and 10:00 a.m. on Wednesday, February 20, 1991 in Room SD-215 of the Dirksen Senate Office Building.

The lead-off witness will be U.S. Trade Representative Carla A. Hills.

"A free trade agreement with Mexico, with whom we had over \$60 billion in trade in 1990, can have a substantial impact on many sectors of the U.S. economy. An agreement has the potential to provide new jobs and other benefits for the country. At the same time, these free trade negotiations present significant challenges. Never before have we negotiated a free trade agreement with a country so different from us economically," Bentsen said.

"It will be critical that any free trade negotiations be analyzed and then managed carefully. A successful free trade agreement should help us realize substantial economic opportunities while recognizing the important challenges facing U.S.-Mexico trade relations," Bentsen said.

"Under the law, the Finance Committee has the authority to allow these negotiations to proceed under expedited procedures. So it is essential that we have sufficient information on the likely benefits and costs of a free trade agreement, and what role, if any, Canada is likely to play in these negotiations," Bentsen said.

OPENING STATEMENT OF HON. LLOYD BENTSEN, A U.S. SENATOR FROM TEXAS, CHAIRMAN, SENATE FINANCE COMMITTEE

The CHAIRMAN. This hearing will come to order. If you would please cease conversation.

Today we're holding the first of two hearings concerning the Mexican Free Trade Agreement. We'll do another one on February 20.

On September 26 the Finance Committee received notice from President Bush of his intent to enter into these negotiations. Under

the 1988 Trade Act that started a 60-day legislative day period during which the Finance Committee has the authority to disapprove the negotiations.

That is why I have scheduled these hearings, to ensure that our committee has a full opportunity to hear from Ambassador Hills and other witnesses as to what the impact of such an agreement would be on the United States.

In addition, later this month the President will have to come to us to seek an extension of his underlying authority to negotiate with Mexico under the fast track procedure. Now what, in effect, that does is give a procedure under which in effect ultimately the Congress votes up or down on this agreement and to do it without amendments.

The justification for that is that no government can negotiate with another government and feel it has an agreement if it is sent back to a legislative body to add whatever amendment whatever interest group might want to have on it. But what is basic with this committee is that under the Constitution the Congress has the responsibility for trade. And even though a legislative body cannot negotiate effectively with another government on such an agreement, we must be a part of the consultation.

Ultimately, the executive branch comes to us and asks us to consider the passage of such an agreement. But it is important if they are going to ask for that at the end of those negotiations, we must be in it at the beginning, and we must be assured that that consultation is taking place with all the economic interest groups that we have in this country—that they have been given a chance to voice their concerns.

I must say that in general I support a Mexican-United States Free Trade Agreement. I think there is much to be gained by a net increase in jobs on both sides. Unless you get that kind of a result, we should not have an agreement. I think that view is shared on the Mexican side.

Today they are our third largest trading partner, and in turn we are their number one customer. You have seen a very substantial increase in trade on both sides. I think we have all benefited by it, by the competition bringing about an improvement in the quality of products and a better price for the consumers, and an increase in jobs as those products are manufactured and sent into Mexico and in turn exported to us.

You have seen a sea change take place in Mexico in the last 5 years. I was born and reared on that Mexican border. I have spent a good part of my life in Mexico. I have an understanding of where they have been and hopefully where they are going.

To have been in Mexico 4 or 5 years ago and have talked to manufacturers about trade—it was a closed society. One of the most protectionist of countries. De La Madrid, the previous President, took them into GATT. We cast the first vote for them in GATT.

Moving from licensing to tariffs, to a maximum tariff of 20 percent and an average of about 10 percent, the Salinas Government has been bringing down inflation, encouraging investment, welcoming that kind of competition. There has been a remarkable change in the attitude of the Mexican Government and we welcome it.

In all candor, in talking to President Salinas and members of that Cabinet, I don't know what happened to "Manana Land." They are pushing, they are excited, they are interested, and they want to develop that trade.

As one of those Senators representing a border State, part of the problem is going to be in the infrastructure area and seeing that we improve transportation across those border crossings. That we have the number of Customs people we need, we have the number of immigration people we need, and that we have the bridges and the crossings that are sufficient to expedite the increased amount of trade that is developing there.

I was just down in Brownsville looking at what is happening there, and the long lines of traffic waiting to come across, and the delays. That is expensive to business on both sides.

There are a lot of concerns about what is going to happen. There are going to be winners and losers in this. There is going to be some tough negotiation that takes place on both sides. It is going to be quite a bit different from the Canadian Free Trade Agreement, which took quite awhile.

There you had comparable wage scales, comparable cultures. This is the only place in the world where you have a major industrial power sharing a long border with a developing country, with a disparity in wages that is as much as 7 to 1.

Those are the types of concerns that have to be addressed. But if we work together and have full consultation between the administration and this body, I think we can bring about an agreement that is going to be a major benefit for both sides and will help raise the standard of living of both sides.

I defer now to the Ranking Minority Member, Senator Packwood.

OPENING STATEMENT OF HON. BOB PACKWOOD, A U.S. SENATOR FROM OREGON

Senator PACKWOOD. Thank you, Mr. Chairman.

To paraphrase Will Rogers, I have never met a free trade agreement I did not like. We have only had two and they are both working out really well.

Israel was our first. But in fairness, while a potent country Israel is a small country and if Israel flooded the United States with everything it could make it would not be a serious dent in our total gross national product. But the agreement is working well.

With Canada, as the Chairman said the United States and Canada share a common culture, roughly equivalent wage structure in most of our major industries, both countries having manufacturing backgrounds; and even with that, we put in a long 10-year phase-in period.

And now we come to Mexico. I will support a good agreement; and I am sure that Ambassador Hills will get us a good agreement. But at the same time we have got to realize that there can come from this agreement dislocations that could not come from the Israeli Free Trade Agreement and was not likely to come from the Canadian agreement and with those we had long phase-in periods.

Clearly, with Mexico there is a concern about disparity and wages. Organized labor has a concern, and they should, about the

further possibility of U.S. companies moving south to take advantage of low-wage opportunities.

Having said that, I am convinced there is a way, if this agreement is finalized and approved by Congress, that we can ameliorate those difficulties. But we should not assume there are no difficulties.

So I would hope as we go forward with the hearings and as we go forward with the negotiations that Ambassador Hills and the others that will be involved in these negotiations, will realize that for the first time there could be serious dislocations in certain sectors. That will be the area I will be watching, wanting to support this agreement, but wanting to make sure that it is not so abrupt and radical a change that you suddenly have suffering in a fair portion of both countries.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Baucus?

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Chairman, I hope that throughout this hearing and the deliberations on the Mexican-United States Free Trade Agreement that we keep our eye on the ball here, the central bull's eye, and only adopt an agreement and only work for an agreement that is in the United States' best interests, particularly economically.

The fundamental goal of most Americans is to have higher living standards, have higher incomes, have greater commercial opportunities; and obviously that is the point of this agreement, to find a way so that both Americans and Mexicans have higher incomes.

What I am really saying is, this is a free trade agreement hearing, this is not a foreign aid hearing. We should not be involved in trying to enact the best foreign aid bill. We should rather be involved in trying to enact and help the administration negotiate a free trade agreement that is in the best commercial and economic interests of Americans and also of Mexicans.

After all, we are Americans. We are members of the U.S. Congress; we are not members of the Mexican Congress. I note there are probably some in the State Department and certainly some in the administration, who would like to use free trade agreements to achieve foreign policy objectives that are only tangentially related to American's economic and commercial objectives.

Since World War II we Americans have been in effect the "sugar daddy" of the world. There were those in some administrations who urged for U.S. trade policy to, in effect, be a foreign aid policy. Actually, it has been the Congress, particularly the 1988 Trade Act, which you, Mr. Chairman, authored and guided so ably through the Congress, that was part of beginning congressional pressure on administrations to use trade policy to help America's economic interests as well as our foreign policy interests.

I will be looking at this agreement when it is brought back to the Congress, from the point of view as to what degree does it achieve America's economic interests. I hope that the administration very

clearly sets out the standards it will be using to determine whether or not this is a good agreement. I certainly will be looking at economic objectives to determine whether I will in the end, support it.

Initially, we should proceed. We should, in my view, grant the approval to negotiate and extend the fast track and so forth, but certainly reserve final judgment on the agreement. In fact, with respect to granting the fast track extension, I would like to see the standards that the administration is going to be using in determining whether or not the agreement is a good agreement.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

[The prepared statement of Senator Baucus appears in the appendix.]

The CHAIRMAN. Senator Breaux?

OPENING STATEMENT OF HON. JOHN B. BREAUX, A U.S. SENATOR FROM LOUISIANA

Senator BREAUX. Thank you, Mr. Chairman. I want to thank in advance all of our witnesses.

I come to the hearing with an open mind on my position on the agreement. I am anxious to hear from the administration and from others as to how this agreement would work. I think there are a lot of problems that have to be overcome. I think, quite frankly, it is difficult to see if you can really have a truly free trade agreement between societies that are so vastly different economically as ours is with the country of Mexico, a country that has wages of less than \$1 an hour, that has, I think, substantially less environmental laws than we have in this country.

I am concerned as a relatively close border State in Louisiana as to what the agreement would do to the chemical and energy companies in my State. So I am really waiting to hear some answers. I truly have an open mind on it. If it can be crafted in any way that would take in these considerations I would be supportive of it; if not, I will not be supportive of it.

I think the hearings hopefully will answer some of these difficult questions.

Thank you.

The CHAIRMAN. Thank you.

Senator Chafee?

OPENING STATEMENT OF HON. JOHN H. CHAFEE, A U.S. SENATOR FROM RHODE ISLAND

Senator CHAFEE. Thank you very much, Mr. Chairman.

Mr. Chairman, I start with a heavy tilt toward a free trade agreement, having been through the experience, as we all did, with the Canadian Free Trade Agreement. I have confidence in Ambassador Hills, just as we had confidence in our previous negotiators. I want to say again, I think we have been very, very fortunate in the series of USTR's that we have had representing our country.

Obviously, this proposed undertaking with Mexico, is attendant with far greater risks, as you mentioned, Mr. Chairman, than we had with Canada. I think it is right to stress that what we are look-

ing for is an agreement that is in the best economic interest of the United States of America. That is clear.

At the same time I think our country has a deep interest in the stability and success of the Mexican economy. That is going to affect us, as you mentioned in your opening statement, Mr. Chairman. I think you said they are our third largest trading partner, that is the third largest buyer from us and we are the largest buyer from them.

So I think this is a very exciting undertaking that we are embarked on. I am glad we are doing it. I commend the administration for setting sail on these uncharted waters and look for a successful landing, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator CHAFEE. Thank you.

The CHAIRMAN. Senator Riegle?

OPENING STATEMENT OF HON. DONALD W. RIEGLE, JR., A U.S. SENATOR FROM MICHIGAN

Senator RIEGLE. Thank you, Mr. Chairman.

I think this issue presents to us some complexities that are really quite different than the United States-Canadian Free Trade Agreement which this committee supported and which I supported. I am concerned that the pace at which we are moving ahead here may be driven as much or more by politics than by economics.

I am concerned that the manufacturing base in this country may pay a price for a policy that is not really rooted in a careful economic analysis of our domestic situation.

We have seen that in the past. If you go back and look at the 1980's I think there were a number of very difficult economic adjustment policies that were set in motion that have really damaged a large part of particularly the manufacturing base of this country. If we move ahead here, if this is not done with a very careful kind of precision, I think we run the risk of more damage.

One of the reasons for that has been touched on by some colleagues that have spoken ahead of me—that is, the average manufacturing wage right now in Mexico is 57 cents per hour, where in the United States it is \$10.47. Now you do not have to be an economist to understand that if you create a free trade tilt situation where those wage rates are pegged at those levels that the manufacturing jobs are going to slide away from the \$10.47 locations and on down to, in this case, both in terms of the economics and the geography, to a market where those wages are 57 cents an hour.

This has a very substantial impact on my region of the country—the upper Midwest. About 30 percent of the employment in our part of the country is in manufacturing. It is about 16 percent nationwide. So this is an issue of very considerable importance in our part of the country particularly, although it affects the entire country.

I think our strategy here has to be to strengthen, by these agreements and understandings and changes, the capacity of the United States to produce. We cannot just look at the earnings of multi-national companies. We have to look at what the actual full economic impact is within the borders of the United States.

Right now we are shouldering most of the burden in the Persian Gulf. Over 90 percent of the combat forces over there in a ground war will be American; and the lion's share of the financial cost is coming from this country. We cannot allow a progressive weakening of our capacity to produce here in the United States and to generate jobs and earnings in the United States and still hope to project the strength and power overseas, whether it be in the Persian Gulf or elsewhere.

So these are not isolated, disconnected issues. They are very fundamental issues that go to the basic, core economic strength of the United States. I think it is put in a whole new light when you talk about a free trade agreement here with a country whose circumstances are as radically different from the case of Canada, where we have already crossed that bridge.

I just want to say a couple of other things. That is, I would like, Mr. Chairman, to lay down here some markers that I think we have to measure against as we explore this issue, ones that I am going to be looking at with some care with respect to what the USTR is able to show us in terms of concrete progress in these areas.

First, I think there has to be a very careful and specific addressing of labor and environmental standards. Mexico is not Canada. Adequate labor and environmental standards are not enforced in Mexico. I think it is a major problem. That by itself creates an unfair trade subsidy if we were to have a free trade agreement.

The second is the need for what I consider to be a high rule of origin. We cannot allow Mexico to become a low-wage export platform into the U.S. market. I think we have to have a stringent North American content rule of origin, something on the order of 75 percent.

And finally, I think we would also have to insist on rapidly eliminating some Mexican performance requirements. I will just cite three laws which I think are blatantly unfair trade practices now in place, hurting our auto industry in this country.

Each auto company is required to export more than it imports and each much run a trade surplus. Secondly, 36 percent of each car's components must be made by a Mexican-owned company. And third, car companies are prohibited from selling in Mexico unless they produce there.

Now if we are going to talk about fair and square arrangements when we have the kind of major problems going on in that core industry in this country, those things need to change and not with just word dances, but with specific, concrete measures to deal with those problems.

So that is what I will be looking at, Mr. Chairman.

Thank you.

The CHAIRMAN. Senator Roth?

Senator ROTH. Thank you, Mr. Chairman.

I have no opening statement as I am interested in hearing what the witnesses have to say. I do want to congratulate the administration, as well as yourself, for moving forward on what I think is a very important initiative. Obviously, it provides both challenges and opportunities. I think it is important that we look at it.

I look forward to hearing from our witnesses. Thank you.

The CHAIRMAN. Thank you very much, Senator Roth.
Senator Heinz?

**OPENING STATEMENT OF HON. JOHN HEINZ, A U.S. SENATOR
FROM PENNSYLVANIA**

Senator HEINZ. Mr. Chairman, I think many of the obvious concerns have been touched on—the very large discrepancies and disparities between wages, between occupational health and safety standards, environmental standards.

I think none of us should be under any illusions that negotiation of this kind of free trade agreement between two economies that are not only economically so different but are culturally and legally so different will be easy.

It makes me think that the tremendous amount of time it took for the European Community to negotiate the entrance of Spain and Portugal into a common market—a negotiating process itself which took 7 years, and which created a transitional period that is still continuing—should give us an idea of the extraordinary differences that had to be overcome in those talks and the even greater disparity that exists between the United States and Mexico compared to the Iberian Peninsula and the rest of Europe to which it had been firmly attached, going back 500 or 600 years thanks to Spanish Kings, the Holy Roman Empire, and a variety of other integrating factors that we have, probably for better, avoided in this hemisphere.

I would like to say that one of the major concerns I have is that even if in the process of very arduous negotiations you could get a de jure solution to most of these problems, there is a long way between law and fact in many less developed countries.

I do want to salute President Salinas on his political and economic progress in Mexico. It is startling. But he has, he knows and we all know, a very long way to go. The economic aspects are reported in Time and Newsweek. The political side, however, is equally important. It is equally as important that Mexico become politically more pluralistic and stable if those are not mutually inconsistent.

And most importantly, it is important that the political system gets rid of the well known favoritism and biases that have been built into it by virtue of effective one-party rule over a very long period of time; so that when there is a law that bans pollution that law is enforced.

I do not want to minimize that problem. I think it will be probably the toughest nut to crack. While I am going to keep a very open mind on this, I do not think any of us should be misled by the difficulties that lie ahead.

The CHAIRMAN. Thank you.
Senator Bradley?

**OPENING STATEMENT OF HON. BILL BRADLEY, A U.S. SENATOR
FROM NEW JERSEY**

Senator BRADLEY. Thank you very much, Mr. Chairman.

Mr. Chairman, I think this is going to be a very difficult process. I think it was Carlos Fuentes who said that the gap between

Mexico and the United States is the gap between 18th Century England and 15th Century Spain.

It is a gap of enormous proportions in terms of perceptions, in terms of mind set. And yet if you look at what has happened in Mexico in the last 10 to 12 years, if you look at President Salina's abrupt change on this issue in the last 2 to 3 years, I think there has never been a potential for better understanding between our two countries than now exists, given the leadership in Mexico and given what forces are at work in the world at large.

So I think this is an effort worth attempting, without being sure that there is a conclusion certain. Clearly, it is going to be very difficult, if not impossible, for any of us to move toward an agreement that will have a disastrous impact on the manufacturing sector of this country overnight. Maybe we can assure that that will not happen.

Some of the concerns that Senator Riegle expressed are genuine concerns. I would add to that patent questions, copyright questions, a whole series of very thorny and difficult issues. But as I look at the trade picture worldwide, the endangerment of the Uruguay Round, I see this as an effort worth making, probably one thing that this committee will grapple with that will have even longer term implications for the nature of our society than even the GATT Round.

If you can hypothesize a successful conclusion to these negotiations where Mexico and the United States are much closer in every sense of the word, where the gap culturally, historically, et cetera is narrowed, and where American jobs are not lost in massive numbers, and where we have a more integrated economy, I think in the long run that is probably the best objective and the best outcome.

But the proof is going to be in the pudding and it is going to be a very difficult road ahead.

The CHAIRMAN. Senator Danforth?

Senator DANFORTH. Mr. Chairman, I have no statement.

The CHAIRMAN. Thank you, Senator Danforth. [Laughter.]

Senator Daschle?

[No response.]

The CHAIRMAN. Is Senator Daschle here? He apparently has left. Senator Symms?

Senator SYMMS. Mr. Chairman, I would ask unanimous consent to insert my remarks in the record and just say that I want to compliment the committee and the administration for moving forward with this:

I think it is interesting to note that the potential for trade in the North American Continent has great limitless opportunities for all of our economies in all of our States. I am hopeful that this can be resolved.

I might also add just a personal note today that in 1976, then former Governor Reagan was campaigning in Idaho for my re-election for Congress and also for his election to the Presidency which he did not win that year, but he unveiled his new plan for a North American free trade zone between Canada, Mexico, and the United States. It has taken a long time, but we are making headway towards it; and this is his 80th birthday.

The CHAIRMAN. Senator Grassley?

Senator GRASSLEY. Mr. Chairman. I am just going to insert my statement in the record as well.

I would like to say however, that I have had a chance to visit with constituents in my State about this issue and I found most people have a positive impression; and I think that is encouraging from my standpoint. I look forward to hearing the testimony of the witnesses, as well as exploring the depth of the issue.

Thank you.

The CHAIRMAN. Thank you, Senator Grassley.

Now we have as our first witness the senior Senator from Arizona, who has had a long time interest and involvement in dealing with relations with Mexico and has continued that concern and that interest. We are pleased to have you testify.

STATEMENT OF HON. DENNIS DeCONCINI, A U.S. SENATOR FROM ARIZONA

Senator DeCONCINI. Mr. Chairman and members of the Finance Committee, I am pleased to hear the statements here this morning. As diverse as some of them are, Chairman Bentsen, it is a compliment to you and this committee that you are forthrightly addressing this problem today.

This is truly, I think, one of the most economic important problems or issues for this country. I support a free trade agreement between Mexico, the United States, and now Canada. I want to congratulate this committee for looking at this issue in depth, but also I am glad to see that those who have some questions at least indicating that they certainly have an open mind.

I commend President Bush and certainly President Salinas and Prime Minister Mulroney of Canada on yesterday's decision to pursue the tri-lateral free trade agreement that was announced for the United States, Mexico, and Canada. This takes great leadership on everybody's part.

Our country faces great economic challenges. Building our economic relations with neighboring countries is crucial to strengthening our competitiveness in international markets. I support the free trade agreement with Mexico for this particular reason. But it is crucial to the future, global competitiveness of the United States how it is put together.

Neither I, nor I think other supporters, of United States-Mexico Free Trade Agreement are willing to give the President or the U.S. Trade Representative a blank check in negotiations with Mexico. That is what I think this committee is going to hear and also will spell out by expressing their views.

It is critical that congressional input throughout the process be maintained at a high level and an early level. The Chairman of this committee has taken a marvelous leadership role in expressing his views early last year on a FTA.

President Salinas has taken significant steps to open the Mexican economy, including privatizing State-owned enterprises and deregulating foreign investment. While Mexico must still take additional steps to truly open their economy, these measures taken so far represent real economic reform for that country as anybody who has studied it for even a short period of time is well aware.

While I am generally supportive of a free trade agreement, Mr. Chairman, let me briefly—and I say briefly and I will submit and already have a more comprehensive statement that I would ask to be in the record—let me briefly address the particular aspects of the United States-Mexico Free Trade Agreement that are high on my agenda and I hope on Ambassador Hills’.

The environmental implications that have been raised by members of this committee of expanding trade between our two countries are significant. Environmental pollution knows no political boundaries; they recognize no legislative fiats and do not stop at border stations.

During these trade negotiations we have an opportunity to anticipate environmental problems ahead of time that will likely result from removal of trade barriers and increased industrialization. We must ensure that expanded United States-Mexico trade opportunities do not burden border communities with the negative by-products of industrial expansion.

The Chairman knows so well in his home State, about the problem in Juarez and El Paso. While the pollution problem in El Paso is not solely a result of border problems, plenty of it is.

Another issue I would like to raise today, Mr. Chairman, concerns the type of trade the United States wishes to see not increased—that is illegal narcotics. I am pleased with the strong commitment President Salinas has shown to fight the war on drugs.

I know I would not be here, and I do not believe this committee would be here, discussing the possibilities of a United States-Mexico Free Trade Agreement regardless of its economic benefits if Mexico had not made a dramatic change in its commitment in joining the fight against drugs. Although I have been critical of past Mexican administrations and their lack of commitment to the war against drugs, I am hopeful, and I am pleased, to see President Salinas move in the right direction. He has said and promised to “fight with the utmost energy that I have.”

The prevention of production of illicit drugs and the trafficking of those drugs across the border requires bi-lateral cooperation and it is an essential element of our relations.

Finally, I would like to discuss an issue which I believe is essential to increasing United States-Mexico trade, the importance of expansion of port of entries. Inadequate border facilities are a disgrace, as any of you who have traveled on the border with Mexico knows. As negotiations begin we must ensure that our border facilities have adequate staffing and equipment, as the Chairman pointed out. We must also continue to work with the Mexican Government to identify locations for new facilities and see that Mexico provides funding to construct these.

Because of the importance of this agreement to the United States and Mexico we are holding some hearings in Arizona. And Commissioner of Customs, Carol Hallett will be there and also someone from the trade representative’s office next Monday.

Mr. Chairman, our Ranking Member, Senator Domenici, and I on the Appropriations Committee have issued and ushered through the appropriations process over \$300 million already appropriated for border improvements.

So we are moving in the right direction, Mr. Chairman, and this committee plays the leadership role on what that treaty will really look like; and it will benefit Mexico, of course, and it will benefit us, and it will be safe for us.

I thank the Chairman for his leadership in this role; and this committee for its willingness to really tackle this problem and put forth some constructive suggestions to our trade representatives.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Are there questions of Senator DeConcini?

Senator BAUCUS. Mr. Chairman?

The CHAIRMAN. Yes.

Senator BAUCUS. Senator, do you think the trade agreement should include provisions dealing with narcotics and drugs?

Senator DECONCINI. I think, Mr. Chairman, that the environment in order to have a free trade agreement has to be such that we have a country that is committed, as we are, and I believe Mexico now is, towards the war against drugs. I would not have supported a free trade agreement 5 or 6 years ago, primarily because it was my judgment at least that Mexico had not fully cooperated. This Senate had decertified Mexico on two occasions for not full cooperation with the U.S. Government on drugs. That has had a dramatic change.

So the question is: Is it part of the free trade agreement? It is part of the environment in order to get here in my judgment.

Senator Baucus, thank you for the question.

Senator BAUCUS. Thank you.

The CHAIRMAN. Thank you.

Are there further questions?

[No response.]

The CHAIRMAN. If not, thank you very much.

Senator DECONCINI. Thank you.

[The prepared statement of Senator DeConcini appears in the appendix.]

The CHAIRMAN. Our next witness will be Senator John McCain, a Senator from Arizona, who has a long interest in our relations with Mexico. We are pleased to have you.

STATEMENT OF HON. JOHN MCCAIN, A U.S. SENATOR FROM ARIZONA

Senator MCCAIN. Thank you, Mr. Chairman. I would like to ask permission to have my statement be made part of the record. I would just like to make a few comments.

The CHAIRMAN. Without objection that will be done.

[The prepared statement of Senator McCain appears in the appendix.]

Senator MCCAIN. I paid close attention, Mr. Chairman, to your opening remarks and that of the other members of the committee. I think they are valid and I think they raise substantially the majority of the issues that surround this free trade agreement.

I would just like to reemphasize a few major points. One, President Salinas and his predecessor have dramatically changed the landscape of Mexico, as you know, politically, economically, and in

every other way. There is no doubt that greater progress must still be made.

But as wise as you are, Mr. Chairman, and maybe as uninformed as I am, perhaps a few years ago you and I would have never predicted that the advances that have already been made would have been possible in such a short period of time.

President Salinas has pointed out that if this North American Free Trade Agreement is concluded, we will have created a market of 400 million consumers, larger than the European Community. It is not just the border States that will profit.

I would like to remind my colleagues of the obvious. Mexico is our third largest trading partner. Last year Arizona exported \$734 million worth of goods to Mexico. The State of New York exported \$739 million worth of products to Mexico.

We have seen indications the future may hold in the maquiladora. I would hope that if any member of this committee has time they would visit a maquiladora.

The maquiladoras have provided an enormous number of jobs, hundreds of thousands of jobs for Mexican citizens who otherwise, my friends, would be finding jobs in the United States. They are going to go where they can feed themselves and their families. The question is: Do they stay in Mexico or do they come to the United States illegally?

Now that is the good news. The bad news is, as members of the committee well know and as the Chairman does, there are environmental problems, waste, sewage flowing across our borders, for example, due to this dynamic growth. There are problems with labor abuses. There are problems with housing and other infrastructure problems that need to be addressed clearly.

In the event of any free trade agreement we must have that these problems will be addressed. I have great confidence in Ambassador Carla Hills and the job that she will do. I do not underestimate the magnitude of the problems that we face.

But I would like to point out that if we truly expect democracies to last, not only in Mexico where for all intent purposes democracy is truly emerging for the first time, and in other Latin American countries, we have to do whatever we can in my view to help their economies to grow.

We cannot do that without breaking down the barriers that exist between our nations. I am convinced that a free trade agreement will entail great prosperity for the United States and for the people of Mexico. I envision, Mr. Chairman, as I know you do, someday a hemispheric free trade agreement when all of the peoples of the Americas will be joined economically and democratically with one another.

I thank you, Mr. Chairman, for the time and the attention of this committee on this very important issues.

The CHAIRMAN. Thank you very much, Senator McCain. We are pleased to have you.

Are there any questions of Senator McCain?

[No response.]

The CHAIRMAN. Thank you.

Ambassador Hills, we are ready to hear from you. I can recall what one Chief Executive told me about Carla Hills. At the begin-

ning of negotiations, he said, "I think I like that Carla Hills; that I hope I like her when this is all over." [Laughter.]

The CHAIRMAN. I am sure he did. But most of all, I am sure he respected her.

Ms. Hills, we are very pleased to have you back with us. If you would proceed.

STATEMENT OF HON. CARLA A. HILLS, U.S. TRADE REPRESENTATIVE

Ambassador HILLS. Thank you very much, Mr. Chairman and members of the committee. I was very interested in your statements. I would appreciate it if I could submit my longer, written statement for the record and simply make a few points by way of summary before I can learn further from you.

The CHAIRMAN. That will be fine. If you would proceed.

[The prepared statement of Ambassador Hills appears in the appendix.]

Ambassador HILLS. Thank you.

Yesterday the President notified you of his intent to negotiate a North American Free Trade Agreement. This decision is a result of 7 months of consultation beginning last June.

At that time Presidents Bush and Salinas endorsed the goal of a comprehensive free trade agreement, and they directed the Commerce Secretary of Mexico, Minister Serra, and me to begin the preparatory work and to report back. In August, after exhaustive consultations with Congress and our private sector, Minister Serra and I recommended to both Presidents that we formally initiate negotiations of a bi-lateral and comprehensive free trade agreement.

On August 21, President Salinas wrote to President Bush proposing that the negotiations begin, as required, by our fast track provision of the 1988 Omnibus Trade and Competitions Act. And on September 25 President Bush wrote to the Chairman and notified of his intent to negotiate a bi-lateral free trade agreement and noticed Canada's interest in participating.

This notification triggered the 60 legislative day clock under our fast track, during which time the two committees review our proposal and, if either choose, disapprove our fast track procedures. The United States has already benefited from the opening of Mexico's market which began as the Chairman has mentioned when Mexico joined the GATT and began a systematic reduction of its trade and investment barriers.

As a result of this liberalization U.S. exports to Mexico have more than doubled from \$12.5 billion in 1986 to \$28.5 billion in 1990. Many of our industries have benefited. Agricultural exports exceeded \$2.5 billion last year. Telecommunications exports to Mexico have doubled since 1986. Steel had a deficit of \$12 million in 1986, which turned to a surplus of \$300 million last year. And textiles and apparel had a deficit in 1986 of \$91 million which has also turned to a surplus.

A free trade agreement in our opinion would expand the benefits of trade with Mexico by expanding export opportunities for the United States, for its firms and farmers, and stimulate Mexican

economic growth which in turn will increase Mexican demand for our goods and our services.

The potential for further expanded trade with Mexico by removing restrictions is quite substantial. With respect to tariffs Mexico's average applied rate is about 10 percent. But it has the right unilaterally to raise tariffs to 50 percent. A free trade agreement would lock in a scheduled phase out of these tariffs.

With respect to import licensing Mexico still applies import licenses to roughly 40 percent of our agricultural exports, including grains, dairy, some fruits and vegetables. A free trade agreement would be a means of dismantling that system.

With respect to investment restrictions, Mexico has liberalized its investment regulation but restrictions contained in its 1973 law remain on the books. We would like to see these laws amended to permit open, nondiscriminatory investment free of trade distorting requirements.

With respect to access to the Mexican services market, such areas as banking, securities, insurance and transportation remain quite restricted.

And finally, in the area of intellectual property protection, Mexico did introduce a new patent and trade mark law in December of last year. I expect that law to be passed sometime between April and June of this year. There are indications that Mexico will revise its copyright laws. But a free trade agreement is a very effective means to accomplish these goals and in strengthening our overall relationship.

When President Bush sent his letter forward on the 25th of September he noted that the Canadians have a strong interest in participating. Since that time, we have met with Mexico and Canada to consider this question. The three governments foresee several advantages in creating a North American free trade area. Without a question, it would create the world's largest, single market with 360 million procedures and consumers with a total output of over \$6 billion.

By establishing common rules among all three nations, it would minimize the economic distortions that could arise from separate bi-lateral arrangements; and in so doing create an overall expanded potential for growth and job creation. In agreeing to proceed tri-laterally the three countries have agreed to ground rules set forth in my written testimony.

Today is the 53rd day of the 60-legislative day review period for notification on Mexico. In addition, we face the expiration of the President's fast track authority on June 1 unless the President requests an extension of that authority by March 1.

To proceed with the Mexican Free Trade Agreement, the North American Free Trade Agreement, we will need to have such an extension. Assuming we clear the 60-day review period, and that the fast track authority is extended, we expect to begin formal negotiations this summer.

As to content, Mexico and the United States have agreed that a free trade agreement should progressively eliminate barriers to trade in goods, services and investment, protect intellectual property rights, and establish a swift and fair mechanism for resolving our disputes. Large-scale labor mobility has been ruled off the

table, but beyond that we have an open mind and look forward to consulting with Congress, labor and business. And, of course, we will listen closely to your suggestions.

I would be delighted to answer your questions.

The CHAIRMAN. Thank you, Ambassador Hills.

You heard some of the concerns here from some of the members and I share those concerns. Various interest groups are deeply concerned about the environmental questions and worker's safety standards insofar as whether or not they should be a part of these negotiations.

How do you respond to that? What is your view insofar as those concerns being a part of these negotiations?

Ambassador HILLS. We will want to consult with those parties that have a concern and I would suggest to them that many of their concerns—take environmental, for example—that their goal is the same as ours: to deal effectively with the issue.

We believe that there are many ways to deal with the issue. For example, right now we have a number of bi-national efforts to deal with the environmental issue. It may be that another agreement would be preferable to deal with the environmental concerns than trying to deal with the environmental issue within a trade agreement.

But that doesn't mean that we would not deal with the issue. I am very cognizant of the border environmental concerns, and we have enormous efforts underway now. Indeed, in November in Monterrey, Presidents Bush and Salinas discussed the need for an intensified bi-national effort and call for a joint master plan. The United States and Mexico officials have already met twice and plan to meet again this month to work further on this master plan. That will be one way to deal with the border concerns.

Beyond the border, President Salinas adopted in 1988 what we might call an omnibus environmental bill that is based upon our environmental laws, experience and regulations. We have sent for the first time in history from the Environmental Protection Agency an attache to Mexico to help. The administration in Mexico has already declared that lead-free gasoline that so pollutes the air around the city of Mexico will be available and that catalytic converters will be a mandatory requirement on all cars starting in 1991.

So that we are conscious of the need to deal with environmental issues. We need to consult closely on whether those environmental issues are best dealt with within the four corners of a trade agreement or perhaps through some other mechanism agreed to by the two nations. The important thing is that we have earnest resolve on both sides of the border to deal with all environmental issues.

I have every confidence in Administrator Riley, who is extremely interested in these issues, has been a part of the bi-national commission to Mexico on each of its trips and is working closely with its Mexican counterparts.

The CHAIRMAN. Ambassador, I had some concern about the joining of the Canadian Government in these negotiations, that it could slow down the process. I have been assured by Canadian authorities that they will lend every effort to see that that doesn't

happen. And the Mexican Government is acquiescent to that participation. So I am not opposing it.

But what kind of a precedent are we talking about? What happens when we talk about the Enterprise for the Americas and we are talking about building a free trade agreement that extends through the Americas? Does that mean that in each of these negotiations the United States has that we are going to have other people apart from the immediate parties be a part of those negotiations?

The Canadians and Mexicans, for example, does that mean that they sit down at the negotiating table too with us as we talk about the Enterprise for the Americas?

Ambassador HILLS. I think that as we move ahead on complex trade issues that we will want to look at them carefully and consult carefully. I am cognizant that Congress has constitutional authority over international commerce, just as the President has constitutional authority to negotiate agreements. I think we have had a magnificent partnership thanks to every member of this committee and you, Mr. Chairman.

As we look at the enterprise for this hemisphere we will want to look at the best means of addressing the issues. We do not have a perfect crystal ball. With Canada we knew that we would like to create a North American Free Trade Agreement. That was a vision that we have all spoken of.

The question is: Could we do it better through two bi-lateral arrangements that we would need to weld together or would it be preferable to proceed with one tri-lateral arrangement? After four meetings of consulting with my counterparts—John Crosbie in Canada and I, and Jaime Serra Puche in Mexico—we three agreed that it was in each of our national interests to make an effort to proceed tri-laterally.

The CHAIRMAN. I have accepted that. You have carefully avoided committing for the Enterprise for the Americas; and I understand that. But let's keep that in mind as we talk about whatever precedent that we set in this process.

I defer to my colleague, Senator Packwood.

Senator PACKWOOD. Ambassador Hills, Mexico has indicated they are going to pass a new intellectual property law; and have indicated they would do it this spring. What would be your recommendation if the Mexicans say, no—that they want to put it into the free trade negotiations rather than passing it now?

Ambassador HILLS. A commitment has been made to me that a new intellectual property law will be passed. I have met with my counterpart, Minister Serra. I am told that we will have an intellectual property law that will meet the needs of potential investors. I think it is in our mutual interests to have such an intellectual property law. I have even met with several Senators from Mexico who assure me that they believe that it is in Mexico's national interest to pass such a law to protect the creativity of their own entrepreneurs in Mexico.

So I would not want to wait beyond the time that had been suggested, and we are told that by summer we could look for the passage of a good intellectual property law.

Senator PACKWOOD. Good. Thank you.

Secondly, in 1986 we signed in Canada what we regard as a very satisfactory Softwood Lumber Agreement, and there are always perpetual rumors that Canada wants to reopen the issue. In fact, they suggested it a time or two in the past. I am concerned that Canada may want to use these negotiations to reopen that issue.

What is your view about that?

Ambassador HILLS. We expressly discussed that when we had these tri-lateral meetings. We have agreed with the Canadians that we will not slip back from the commitments of the Canadian Free Trade Agreement.

Senator PACKWOOD. Thank you very much.

No more questions, Mr. Chairman.

Senator BAUCUS. Ambassador Hills, I would like to follow up a little bit on the Chairman's question on the environmental concerns. It is becoming increasingly obvious to me that environmental issues are starting to converge now with trade issues. I know we have trade agreements. We have bi-lateral negotiations on a relatively continual basis. It seems that trade negotiations are a little farther ahead than multi-lateral environmental negotiations.

Obviously, environmental concerns do have economic effects. That is, if Mexico has lower environmental standards, that is a competitive cost of doing business for American competitors. It may also encourage some American businesses to manufacture in Mexico, where perhaps environmental manufacturing standards, environmental protection is more lenient than it might be in our country.

How do you address that? I mean, because those environmental effects do have very definite economic results. How are you going to address that in free trade negotiations?

Ambassador HILLS. Actually, I think the free trade agreement will go a long way in enhancing our level of environmental protection coming south of our border. I say that because I think it will enhance wealth, the lack of which is one of the factors that impedes adequate enforcement of environmental rules.

There is not much disharmony with the rules. President Salinas has passed in 1988 a broad, environmental statute that is based upon our statute.

Senator BAUCUS. And that 1988 statute deals with what?

Ambassador HILLS. It creates a national standard and it deals with practically every environmental issues, with air, water and the like. But the enforcement mechanism is one that requires greater resources. We are trying to address the issue. The Mexican Government this year doubled its enforcement budget.

But as for yours and my standards, we would like to have greater enforcement.

Senator BAUCUS. I appreciate it. I would urge you though to dig a little more deeply in finding ways to deal with these concerns than perhaps you earlier might have intended. I just sense a growing concern in the Congress in this area and I urge you to pursue it.

I also want to echo the remarks of the Senator from Oregon on the Softwood Lumber MOU and potential Canadian backsliding. I will be watching that very closely to make sure there is no backsliding, as well as Senator Packwood's comments with respect to in-

tellectual property right protection in Mexico. That is very important.

One final question. How do you envision the North American Free Trade zone, if you will, in comparison with the EC? What do you see down the road, say, roughly in 10 years from now? Are they going to be identical? Are they going to be different? And if not identical, that is if different, generally along what lines.

Ambassador HILLS. The European Community has launched an effort to create a common market. That is much more extensive than launching a free trade agreement. We are dealing with trade barriers, not with a host of other issues that are on their agenda and have been commented on in the press regarding their difficulties. Such issues include the common monetary policy, immigration, and the like.

Our effort is much, much more modest. It is described in a different fashion in the General Agreement on Tariffs and Trade; we will look for comprehensive treatment of reducing barriers to trade in goods, services, investment. We will want good intellectual property protection. We will want a good dispute mechanism.

Senator BAUCUS. But different European countries have very unique cultures. Yet they are moving to establish a common currency, a common market. Just playing devil's advocate here, why shouldn't North America have a common currency, common market ultimately?

Ambassador HILLS. Perhaps we would want to get over the trade hurdle before we added more to our agenda. [Laughter.]

Senator BAUCUS. Thank you.

The CHAIRMAN. Senator Breaux?

Senator BREAUX. Thank you, Mr. Chairman. And thank you, Ms. Hills, for the work on the presentation that you have done.

I want to follow up a little bit on Senator Baucus' line of questioning dealing with the environmental concerns and how that is going to be treated. One of our next witnesses or our later witnesses will testify in their statement that they cite an Arizona company that sends perspective clients a flyer stating that one of the advantages of doing business in Mexico is "minimal governmental regulations, controls, i.e., no OSHA, no EPA, EEOC, AAP, air quality control, et cetera," as an incentive for them to locate down there.

I am concerned that while Mexico is making progress in the environmental area, they certainly do not have the same type of clean air, clean water, RICRA regulations and all these other regulations that are in the United States that do, in fact, cost businesses a certain amount of money to comply with.

My question, I guess, is: Would the administration have any objection to an amendment to whatever treaty is produced that would in effect allow products to be freely traded if they are produced under environmental laws and rules and regulations that are substantially similar to those in the United States; and if so, why?

Ambassador HILLS. You raise two questions. One is our concern about the environment; and the other is the labor adjustment that might occur. Let me address that, because it has been implicit in some of the questions.

Environment will be just one of many factors that may cause a company to locate in a different jurisdiction and a relatively small factor. We in the United States are 25 times more productive than Mexico. Our workers are 25 times more productive than the Mexican worker. That is because we have a much higher level of education, greater facility to get electricity, better roads, much more available capital, and those sorts of things are not readily available in Mexico.

You might have thought—I think there was a mention of the auto industry—that if there is all this cheap labor in Mexico why wouldn't—I think I heard Senator Riegle say—the jobs just slide south. That that has not happened to date, yet we have not had massive trade restrictions; we have only a 2½-percent duty on autos. Were it advantageous economically for our auto companies to slide south, there is no impediment to their doing so.

But there are reasons for them to stay north to capture the advantages in this market which are very, very real. I think to attach on conditions on trading that talk about similarities of environmental law would not be a good precedent. We do not, for example, vis-a-vis other jurisdictions necessarily have the same sort of environmental laws ourselves; and we might find ourselves trapped by a precedent that we created.

But let me point out again that with respect to the environment, there are really three environmental concerns that I have been able to isolate. They are the border measures; they are the broader measures that would cover all of Mexico; and then there are the pesticide issues.

And in each instance where there are laws, for example, in the Environmental Protection Law passed in 1988—I call it an omnibus environmental bill—there are broad standards. I will complete the record for Senator Baucus since I do not have on my fingertips all of its provisions.

[The information appears in the appendix.]

Ambassador HILLS. I can tell you it contains criminal sanctions including fines and jail sentences as well as the power to close firms that are in violation. It is a strong law.

Then with the pesticide rules, the pesticide rules of Mexico and the United States are substantially similar. Their list of restricted pesticides is roughly the same as FDA's.

So I think it is more important that we have joint groups sharing information in this and in many other areas, than it is to mandate certain things that we could not abide by, vis-a-vis some of our other trading partners.

Senator BREAUX. What I am concerned about is in Louisiana we have a lot of chemical plants that are getting ready to get hit by substantial new requirements under the Clean Air Act, requiring the best available control technology, et cetera, to be placed on their plants.

Now if I am an owner or manufacturer in that area, why would I not just build my plant in Mexico. Labor is an almost insignificant factor of where they locate because after you build the plant it is automated and you are pushing buttons.

But the costs differentials associated with locating that plant in Louisiana vis-a-vis Mexico could be as much as probably 20 percent

or more because of the control technologies that they would have in this country. There are not those control technologies requirement in Mexico.

So I mean why would you build in Louisiana or build in Texas for that matter? Why not just build across the border and sell it back over here without any restrictions?

Ambassador HILLS. Well, first of all you might have trouble finding the engineers that you need.

Senator BREAUX. Well, you could bring your own engineers over there, I presume; and then just locate over there after the plant is built.

Ambassador HILLS. Many companies with whom we have consulted have pointed out that the transportation factors, the educational factors, the capital requirements, the infrastructure with telecommunications—if you cannot pick up your phone and reach your headquarters in Louisiana you are going to have a much harder time.

Senator BREAUX. Southwest Bell is supposed to be taking care of that.

Ambassador HILLS. There have not been enormous restrictions in our market in many of these areas; and companies have stayed located in the United States for very good economic reasons. We do have complimentary areas where we could have advantages with partial activities in Mexico. We want to see investment in Mexico. We want their investment restrictions to be brought down.

But the concern you express is one of wholesale migration to Mexico by your chemical firms. That would not be something that we would anticipate.

Senator BREAUX. Thank you.

The CHAIRMAN. Thank you.

Senator Roth?

Senator ROTH. Carla, many people are concerned that the creation of a United States-Mexico Free Trade Agreement will undermine the global economy or the GATT Round. Do you view this as an alternative to the GATT Round, which is in such difficulty, or do you see it as part of a natural development of our global economy?

As I say, many people are concerned that it could result in regional conflict rather than worldwide trading.

Ambassador HILLS. We will hope to have a successful conclusion of the Uruguay Round of trade talks. We think that that is something that will greatly benefit our economy, Mexico's economy, and the economies of all of our world trading partners.

When we embark upon a North American Free Trade Agreement, we are embarking on a strategy that we believe is entirely consistent with our multi-lateral trade aims. I do not use the word "bloc" because to so many people it connotes an exclusionary approach to trade. We do not mean to be exclusionary. We will be GATT compliant. We mean to be outward looking.

But we do think there are enormous benefits to a regional approach that is complimentary with multi-lateralism, that will reduce barriers so that trade in North America can expand and create the jobs and economic opportunity that come from expanded trade. Because our multi-lateral trade talks are in a suspense at

this point, it is a time that is appropriate to move forward in a region that is hospitable to the notion of reducing trade barriers.

Senator ROTH. To what extent have our two countries' positions converged or diverged in the Uruguay Round negotiations? Where have our positions been most united? Have they been pretty consistent on most of the key issues?

Ambassador HILLS. We have had our differences, and we have had good discussions over the differences. I think that we are quite aligned on the dispute settlement mechanism. Mexico has taken an enormous interest in the multi-lateral trade talks. Minister Serra did host an informal ministerial in Mexico last April. It was a very good meeting. And he was Chair of the services group in Brussels and made progress.

So that we have enjoyed working with Mexico on the multi-lateral issues as well as with a number of our other trading partners.

Senator ROTH. I would like to turn to another matter. I am sure you are aware that the United States and Mexico are in the process of negotiating a tax treaty. Would you agree that you should factor these negotiations into the proposed free trade negotiations in order to gain the maximum benefit out of both?

There is a great deal of concern, as I am sure you are well aware of, that any free trade agreement eliminate some of the restrictive banking practices in Mexico, including the reduction or elimination of Mexico's 5 percent withholding tax rate.

Ambassador HILLS. I would certainly want to consult with you and others on the committee who are focusing on this tax treaty. We have not had a lot of consultation on the tax aspects and whether the removal of trade restrictions would be harmonious with, say, a withholding provision.

Senator ROTH. But you would be sympathetic to investigating the matter?

Ambassador HILLS. I am sympathetic to investigating every matter. [Laughter.]

Senator ROTH. What I am really asking is: Do you see where it may be important to have both the tax treaty and your negotiations be part and parcel of the same negotiation?

Ambassador HILLS. I am willing to explore that with you. Inclusion of a number of issues has been raised: should environment, drugs, and a whole host of other issues be part of a trade agreement. I think it is important to investigate what is the best means of dealing with each of these very complicated issues that go beyond trade, but may have an affect upon trade.

It may be that you need not include in the same document each of these issues, so long as you are assured that the issue is getting the best treatment that it can in perhaps another document that would better deal with the issue.. That is where we need to consult.

Senator ROTH. One last question, Mr. Chairman.

In our trade legislation of a couple years ago there was a provision for negotiating a small uniform import fee for assistance in the GATT Round. But it does not look like anything will develop in the Uruguay Round. However, Mexico did indicate some interest and willingness to go along with the proposal.

Do you see some kind of a worker adjustment program as part of the free trade negotiations because of the concern over the impact this free trade agreement might have on American workers?

Ambassador HILLS. That is another area that I think we need to study. Under the Job Partnership Training Act there is an adjustment provision. Title III provides adjustment authority and we can look at whether that is the best place to have it because there are adjustments that may occur.

I would say that most of the changes that will occur by reason of our trade agreement will be phased in over a substantial transition period and we need to study whether or not they will create an adjustment problem, and if they do how much of an adjustment problem.

Senator ROTH. My time is up. Thank you.

The CHAIRMAN. Thank you.

Senator Heinz?

Senator HEINZ. Mr. Chairman, thank you.

Carla, obviously a free trade agreement makes sense only if there are benefits to both countries and if an agreement, while benefiting both countries, causes the least amount of harm to both countries. That is what you are referring to, I think, when you talk about the need for time and adjustment.

Let me ask you, from a U.S. perspective, where in our economy—what industries, if you will—will be adversely and disproportionately affected as far as you know at this time?

Ambassador HILLS. Because Mexico has an economy that is roughly 4 percent of ours we do not see a tidal wave of harm coming to any of our industries. We are going to have to do a lot more study. There have been some concerns that in certain of the fruits and vegetable areas we should take a special look, that there are sectors, such as glass, where we should take a special look.

But all of the studies that we have so far seen to show some gain across a broad spectrum. I brought up the one study that the Labor Department has produced and I have looked through it fairly carefully. The employment across most sectors increases by the year 2000 and the exports also increase.

I suspect that I cannot claim that there is going to be a massive winning sector because the Mexican economy relative to ours is so small. But what we do gain is increased opportunity for jobs and employment; and a reduction of restrictions which are higher in Mexico than we ourselves have. So the bringing down of the restrictions that our entrepreneurs face should create gains for us.

Senator HEINZ. So you are saying that even though the Mexican economy is tiny compared to the U.S. economy, 4 percent, that the United States has a lot to gain and little to lose?

Ambassador HILLS. I would say that if you mean by "gain" that our exports will go up massively, I would say no. I would say that it creates measurable gains for our exports across a broad spectrum and few losers. It does create opportunities for us that I think they are certainly measurable.

Almost every study that we have looked at shows that the gains are quite real and there are reasons for that. We have the experience in the European community when there was the accession of Portugal and Spain. There there was a concern, would that pull

down Germany, for example, which has a high standard of living vis-a-vis Portugal. To the contrary.

In fact, the results there were that the Germany real wage rate stayed up and in several sectors went up. What happened was Portugal made some gains. But that Germany became more efficient. We would expect several sectors of our industry to become more efficient to gain the efficiencies or being able to work in joint production arrangements with some of the Mexican counterparts.

That may be because 50 percent of our imports from Mexico right now are with collaborative concerns.

Senator HEINZ. Carla, it has been suggested that in addition to fruits and vegetables and glass that footwear and apparel would also be adversely and disproportionately affected. Do you think that is probably right?

Ambassador HILLS. I would have to look at that. Are you referring to loss of jobs, is that what you are saying?

Senator HEINZ. Adversely and disproportionately affected.

Ambassador HILLS. We will have to look at that. We have a number of general studies, and we have a number of sectoral studies. We have done substantial consultation with various industry and leaders that are knowledgeable in these areas.

Senator HEINZ. Earlier, I think it was Senator Riegle brought up the question of Mexican good rules of origin. What thought have you given to that? What is your current thinking on whether it is advantageous both to the United States and to Mexico to have a substantial, if you will, Mexican value-added component that is not minimal, that is really perhaps greater than 50 percent. I think Senator Riegle mentioned 75 percent.

What is your thinking about that?

Ambassador HILLS. We need a rule of origin. Every free trade agreement does. And we will have to consult—

Senator HEINZ. My question was not whether you need one. The question is, the key component, is what kind of criteria are you thinking of. Are you thinking of it in terms of a high value-added component or not?

Ambassador HILLS. Let us define the term. We know that with Canada we have a 50-percent rule of origin. I regard that as substantial. If you regard that as substantial, then I think we can say we are thinking about a substantial North American content for our rule of origin. But it is subject to negotiation and it is most assuredly subject to further consultation.

Senator HEINZ. Thank you very much.

The CHAIRMAN. Thank you very much, Senator.

Senator Bradley?

Senator BRADLEY. Thank you very much, Mr. Chairman.

Carla, why do you think that Mexico essentially shifted its position and moved toward a free trade area?

Ambassador HILLS. I am sure President Salinas' answer to the question which would be better than mine, would be complex. The Mexican Government must wonder whether our markets will remain open to it, and whether it can attract the kind of investment that I think most countries know today, they need for further development.

Those two things must be significant in their thinking. The benefits that come from reducing the barriers to trade have been well documented, and President Salinas has been trained in economics, as has his team. They are quite well aware that if we can remove trade restrictions we can create greater economic prosperity for both nations.

Senator BRADLEY. The ITC report basically said that the FTA would have little or no effect in overall employment levels but it would cause some shifts in employment among occupations.

Now isn't the real concern that among those occupations with high levels of unskilled labor that those would be the occupations that would be under real pressure from Mexico?

Ambassador HILLS. I suspect that they are certainly under more pressure than the higher skilled ranks; we have a greater percentage of our population with higher levels of education than does Mexico.

We are going to have to look at that. The question is: Is that industry under global competitive pressure? Or is Mexico the only one that is providing the competitive pressure? In some instances industries with very low skilled labor are under great pressure from East Asia; if firms in these industries can get the benefits from collaborative arrangements with Mexico we as a country will derive substantial cross-border benefit because these firms will be more competitive and because Mexico spends 70 cents of every dollar it gets its hands on in the U.S. market. So for these two reasons, the United States will secure more jobs. Therein lies a substantial benefit.

Senator BRADLEY. Do you see the free trade area itself s enhancing U.S. competitiveness worldwide?

Ambassador HILLS. I do.

Senator BRADLEY. In what ways?

Ambassador HILLS. The cross border benefit would be one. In addition we have talked to a number of companies that have been able to have a joint production arrangement in Mexico that have enabled them to compete worldwide, where they have faced very heavy competition from East Asia. And by having a close ally to supply some component parts, some portion of the production that has enabled them not only to stay alive but to expand and to expand dramatically.

It is something that is ongoing, of course, in East Asia. We have seen Japan farm out many of its lower skilled endeavors to East Asia and we have been up to now relatively restricted to having open investment and the kind of opportunities that we are talking about with Mexico.

So I do believe that it does provide us with a real opportunity to enhance our worldwide competitiveness.

Senator BRADLEY. So would you say that with the free trade area we would be nearer to what we have come to know as the Asian formula, which is capital, technology, low-wage assembly, some lower domestic prices and increasing exports?

In other words, it would give us an opportunity here that we haven't had in the past.

Ambassador HILLS. I think it enhances our opportunities along those lines. Yes, I do. I am aware that our manufacturing sector have made dramatic comebacks since the 1980's.

You undoubtedly saw the article in the New York Times that pointed out that we are back to the very height of where our manufacturing sector was in its prime following World War II. The figures are really dramatic as to how far it has come. But I think in worldwide competition with the production links that we face globally, that this is an opportunity to become super competitive and to stay super competitive.

Senator BRADLEY. On the intellectual property issue Mexico will pass a law. Is it your sense that it will be sufficient to meet the concerns, as you know the whole discussion with pharmaceutical products, recording, et cetera? There are a series of problems that relate to how strong this law is. I think that will be an indication of how serious Mexico is about the agreement.

Ambassador HILLS. I agree. I think that we have talked for a very long time about the need to protect our technology. It is very hard for us to persuade American entrepreneurs to have collaborative arrangements if they do not feel secure in the protection of their technology.

I have been assured that that law which has been introduced by the Salinas Administration will be passed by their Congress. I hope their Congress will be accommodative and that that legislation will be available very shortly. It certainly will be available before we get very far into the negotiations because I have been assured that we can look forward to intellectual property of protection in Mexico by summer of this year.

The CHAIRMAN. I might say I have had that kind of assurance too in meeting with Mexican officials in Mexico.

Senator Chafee?

Senator CHAFEE. Mr. Chairman, Senator Danforth has one question and then he has to leave.

The CHAIRMAN. Yes. Senator Danforth?

Senator DANFORTH. Thank you, Mr. Chairman and Senator Chafee.

Each of us has, I am sure, different standards by which we would judge how well the negotiations turn out. I would like you to just state, if you would, the degree of emphasis that you give and perhaps some of the hopes you would have in three areas—agriculture, trucking and beer. [Laughter.]

Ambassador HILLS. Well, I know you care about beer.

Senator DANFORTH. I certainly do.

Ambassador HILLS. And there is a Mexican tariff on beer. As I mentioned in my opening statement, we would hope that the free trade agreement would provide a staged or phased in reduction of tariff barriers; and most assuredly we would want to cover as many products as we could. That is the whole purpose of free trade agreement: to reduce the barriers across the goods area.

On trucking I think we have a mutual benefit in trying to enhance efficiency transportation. One of the reasons why the United States is so much more productive than Mexico is because we have better transportation. So I would hope that we could talk about transportation in an open way.

We have had a working group that has come out of our bi-national commission addressing transportation issues. As a result of that working group, I think that there has been removal of restrictions on rail transportation, but we need to do so much more. Better transportation will enable our investors to get the product out from factories, and that provides demonstrable mutual advantage.

In agriculture, our trade breaks on a fairly even basis. Our agricultural trade is quite substantial with Mexico, and our complaints include Mexico's import licensing, where more than 40 percent of our products are blanketed with requirements to get import licenses.

Again, this is an area which legitimately is a target of any free trade agreement as we try to bring down restrictions.

Senator DANFORTH. Thank you.

The CHAIRMAN. Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman.

Carla, I had to go testify at another meeting so I missed some of your testimony here. If this is redundant, just say so and I can pick it up in the record.

Would you say that the result of a free trade agreement with Mexico would be that the losers, if you might say, would be those industries in the United States that are low wage industries now and relatively unskilled?

Ambassador HILLS. That is what we would think. Although the term "losers" carry such an adverse connotation. We will have a long phase in, as we did with Canada, and so we believe that there will be ample time for adjustment in most sectors where there is increased competitive pressure.

I would point out that the demographics of our work force are changing rather dramatically. In the past two decades we have had a 2 percent growth in our work force. That has plummeted to just barely over 1 percent. So that it may very well be that our own demographics will cushion the adjustment. We need to do more studies on that.

We just need to do more analysis. But I cannot disagree. I do think that low-skilled sectors are ones where they may feel additional pressure from Mexican competition as we reduce our protection.

Senator CHAFEE. In my State we do have a high percentage of unskilled labor in labor intensive areas—the jewelry industry and textiles, to some extent. You just mentioned that there would be a phase-in. How would that work as far as a reduction in the tariffs, say, in jewelry or textiles or whatever it might be?

Ambassador HILLS. We would contemplate a gradual reduction of all of the restrictions, just as we have had with Canada. If you will recall, with Canada we talked in terms of a decade. Of course, that is subject to negotiation.

To allow adjustment on both sides of the border, nothing would be contemplated overnight. That may be one of the problems with studies that do not assume a phase-in. If a study is undertaken and assumes that every goal of the free trade agreement is going to be before us tomorrow then, of course, you are going to have clear winners and losers.

But I do not think that that is the way that this is pragmatically going to work. We are absolutely thinking of a phase-in.

Senator CHAFEE. A final question. Is there anything you can point to, any studies, that indicate the affect of the Canadian Free Trade Agreement? I appreciate that it has not been in affect very long. What, less than 2 years now. Is there anything that will indicate how that is working one way or the other, any studies?

Ambassador HILLS. We think it is working very well. We think that it has, in fact, permitted trade to expand. Of course, we are in an economic slow down so that it is more difficult to document how it would have been without a slowdown. We do know that entrepreneurs on both sides of the border have petitioned us for acceleration of tariff reduction; and that those tariff reductions that they have sought have equaled something close to \$6 billion.

So that tells you that in some sectors they are saying they want the restrictions off sooner rather than later. That is a pretty good indication that the agreement is working, as we had hoped it would.

Senator CHAFEE. But there is no study that has been undertaken that you know of where all this has been documented, other than the evidence that you feel has taken place through the requests for the earlier reductions?

Ambassador HILLS. There may be some commentary and we can comb our libraries for what there is; and I will supply it for the record if it does exist. I have been told that probably a half decade is the shortest period of time that one could make a real evaluation of how an agreement of this nature is working, but let me see what we can supply for you on commentary and writings by knowledgeable people.

Senator CHAFEE. I have just seen some reports that the Canadians, some suggest are not so enthusiastic about it, but that remains to be seen.

If you have anything, I would appreciate it. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Grassley?

Senator GRASSLEY. Thank you, Mr. Chairman.

Senator Danforth brought up the subject of agriculture earlier. I would like to revisit the issue of agriculture with a question that is a little more specific and tacitly related to the Mexican-American Free Trade Agreement. I am concerned, as all agriculture ought to be, whether or not there is going to be a Uruguay Round. For example when the European community agricultural ministers met yesterday, they could not reach a consensus on the issue of agriculture. It does not look to me like there is much progress being made.

Is there a chance we might get an Uruguay Round agreement that might leave agriculture out?

Ambassador HILLS. No. I think that has been quite clear. Our meeting in Brussels showed that not only is agriculture important to the United States and it is a premier export—\$40 billion last year—but a large number of our trading partners care very much about agriculture.

And were we not to deal with it in this Round, a large number of actions would not deal with other issues also of importance to us, including services, investment, protection of intellectual property, access for our manufactured goods. And if we do not get those areas dealt with, and we do not get agriculture dealt with, we really have not accomplished any of the objectives that we started out with in this round of trade talks.

Senator GRASSLEY. You have been very clear on that for many, many months. I appreciate that. I guess I am always fearful that the agricultural community might be sold out because it is such a small number of people in the United States. From your answer I assume you are assuring me that it will not be forgotten in the process of reaching an all-encompassing GATT agreement?

Ambassador HILLS. Even if we wanted to forget about agriculture, Senator Grassley, which I can assure you we do not, I can also assure you that the Latin American nations that are negotiating with us, the 14 members of the Caribbean group, and others, will simply not move forward in the other sectors.

Our problems with respect to protection of intellectual property, with getting access for our service providers, to getting our goods into foreign markets, is as much with the developing world as it is with our European friends. So that we really need 107 nations at the table in order to obtain the benefits from this round of trade talks.

Senator GRASSLEY. Thank you.

Your answer to Senator Danforth pointed to the need to change the import licensing requirements in agriculture. If that is achieved, how would the Mexican-American Free Trade Agreement impact wheat and feed grains? If you could give me some idea I would appreciate it.

Ambassador HILLS. I can identify what are the restrictions that we face when we try to sell into the Mexican market. Tariffs are one difficulty. Import licensing is another difficulty. It is those types of restrictions that we are trying to bring down in these negotiations. So, of course, they would be a target of our negotiations.

Senator GRASSLEY. So, what you are telling me is that by changing those licensing requirements the opportunity of exports of grain to Mexico would be advanced?

Ambassador HILLS. Yes, indeed. Grain exports are limited by a certain quantity and a license must be obtained. It is not only a bureaucratic difficulty, but it also has a limiting factor on the quantity that can be sold into Mexico at any given time.

Senator GRASSLEY. On another matter, my State does not use much migrant labor for agriculture. But if you look at agriculture as a whole and its use of migrant labor, a major share of it from Mexico, is there anything about the free trade agreement that would negatively impact migrant labor coming to the United States to assist agriculture?

Ambassador HILLS. This body passed an immigration law that dealt with migrant labor in 1986. Mexican workers are the largest users of the temporary permits to come in for agricultural purposes. I would not see this trade agreement as changing that Act which you passed.

Senator GRASSLEY. Okay.

There was concern expressed during the Canadian-American Free Trade Agreement about the possibility—and this probably came as much from agriculture as any place else—of transshipment from third countries through Canada into the United States.

I do not know whether there has been a problem in the year or two that we have had the Canadian Free Trade Agreement. But the same concerns are being expressed about transshipment through Mexico.

Has that been a problem with the Canadian Free Trade Agreement? Do you see it as a potential problem with a Mexican agreement?

Ambassador HILLS. I do not see it as a problem. It relates to the issue that one of the Senators raised about a good rule of origin. If you are required to use North American content you just do not ship through and obtain the benefits of the North American Free Trade Agreement. Your product must be part of North America.

Senator GRASSLEY. I do not think it is an issue so much of what people in good faith might negotiate and governments might intend. But the policing of the agreement, is that a problem?

Ambassador HILLS. I think not. We have a great deal of confidence in our Customs Service. Of course, there are violations from time to time, just as there are violations of our domestic laws. But we find that when we uncover a violation that we are able to close the loophole very, very rapidly.

Senator GRASSLEY. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Since we very recently had an extended meeting with you, Ambassador, with the members of this committee on this subject, and we are running behind schedule, we will not have a second round of questioning. But we appreciate very much having you.

Thanks. It has been helpful.

Ambassador HILLS. Thank you very much. It has been extremely helpful to me.

Senator RIEGLE. Do we have to let her go at this point?

The CHAIRMAN. Yes, we do. We are way behind schedule and we had an extended meeting with her before; and she will be coming back up to have further meetings. As you know, she has been very accommodating in meeting with the committee.

Senator RIEGLE. May I ask then that two specific questions be responded to in writing?

The CHAIRMAN. Yes, of course.

Senator RIEGLE. Very good.

Ambassador HILLS. And, Senator Riegle, I am happy to meet with you in your office to answer any questions you have.

Senator RIEGLE. Well, I want to get them on the record here. So I appreciate that and we will do that, but that is not a substitute for this, I might say.

Ambassador HILLS. Fine.

The CHAIRMAN. Thank you very much.

Ambassador HILLS. Thank you very much.

[The questions appear in the appendix.]

The CHAIRMAN. Our next witness is Mr. Thomas Donahue, secretary and treasurer of the AFL-CIO. If you would come forward please. I would anticipate a different point of view.

Mr. Donahue, we are very pleased to have you and are looking forward to hearing of your concerns about the Mexican-United States Free Trade Agreement.

STATEMENT OF THOMAS R. DONAHUE, SECRETARY AND TREASURER, AFL-CIO, WASHINGTON, DC, ACCOMPANIED BY ROBERT M. McGLOTTEN, DIRECTOR, DEPARTMENT OF LEGISLATION, AFL-CIO, ALSO ACCOMPANIED BY MARK ANDERSON, ASSISTANT DIRECTOR, DEPARTMENT OF ECONOMIC RESEARCH, AFL-CIO

Mr. DONAHUE. Thank you, Senator. I am, for the record, Tom Donahue, secretary and treasurer of the AFL-CIO and chairman of the Labor Advisory Committee for U.S. Trade Policy and Trade Negotiations.

I am accompanied this morning, Mr. Chairman, by Mark Anderson on my right, who is the assistant director of our economic affairs department; and on my left Bob McGlotten, the director of our legislative department.

Mr. Chairman, we are grateful for the chance to present our views on the proposed Mexico-United States agreement or the United States-Mexico-Canada Agreement or the North American Free Trade area as the case may be. This is actually a very unusual occasion. It is not every day that a sovereign nation seeks to negotiate an agreement that is certain to destroy the jobs of tens of thousands of its citizens.

But that is precisely what the administration is proposing today. The only uncertainty is to how many tens of thousands of jobs would be destroyed. And yet the administration urges the Congress to approve such an agreement quickly, move to one side and watch the changes from the bleachers with the rest of us.

The AFL-CIO has two broad concerns about the negotiations. First, we believe that the substance of the administration proposal is harmful and ill conceived. We believe American workers will pay for it with their jobs.

Secondly, we are alarmed by the effort to limit discussion and debate and to circumscribe the role of the Congress in what will be a wholesale restructuring of the economy of North America, with apparently all of Latin America to follow under the same logic.

We already have a preview of what such a restructuring would bring in the maquiladoras, those U.S.-owned plants that operate in Mexico, exploit Mexican workers, but produce goods that are exported back here. There are now about 1800 maquiladoras in operation; they employ over half a million workers.

The single most immediate effect of a new free trade agreement with Mexico is that it would spur the growth of even more maquiladoras, but now it would open their back doors for sales to Mexican consumers while it eliminated their intake and their use of U.S. components.

What is the effect of the maquiladoras so far on U.S. workers? Tens of thousands of people—employees of Electrolux, Trico, Zenith, Westinghouse, GE, AT&T, General Motors, Ford, Chrysler, the list goes on and on—have all seen their jobs exported to

Mexico. Those numbers will increase substantially with the advent of a free trade agreement.

As for Mexican workers, they can expect very little from such an agreement. The real reason that U.S.-owned plants are set up in Mexico is this pay check. I have the pay stub of a worker at a Zenith plant in the Mexican city of Reynosa. For a 48-hour week the gross wages were equivalent to 61 cents an hour. That is a typical pay check. The average wages in the maquiladoras is 60 to 80 cents an hour.

Those wages barely provide a subsistence living in northern Mexico, to say nothing of the problems that those jobs create for the infrastructure of northern Mexico.

The Wall Street Journal reporting on the maquiladoras said their very success is helping turn much of the border region into a sink hole of abysmal living conditions and environmental degradation.

Mr. Chairman, if that is the ladder to prosperity for the Mexicans, all of the bottom rungs are missing. Even that is less than what they could expect under a free trade agreement.

People who defend a free trade agreement say that it might stem the flow of illegal immigration. We submit that is nonsense. A free trade agreement will create more jobs south of the border at 80 cents an hour. The people working those jobs will still look at the much higher wages in the United States and the incentive would be just as strong to come here.

Worse yet, the question of increased labor mobility, in other words the temporary use of Mexican workers in the United States is going to come up in these negotiations. It is going to arise at least under the discussions of trade in services, despite assurance to the contrary from the administration.

I note that in her testimony Mrs. Hills rules out for now only "large scale" labor mobility. That is not a very encouraging omission from the negotiations. Some people say that the Mexican-United States agreement is a natural extension of our free trade agreement with Canada. We hear about a market from the Yucatan to the Yukon.

The poetry is impressive, but the practicality is depressing. There have been all sorts of headaches because of the differences between the United States and Canada; and yet the gap between the United States and Mexico is 10 times greater than that between the United States and Canada. The GNP per capita in Canada is 90 percent of ours; the GNP per capita in Mexico is 9 percent of ours.

We hear the argument that a United States-Mexico Free Trade Agreement or a North American Free Trade Area is just following the lead of the European Communities single market. It is a comparison I submit of apples and oranges. The Europeans are working busily to establish a social charter to protect workers in all of the countries in the community, to include the rights to collective bargaining, vocational training, health and safety protection, minimum wage, the care of the disabled, the care of the elderly, a whole host of concerns being addressed.

In this situation the administration and the Mexican Government resist any such protections in a United States-Mexico agree-

ment. It has been reported that the Mexicans have taken the environmental issues off the table and Mrs. Hills noted that they may be negotiated separately. I submit that this is a different standard than the one we are applying in the GATT negotiations where we seek an all-inclusive negotiation. Here we are looking for piecemeal negotiations and trading away our best card before we get environmental understandings.

There is another big difference in the European Community and that is that the richer nations are financing development in the poorer nations such as Portugal. There are no such plans in the United States.

The third difference is the gap that has to be bridged between the richest and the poorest. In the European Community Portugal and Greece are the poor members. Their GNP is 20 to 25 percent of the average in the community; and they account for 20 million out of 350 million people. We are talking about a North American Free Trade Area in which the Mexicans would represent 85 million of some 360 million people, almost 25 percent, with the Mexican GNP less than 10 percent of the average in the rest of such a community.

Our second concern, Mr. Chairman, is over the administration's strategy for obtaining approval of this agreement. The operating principal seems to be the less debate the better, and no debate is best of all. It is interesting to contrast that with the evolution of the single market in Europe.

That process began some years ago, indeed, before 1958 in the Treaty of Rome. But even if you date that development from the Treaty of Rome you are talking about a 33-year period filled with Parliamentary debate and give and take every step of the way. When the single market begins in 1992 in the European Community it will be a better creature because of the democratic process which will be strikingly absent in the creation of a North American Free Trade Area.

We are doing exactly the opposite here and the administration, indeed, is trying to foreclose discussion of the agreement and maneuver Congress out of the picture. They propose to negotiate it in 6 months and to ram it through the Congress on a simple yes or no vote.

The economic upheaval of the sort that is envisaged in Mrs. Hills' testimony certainly deserves more consideration and examination before committees, more extensive debate in the Congress and the nation than a yes or no vote will allow.

The incredible requests before this body is to give the administration a blank check to negotiate either a free trade agreement with Mexico or a North American Free Trade Area. Mrs. Hills describes that as "unprecedented in our history, creating the world's largest free trade area with 360 million consumers in a \$6 trillion economy"—all of that to be accomplished in 6 months. Assumedly in the seventh month Mrs. Hills will rest. [Laughter.]

Mr. Chairman, we urge that you not give the administration that blank check. We believe very deeply that under your leadership and the leadership of this committee implementing legislation resulting from negotiations can be developed under normal legislative procedures so that the Congress and the nation has a chance

to discuss these ideas, to evaluate a trade agreement and to modify it as necessary.

We would also hope, Mr. Chairman, that the United States would begin to do what it ought to do to improve our relationship with Mexico and to raise Mexican living standards. That means in our view a plan for significant debt relief, more humanitarian assistance, greater cooperation on environmental questions. It means real programs to stem capital flight in Mexico and expanded foreign aid and development assistance.

These latter are programs that all Americans would support through their tax dollars. The current scheme of the administration to provide development assistance to Mexico by exporting U.S. jobs will leave U.S. workers unemployed and Mexican workers exploited. It is a scheme that asks only our workers to pay the price for Mexican development.

There is no equality of sacrifice in that idea. There is no sharing of the burden of assisting our neighbor nation. Mr. Chairman, the American worker cannot afford to bear that burden alone.

Thank you. Mr. Chairman, I would be happy to try to address questions.

[The prepared statement of Mr. Donahue appears in the appendix.]

The CHAIRMAN. Mr. Donahue, in addressing the concerns that you speak to of—environmental concerns, safety of the work place, those types of things—how would you structure it as a part of the negotiations?

Mr. DONAHUE. How would I structure the negotiation?

The CHAIRMAN. Do you think that should be an integral part of the negotiations with Mexico? Is that what you are saying?

Mr. DONAHUE. Mrs. Hills is offering two different models. In the GATT negotiations we are including agriculture and she said earlier that no such agreement could be made unless you do it in an all-inclusive fashion, unless you include intellectual property, for example.

Yet in Mexico we will do something different. We are prepared to accept, apparently, an intellectual property law enacted by the Mexican Senate. That is a different approach than is true in the GATT approach.

I submit the approach in Mexico is entirely wrong or the Mexican-Canadian approach is entirely wrong. It leaves out all of the things that need to be included. It leaves out precisely environmental, safety and health, child labor. It leaves out all of the social concerns that this Nation ought to have about Mexico. And it leaves out the issues which will make it so profitable for American employers to move to Mexico and to abandon U.S. employment as they have done consistently in the maquiladoras.

The CHAIRMAN. I heard her comment about the tariff on the importation of automobiles and parts from Mexico being 2½ percent; and the argument being that if all of these advantages were available now and all you are doing is lowering it by 2½ percent, why would it have such a major impact.

Now I think I am stating her point. I would like to hear you respond to that.

Mr. DONAHUE. I would respond, Senator, by offering you the obverse question. Why then do we need it?

We are talking about a major economic restructuring of the North American Continent. We are not talking about a common market. Mrs. Hills says we are not because we are not going to deal with the very issues you have just raised.

We are dealing with a common market without social protections. The fact is that the administration arguments for proceeding are that we need to lower tariffs which they can do without a free trade agreement negotiation, without an all encompassing free trade agreement. The reasons for proceeding are to encourage the Mexicans to change their laws in order to make it easier for American employers to invest in Mexico. I submit the Mexican Government can do that without a free trade agreement negotiation.

What we are doing in a free trade agreement negotiation is first insisting that we set aside all of the social concerns and then doing that which will provide the greatest incentive and excitement about rushing to Mexico to employ workers there at 80 cents and hour. That is precisely the psychology that is created by a free trade agreement.

The CHAIRMAN. Senator Packwood?

Senator PACKWOOD. Let me follow up on the Chairman's question though, Tom. If automobiles are only a 2½ percent tariff why don't the auto companies just go there now if they can get 80 cent labor and manufacture all their cars there?

Mr. DONAHUE. Senator, I think the 2½ percent applies to the auto parts and they have gone.

The CHAIRMAN. If I may interrupt, then what is it on automobiles? Do you know?

Mr. DONAHUE. I really do not know.

Mark, do you know?

Mr. ANDERSON. It is 2½ percent on automobiles.

Mr. DONAHUE. Okay. It is 2½ percent on automobiles Mr. Anderson tells me, and slightly higher on parts.

The answer is that they are going there, Senator. Ford is pumping out 200,000 Tracers in Mexico and shipping them here for sale. The Mexicans do not allow them to sell them in Mexico so they will ship them here for sale.

In the auto parts industry, 38 percent of what comes in from the maquiladoras is auto parts. That is where they are. They have taken advantage of this. They will continue to do that and they will do it with ever increasing alacrity.

Senator PACKWOOD. So you think absent any change of law, and this agreement does not go through you are going to see the auto industry in some significance move south of the border?

Mr. DONAHUE. I think that we have already seen a significant move south of the border of parts of the auto industry and the auto parts industry. I think we will continue to see that movement, yes, Senator, irrespective of the development of a free trade agreement. We will see a continuing loss of U.S. jobs under current conditions.

If we as a nation wanted to address the question of Section 807, or the other sections of law which make possible the establishment of the maquiladora and the ability of American companies to get 80 or 90 cent labor there, then we might change the dynamic of that.

But barring any change in the current situation, we will continue to lose jobs, yes, sir.

Senator PACKWOOD. Have you had a chance yet to read the International Trade Commission's assessment of a free trade agreement?

Mr. DONAHUE. I read the summary extensively last night, Senator, and glanced through the rest of the report. As you know, it is a rather thick document. These things are coming very quickly. I believed that we were going to testify and the committee was going to discuss this morning a United States-Mexico Free Trade Agreement.

The day before yesterday it became a United States-Mexico Free Trade Agreement. Yesterday it became, in the President's words, the first step in an agreement reaching from Point Barrow to Tierra Del Fuego. I do not know whether that includes the Malvinas or the Falklands or not. But we ought to alert the British about that problem.

The ITC report, as I read a summary of the report at least, Senator, is filled with: it is likely that, it is possible that, we may assume that, and there is the apology in the introduction that notes that they were not asked for details but they were asked for conclusions. So they are offering what are generalized conclusions.

One of which is particularly interesting to me. On the section on services they say with reference to the provision of services in the United States by Mexican firms they say the free movement of labor, if permitted under and FTA, could benefit both United States and Mexican firms by lower labor costs.

I think they should have put that on the cover. That is what this report is about, that is what this proposal is about. We can manage to lower labor costs by the free movement of labor back and forth across the border. Mrs. Hills notes that Minister Serra was the Chair of the Services Committee in the GATT negotiations.

The Mexican Ambassador has told us straightforwardly that their aim in the services negotiations is to arrange for the mobility of labor because they have lots of people, and they do not have product, and they regard people as their most important product and they can export them. That is what the movement of labor issue is about.

The ITC says that would be wonderful because that could benefit both United States and Mexican firms by lowering labor costs. I submit it will destroy the American economy, but that did not get mentioned in the report.

Senator PACKWOOD. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Tom, that is not going to happen.

Mr. DONAHUE. I firmly hope you are right, Senator.

The CHAIRMAN. All right.

Senator Breaux?

Senator BREAUX. Thank you, Mr. Chairman; thank you, Mr. Donahue, for your statement.

Let me ask the question: Some would make the argument that you lose a few jobs in the beginning, but one of the things that is going to happen is you are going to increase the economy and the economic strength of Mexico. Thereby they are going to be able to

start affording more goods from the United States and the long-term impact of this agreement will be that U.S. companies that cannot sell into the Mexican economy because the economy is so poor will ultimately be able to do so, thereby creating more jobs in the United States.

What are your thoughts about that?

Mr. DONAHUE. I think I would agree with the analysis, Senator. But I think we are going about it in the wrong way. I mean I think we will indeed increase and improve the economy of Mexico by giving them U.S. jobs.

I think in the long run, you know, things would be better as their economy gets better. I note that their economy functions at a level 10 percent of our own. So it would have to get better. But I submit that is putting the cart before the horse. We ought to do those things which are appropriately done as matters of public policy to help that nation develop its own economy, to bring it up somewhere within the range of a U.S. level, and then we ought to talk about free trade.

But we should not be talking about it now. We ought to first give the developmental aid, the debt relief, and the developmental assistance out of Treasury funds, out of taxpayer dollars, not out of our workers' jobs.

The only question here is who is going to finance the development of Mexico. Will it be tax dollars or will it be U.S. jobs? The answer that is being given is, it ought to be U.S. jobs.

Senator BREAUX. On the point about the wages, I was reading in the testimony of someone that if wages were a sole determining factor of where industries and businesses located are even perhaps the biggest determining factor of where they are located, a country like Haiti, for example, would be an industrial power. Because they have almost no minimum wage at all.

How do you respond to that thought? I mean the follow-up to that is they are not going to locate in Mexico if they do not have trained, skilled workers, et cetera. The low wages are not going to bring an automobile manufacturing plant to Mexico even if they have low wages if they do not have skilled labor that can do the job.

Mr. DONAHUE. Well, I would respond by looking at the examples that we have. The ITC report is filled with speculation about what may happen. Take a look at the examples that exist. The Ford Motor Company is producing 200,000 tracers in Mexico in Hermosilla. They are shipping them back to this country for sale. So apparently they are able to do that.

The auto parts industry is not an industry of low wage workers. This is an industry that has paid very good wages in the United States. It is down along the border in those maquiladoras at 80 cents an hour. We did not lose low-wage jobs; we lost high-wage jobs. We lost jobs from Michigan, Indiana, Ohio. We lost jobs from the industrial heartland of America.

Our companies have proven that they can go to a lot of places and work. They have gone to Taiwan until wages got too high and they moved out. They have gone to Singapore. They have gone now to Indonesia, to Malaysia, because they can get cheap wages there.

Senator BREAUX. What about adjustment assistance? Is there a role for adjustment assistance, picking up the slack of relocating workers or lost jobs or wage differentials?

Mr. DONAHUE. Senator, the labor movement argued that proposition from 1972 until 1991. We have lived through successive administrations and successive Congress' assurances that there would be adequate adjustment assistance for workers. That everybody understands in the long run things would be good; in the short run this may hurt a bit and so we will provide adjustment assistance.

The administration budget that has just been submitted to the Congress has zeroed out adjustment assistance. But that is not much of a loss. It was at very low levels in the last two budgets.

Senator BREAUX. The check is in the mail, right?

Mr. DONAHUE. Yes. There is no money available for adjustment assistance just as apparently there is no money available for developmental aid to Mexico.

Senator BREAUX. One final thought, Mrs. Hills' testimony talked about the fast track handling of the treaty. She says that the practical impediments to negotiating an agreement without the fast track process would be all but insurmountable.

Mr. DONAHUE. I can only say to you that the successful example that is being cited to us is the European Community, which has negotiated in the open for 33 years to bring about the kind of economic integration that Mrs. Hills says she will bring about in 6 months. That frightens me to death, sir.

Senator BREAUX. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Donahue, on page 5 of your statement which you read you say, "There have been all sorts of headaches because of the differences between us and Canada." I was wondering what you were referring to there.

Mr. DONAHUE. Well, Senator, I was interested in your question earlier as to whether or not there was any evidence of what has happened on the Canadian agreement, and I do not know that there is. I think that Mrs. Hills noted that she does not either, that there have been no hard studies done.

We had a meeting 2 weeks ago, a month ago, with the Canadian Labor Congress. Their estimates are that they have lost 120,000 to 160,000 jobs to plants which have gone to the southern lower wage areas of the United States. The Canadian-American Free Trade Agreement provided for an enlargement of the numbers of people who could come in from Canada to work in the United States.

While Mrs. Hills noted that in response, I think, to a question from Senator Grassley, she said that immigration matters have been dealt with in the Immigration Act of 1986 and they would not be dealt with in the Mexican Free Trade Agreement. I tell you they were dealt with in the Canadian Free Trade Agreement.

And specifically, there are provisions in the immigration law with reference to nurses. Those provisions are changed by the Canadian Free Trade Agreement and we enlarged the ability of Canadian nurses to come to the United States to work. Now that may or may not be desirable, but we amended the immigration law when

the Congress accepted the Canadian Free Trade Agreement. And the same possibilities are inherent here.

Senator CHAFEE. Well, I do not want to belabor this, but if you have an example of the sorts of headaches, all sorts of headaches as you mentioned, if you could submit it for the record, I would appreciate that.

Mr. DONAHUE. We would be happy to, Senator. There is some anecdotal information available from my union on the specific displacement of workers.

Senator CHAFEE. I appreciate that. I can understand that. Because as you mentioned there has been no definitive studies.

[The information appears in the appendix.]

Senator CHAFEE. Shifting gears now, the points you have raised this morning, is not every single one of those points applicable to the Uruguay Round and the tendency toward freer trade that the United States has supported throughout the world?

In other words, what is the difference? Yes, a free trade agreement between us and Mexico is as the word implies, free trade. Over the course of 10 years we would reach that. But certainly the Uruguay Round, GATT, all those efforts, are directed toward reducing and in many instances eliminating tariffs. So what is the difference? Would you not be just as firmly opposed to the Uruguay Round ratification?

Mr. DONAHUE. I am much more interested, Senator, in the Uruguay Round and in success in that round—success as this Senate has defined it and success as the AFL-CIO would define it in terms of the 15 negotiating objectives that were set out in the original authorization for the GATT Round.

Senator, I think free trade is like free lunch; it does not exist. The GATT Round might enable us to do something about the exclusion of U.S. products from markets all over the world. The problem of our inability to sell cars in Japan, the problem of our inability to sell cars in the European Community, the exclusion of our agricultural products from major nations which have the capacity tomorrow to be consumers.

The Mexican Free Trade Agreement is not of that order. It is not—the major problem with the agreement is not achieving a greater ability to sell cars in Mexico. The major problem is the disparity in income levels and the ability of the Mexican nation to be a consuming nation. We are told it is a market of 85 million people—85 million very poor people. They are not going to buy much of our product.

Senator CHAFEE. Except we are already reaching a free trade agreement, if you would, with Mexico through various other measures absent the title free trade agreement with Mexico through the GATT and other. And as you, yourself, point out, the existence of all these companies, American companies, with plants just south of the border is evidence that the tariffs on those goods coming into the United States is modest if not minimal.

So that is there and I do not suppose you are advocating rolling back the clock on that; are you?

Mr. DONAHUE. I would. I would, Senator. I think that we have given away our jobs. We have given away a half a million jobs. And I certainly would not advocate enlarging that system.

Senator CHAFEE. But do we not get to the old question which is—well, we might not get to the old question. [Laughter.]

I will make it brief. I guess I will not. The red light is on.

Thank you, Mr. Chairman.

The CHAIRMAN. All right.

Senator CHAFEE. I hope you admire that restraint.

The CHAIRMAN. That I do.

Senator Riegle?

Senator RIEGLE. I think the debate that was going on though is a very important debate, in the sense we will need to continue, if not now, at some point. I must say, and this was not discussed when I was in the room earlier, I think one of the reasons, Mr. Chairman, that Mexico was pushing so hard for this agreement is that their debt relief program, which there was so much fanfare about, really is not working and it really cannot work, in my view, the way it is put together.

They have got to have an infusion of new capital investment. This free trade agreement guarantees that. You will have a lot of money pouring in to Mexico to gear up and to, in a sense, create for the large part manufacturing capability down there. So this is another agenda item that is driving this discussion.

But the thing that concerns me is that I see this having the potential to really work against high-value-added jobs in this country. That is a pervasive, substantial problem. It is not just a problem in Michigan. It is a problem in Texas. It is a problem in Rhode Island. It is a problem across this country, if you look at the trend lines in terms of the steady shrinking down of high-value-added manufacturing type jobs.

Now we are a nation that consumes a lot. But we are a nation that is producing less and less of what it is we consume. That is right at the heart of the dilemma when you go to a country so vastly different in terms of its wage structure and its labor laws and its environmental laws and everything else.

Now I would like just a very crisp yes or no on this, if you can give it to us. The organized labor movement in this country did not mount an all out effort against the United States-Canadian Trade Agreement. I know you had serious reservations about it. Is the labor movement prepared to organize an all out effort against a United States-Mexican Free Trade Agreement if it falls outside the kinds of parameters that you have been talking about here? Is that what we can anticipate in this instance?

Mr. DONAHUE. I will give you the yes if you insist, Senator. Yes. But—

Senator RIEGLE. Well, I need to know and I want everybody to be on notice.

Mr. DONAHUE. Okay.

Senator RIEGLE. Because this is a different debate, different circumstances, different times. And I do not want anybody to get fooled about the table stakes.

Mr. DONAHUE. Senator, my "but" refers only to the words you used to describe "labor mounting the campaign." I think we would not be alone in such a campaign.

Senator RIEGLE. I understand you would not be alone.

Mr. DONAHUE. I think there is a substantial portion of the American population that is frightened to death about the prospect of a Mexican-American Free Trade Agreement, the flight of American jobs, and the low labor mobility issue, and the environmental issues. So I think that there would be a very substantial grouping of the population of the nation quite beyond the labor movement, which would express its all out opposition to a free trade agreement.

Senator RIEGLE. This is a chart that I keep in as updated a form as I can. We are about a quarter behind on the data right now. But this is the debtor nation position of the United States at the present time. It is really a stunning reversal in our circumstances that occurred about the mid-1980's where we left the creditor nation status, became a debtor nation for the first time since 1914. But the plunge into the debtor nation status has continued really unabated right up to the present time and it is going on now.

We are going to owe the rest of the world roughly \$1 trillion within probably a year, a year and a half, 2 years, in terms of our net debtor nation status.

But I have not heard one word said today as to how a United States-Mexican Trade Agreement slows down our trade deficit problem. I mean the entire economic logic is that it is going to increase our trade deficit problem. Now you can say this does not matter. Some people think it does not matter, that this is an irrelevancy, sort of like Federal deficits are an irrelevancy. I do not believe that.

I think our problem here is that we are getting a piece of a debate but it is not focused on the issue that we really need to discuss—that is, do we really want to maintain a state of the art, high-value-added manufacturing industrial base in this country within the boundaries of the 50 States of the United States of America; and if so, what do we do to make sure that happens?

Because that is not happening today. I mean I could talk for a half an hour about all the statistics that show that that is deteriorating and there is the flight of jobs abroad, whether it is down into Mexico or other parts of the world and so forth.

Now if it does not matter or all we need to worry about are sort of the profit and loss statements of multi-national corporations, then we can just forget about it. But if it does matter; and especially if we are going to have a new world order where the Americans fight the world wars and pay for most of them, then we had better be producing something here at home other than what we do at McDonalds or down at the dry cleaning establishment.

We had better be producing high-value-added goods and we had better be producing a lot of them. Not in Mexico or not some other place, but right here in the good old U.S.A. We are not debating that and I am very troubled about it because we are drifting off into sort of a never-never land and we keep envisioning sort of these broader kinds of trade agreements and so forth while we are going right down the drain in terms of our ability to be able to sustain ourself in this international economy.

So I hope that we will not be overly seduced by what look like attractive concepts. I can understand how the border States on Mexico could maybe look at this in a way that would seem attrac-

tive. You know, we have gone through that as a border State with the Canadians in terms of the United States-Canadian agreement. But I would just say to this panel, and I would say to the Chairman and to the committee here as well, we are going to have to broaden this debate out into the question of how America is doing in terms of its basic capacity to provide high-value-added output and decent jobs.

We cannot just have the middle class disappearing and reappearing in terms of growth in economic strength in Mexico or some other place. That does not really help the United States very much.

So I think you have said in effect, and you do not speak for all of the interest groups that have an interest in this, but speaking for labor, which you clearly do, you are prepared to become actively involved in this debate far beyond what we saw in the United States-Canadian Trade Agreement; is that correct?

Mr. DONAHUE. Absolutely, Senator.

Senator RIEGLE. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Let me say to the Senator from Michigan, I have very much concerned myself with what has happened to the manufacturing base of this country in spite of some recent resurgence there. And there is no question but that we have lost hundreds of thousands of high paying jobs in manufacturing.

We have the creative genius in this country, but we have not been able to take those inventions and transfer that technology to the commercial product. There is something missing in what we are doing in our economy. It is critical that we direct our attention to it.

I must also say that if I am not convinced that when we get all through with this agreement that we do not finally have a net increase in jobs, then I will not be supporting this agreement. I look at it and I tend to believe we will.

But that is the reason for these kinds of hearings and that is why I wanted Mr. Donahue and his organization testifying on this, to talk to us about their concerns. But I share very much that concern with you.

Senator Breaux, do you have any further comments?

Senator BREAUX. No, Mr. Chairman.

The CHAIRMAN. Senator Chafee?

Senator CHAFEE. Well, I just wanted to say I noted and share the concerns of the Senator from Michigan. I just hope he is equally enthusiastic about other steps that we undertake in this committee and elsewhere to make this country more competitive, whether it is the extension of the R&D tax credit, to make it permanent, or whether it is doing something about our banking system, or whether it is doing something about our anti-trust laws that are geared to another era.

There are a whole series of measures that will come before us in this committee or before other committees, many of which he is deeply involved with. I just hope we can do everything we can to make this country more competitive in a host of ways.

The CHAIRMAN. Well, you really open it up to the Senator from Michigan when you talk about banking. But you have a 5-minute limit here if you—

Senator RIEGLE. I can safely say that I agree with Senator Chafee that we need to take this debate and broaden it out and get into the areas where we have got to really increase our performance. We have to have a surge in the U.S. economy, the U.S.-based economy. Part of it is in research and development.

I fully agree with you. I am a co-sponsor of extending that and making it permanent. I think we need to do other things. I think we need to probably, if we had the wearwithal right now, reduce depreciation schedules on investments in this country so we get more modern equipment down here.

But I will tell you this, every factory that an American company builds in Mexico instead of one of the 50 States is not going to help America and we ought not to have any illusions about that.

One thing you and I can work on is the health care system, because we are on that subcommittee and that is one of the things that is making us uncompetitive. We are spending so much and yet we do not have even coverage across the country. That is one area where we can work together on an overhaul.

Senator CHAFEE. Well, let me just say, this can be carried out. But I just want to make one point. I come from a State that includes the largest toy manufacturer in the world. That toy manufacturer could not survive competitively against its European and other competitors, if every single part that it manufactured, that it sold in its toys, were made in the United States of America. That is a fact.

It survives because some of its parts are made abroad in Taiwan and even in mainland China. They are able to import those parts; they assemble. They are one of the largest employers in our State and they provide jobs for hundreds of Rhode Islanders. And if they did not have that access to those parts, if there was some requirement that every single one of those parts be made in the United States of America they would be blown away, and so would all those jobs in Rhode Island.

So I think we have got to understand that it is not the United States alone that is trying to produce. We are in competition, whether we like it or not, with the European Community and with the Asian countries and I do not think any of us envision going back to building a fortress America as an economic island.

I am not going to get into the Mexican factories, but I just am particularly familiar with this area I mentioned.

Thank you, Mr. Chairman.

Senator RIEGLE. Mr. Chairman, if I could just add one other point. I know you are anxious to close.

The CHAIRMAN. No, we have other witnesses.

Senator RIEGLE. I want to maintain that toy making company in Rhode Island very much. But with the average manufacturing wage in Mexico being 57 cents an hour, I think the risk is created by a free trade situation such as being envisioned here where that whole plant could move lock, stock and barrel down there.

I cannot believe the Mexicans cannot make toys at 57 cents and hour just as well as they can make cars, as they are now doing. So I think the risk here is to whether it is a plant in your State or a plant in my State, we had better think a little bit about whether or

not we are tilting the table in such a way that we are in effect inducing a movement of not just parts, some parts, but entire plants.

Do not think it is not happening because I am here as living testament to the fact that it is happening. It is not any tougher to move a toy factory down to Mexico than it is to move an auto plant.

The CHAIRMAN. Are there further comments?

[No response.]

The CHAIRMAN. If not, thank you very much, Mr. Donahue, for your testimony.

Mr. DONAHUE. Senator, I thank you for the opportunity to appear. I would like to just note that the debate that has gone on is a good example of what we think ought to go on in this country for another 6 months, 1 year or 2, to figure out what the goals of this Nation ought to be and what kind of manufacturing we ought to be doing and what is possible if something is necessary to solve the problems that Senator Chafee cites.

What are the things we ought to do about that? Maybe we ought to build a fence around one State, and do away with our environmental regulations, and do away with child labor laws, and do away with the other things, and make it possible to produce in that State at wage rates and conditions that are comparable to Mexico. Because then we would keep the jobs in the United States at least.

No one is suggesting that we waive our environmental regulations, that we do other things to make ourselves more competitive. What is being suggested to make us more competitive is that we export some of our jobs so that the total product can be sold more cheaply in a world market. That predicts a very bad future for American workers.

We will become competitive in the world market on the basis of low wages. That is not the kind of economy that we seek to build. I would hope, Senator, that you devote yourself and the committee devotes itself to analyzing the question of whether you allow the administration to go forward on these negotiations on the basis of ensuring a net increase in good jobs in the United States.

How do we ensure a net increase in good jobs and the maintenance of a standard of living here that might 1 day be able to help peoples in other nations raise their standards of living without sacrificing ourselves to do it?

Thank you.

The CHAIRMAN. I share that concern. Thank you very much, Mr. Donahue.

Our next witnesses are a panel that will have Mr. Kay Whitmore, the chairman and chief executive officer and president of Eastman Kodak Co., testifying on behalf of The Business Roundtable; and Mr. James K. Baker, who is chairman of the board of the U.S. Chamber of Commerce and chairman and chief executive officer of Arvin Industries, testifying on behalf of the U.S. Chamber of Commerce.

Gentlemen, we are very pleased to have you. Mr. Whitmore, would you proceed, please?

STATEMENT OF KAY R. WHITMORE, CHAIRMAN, CHIEF EXECUTIVE OFFICER, AND PRESIDENT, EASTMAN KODAK CO., ROCHESTER, NY

Mr. WHITMORE. Thank you, Senator Bentsen. We are pleased to be here to speak from our individual positions and from the organizations that we are from.

I guess I would say, based on what we have just heard, I think what we are talking about is the ability for us to produce in this country and to export. I think a key to the chart that Senator Riegle showed was exports from this country. That is what we are here to talk about.

I am here as the chair of the working group of The Business Roundtable on this Mexico-United States Free Trade Agreement and have just a few points. We have submitted a document which is available to be read.

We are in support of this for a number of reasons. Obviously, trade between the United States and Mexico as you said in your opening statement, Senator, is significant and growing; and we would like to see it continue to grow, and we believe it can grow based on a free trade agreement. We think we ought to get on with creating that agreement.

We think there will be strong benefits to the United States, that this will be in the commercial interest of the United States, and that the agreement can be made to come out that way and assume that Ambassador Hills, the people who will negotiate it, and those of you in Congress, will see to it that it comes out that way.

We think this is a so-called win-win opportunity to enhance both the economic viability of the United States and also enhance that economic viability in Mexico. We think it is in our interest to have a stronger Mexico, a place to which we can export more products by having more open trade and also by having a stronger economy in Mexico which creates consumers who will buy products like those from the company that I lead and we would have that opportunity in other companies.

So we are enthusiastic about that. We think it is in the interest of both the capital goods producers, those of us in manufacturing, as well as the service industry to have this come out in that way.

We have seen, I believe, in the last few years a dramatic change in Mexico. We think the current leadership of Mexico is taking a far more enlightened view of their economic future. We have had the opportunity to meet with President Salinas and others in Mexico. We are impressed with the things they have done.

We would not be here today in support of this agreement were the kinds of changes that are currently taking place in Mexico were not in fact happening to demonstrate Mexico's willingness to participate more actively in a more full economic development—their joining with GATT, other things, privatization that have gone on there.

We think there is also a change in the thinking of people in Mexico about their relationships with the United States; and we think that is very positive.

For those reasons The Business Roundtable, as an organization, is prepared to support this. We have been actively working on

these positions. The Business Roundtable has surveyed its members to determine what types of things we think should be included in those negotiations. We are finalizing those papers and are prepared to share them with the U.S. Trade Representative, with the administration and with the Congress to indicate the types of things that we believe must be in those negotiations.

Many of the things that have been talked about we take as a given that they will be built into those negotiations. Or we, as well as you, Senator, would not support such an agreement if it did not contribute to our economic benefit and meet many of the requirements that the business community feels are important.

There are many economic studies which are currently underway to look at this. The Business Roundtable, specifically, is reviewing many of those and determining whether there is anything more we can add by us commissioning still another report. There may be. If there is, we will certainly be willing to do that.

We are actively anxious to consult as a group and as companies with the administration, with the Congress, on how these things might be worked out.

We believe a key step in this is getting started with the negotiations. We think key to getting those negotiations started is the approval of fast track. We would support the fast track negotiations as the only way in which to get an agreement, which we can then actively debate, discuss and agree to or improve.

In support of that, we have shared with you a letter which has gone out today with 433 signatures on it, primarily from companies, a few trade associations, saying that that body of companies—large companies, midsize, small companies, and trade associations—are in fact in favor of the fast track process for going forward with this negotiation.

We feel good about that statement of importance. The key points in that are that we support comprehensive trade negotiations with everything on the table so that it can be negotiated broadly. We believe, as I said, in supporting fast track.

And finally, I think that letter says or clearly states, that The Business Roundtable is prepared to support an effective agreement, but only if in fact we have an effective agreement. In other words, we do not give it unconditioned support without knowing what it is.

Now let me conclude with just a brief personal statement. Twenty years ago I was part of a small group of people who were sent by my company to Mexico to buy a corn field and build a factory; and we did one of these building a factory that the Senator talks about.

That was a very satisfying experience to me. I went there, lived in Mexico and participated in that. We built a factory in Mexico; it created Mexican jobs. It also created jobs in Rochester, NY—more jobs. It was a win-win for both countries and to our company. We think that can be replicated many times over and a trade agreement would help facilitate that.

Thank you.

The CHAIRMAN. Thank you.

Mr. Baker?

[The prepared statement of Mr. Whitmore appears in the appendix.]

**STATEMENT OF JAMES K. BAKER, CHAIRMAN OF THE BOARD,
U.S. CHAMBER OF COMMERCE AND CHAIRMAN AND CHIEF EXECUTIVE OFFICER, ARVIN INDUSTRIES, INC., COLUMBUS, IN**

Mr. BAKER. Good morning, Mr. Chairman, or good afternoon, I guess it is. I am Jim Baker and I am chairman of the board of directors of the U.S. Chamber of Commerce and chairman of Arvin Industries, a Fortune 500 manufacturing company, making auto parts in Columbus, IN, and around the world.

On behalf of the Chamber I am pleased to testify in support of the free trade agreement. The Chamber believes that it will benefit a broad-based group of our 185,000 members which range from very large companies, but of course the majority of our members are small and medium sized firms.

Mr. Chairman, before discussing the Chamber's position on FTA negotiations I would like to give you a little bit of our company's experience in Mexico. Arvin has 12 plants in the United States and 26 plants around the world, three of which are in Mexico.

I think it is very typical that when an American company decides to open a new market, and in this case Mexico, the first step is the establishment of a small operation in the new market, supplemented by imports from their U.S. operations.

At this time our company is producing over \$24 million worth of product in our three full-scale factories in Mexico, of which \$1 million is exported to the United States. But we are exporting almost \$15 million from U.S. plants to Mexico to permit them to have a complete product line. That \$15 million translates into 150 new jobs in the United States.

It is also interesting to note——

The CHAIRMAN. Give us those numbers again. They are very impressive.

Mr. BAKER. I'm sorry?

The CHAIRMAN. Give us those numbers again.

Mr. BAKER. We are exporting \$15 million from our U.S. plants to Mexico, because our Mexican plants can only produce a portion of what is required there. That \$15 million translates into 150 new jobs in the United States in our company.

The CHAIRMAN. And you are exporting how much to the United States from your plants down there?

Mr. BAKER. We are exporting \$1 million from Mexico to the United States

The CHAIRMAN. The rest of that is being sold in Mexico?

Mr. BAKER. That is right. We are selling \$23 million in Mexico. We have 480 employees in Mexico, all Mexican. I think it is also interesting to note, on a broader scale, but still within our company, we began our international expansion in 1986, or only 5 years ago. At that time we have 5,000 U.S. employees. Today we have 9,000 U.S. employees.

An FTA will put more competitive pressure on our Mexican plants than on our U.S. facilities because an FTA will encourage economic growth early on in Mexico, simply as a result of the re-

duced risk of investment there. And that investment will come from all over the world.

But within a few short years the economic results of this integration will be that North America will be a more viable force and an even more attractive market compared with other regions of the world.

The fact of the matter is that jobs in America and jobs in Mexico are increasingly interdependent. The key to maintaining high-wage jobs in the United States is to maintain technological leadership, develop a well-educated work force and invest internationally to remain competitive. Our customers have told us to do so.

Workers earning \$1 per hour or less in Mexico will not replace U.S. workers making \$8 in the United States. Mexican labor will replace Indonesian labor, Malaysian labor, Thai and Korean labor. I think the facts will bear me out, as investors learn that Mexican labor is equal in quality, productivity and other respects. Having Mexico as a full partner in this region will benefit the United States.

The argument that Mexican wage levels will be kept artificially low to attract U.S. investment and thus depress wage levels, U.S. wage levels, is not valid. When Spain acceded to the European Community there were similar concerns. Not only did this not occur, but wage levels in Spain had been rising. Today wages in our Spanish plants are nearly equal to the wages in our U.K. plants. And it should be noted that wage rates are continuing to rise in Germany, the U.K., and in France.

So, gentlemen, I would say the economic viability of any country is based upon its economic strengths and weaknesses. The United States has excellent management and labor skills, excellent technology, a huge domestic market and a good infrastructure of highways, communications and supporting industries.

However, we do not have a pool of low-cost labor, but Mexico does—in this hemisphere. Utilizing Mexico's labor pool will permit more production in this region, raising the economic tide for all of North America. Some U.S. companies have already benefited from the lower assembly costs in the maquiladoras in Mexico, rather than shipping products from the Far East.

And under the FTA a broader range of U.S. companies will realize new economic vigor by bringing Mexico's labor force into the economic factors in this region, allowing U.S. business to cultivate the high-skill, high-wage work force we need to compete in the coming decade and in the next century.

[The prepared statement of Mr. Baker appears in the appendix.]

The CHAIRMAN. That is very interesting, Mr. Baker.

I had a group in from San Antonio earlier in the week on the Mexican Free Trade Agreement. One of the things that surprised me was that one of the people there was an automobile parts manufacturer, a small one. He was enthusiastic about this agreement and felt that he would have more access to the market because the Mexican law as I understand it requires an excess of exports to imports insofar as automobile manufacturing.

Mr. BAKER. Correct.

The CHAIRMAN. Mr. Whitmore, you talk about a net increase in jobs resulting from your putting a plant in Mexico: in the United States a net increase.

Mr. WHITMORE. Right.

The CHAIRMAN. Explain that to me. You gave me the flat statement. But tell me why it does.

Mr. WHITMORE. This plant was put there, Senator, about 20 years ago at a time when Mexico and the rest of Latin America were particularly closed markets.

The CHAIRMAN. Mexico was one of the most protectionist of countries for years.

Mr. WHITMORE. We went in there to get inside that closed market at the time and produce products. We built a plant that is now a state-of-the-art plant and is exporting out of Mexico to other locations, Latin America and in other locations around the world.

That plant does a piece of the work. It is a high technology plant. But the things that supply it were all done in the United States. The technology, the basic technology, needs to be created, the R&D, the development work, the product development and the infrastructure that supplies it is all done in Rochester or Kingsport, TN, other places where we manufacture and flow to that.

The net balance of that is more jobs in the United States than there were in Mexico. The alternative for us at the time was to not go there and have a Japanese company put that plant in there. We would have lots market share in Mexico and Latin America and the opportunity to export from the United States to Mexico. That is what the outcome of that would be.

Those were the two alternatives we had—for us to go in there and produce it and then supply; or to let a company from another part of the world supply, take that market away and prevent our export. That is why I would say it was a net positive to Mexico and the United States, and our company, obviously.

The CHAIRMAN. It seems to me that management of a big company has to cross this line when they are in a protectionist environment down there—where they do not have the competition from the United States to then decide: well we are ready to take that kind of competition.

That is what you are talking about doing because Mexico has been so protectionist. If you talk to Mexican businessmen down there, and when I talked to them 3 or 4 or 5 years ago, they were not about to have the competition of the United States. Time and time again what you see is enormous smuggling operations, taking things into Mexico, smuggling them in. Time and time again you see payoffs to get things into Mexico. There is quite a change in the attitude.

Mr. WHITMORE. If I might, Senator, the thing that our company is interested in, what I think the business community is interested in, is opening Mexico up, the Mexican Government opening that up to allow more opportunity for us to import into Mexico, create a stronger economy in Mexico so there are more consumers to buy the products and services which we supply, and we think that is positive.

I think, at least in the industries that I know something about, the idea that we are going to fly to Mexico as a place to produce

because the border is open, I think in general is not true. There will be some. And again, there will be some cases in which the alternatives are, move that job, as Mr. Baker suggested, to Mexico or to Indonesia or to Malaysia or Taiwan or Thailand or some place. Those jobs will not stay here and we are not going to protect them here by not having an expanding open trade environment with Mexico and broader.

The CHAIRMAN. One of the things that has impressed me too is the enormous move toward privatizing business in Mexico and the number of heavily subsidized State-controlled companies that have been moved to the private sector.

When you meet with President Salinas and he says, you know, the Government can build me a road to Acapulco from Mexico City in 10 years and I can do it through the private sector in 3, I am going through the private sector. When we see the sale of the Mexican Telephone Company, and then to have President Salinas say, you know, that I am not going to put that in the budget, that amount of money that I get from that sale, I am going to put it on paying the debt. We ought to be doing more of that here.

Senator Breaux?

Senator BREAUX. Thank you, Mr. Chairman; and thank the gentlemen for your presentations.

Take me, if you will, through a scenario or a possible scenario of the type of businesses that you would represent in your two organizations when they are making a decision to locate and build a plant or a facility in Mexico.

Suppose a company that makes widgets, for instance, gets a proposal from the Mexico Chamber of Commerce to locate in Mexico. What steps would that Board and their CEO possibly take in coming to a decision on whether to accept their offer and relocate their plant in Mexico? What items would they be considering in making that determination?

Mr. WHITMORE. In our company, and I think most of the companies that I know anything about, those kind of decisions are made based on an economic justification. For many of us who try to be global companies, who look at those things on a global basis, we would make those decisions on what would make our company the most competitive globally.

Senator BREAUX. Okay. Let me ask you a couple of items then. Would wages be one of the considerations?

Mr. WHITMORE. In the kinds of industries I am associated with, wages are a minor part of the issue, not a major part of the issue. The market availability issues are higher and availability of a work force.

Senator BREAUX. How about environmental laws and rules and regulations?

Mr. WHITMORE. Environmental laws are a significant issue. They vary a lot sector to sector. Some places they are more important than others. We are concerned about the global environment and making environmental rules more uniform worldwide, raising the standards of places like Mexico where I think they need to be raised.

At least the companies I am associated with are not moving capacity around to look for low environmental impact areas. We are

looking for areas in which we can produce our products to serve needs.

Senator BREAUX. I am trying not to be too specific just with your company, but from The Business Roundtable, from the Chamber, because you represent probably collectively almost all of the businesses. What other considerations would you look at—health insurance, workmen's compensation, those matters? Is any one of these, something a company would look at in making a determination?

Mr. BAKER. Let me answer that this way, Senator. This is in a broader sense. But I think every consumer and industrial product in the world has been internationalized. By that I mean, every component or subassembly of that product has found a home based upon a very complex set of economic factors; and these factors include the indigenous people skills in the regulations, the regulatory environment, the raw materials supply, the capital investment, the transportation and on and on.

I think if you would ask someone to invest in Mexico they immediately go to these complex set of economic factors. You find that groups of products typically go to certain kinds of countries; and the United States has found its home with high investment, capital intensive, high skilled labor, high technology and that is where we ought to be.

Wages have been internationalized. And make no mistake about it, we cannot bring a product like television assembly back from Mexico. When it left here it did not go to Mexico. We did not lose jobs to Mexico when TVs moved out. We lost them to Japan. Japan lost them to Hong Kong. Hong Kong lost them to Malaysia and Malaysia lost them to Mexico.

That is the internationalization of wages in my view. That process is a very competitive process and will get even more intense in the decade ahead.

Senator BREAUX. I agree with this being a decade of intense competition. I am concerned about what happens in the next 10 years though because of the difference of 58 cents an hour as opposed to the scale in the United States.

Is there any item that a company would have to end up paying more for in Mexico if they were to take their company across the border than they would in the United States?

Mr. WHITMORE. We pay, for example, substantially more for packaging materials in Mexico. That is a scale issue. There is just not enough scale there for them to be able to produce in a protected environment to be world class.

Senator BREAUX. Any other areas?

Mr. WHITMORE. Excuse me?

Senator BREAUX. Packaging. Any other areas that would cost you more in Mexico?

Mr. WHITMORE. Especially materials are not available in a country like Mexico, in an undeveloped country. Supporting industries, you might have to bring in tooling, let's say, from the United States from a more advanced country.

There are a lot of factors that determine whether or not it makes sense to manufacture in Mexico.

Senator BREAUX. I guess a general concern I have, if I were on a board of directors and, you know, say in a company in Louisiana,

they tell me that the wages are substantially less, the property is substantially less, you don't have to worry about the corps of engineers and fighting for years to get a permit, you don't have worry about OSHA, and you don't have to worry about the best available control technology from the clean air bill, you don't have to worry about the clean water discharge permits.

I mean I think that they should sue me if I would not move my company across the border and just export the products back to Louisiana.

Mr. BAKER. Let me give you an example. You may be aware that the Mexican Government required the auto industry to move out of Mexico City and gave them 2 years to do it. So if you are sitting on the board of a chemical company, that is one of the risks that you have when you go into a country like that, that they may require you to move your facility, and that is pretty expensive.

But because it was a community of nearly 20 million people they wanted to reduce the congestion and the pollution. Rather than taking the American-style regulations into that environment and changing the laws, they asked that industry to move out of Mexico City. We were there. We had to move our factory. We did not have to move it to a particular location, but we moved it to Querétaro and are environmentally clean and abiding by U.S. standards.

Senator BREAUX. Thank you, Mr. Chairman.

Mr. WHITMORE. Might I add just one more word?

The CHAIRMAN. Yes.

Mr. WHITMORE. I think the world has seen a very powerful statement about what happens to the environment in a closed society versus an open society—Eastern Europe, that is the most closed. That is a very powerful statement.

What is it going to take to open that up? What is it going to improve? An open society, with open trade, with reduced trade barriers, we are going to raise standards of living and raise issues like environment, and they will improve over time.

How? I am not a politician. I am not a government official. I think that will happen and I think we have seen a clear statement, I believe Mexico in a more open society will be by its population forced to improve those things. We do not go there for those reasons.

The CHAIRMAN. Thank you.

Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman.

Gentlemen, you heard the testimony of Mr. Donahue. You perhaps heard his statement: "I have here a pay stub of a worker at a Zenith plant for a 48 hour week, gross rate wages were equivalent to 61 cents an hour; 400,000 to 500,000 people in Juarez have no running water, sewers or electricity. Workers live in shacks made of packing materials. Their drinking water is contained in large 50 gallon drums that used to contain toxic materials."

In other words it sounds like a disaster area. Mr. Donahue expressed his concerns that under a free trade agreement with Mexico—Ford, General Motors, maybe Kodak, maybe Arvin would all pick up and move across the border to Mexico. Was he right or wrong? And if he was not right, why?

Mr. Whitmore?

Mr. WHITMORE. As you suggest, Senator, we listened to that. I think he is wrong. I think he is fundamentally wrong as was suggested by one of the lines of questioning. If people were going to run to Mexico for those purposes, they would have already been there. I mean there is nothing preventing companies from going there now. The issues in general are not being able to produce in Mexico and export them out of Mexico, they are being able to export into Mexico.

So I think our interest is to improve the economic viability of Mexico by participating with them in economic development, to help those people who are living in the standards he talks about, which are true. Everything he said, I am sure is true. We would like to raise the standard of living of those people so they can in fact buy Kodak film or buy automobiles produced in the United States, which they cannot do today, or other things so that we can export to Mexico as a more economically viable country.

I think his analysis is simply wrong. I think there are undoubtedly some companies who go to Mexico to get low-labor rates. Others of us have gone there, not to get low-labor rates, but to get access to the market.

Senator CHAFEE. Mr. Baker?

Mr. BAKER. I think Mr. Whitmore has given the essence of it. We went there because we wanted access to their market. Obviously, from our figures that I gave you we are not exporting very much material back here. We are still exporting from this country to that. We are developing that market.

I think earlier the reference was made to Haiti. It would be an industrial powerhouse if low wages was the only determinative of where jobs would go. I think also that there is no way to keep jobs in America unless we have the kind of capital investment in this country that will keep them here.

Capital investment is the forerunner of the creation of jobs. The investment climate in the United States does not improve with a certain amount of our regulations and tax of capital. We tax dividends twice, as you know; and most countries do not. And the cost of capital is an important ingredient in all of this. So we have to watch that if we want the capital intensive jobs in this country we had better watch the cost of capital here.

Senator CHAFEE. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Riegle?

Senator RIEGLE. I very much agree with what you just said with respect to capital investment in this country. I know that is a keen interest to the Chairman as well. We have not done very well in that area. I mean we have a whole host of things that bear on that and we have not been able to address and solve that problem as to how we jack up the savings rate and the reinvestment rate so that we keep those jobs here.

I think it is fair to say, however, that if we do not do anything to improve our capital investment situation here in this country, but we do improve the capital investment attractiveness of Mexico by virtue of more certainty in a free trade agreement, if we stay where we are and we make them more attractive, there is probably going to be more run-off of capital investment to Mexico.

Now it may not be true in your individual cases, and there are very specialized cases. I appreciate and admire greatly the success of Kodak and of Arvin as well. But I have to note at the same time that General Motors announced yesterday they are going to layoff—not layoff, but eliminate—more jobs over the next 2 years than the entire size of your company by far.

So, you know, we are gaining here some on the margin. We are also losing big in the very business that you are in. I am talking about the high-value-added manufacturing activity here in the automobile industry and the automobile sector.

So we are having all of these cross currents working here. You know, Kodak has a long history in Rochester. You are not about to pull up stakes, one hopes or one assumes, and leave. But is it not fair to say that if you extend these arguments out, just the theories that you are advancing here—let us go out 5 years, 10 years or 15 years—and there is a comparative advantage to move more and more of your operations is to take them somewhere else, not just Mexico, but anywhere around the globe, and you had a better environment for the kind of advanced engineering work or the scientific development or what have you, what is to keep you from doing that?

I mean is that not the game we are in now? Could we not over a period of time see Kodak piece by piece, if the comparative advantage calls for it, to literally reposition itself to some other place on the map, even though it remains as an American corporation and so forth? I mean might that not happen?

Mr. WHITMORE. I would expect the Eastman Kodak Co., along with most of the companies that are involved in The Business Roundtable, all U.S.-based companies, will continue to be U.S.-based companies. I would think all of them, however, will want to talk about participating in the global market.

Senator RIEGLE. Right.

Mr. WHITMORE. And they will want to be able to produce their products and services wherever they need to in the world to serve markets on a worldwide basis.

Senator RIEGLE. Yes.

But let me ask you this, is there any requirement to even produce the part of your output that you consume in the United States to actually produce it in the United States? Are we not finding more and more companies that are based here that are producing an enlarging share of what they sell here, they are actually producing it somewhere else?

Mr. WHITMORE. I think the key issues for the companies that I am associated with and know anything about is market availability—being able to participate in that market. We find that in those markets in which we produce, manufacture, we are able to do better than in those markets which we simply serve from outside.

Senator RIEGLE. Yes, I understand that. I mean that is why you went there 20 years ago.

Mr. WHITMORE. Right.

Senator RIEGLE. You made that very clear, but I am making a different point. That was 20 years ago and I am not even just taking today. I am looking ahead.

It seems to me what I see happening, and tell me if you do not agree with this, I see a trend where more and more of what American companies are selling here at home is being produced abroad. Not just produced abroad to sell abroad, but is being produced abroad to sell at home.

Now am I seeing a mirage or—I just do not want the example of your two companies.

Mr. WHITMORE. I understand.

Senator RIEGLE. Because your companies fit the case you are making. I am interested in something that is more a broader statement than that.

Mr. WHITMORE. It is at least my opinion that the U.S. economic future is going to be dependent on high-value-added, high-skill, high-technology efforts; and that we ought to be optimizing on that and we should not be competing for low-skill, low-value-added jobs, that they are going to go some place else.

And if we optimize on that, provide the economic environment in which we can invest, create an educational system that will provide us the population of people who can do those kind of jobs, we will maintain and grow the economic viability of the United States as a differential location to produce certain types of things and not things that will be better produced some other place.

That is how I think most of the companies who are trying to participate on a worldwide basis look at that.

Senator RIEGLE. Well that is wonderful and I would agree with that. But if we are not succeeding in that, if we are having a high school dropout rate of 26 percent and we are falling short in other areas, is there not an out migration to jobs and do we not find a situation where an increasing share of what we consume here produced under the label of an American company is in fact being produced overseas in some other place?

Mr. BAKER. I think that is true, Senator. I think the proposition you make is true. The problem I have with it is that if we do not open up Mexico that product is going to be made somewhere else.

Let us take white shirts, white men's shirts, for example, they are not made in the United States. If we opened up Mexico, they may be made in Mexico. Today they are made in China, and Taiwan, and Korea.

Do we want to open up Mexico and have that a part of our region, have that one of the advantages of investing in this total market that we have a pool of low cost labor that shares this market with us? I think that is of great advantage.

Senator RIEGLE. Well, I will just finish by saying that I am concerned with what is going on in America. Now that may be an old-fashioned view in a global economy; and I am quite prepared to look at it in the context of a global economy. But if you have a situation where jobs that pay a middle class income are disappearing or are being reduced in number in this country and in creating all kinds of affects that go with that because either white shirts are produced in China or they are produced in Mexico, but they are not produced here, if you get that going in enough different industries at one time, you can have successful companies, but an unsuccessful country.

I think we are getting ourselves caught now in some of those cross currents and we do not have a good way to talk about it because we either take it sector by sector, company by company, association by association, Chamber of Commerce here, labor there, what have you.

I do not think we have an American strategy. I think we ought to have one. I can see how you are betwixt and between because you cannot just think in those terms. Because, in effect, you are driven by the actual realities of managing your business and your obligations to your shareholders that you cannot think about America first. You literally cannot. Because it runs up against other competing objectives that you are being measured against and being asked to perform against. So you cannot think about that.

Well somebody needs to think about it. I think the President ought to think about it. We ought to think about it. You ought to help us think about it. We spend very little time doing that. That is why that chart I had in here shows us headed for a \$1 trillion international debt.

We have a \$3 billion trade deficit with Mexico right now, today. Now I am not convinced it is going to disappear like magic if we have a free trade agreement.

Mr. BAKER. But the recent evidence shows that our exports are growing very rapidly with Mexico and that we have a favorable balance.

Senator RIEGLE. Absent a free trade agreement.

Mr. BAKER. I know.

Senator RIEGLE. If you give a free trade agreement, are you not going to find that you are going to have an awful lot of capital investment moving to Mexico?

Mr. BAKER. Well, we are moving more and more in these past 2 or 3 years toward free trade with Mexico, even though we do not have an agreement in place. The experience of those 2 years or what I am pointing out is it has been positive. It has been positive for the United States.

Senator RIEGLE. Well, we are upside down \$3 billion. You can add that to the rest of the world and it adds up to something just under \$100 billion on an annual basis. We are going down the drain and you are saying we are going down the drain a little more slowly than we were going down the drain before.

I mean, you know, if you can explain away the numbers in our debtor nation status then I am going to feel a lot more relieved walking out of this room. But you know very well from the industry that you are in—and the General Motors example I think is a relevant example—you have to take a look at how the whole manufacturing base is doing in this country.

And frankly, it is not doing all that well, precisely for the reasons that Mr. Whitmore talks about. We do not have a strategy to drive and accelerate a surge in high-value-added manufacturing in this country, and we need to unless we want to stop consuming. We do not have it. And we are not talking about it.

I admire the job you do because you have a very difficult job to do out there and you do it exceptionally well in your respective companies. But America needs a strategy that it does not have.

And somehow we have to get that debate going and not consider these little disconnected items such as free trade agreements here and there in isolation from this general difficulty in our basic economic system.

If we do not talk about it here, I do not know where we are going to talk about it.

Mr. BAKER. I could not agree with you more. Sometimes it is said that we do not want an industrial policy in this country, but we do have one whether we want one or not. We have one by default and it is not a very good one.

Senator RIEGLE. I thank the Chairman for his indulgence.

The CHAIRMAN. Well, I sure share that statement. I must say that you are seeing much more cooperation in many of the countries amongst government and business and labor, with an export driven philosophy; and this country has to come to that. There is no question about that.

I think there have been very interesting hearings thus far and we will have our next one on February 20. You fellows made a contribution. We thank you very much.

[Whereupon, the hearing was recessed until February 20, 1991, at 10:00 a.m.]



UNITED STATES-MEXICO FREE TRADE AGREEMENT

WEDNESDAY, FEBRUARY 20, 1991

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to recess, at 10:03 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Also present: Senators Moynihan, Baucus, Bradley, Rockefeller, Daschle, Breaux, Packwood, Chafee, Symms, and Grassley.

OPENING STATEMENT OF HON. LLOYD BENTSEN, A U.S. SENATOR FROM TEXAS, CHAIRMAN, SENATE FINANCE COMMITTEE

The CHAIRMAN. This hearing will come to order. This is the second of a set of hearings on the United States-Mexican Free Trade Agreement.

The first hearing showed, as we had anticipated, that you are going to have winners and losers in any kind of agreement that we finally bring forth. But what we have tried to do here in these hearings and with the witnesses that we have called on to testify is to give you a broad spectrum of opinion and people with expertise in the areas which they address concerning this agreement.

There has been no attempt to stack the hearings or present one side or one view, but to let you hear from the various interest groups on what they think they have at stake.

The first hearing pointed out that one of those groups that has serious problems is the group that has fruits and vegetables, that grows them on this side. They are concerned about the competition from across the river, an area with a much lower wage scale. A question too that was raised during the hearings was what happens insofar as cross border pollution, the firms between Mexico and the United States with the maquiladora and some of the concerns that arise therefrom.

I can give you a specific example at Laredo. Nuevo Laredo pumps 26 million gallons of raw sewage into the Rio Grande every-day, one of those things that we are trying to address together and trying to change, the two Governments, the United States and Mexico, working to bring about that kind of a change.

The other problem you have is one of infrastructure and having access to one another, the problem of bridges and railroads. To go down to Matamoros, Brownsville, to look at the situation there and the traffic that is stacked up trying to come across, to have it

where you have to wait 45 minutes to cross that bridge and that's at 11:00 at night, to see the long line of trucks stacked up and how much time it takes for them to cross and for them to be cleared, and to know that is an impediment to trade and that is added to the cost of trying to do business between the two countries—that is another area that we have to address. And there will be witnesses to discuss that and what has to be done.

We have a great deal to cover this morning. But before hearing from the witnesses I would like to ask other members if they have any comments.

Senator Moynihan?

**OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, A
U.S. SENATOR FROM NEW YORK**

Senator MOYNIHAN. Mr. Chairman, I have just one line of query which I would like to pursue with different witnesses, and that is that the problem I sense in this whole relationship is that this would be the first time we entered into a trade agreement of this kind with a country which was not really a political democracy, did not have a legislative process with an integrity of its own, and it is subject to all the ills that one-party governments have. Although it is not a one-party state.

Mexico was, I guess, the most unstable country in the Western Hemisphere during the second decade of this century and suddenly it became a stable society. It was one of those phenomenons. I mean revolution is easy; stability is hard. But it was the stability of a one-party government, for a long time a one-party state.

Although it is not strictly speaking an economic issue it is an issue of how agreements are worked out and kept. I would just like to hear from witnesses what they think the relevance of that issue might be to such an agreement and such an agreement might be to that issue. That is just a theme I will be asking questions about.

Thank you.

The CHAIRMAN. Certainly.

Senator Baucus?

Senator BAUCUS. I have no statement.

The CHAIRMAN. Senator Rockefeller?

Senator ROCKEFELLER. I have no statement.

The CHAIRMAN. Senator Packwood?

**OPENING STATEMENT OF HON. BOB PACKWOOD, A U.S. SENATOR
FROM OREGON**

Senator PACKWOOD. Thank you, Mr. Chairman.

I know as we discuss this issue we are inclined to think in terms of macro economics and macro issues. But I can bring it right home to Oregon where we have had some success with trade with Mexico in the last few years and it is growing.

In 1987 Oregon exported only \$19 million worth of products to Mexico. That had doubled in 2 years. And particularly where Oregon is doing well and can do better is in machinery, electronics, timber, lumber and agricultural products. At the moment, Oregon's agricultural, timber and horticultural industries are facing high

tariffs and exclusions in Mexico, which if this agreement is agreed to will go down.

And because of the counter cyclical era to growing, we do not expect any great problem in most of our agricultural industry from competition with Mexico at the time of our growing season and conversely we will be able to supply them at a time when they are not growing.

So from one small State standpoint, my State, in two of our biggest areas—timber and agriculture—we are convinced that this agreement would be a good agreement for the State.

Thank you, Mr. Chairman.

The CHAIRMAN. Yes.

Senator Symms?

OPENING STATEMENT OF HON. STEVE SYMMS, A U.S. SENATOR FROM IDAHO

Senator SYMMS. Mr. Chairman, I will be very brief. I just want to apologize for the witnesses, especially my friend Jim Kolbe. But I have another committee meeting that will require my presence this morning. So I will follow what happens here very closely and I am very glad to see this process moving forward.

Because I think as Senator Packwood stated for Oregon, I think it is true for most of our States that this has the potential of being a very good thing for the country and I would like to see it moved forward.

The CHAIRMAN. Thank you.

[The prepared statement of Senator Symms appears in the appendix.]

The CHAIRMAN. Senator Breaux?

Senator BREAUX. No statement, Mr. Chairman.

The CHAIRMAN. Congressman Kolbe, we are very pleased to have you. If you would come forward.

STATEMENT OF HON. JIM KOLBE, A U.S. REPRESENTATIVE FROM ARIZONA

Congressman KOLBE. Mr. Chairman and members of the Committee, thank you for allowing me this opportunity to appear before you today to comment on the prospects of a free trade agreement between the United States, Mexico, and Canada. I would ask that my complete statement be entered into the record as if read.

The CHAIRMAN. Without objection that will be done.

Congressman KOLBE. First, let me just express that it is my hope that free trade between the United States and Mexico will someday be realized. We have clearly passed the conceptual stage. It is now a solid proposal with solid backing.

The President recently endorsed a Free Trade Agreement in his State of the Union Address.

The Canadians are expressing their consent to join the trade alliance, and their desire to be a part of a broader, more prosperous North American trade community.

The Mexicans have tailored their economy, their responses to environmental concerns, their treatment of the GATT talks and their entire foreign policy on the success of free trade negotiations.

These hearings today, both in the Senate Finance Committee and the House Ways and Means Trade Subcommittee, demonstrate Congress' interest in exploring this issue.

There are those nations in Asia that seem to be going down the same path as well. I think it is obvious that regardless of what happens to GATT—and I do firmly believe that multilateral negotiations are very important—these kinds of trading arrangements, regional trading arrangements, are going to go forward.

I think the United States ought not to put itself in a position of comparative disadvantage simply because we did not take what I think is the very obvious next natural step for North America, and that is the North America Free Trade Agreement. So let us focus for a moment on North America.

We are looking at a trading community that encompasses more than 360 million people, a GNP of close to \$6 billion, trade flows—north-south trade flows—that total more than \$225 billion. I think those are impressive numbers on which we can build the case for freer trade between the countries of this region.

Let us take a look though at how the United States would stand to gain from this. After all, none of us on this committee, in the Senate or in the House of Representatives is going to support an agreement that does not benefit U.S. industry and its work force. I certainly would not do that.

But the International Trade Commission's recent report, I think, gives us a starting place for reviewing benefits for the United States. The ITC said that a free trade agreement with Mexico "will benefit the U.S. economy overall by expanding trade opportunities, lowering prices, increasing competition, and improving the ability of U.S. firms to exploit economies of scale." Keep in mind that this was prior to the inclusion of Canada in comprehensive North American free trade talks.

Well what does that mean? The North America Free Trade Agreement boils down to this, U.S. industries and specific firms are going to be able to offer a wider array of products to a lot larger number of people at reduced prices, and American exports are going to increase substantially.

Exports I think many of us now realize will be the best medicine for the coming decade—to avoid a prolonged recession, to get a new expansion, to stimulate a new expansion and to help reduce the budget deficits we have in this country.

Mexican consumers are hungry for U.S. exports. Senator Bentsen, you know very well from being along the border the number of people that come across the border and shop in the United States. They do have a propensity to buy American products and use American services.

Right now only Canada and Japan exceed Mexico's consumption of U.S. goods and services. Two-thirds of current Mexican imports come from the United States. These are not coming just from border States. Just a couple of figures—New York, \$760 million worth of goods to Mexico in 1989; Pennsylvania was \$424 million; Colorado had \$89 million in exports; Georgia exported \$213 million of goods and services to Mexico.

When you translate that roughly \$50,000 in exports equate one job, you get some idea of the magnitude of jobs in the United

States that are directly related to the trade we currently do with Mexico, not to mention what we might be doing potentially in the future.

With an agreement that is structured to reduce trade barriers, I think we can see a market which is going to be much greater, that will benefit tractor producers in Illinois, apple growers in Washington, grain producers in Kansas, Nebraska and Iowa, and auto manufacturers in States such as Michigan and Ohio.

Now the argument is often raised that an FTA is only going to exploit the Mexican work force. I am further puzzled by opponents who claim that an FTA will not benefit either the United States or Mexico because Mexican workers cannot afford to buy American products. I think we ought to give more credit to the Mexican Government than this.

President Salinas is not going to endorse an FTA if he knew it would result in the exploitation of Mexican workers or if he believed it was not going to increase the standard of living for his country. I think that was made very clear in the International Trade Commission's report that it will benefit his country, but it will also benefit ours.

You will be very shortly seeing a new Peat Marwick study that will describe the overall wage bill and it will suggest that the wage bill for the United States is also going to rise with the long-term implementation of an FTA with Mexico and Canada. In other words, it will increase wages in this country as well.

We are going to be hearing a lot of other issues that are going to be addressed during these free trade negotiations. We are going to be hearing about immigration; we are going to be hearing about infrastructure problems; we are certainly going to be hearing about drugs. I would suggest to you, those issues are important. They need to be addressed. But they should be addressed collaterally on the same category as the other issues, but not inside of a free trade agreement.

If I might, Mr. Chairman, let me just take one moment to address the question that Senator Moynihan raised, and that is the difference in the political systems in our two countries. There is no question they are different. There is no question that Mexico does not have the same level of democracy that we have in this country.

But I think it is instructive to note that Mexico has approached this issue differently than Eastern Europe or the Soviet Union, where they tried to go to the political changes first and have had difficulty making the economic changes.

President Salinas has clearly decided that if he makes the economic changes, the political changes will follow. And we are seeing that with a much broader opening of the political system in Mexico. I think you will continue to see that in Mexico as the economic system opens up and more people are able to participate more fully in the economic system.

In conclusion, Mr. Chairman, let me just say that I am committed, as I think all of us are, to improving the standard of living in the United States to improving relations with Mexico. The Mexican Government has clearly made more progress on the economic front in the last 5 years than they have in the last 50 years. The continuance of this progress depends on a North American Free Trade

Agreement between the United States, Mexico, and Canada which will benefit all of our countries.

Thank you, Mr. Chairman.

The CHAIRMAN. Congressman, thank you very much for a very forthright statement and obviously a very deep feeling concerning this issue.

I have no questions.

Are there members that would like to ask questions? Yes, Senator Moynihan?

Senator MOYNIHAN. Mr. Chairman, I would like to thank Representative Kolbe for a very thoughtful and responsive statement. I think that characterization of President Salinas is a very subtle and very important one. I certainly hope it proceeds as clearly it would be his wish.

I made the point about the previous 50 years and I do accept the point about the past 5. I thank you, sir.

Congressman KOLBE. Thank you, Senator.

The CHAIRMAN. Thank you very much for your testimony. It has been very helpful.

Congressman KOLBE. Thank you.

[The prepared statement of Congressman Kolbe appears in the appendix.]

The CHAIRMAN. Next we will have a panel consisting of Mr. Lornbusch, who is Ford International Professor of Economics and Mr. Jeff Faux, who is president of the Economic Policy Institute, Washington, DC.

If I have mispronounced that, please correct me.

Mr. FAUX. That is just right. Thank you.

The CHAIRMAN. Thank you.

Mr. Dornbusch, if you would proceed.

STATEMENT OF RUDIGER DORNBUSCH, FORD INTERNATIONAL PROFESSOR OF ECONOMICS, MASSACHUSETTS INSTITUTE OF TECHNOLOGY, CAMBRIDGE, MA

Professor DORNBUSCH. Thank you, Mr. Chairman, for the opportunity to present to this committee my views on the United States-Mexico Free Trade Agreement. I would urge the Congress to sustain the fast track authority without which an agreement cannot be meaningful and negotiated, and to support the ultimate outcome.

I believe a Free Trade Agreement will create in the United States more jobs and better jobs, that it will rapidly advance democratization and economic progress in Mexico, that it will be an important means to stabilize Central America, and lastly, that by now it is too late to turn back without major damage. I want to briefly comment on each of these points.

The United States is already a wide open economy. Mexico has special access under the general system of preferences and as a result of the Maquiladora program. Competitive effects of a free trade agreement with Mexico would be extremely limited on the import side to very few areas very strongly protected. The ITC has identified inexpensive household glassware and goes down very, very narrowly when one looks for damage.

On the other wide, of course, are areas like automobiles, chemicals, where Mexican quotas stop U.S. exports today and that list is very significant. We will get better jobs as a result of an opening with Mexico. An opening has to be a two-way street, of course, because in some form Mexico will have to pay for the increased imports from us.

I also believe—and that is perhaps the far more significant part of a trade agreement—that it will reinforce confidence in Mexico's reforms; and as a result speed up the return of flight capital. I estimate some \$100 billion of Mexican capital abroad, that capital will allow Mexico to invest, to grow, to import and in the normal course of the 1990's run trade deficits of 2 to 3 percent of GNP.

That would mean an extra 150,000 jobs in the United States. We focus too much on the jobs lost in glassware and we do not focus on the jobs created as Mexico stabilizes and grows. I also want to emphasize in the context of jobs that we paid too much attention to the Mexican wage.

Numbers are quoted of 51 cents per hour that have absolutely no basis in any source you will find, United States or Mexican. The U.S. Labor Department reports hourly compensation of \$2.32. Mexican statistics support that at very disaggregated levels and even at the firm level.

We also do not pay attention to the experience we have had already in textiles, where when Mexico opened up U.S. textile exports to Mexico boomed because the quality was so far superior to what is available in Mexico. Quality is an important dimension, because we are to Mexico what Japan is to the United States. That means we have a very privileged trade position.

On the side of democracy, worker's rights, safety standards and the environment, an enormous amount of work has to be done. But we have to ask what is the better way of making headway, to send Mexico back where it was 10 years ago or to have Mexico sustain the reforms and move ahead. All the experience we have is that open economies are democratic economies. And the more open they are, the faster we have democracy.

We do not apply in trade policy a rule that our tariffs are proportional to their democracy. Because Japan surely would deserve a 100-percent tariff and China a 1,000-percent tariff. We really want to ask: What is the best way of promoting democracy, sustaining the modernization underway, will it raise Mexican wages back to where they were in 1980 and it will decentralize the economy as is already obvious; and that is the basis for democratization.

I do believe the environment is an important issue. It calls for borderline commissions where there are specific local issues and it needs a North Atlantic Environment Treaty parallel, but apart from the free trade agreement. We cannot overemphasize the need for it, but surely we will not want to put it in a free trade agreement.

I want to make two more points. Central America, after the disappearance of Communism, has disappeared from U.S. interest and is in terrible trouble. Mexico has started stabilizing Nicaragua directly with money and with expertise. If we have a prosperous Mexico, Central America will be looked after by Mexico. Migration

will stop there. We do have an interest that Mexico gets ahead as a buffer for the migration pressure and the instability in the south.

Finally, I want to say that today, going back on the free trade agreement, the talk of it, the prospect of it, the fact that it is a cornerstone of Mexican modernization, would send a very dangerous signal to Latin America, that trade opening and modernization is the wrong strategy. For the United States that would be far, far more significant a failure than the recent failure of the Uruguay Round.

Thank you, Mr. Chairman.

[The prepared statement of Professor Dornbusch appears in the appendix.]

The CHAIRMAN. Very interesting.

Mr. FAUX?

STATEMENT OF JEFF FAUX, PRESIDENT, ECONOMIC POLICY INSTITUTE, WASHINGTON, DC

Mr. FAUX. Thank you, Mr. Chairman. I, too, would like to summarize my statement.

I believe that North American economic integration is a worthy goal, but the version that is being proposed by the administration will do more harm than good, especially if we put it on the fast track.

The basic economic case for the free trade agreement with Mexico is that while some workers will lose from imports, others will gain from exports. That is the core argument in favor of this proposition.

But if you look at it carefully, and particularly if you look carefully at the ITC study, International Trade Commission, you will see that this argument has a number of major economic holes.

First, the potential losses have been clearly understated in the debate. Even the authors of the ITC study, who begin by favoring a free trade agreement, tell us that there will be a loss of real income among 73 percent of American workers. They divide the work force into unskilled and skilled workers and then tell us that there will be real income losses for those they define as unskilled, which works out to about three-quarters of all U.S. workers.

The benefits of this agreement, we are told, will come chiefly in the form of cheaper consumer goods for upper income earners and for shareholders in certain financial corporations. So the ITC report tells us that the FTA will result in a shift of income from one section of the American population to another.

But I would submit, sir, that this still understates the potential losses. The report makes the unrealistic assumption that there will be no significant increase in investment by U.S. manufacturers to Mexico. Therefore, there will be no shift of jobs.

Given the wage differentials—and we could spend hours arguing exactly what they are—it strains credibility to think that, for example, the big three automakers, would not move production to Mexico as relocation decisions come up.

The ITC study also tells us that the wage gap between the United States and Mexico will not appreciably narrow. So if you look at the study carefully you find that it provides a damaging

case against the administration's proposal, which clearly puts at risk the standards of living of large sections of the American work force whose real wages have already been declining steadily.

Unlike Western Europe, Mr. Chairman, where workers who are displaced by trade impact receive generous retraining and relocation and other adjustment benefits, and where communities are given economic development assistance, the United States at this point has no real economic safety net for affected workers and communities.

Indeed, the administration has signaled its intentions by eliminating the already meager trade adjustment assistance in this year's budget request.

The ITC report also tells us that claims that rapid growth in the Mexican economy will create many new jobs here are unrealistic.

The ITC report tell us repeatedly that growth in U.S. exports are going to be relatively small over the next 20 years—a tiny proportion of our gross domestic product. It is clear that for most American corporations the question is not access to the Mexican market. What is at stake here is access to cheap labor and to the lack of environmental regulation. Thus, this proposal in the long term is going to encourage American firms to resolve their competitiveness problems not through innovation and more investment, but through low wages and by avoiding the cost of environmental protection.

Why would any rational manager, when a relocation decision comes up, think twice about moving to Mexico when those goods produced in Mexico with cheap labor could come right back into the United States. It is quite clear that this will open up an investment opportunity for U.S. manufacturers to go south.

Finally, I would say that the fast track makes sense when we are negotiating a minimum-risk GATT agreement with 100 countries. But it is a different case when we have just two neighboring countries to deal with, and the risk of making a major economic mistake. This risk outweighs any discomfort involved in putting the agreement on a normal track for approval by the Congress.

Thank you.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Faux appears in the appendix.]

The CHAIRMAN. Well, Mr. Faux, one of my very main concerns is that whatever agreement we have results in the net increase in good jobs in this country—net increase. And that is a concern in Mexico too. Unless we can put it together where it results in that, we should not have such an agreement. I happen to believe that we can bring about that result with appropriate negotiations.

You posed the question of why wouldn't a U.S. company go to Mexico under those kinds of conditions. Some of them will. There is no question about that. But there are other problems. And while we get concerned about the infrastructure on the border, the infrastructure in Mexico does not compare with what it is in this country. That is one of the big liabilities for companies moving down there; and it will not change for a long time.

And then you get some of these actions—I was talking to a company down there that had a chemical plant. They were telling me that the Mexican Government issued an edict, told them they had

to move and move out of Mexico City in 2 years. And they put multi-millions into their plants. So those are the kinds of problems that they run into there.

When you look at Mexico City, where I am told that living there is the equivalent of smoking 2½ packs of cigarettes a day with the incredible pollution that is taking place and some of their problems.

But let me ask you, Mr. Dornbusch, because I have been told that the wages down there are one-seventh of what they are in this country on the average; and then I have had the AFL-CIO testifying it was even more of a difference than that. And I think I heard you come up with, was it a figure of \$2.40 an hour?

Where do you get that number? I have never heard a number that high.

Professor DORNBUSCH. Well, I quote the U.S. Department of Labor, report number 794, which is available to everybody, published in the "Bureau of Labor Handbook of Labor Statistics." It is the source that you would expect anyone who quotes numbers to go to first. But you can also get numbers from the Mexican statistics.

There is absolutely no question that labor compensation in Mexico is the thing that starts with a one at the front and then depending on what the industry is. And it mirrors what happens here, that automobiles are in Mexico, just as here, a high-wage industry, in part because they are unionized.

The CHAIRMAN. What do you think would be the big winners in this country with FTA?

Professor DORNBUSCH. Automobiles, chemicals, certainly airplanes. You make a long list of the things—capital goods. Mexico has not invested for 10 years. Business services.

The CHAIRMAN. Well, anything that is capital intensive, I suppose, we would be a winner on. But then those things that are labor intensive, I assume, then a lot of those we would be losers.

Let me ask you—

Professor DORNBUSCH. It would be a very good thing if we could have some co-production with Mexico so that some very labor intensive tasks that do not need specialized equipment can be performed there, saving costs that allow you to pay higher wages here.

The CHAIRMAN. All right.

Professor DORNBUSCH. If we do not have that, the job will go to Thailand. That has been the experience of the last ten years.

The CHAIRMAN. All right.

Let me ask Mr. Faux one. Because when you talk about the major increase in imports from Mexico, why do you think that when as I understand it, with the Maquiladora program and with GPS you have approximately half the goods coming in here tax free. Why do you think we would run into that kind of a problem?

Mr. FAUX. Several reasons, Mr. Chairman.

First, if you look at the experience of Maquiladora, which started 20 years ago primarily as a garment manufacturing operation, you will see that over the last 20 years an increasing proportion of their production has been in higher skilled output. Less than 10 percent of the production from the Maquiladora is now in apparel.

So the first point is that the loss of jobs will not be limited simply to a few garment manufacturers and a few firms in foot-

wear. What we have seen in this experience is that the lure of low wages extends way up the value-added ladder.

The CHAIRMAN. Now I think that is right. But I am looking at the exports from the United States. We did about \$60 billion worth of trade with Mexico last year and imports were around \$31 billion and we exported about \$29 billion. That is a pretty close, even deal. And a very substantial amount of the articles we exported to Mexico were manufactured products. My own State exported \$10 billion to Mexico.

Mr. FAUX. But what the ITC study tells us is that most of the gains from trade liberalization have already been captured. We have been experiencing the positive effects of trade liberalization that occurred in 1985 and 1986. The ITC study tell us that the gains from now on will be very, very slender. I think that is one of the most important things that the report has to tell us.

We cannot assume that the growth of exports over the last 5 years will continue.

The CHAIRMAN. Thank you.

I see my time has expired and I call on the Ranking Member, Senator Packwood, for any comments he may have.

Senator PACKWOOD. Mr. Faux, what is the Economic Policy Institute?

Mr. FAUX. It is a non-profit economic research institute. We have been in business for about 5 years here in Washington.

Senator PACKWOOD. Out of curiosity, what is your principal method of funding?

Mr. FAUX. Our principal donor is the Ford Foundation. We have money from foundations, from labor unions and from business associations.

Senator PACKWOOD. Now you said in your statement it would be particularly dangerous to do this under the fast track authority. What is the particular danger or unique danger of doing it that way?

Mr. FAUX. This is a complex issue which has already made for a confusing debate. The particular agreement that you have in mind, that Senator Bentsen has in mind, or Senator Moynihan has in mind is different, than the agreement that I have in mind or Professor Dornbusch has in mind.

Number two, the administration has, I think, demonstrated a lack of concern for some of the important issues that many people are concerned about, such as labor standards and the environment, or exactly what happens when third countries try to use Mexico as a basis for getting their goods into the United States.

The fast track process will not allow thorough analysis and debate of the administration's proposal. We had a great deal of difficulty, trying to get the numbers that underlie the ITC study last week. We called them up and said, "Well, how did you reach these conclusions?" And they told us they were not giving us any numbers, that we would have to file under the Freedom of Information Act in order to get them.

On the fast track, every day is important and this is too complicated a question, I believe, for such a short period of debate.

Senator PACKWOOD. The fast track is not a short period of debate. We will have a whale of a debate on this by the time we finish. But

how would this country, let alone another country, agree to enter into a trade agreement where there is going to be a lot of give on both sides and a lot of political down sides on both sides if at the end of it you are reasonably convinced without the fast track authority one or the other of the countries is going to turn it down.

Mr. FAUX. Well, I think what is going on to some degree is public bargaining. If the fast track was turned down it is not clear to me that that would be the end of the discussion.

I personally believe that North American economic integration is in our future; and I think that the Mexicans and the Canadians and we here have a responsibility to fulfill that destiny. But I think the fast track for this proposal negotiated by an administration who is clearly indifferent to some important problems is just not the process.

If fast track was denied we would be back in another year talking about another better agreement; and we would get it through. Most things go through the Congress without fast tracks.

Senator PACKWOOD. Professor Dornbusch, you said in your statement "bringing Greece or Portugal into the common market is no different than a free trade agreement with Mexico." Has there been a flight of industry to Greece to Portugal—the lower wage countries—in the European community?

Professor DORNBUSCH. It is certainly true that Greece, Portugal and Spain have industrialized and that industries like textiles moved. But those industries have left now, and have gone to Turkey. What has happened in those countries is a radical up-scaling of value-added to quality products. But the significant part is that those countries now, as a result of being in the common market and having access to financing, having political stability, run large trade deficits year after year. That Spain's imports increased by 30 percent per year and the exports only rose by 20 percent. That is the difference that translates into jobs.

In the last 2 years Mexico's non-oil manufacturing balance shifted by \$3 billion in our favor. That means 100,000 jobs here. We cannot accept that we have a caricature of a free trade agreement where it does a tiny little bit to our GNP on the export side and devastates us on the import side. That means Mexico has a \$50 billion trade surplus that will become like the oil producers in the 1970's. That is just nonsense.

Senator PACKWOOD. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

And now let me return to the order of arrival. Senator Moynihan?

Senator MOYNIHAN. Mr. Chairman, I am not going to persist exclusively in this theme. But it just interests me and if I can discuss it for a minute.

Professor Dornbusch and Mr. Faux, I just wonder about the terms of adjudication, if I could introduce that into the language of trade agreements. I am looking at the Freedom House Survey for the current year. I guess it is for 1989-90. And the world looks up. It is the most cheerful one I have seen and read in 20 years. It puts Mexico down as a partly free country.

But then you have this passage, for example, it says, "Although it is nominally independent, and the Supreme Court is empowered to rule on certain constitutional issues, the judicial system is weak. In many rural areas, security forces ignore the rule of law. Lower courts and law enforcement in general are undermined by widespread bribery, as is the State bureaucracy. Drug related corruption remains evident within the military, police and security forces, as well as in a number of state governments, despite Federal efforts to improve it."

I am talking about torture. You know, we have a lot of problems in our country. By in large torture is not one of them. I just ask you, this is a better condition, God knows, than a century ago. The PRI is conceding the right of opposition, but the great event in Mexico was the discovery that you could produce in a Latin culture the willingness to step down after having held power. And then they developed this council of ex-Presidents and so forth. It was a great invention, the onset of stability. That is the unusual event in the world; upheaval, revolution is the routine.

But it came at the cost of a one-party State and a judiciary subservient to that one party. Now if you look at the Canadian agreement, we are doing very well, but it is full of daily discussions about whether that potato came from Prince Edward Island where there is a virus and so forth; and, you know, we work it out.

I will ask you first, sir, and then you sir, will we not have that problem of adjudication? Would you not foresee it?

Professor DORNBUSCH. I would think that if we have a free trade agreement it becomes impossible in Mexico to maintain the institutions that are there now. They will have to do business the American way—in business, in administration and in politics. And it will hasten the opening very dramatically.

That was the experience in Greece where democratic governments—

Senator MOYNIHAN. In the EC.

Professor DORNBUSCH. Alternated in the EC with dictators, it was the experience in Spain and will be exactly the same in Mexico. It is totally clear that in business it is already happening and in politics it is happening. For the first time Mexico will have a ballot in the primaries in one of the States.

Senator MOYNIHAN. I am not disagreeing with you.

Professor DORNBUSCH. Adjudication will be very easy. In fact, it may be easier now than it will be in 2 years when Mexico is more democratic.

Senator MOYNIHAN. Sir.

Mr. FAUX. I think this is a very important point. The first point that I would make, Senator, is that the issues that we are concerned with—labor standards, environmental standards, et cetera—in the United States are not secured for us simply because the government decrees it.

What maintains environmental standards here, what keeps child labor laws from being violated, is the existence of independent institutions—institutions that are independent of government. Without a strong environmental movement in the United States—

Senator MOYNIHAN. Independent of the Executive. They are part of government.

Mr. FAUX. Yes.

Senator MOYNIHAN. Be clear.

Mr. FAUX. Without a strong environmental movement in the United States we would not have the environmental protections that we have.

Now I would hope that Mexico evolves into a country where there are strong independent environmental groups; where labor unions are independent and can blow the whistle.

Senator MOYNIHAN. The most powerful labor unions in the world are in Mexico and they are also the most corrupt.

Mr. FAUX. Yes.

Senator MOYNIHAN. I am talking, sir, about the Judiciary; I am not talking about civic movements.

Mr. FAUX. But I think, Senator, that they are related. That is, in order to pressure the Judiciary, in order to bring the suits, in order to be independent, you need this kind of political culture. And I think it does not exist in Mexico. The analogy to the European Community I think is too glib.

It took awhile for the Europeans to accept the changes that went on in Greece and Spain. They were very careful. There was no fast track.

Senator MOYNIHAN. Thank you very much, sir.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Rockefeller?

Senator ROCKEFELLER. I have no questions.

The CHAIRMAN. Senator Breaux?

Senator BREAUX. Thank you, Mr. Chairman. I thank the witnesses for their testimony.

Mr. Faux first, and then I guess Mr. Dornbusch, if you have a comment about it. One of the things that the Federal Trade Commission's report got into, the ITC rather got into, was a question of energy between the two countries and trade in that area.

One of the things they pointed out was the major deterrent on energy products being traded back and forth is Mexico's constitutional ban on the United States and any other foreign investment in their energy sector, operated solely by the national oil company, Pimex.

It is my understanding that this is one of the areas that the Mexico negotiators have said we are not going to negotiate on. I guess what I am trying to find out is: What does this mean? Does this mean if a Free Trade Agreement were to be adopted that Pimex folks would be able to invest in joint ventures or do energy type of investments in the United States, but that we would not have the right to do that in their country if they do not negotiate on the energy question?

Mr. FAUX. That would certainly seem to be one possibility. We do not really know what is going to be in this agreement. If the Mexicans refuse to put the oil industry on the table, then clearly the notion that the United States will gain access to development of the Mexican energy industry becomes a non-argument in the discussion.

Senator BREAUX. Mr. Dornbusch, do you have a comment?

Professor DORNBUSCH. There are two issues that are probably prudently kept out of an agreement. One is unrestricted migration which the Mexicans would insist on; and the other is unrestricted exploitation of Mexican oil that we might want.

Senator BREAUX. But under a free trade agreement, is it not a one-way street if we have a free trade agreement which would allow them to invest in the U.S. energy?

Professor DORNBUSCH. Goods and services. Migration is a labor service. So take both off and ask where in energy do we cut off and say, "Your constitution does not allow it." That may mean that we only have leasing of oil drilling. We certainly should have downstream chemicals totally liberalized in trade.

Senator BREAUX. Back to my basic point, under your understanding, if they continue in the same position of not wanting to negotiate on energy, would our companies be able to invest in their energy sectors in Mexico?

Professor DORNBUSCH. I think that they have not said that they will not negotiate on energy. It is open where they cut off. I am sure that drilling holes will not be negotiated.

Senator BREAUX. Well, right now, as I understand it, according to ITC, there is a constitutional ban on foreign investment in any energy sector in Mexico; is that correct?

Professor DORNBUSCH. But the energy sector is undefined. That means that a substantial amount of progress can be made. And our insistence that anything that is downstream after the oil comes out of the well should be open to trade. That leaves separate whether oil drilling will be negotiable or not.

Senator BREAUX. You are saying we might be able to sell them gasoline?

Professor DORNBUSCH. Well, certainly. Certainly.

Senator BREAUX. But no investment in any other energy sectors?

Professor DORNBUSCH. Even that is open under leasing arrangements.

Senator BREAUX. Okay.

Professor DORNBUSCH. The ownership of oil wells by American petroleum companies in Mexico I would not try before the democracy has happened. But it is literally at that far end where the issue is hot.

Senator BREAUX. Mr. Faux, you pointed out in your testimony that the ITC says that unskilled workers in the United States would suffer a slight decline in real income. But that skilled workers and owners of capital services would benefit from the lower prices and thus enjoy increased real income.

From your understanding and the ITC's use of the word "unskilled workers," what percentage of the work force of the United States are we talking about?

Mr. FAUX. The numbers we got from the ITC add up to 73 percent of the work force. So this represents a decline in income and we do not know what they mean by "slight decline." They have not give us those numbers.

But even under their most optimistic assumptions, there will be a shift in income from three-quarters of the labor force to the one-quarter at the top. And the benefits at the top are primarily in

terms of cheaper consumer goods. So we are talking about a large chunk of the American labor force here.

Senator BREAUX. The one thing I am trying to get a handle on, Mr. Dornbusch, and you've talked about it as a matter of too much emphasis being placed on the wage differentials between the two countries. It is difficult to get a handle on the wage differential question when you have two-handed economists saying on the one hand this, and on the other hand that. You are saying that the wage differential is not that large; other statistics show that the differential is as much as 10 percent of the U.S. wage level, and the Commerce Department is saying that it is probably going to be a wider gap by 1994.

I mean, how are we supposed to decipher all of this and come up with the real answer as to the differences in the wages, and what the importance of that happens to be?

Professor DORNBUSCH. I would like to say three things. First, the statistics are routinely reported on a comparable basis for 20 to 30 countries, including Mexico. They are reported and have been for years by the Labor Department. So that is the first place to look.

Second, do a survey of what U.S. corporations pay in Mexico. Surprisingly, it is exactly the same as the Labor Department comes up with. So I assume it is around there. Compensation includes overhead, Mexico's social fund. The firm asks not what the man takes home, but rather what it costs. Overhead is very substantial in Mexico.

Second, we have survived Puerto Rico. Puerto Rico is a low-wage region—\$5.70 an hour on those basis. Right? It is not true that all of industry has gone to Puerto Rico.

Third, the view that Mexico is a situation where a 13-year-old girl works the night shift to her ankle in toxic waste at 50 cents an hour is just not a reality. It is also true that if they do not have trade access to the United States then it could become the case because they would be far, far poorer and the environment would be worse, the wage would be worse, and we would have a real problem.

In 1980 Mexican wages were \$3 an hour. Today, they are much less. They were \$3, and they will be \$5 at the end of the 1990's with a trade agreement. Without, I think we will have a serious grief.

Senator BREAUX. Mr. Chairman, could I get Mr. Faux to respond also?

The CHAIRMAN. I beg your pardon?

Senator BREAUX. Can I get Mr. Faux to respond also?

The CHAIRMAN. Yes.

Senator BREAUX. You had pointed out the wages you thought were on the order of a 10 to 1 difference.

Mr. FAUX. Yes.

Senator BREAUX. What is your comment?

Mr. FAUX. I think that there are so many different estimates here. But it is clear that somewhere around 7 to 1, 8 to 1, 9 to 1, is a realistic estimate of the wage differentials. It is also instructive to again look at the innards of the ITC report which tells us that at best the gap will narrow about 18 percent.

So even if it is roughly 7 to 1, or something like that, we know there will be only a minimal reduction in the gap as far into the

future as the ITC can see. This is because of the huge labor force that exists in Mexico.

Senator BREAUX. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Dornbusch, I would like to follow up a little bit on this line of questioning, particularly Mr. Faux's point that 73 percent of the labor work force in the United States will suffer a decline in real income and correspondingly that 27 percent will experience an increase in real income.

What about that? I mean are we talking generally about averages here or that on average there is a net gain for some, but for 73 percent of the American work force there is a net decline?

Professor DORNBUSCH. I do not believe for a minute—and I think Mr. Faux also would not quote it as his favorable number—that 73 percent of American labor are unskilled. He quotes the ITC on that. He does not quote studies of his own.

Free trade with Mexico means that in certain protected areas we are going to get cheaper goods. Inexpensive household glass is not consumed primarily by corporate executives. Inexpensive textiles are not primarily consumed by executives. So the consumption effect is totally at the bottom end. We will be better off. We will lose some jobs.

If we look at a 10-year period, that is the transition before we even have the full effect of an agreement, surely if we get a lot of good jobs at the top end the problem is not to protect the bad ones so we keep and keep them and get immigrants to come into them, but rather to get some goods jobs and then think of how to move people.

Senator BAUCUS. I am asking you to address the ITC report. Do you disagree?

Professor DORNBUSCH. Yes. I think the 73 percent unskilled labor number is totally unreasonable for the United States.

Senator BAUCUS. Why is that totally unreasonable in your view?

Professor DORNBUSCH. If you will have a look at Table 2 in my prepared statement it shows the industries that the ITC singles out. You will have electronic equipment, for example. It will be very hard pressed to argue that that is predominantly unskilled labor.

Automobiles, for example. If you look at the textile sector, there is unskilled labor. But the textile sector is an export industry. We have already seen it in the last 3 years. We run with Mexico a surplus in textiles and garments. We do not have a deficit; we have a surplus.

Senator BAUCUS. Let me let Mr. Faux address that.

Mr. FAUX. Yes.

Senator BAUCUS. You hear Mr. Dornbusch saying that automobile, and particularly, I guess, consumer electronics, are really not unskilled, more skilled labor. He is disagreeing with the analysis of the ITC.

Mr. FAUX. He is disagreeing with the term. You see, the ITC, the language of the ITC report, says that unskilled workers in the United States will have their real income reduced. Now the impor-

tant here is that category of workers. They could have called them semi-skilled. They could have called them anything. But it is a category of workers that represent 73 percent of the American labor force.

The issue is not whether those people are skilled or unskilled at anybody's judgment.

Senator BAUCUS. What about Mr. Dornbusch, the statement that the issue is not category but where they lose income.

Professor DORNBUSCH. We can say that anyone except the top 80 percent are in the group where jobs will be lost. And I do not know where we can cut off the axe.

But if you look at my handout you have the hourly compensation of the people.

Senator BAUCUS. Let me ask this question: In your view, if it is not 73 percent of the workers, will more Americans experience real wage income increase or will more Americans experience real wage income decrease as a consequence of this?

Professor DORNBUSCH. Of a 10-year period, which is the phase-in period for any reasonable trade agreement, we will have a very significant gain in real wages as a result of the agreement. There is absolutely no question about that.

Senator BAUCUS. Okay. Another question quickly. Which sectors of the American economy win, which ones lose under this agreement?

Professor DORNBUSCH. If you will have a look in Table 2 of my statement.

Senator BAUCUS. Very briefly.

Professor DORNBUSCH. I have pluses and minus. Automobiles, big gains; textiles, big gains; chemicals, big gains.

The problem areas: fruits, vegetables, people consume them even at the low wage end; inexpensive glass; garments. The garments because we will export the textiles but make it possible to do the garments there.

Senator BAUCUS. Okay. Mr. Faux, your winners and losers?

Mr. FAUX. Certainly, garments, fruits and vegetables are losers. I believe that automobiles will be losers; I believe that textiles will be losers. I think that 10 years from now you are going to see a large part of the production of the big three shifted to Mexico. I think that is the clear implication of the ITC report.

I think it is just completely unrealistic to assume that this huge wage gap between ourselves and the Mexicans will not induce investment down there by U.S. manufacturers.

Senator BAUCUS. Mr. Dornbusch, why not include environmental matters in the free trade agreement? After all, they do have economic consequences and there is no national environmental framework and we cannot wait 10 years for one to come into existence. Why not include environmental matters in the free trade agreement?

Professor DORNBUSCH. Environmental matters should be settled in a North Atlantic Environmental Treaty that deals with it on a much broader issue, including municipalities, not only corporations, all the set of issues, first the technical conference, then an agreement, separate free trade, which just means all barriers come down. Which is a totally separate issue.

Senator BAUCUS. You have not addressed my question. My question is: Because environmental matters do have economic consequences, why not address them in the free trade agreement?

Professor DORNBUSCH. But democracy also has economic consequences. We do not include rights to go to church that have economic consequences. It really is an effort to make Mexican—

Senator BAUCUS. What do economic consequences have to do with the right to go to church?

Professor DORNBUSCH. If you look at how it is handled in Europe, where we have a political union, even there environment and worker standards are handled parallel, but separately from Europe 1992. So I would draw attention to that experience. It probably allows you to make more rapid progress on the environment.

Senator BAUCUS. My time is up, but it is my view that these issues are converging much more quickly than a lot of us would like to have them converge. That is, we may not have the luxury to wait as long as you and others may want to wait.

Professor DORNBUSCH. I want it faster. That is why I want it initiated separately. It is easier, politically, in the United States to do the environment, than to do the free trade.

Senator BAUCUS. I do not know what leverage we have in other countries if not in terms of trade.

Professor DORNBUSCH. If you do it first, you will have a lot of leverage.

The CHAIRMAN. Senator Grassley?

Senator GRASSLEY. Thank you, Mr. Chairman.

Do either of you have any views on the free trade agreement with Mexico as it interacts with the present GATT negotiations? For instance, should GATT be completed before we start on the free trade agreement with Mexico; or do you think it will make any difference. I would like to hear your point of view.

Professor DORNBUSCH. I believe that the GATT agreement is too difficult to bring about in the near future and does not address primarily the manufacturing issues that are very, very important in the context of Mexico; and that in services it may be much, much less sweeping than what we want from Mexico.

So with Mexico the agreement must be much more far reaching and therefore should be set ahead rather than become a GATT style agreement of a few items left over. I would like to see Mexico go ahead as we pursue GATT with whatever success we may have there.

Mr. FAUX. I think they are basically separate questions. The issue with Mexico is as much a development issue for the North American Continent as it is a trade issue. The considerations that need to be included in such an agreement are much broader than anything we could have in a GATT treaty.

Senator GRASSLEY. Okay. I thank you for your answers, but I would note for the record that The Business Roundtable, in a June 1990 report they published, very definitely felt that GATT/Uruguay Round ought to be completed before the Mexico free trade negotiations, other than the framework, be started.

I would also like to ask both of you how you feel the Mexico-United States agreements would interact with the present general-

ized system of preferences, since we already have substantially reduced rates under the Maquiladora production agreements.

My question is: What are the potential benefits of the United States entering the free trade agreements as opposed to the present situation?

Mr. FAUX. I think that the issue here is not so much trade. I think you are absolutely right; most of the barriers in trade between the United States and Mexico have come down. We are liberalizing week by week. The issue is not so much trade, it is investment.

American manufacturers resist making massive shifts in production to Mexico right now because Mexican laws are hostile to foreign investment. So I do not think that you are going to see much of a trade benefit to the United States to Mexico. I think that the ITC is right, that you are going to have marginal gains, small even over the next 20 years.

The real danger here for the U.S. worker and the U.S. small business person is that access to low-wage Mexican labor becomes an option for U.S. manufacturers. It allows them to solve their competitiveness problems by going to Mexico and bringing their goods back into the United States.

I think it is the investment side that is critical, not so much the trade side.

Senator GRASSLEY. Mr. Dornbusch, do you have a response to Mr. Faux's views?

Professor DORNBUSCH. Yes, I disagree somewhat. The important areas where Mexico continues to restrict trade—the Maquiladora program, the general system of preferences are one-way streets into the U.S. economy. They are not market opening measures.

A free trade agreement in business services would have wide sweeping affects in Mexico—in automobiles, in chemicals, in a number of industries where Mexico has quotas and high tariffs, 12, 15, 20 percent rates, we will get market access.

We also would make it possible for the Mexican reforms to take hold for capital to go there and for Mexico to return to trade deficits of 2 to 3 percent of GNP; and that means they will grow. Now Mexico is not huge. It will not change the United States, but it will mean 150,000 to 200,000 extra jobs. If jobs do not grow on trees, look after those because they are good jobs.

Senator GRASSLEY. What are your views on the inclusion of Canada in the negotiations as opposed to just a bilateral negotiation?

Professor DORNBUSCH. I would hope that bringing Canada in will not restrict the scope of our market access that it will not be used to reverse some of the agreements with Canada. But I would note that the agreement with Canada has not had devastating trade effects. It shows that the United States is already substantially open.

Of course, the wages are more nearly the same so it is not the test case. The Israel Free Trade Agreement is more a test case; Puerto Rico is more a test case that we have not been devastated.

Senator GRASSLEY. I believe this free time agreement is a long-term development issue and I think the inclusion of Canada in the discussions are correct. I believe the net benefit of the Canadian Free Trade Agreement has probably been good for the United

States. We have benefited because the United States is the lower wage producer in many of the tradeable goods.

Yet, as Professor Dornbusch said, our wage differences with Canada are minimal, so this agreement is a much different proposition.

The CHAIRMAN. Thank you very much.

Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman. Mr. Chairman, a couple of points I might make. One, textiles seems to be discussed here as an unskilled, low-capital industry. I just do not think that is so. I challenge anybody to go through a modern textile mill. It may be relatively unskilled, but there is tremendous capital investment. Indeed, the amount of labor employed in a modern textile mill has decreased constantly over the years.

So I would just be cautious about tossing around the idea that textiles is just a low-wage, low-capital investment business.

Secondly, the business about low wages attracting industry as though industry just picks up and moves around, regrettably my State is the second lowest manufacturing wage State in the nation. Good old Mississippi is there at the bottom. But oddly enough our State has the second lowest manufacturing wage in the Nation.

And yet both Mississippi and Rhode Island are not besieged by manufacturers pouring in there because we are a low wage rate State. So I would be awfully careful about the suggestion that businesses just pick up and move around wherever there are low wages in the world, never mind within the United States itself.

I think the point that you made, Professor Dornbusch—and I might say, Mr. Chairman, it is the first time I have heard it raised here—about the effect on the Mexican politics if we go back now is an interesting one. I think Professor Dornbusch said that this free trade agreement is the cornerstone of Mexican economic modernization. Maybe someone else has raised it; I haven't heard it raised since I have been listening to the testimony.

So I think you entitle that particular section of your remarks, "There is No Turning Back," and I think it is well for us to remember this.

I would like to ask you both, there is a lot of talk about wages. I would like to ask about the differences in productivity and the differences in quality. Professor Dornbusch has stressed the quality of the goods. What do you say to that, Mr. Faux, about the differences in productivity and quality production?

Mr. FAUX. Well, we have looked at the differences between wages and productivity in a number of countries. One economic policy institute is coming out with a report this week on it. It is quite clear to us that the economic theory that says a wage gap will be made up by a productivity gap does not really hold in the real world.

If you look at the Maquiladora you will find industry after industry with productivity rates approximating our own, but with wage rates that are vastly lower. One case comes to mind of the production of an automobile engine where you have productivity rates that are about 80 percent of Detroit productivity rates. But workers are being paid 6 percent of what workers in Detroit earn.

Senator CHAFEE. I must say, we have a whale of a difference here in the presentation of the differences in the wage rates. You are

suggesting that an automobile worker in Mexico gets 6 percent of his Detroit counterpart?

Mr. FAUX. I am saying it for the case I am citing.

Senator CHAFEE. Well, what about the figures cited by Professor Dornbusch on page 3 of his testimony? I mean, if they are nonsense I would like to know it. Now these figures are not automobile wages and I think in his testimony he said the automobile wages are closer than the average wages. He shows \$2.32 versus \$14.00, so there is a 6 to 1 difference. You are making it a 90 percent difference.

Mr. FAUX. I will accept a 7 to 1 ratio. My point is that that is a large ratio. And that the ITC study itself says that that ratio will not appreciably narrow as far as its own projections can take it.

So that whether it is 6 to 1 or 7 to 1 or 10 to 1 these are large differences and they dwarf anything between the United States and Canada.

Senator CHAFEE. Now what about his point about overhead? As I understood what you were saying, Professor, was that there are some additional taxes that each manufacturer has to pay the State. Is that what you were taking about overhead?

Professor DORNBUSCH. Yes. The social fund, profit sharing, taxes. So the number I give is hourly compensation and that is reported by the Labor Department on an internationally comparable basis so we know what we look at.

Senator CHAFEE. So this \$2.32 you show here includes that?

Professor DORNBUSCH. Yes. Yes, indeed.

Senator CHAFEE. So when we conclude, it is a little over six times—the American wage over the Mexican wage. Right?

Professor DORNBUSCH. Something like that, yes.

Senator CHAFEE. Well, that is pretty significant. What do you say to what Mr. Faux says to that?

Professor DORNBUSCH. If I look at China I can get even bigger multiples. Ninety-eight percent of the people in the world work under \$1.00 an hour. If we are going to take all of them and stop them from working, and get all of the bad jobs in America, then we will have a problem.

We cannot become obsessed with keeping every poor job in America at any price. Because then all the migrants in the world are going to come here to get those poor jobs. We really have to ask where do we get good jobs; and then, how do we cope with the hardship. But we cannot say, let us keep all those bad jobs because that way we can get people to work for \$6.00 an hour.

The trade policy that says, imports are terrible is getting us more and more into that. If we say, where are export markets, how can we get market access, how do we squeeze Japan so that we can, in fact, get in when they get in here, I think it is a far more balanced view than to say let us protect bad jobs because that is our way of life.

Wage differences are there. In Puerto Rico the wage is \$5.70. We have not seen all of industry migrating there. Israel has not swamped us with manufacturers. Their wage is \$7.00. You were right when you said that firms do not just go and pick up to find a low wage place. Neither in Mexico, nor in Brazil, nor today in Hungary where the wage is 50 cents an hour.

Senator CHAFEE. I will conclude. I think you make a lot of good points. But I think your analogy to China or Israel is not so good because there are 4,000 miles distance on one side and about 5,500 or 6,000 miles difference on the other side. So I am not sure it is a good analogy compared to somebody who is on our border.

The CHAIRMAN. All right.

Now, Mr. Dornbusch, this time you do not get the last word.

Senator Bradley?

Senator BRADLEY. Thank you very much, Mr. Chairman.

Let me ask each of you, what do you think are the two major advantages and disadvantages of this free trade agreement? This is covering similar territory, but I would like to have it stated that clearly. Economic advantages or economic disadvantages.

Mr. FAUX. Let me first say it is not a question of a trade agreement with Mexico or no trade agreement with Mexico. It is not a question of free trade or protection. My view is that this is too complex and delicate a question to put on the fast track.

But to answer your question, Senator, I think the administration's proposal will provide over time an incentive for American manufacturers to take the low wage option when confronted with competitiveness problems.

If they have the option to go to Mexico in order to compete in the world, American manufacturers are not going to be investing in labor saving equipment. They are not going to be investing in innovation. They are not going to be striving in order to get a better product. They are going to go and solve their problem with cheaper labor.

So I think that is the most important.

Senator BRADLEY. That is a disadvantage?

Mr. FAUX. That is the most important disadvantage.

The second disadvantage is the dislocation of a large number of Americans who do work in these industries. We have no safety net. We have no retraining programs. We have no way of upgrading these people. The notion that the Mexicans will take the bad jobs and we will take the good jobs, presumes that there is a ladder here for American workers.

The fact is that unlike Western Europe there is no ladder. So that a treaty without a ladder means a lot of suffering for Americans, some of whom constitute a third world in the United States. There are probably some advantages to the administration's proposal for some industries, particularly the financial services who want access to Mexico.

And people who are associated with those industries will get major benefits. But for me the costs way outweigh the benefits of this proposal.

Senator BRADLEY. Do you have an estimate as to total job loss as a result of this?

Mr. FAUX. No. It depends on how much you assume that investment will flow south of the border. The ITC study assumes that no investment will. But we do not have an estimate of it.

Senator BRADLEY. Do you have any hard data that challenges the conclusions of the ITC study, any analysis?

Mr. FAUX. The conclusions of the ITC study are quite general and based on an acceptance of the abstract economic theory that if

you have more trade you are going to have more benefits. But what is interesting about the ITC study is that the numbers and the analysis inside shows a potential loss of many jobs in the United States.

Senator BRADLEY. But other than what you find in the study, do you have any new information for the committee with regard to the ITC study?

Mr. FAUX. No.

Senator BRADLEY. Okay.

Mr. Dornbusch?

Professor DORNBUSCH. I agree with Mr. Faux that the principal problem is the lack of an adjustment mechanism in the United States for those people who inevitably will suffer dislocation to get into the large number of jobs relatively that will be created. It has always been the problem that labor argues against import liberalization, loses on that issue, but has failed to get an adjustment assistance.

We ought to have, he is totally right, like Europe, a serious way of upgrading people's skills so that we can then have a more export oriented policy. The principal advantage is that the modernization in Mexico is sustained. That means democracy. It means normalization. It means that they can run deficits year after year as a developing country should and that means we will export a lot—a lot relative to the Mexican economy, a lot relative to the other sources of good jobs that we can look to as Europe integrates with Eastern Europe and closes relatively, as Asia does their thing.

Where our good jobs come from, mostly, unfortunately, from propositions like free trade with Mexico. That is not big, but it is the best we have.

Senator BRADLEY. Could you tell me what is your sense about job creation in the export sector because of the increased demand in Mexico versus job loss in America because of the low-wage competition in Mexico?

Professor DORNBUSCH. I would think that the job losses would be of the order of perhaps 20,000. But that is not a hard number and I will happily send you one when I have a better one. That net job creation, my estimate is 150,000 net. So the 20,000 I will offset with 20,000 to 30,000 of export growth. I add to that the dynamic effects of Mexican growth, some 150,000.

So I see substantial job creation with all confidence and without at all trying to make up a rosy scenario.

Senator BRADLEY. Could I just ask, what kind of jobs?

Professor DORNBUSCH. I would focus on the capital goods industry as the most immediate. Mexico has not invested for 10 years. The moment the economy turns around, as it is now doing, enormous demands line up for American capital goods. A shift in the trade balance in the last 2 years of \$3.2 billion, that is 100,000 jobs using the benchmark numbers of Mr. Faux's institute, that we have already had before the story even starts.

Mexico for the United States is a job creator. There is no question about that. Even with the maquila in, net job creation in at least 100,000 in the last 3 years.

The CHAIRMAN. Thank you.

Let me say, unless there is a strong feeling for a second round, which I would like to have, frankly, but we have two more panels, some of the people who have come long distances and I would like to move on.

Senator BAUCUS?

Senator BAUCUS. Just very briefly, Mr. Chairman. I would just like to ask Mr. Faux: What if there were a ladder?

Mr. FAUX. I'm sorry?

Senator BAUCUS. If there were a ladder would you still oppose the agreement? That is if the agreement includes some provision to deal with the job retraining and adjustment question that so concerns you would you, still oppose this agreement?

Mr. FAUX. In any case we need that ladder. But I think that this agreement is too complex to put on a fast track, even with a ladder. The ladder is not the only problem.

Senator BAUCUS. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Let me say, gentlemen that we have obviously had two witnesses that are very knowledgeable on the subject. I congratulate you on the quality of the answers and the members on the quality of the questions. We have had practically all of the members of this committee here at one time or another because of the very deep interest in this issue. You have been most helpful. We appreciate that.

Thank you very much.

Professor DORNBUSCH. Thank you.

Mr. FAUX. Thank you.

The CHAIRMAN. We will reverse the order of the panels since one of the witnesses in the previously scheduled panel is late in arriving because of a snowstorm problem, as I understand, in Minneapolis.

The next panel is Mr. Jason Berman, who is the president of the Recording Industry Association of America; Mr. Frank Bouis, president of the Florida Fruit & Vegetable Association from Leesburg, FL; and Ms. Mary Kelly, the executive director of the Texas Center for Policy Studies, testifying on behalf of the Texas Center for Policy Studies in Austin, TX, and the National Wildlife Federation. If you would please come forward.

Mr. Berman, we are pleased to have you once again. If you would testify, please.

STATEMENT OF JASON S. BERMAN, PRESIDENT, RECORDING INDUSTRY ASSOCIATION OF AMERICA, WASHINGTON, DC

Mr. BERMAN. My name is Jay Berman. I am president of Recording Industry Association of America. On behalf of the Association and its more than 50 members I express my appreciation to the committee for the opportunity to appear before you today.

We represent the copyright owners of over 90 percent of the prerecorded music sold in the United States with worldwide sales of approximately \$12 billion a year. Our membership includes the majors—familiar companies such as Motown, Warner Brothers, Capitol and RCA, as well as small companies, like Sparrow and Jamie Records.

The common thread among all of these companies is a fragile existence, based not only upon adequate and effective statutory protection of sound recordings around the world, but on the enforcement of these laws as well.

This thought conveniently brings me to the topic before us today, the Mexican FTA. I appear here as a man caught between a sponge and a soft place. I say this because everyone that I speak to on the issue of the need to protect U.S. sound recordings seems to agree with me.

The Salinas Government calls the adequate and effective protection of intellectual property, including sound recordings, a priority of the highest order. The Bush administration informs us and has informed this committee that they expect legislation overhauling Mexico's inadequate intellectual property laws to be enacted in April or May of this year, resulting in express protection for U.S. sound recording copyright owners.

You and the Congress, and this committee in particular, have made your intentions with respect to intellectual property very clear. Beginning with the CBI initiative, to GSP, to the 1988 Omnibus Trade and Competitiveness Act, to your oversight over the Uruguay Round, you have forcefully commanded that countries that do not afford adequate and effective intellectual property protection may not be permitted access to the U.S. market.

So if everyone agrees with me—and it does not make much sense to preach to the converted—why am I here? The answer is simple, to borrow a sports analogy, I have not heard the fat lady sing.

Mr. Chairman, I cannot overemphasize the importance of adequate and effective copyright protection in foreign markets. U.S. record companies claim about 50 percent of the world's \$22 billion a year trade in sound recordings. Nearly 40 percent of our total sales presently occur outside of the United States. And the percentage of these sales will only increase as newly industrialized and lesser developed nations move further into the mainstream of world commerce.

The development of new technologies permitting rapid dissemination of information and entertainment will further ensure that U.S. sound recordings will reach an ever wider audience. It is our responsibility to ensure that the listener pays for that right.

Some of you must be wondering what all this has to do with the issue before us in terms of Mexico. Well, allow me to make that connection. Mexico today offers no protection to sound recordings—none to U.S. recordings, none to Mexican recordings, and incidentally I should point out that there is an indigenous recording industry in Mexico.

We estimate that annual sales of pirated product in recordings in Mexico today exceed \$250 million a year. About \$75 million of that is lost to U.S. record companies. United States and Mexican record companies, performers, musicians, studio engineers, songwriters and publishers are being devastated by rampant piracy.

There are reports of over 4,000 vendors of pirate recordings in Mexico City alone. I am hopeful that this fundamental and gaping inadequacy in Mexican legislation will be resolved in April or May of this year when the Mexican Parliament is due to reconvene.

In my view, Mr. Chairman, the issue of copyright protection for sound recordings and other U.S. works is not an appropriate subject to be left to the FTA negotiation. We cannot afford to wait. Given existing market conditions and current losses it needs to be resolved before the FTA; and the Mexicans have acknowledged this.

If it is not, I hope to be back here again prior to the final vote on the extension of negotiating authority. Let me say, however, I assume it will be resolved. But seeing is believing.

Now let me turn to a fundamental issue which I think underlines the question of the free trade agreement with Mexico. Because as you know, free trade has no fixed meaning in its particulars and is subject to ever changing criteria by who evaluates it. Free trade without meaningful intellectual property protection is an oxymoron. Free trade, permitting entire sectors to be excluded from national treatment and nondiscrimination on the basis of so-called cultural exemptions is unacceptable and must be resisted.

In this regard, Mr. Chairman, I want to make it clear that the concept by which the Canadians have been permitted into the process of a Mexican FTA poses enormous problems, not only for the U.S. recording industry, but for the U.S. motion picture industry as well. For there is in the Canadian FTA this terrible provision called a cultural exemption.

I think what we need to guard against is grafting onto the Mexican FTA the infirmities that were built into the Canadian FTA.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

[The prepared statement of Mr. Berman appears in the appendix.]

The CHAIRMAN. Mr. Bouis, the President of the Florida Fruit & Vegetable Association. We are pleased to have you.

STATEMENT OF FRANK BOUIS, PRESIDENT, FLORIDA FRUIT & VEGETABLE ASSOCIATION, LEESBURG, FL

Mr. BOUIS. Mr. Chairman and members of the committee, I am Frank Bouis and I live in the rural town of Leesburg, FL. I am the President of the Florida Fruit and Vegetable Association and we represent most of the people who bring you your winter vegetables and citrus fruits. But I am going to try to talk on behalf of all of the fruit and vegetable growers of all of the United States.

Let me digress to say that in real life the Florida Fruit and Vegetable Association does not pay me to be their President. I am a citrus grower. I know all of the difficulties that are involved in growing, harvesting, preparing for sale and selling citrus fruits; and I know the importance of those activities to our people, to our communities and to the rest of our country.

Mr. Chairman, we are not opposed to a trade agreement with Mexico. We are opposed to a free trade agreement with Mexico. In fact, we believe that a trade agreement with Mexico is desperately needed.

However, a poorly considered agreement will have a tremendous effect on the American food supply and it will have a terrible effect on the people who grow the fruits and vegetables, the people who

supply them, their associates and even their neighbors, and no less an authority than the ITC has said so.

It is unfortunate that fruits and vegetables do not get the official attention that they deserve, but they do not. Fruits and vegetables are not subsidized. They are not program crops. They do not provide surpluses. They are only minimally supported in export markets. They are not counted twice. They are only minimally fed to livestock. Until very recently they were not included in any farm bill.

Gentlemen, these are very serious handicaps for getting any official attention in Washington. And yet I say to you that fruits and vegetables are a very important thing. They represent 25 percent of the cost of your food. Their farm gate value out strips that of any other agricultural group except meats and possibly dairy products. They are grown commercially in every State of the union and they are the Surgeon General's number one prescription for a good national health.

Gentlemen, our country's dietary patterns are shifting. We are eating more and more fruits and vegetables and especially more and more fresh and fresh frozen ones.

Because of the distribution of labor and climate in this country, the production of these commodities is shifting predominantly to the warm weather States, especially California, Florida, and Texas. And, indeed, this trend is so great that California and Florida today are the number 1 and number 2 agricultural crop processing States in the country, surpassing those in the so-called farm and grain belt.

But it is this very segment of fresh and fresh frozen fruits and vegetables that is most threatened by a poorly drawn trade agreement with Mexico. To grow fruits and vegetables that are acceptable to the American public requires a benign climate, requires a lot of labor. And I point out to you that these become extremely high value agricultural commodities.

Mexico has the labor. Mexico has the climate. And Mexico has the desire to change their high value fruits and vegetable for our low value subsidized drains. The rapid agricultural trade group that has been pointed to with so much pride is in fact one of increasing movement of grains and oil seeds southward and fruits and vegetables northward. The parts of our country that are most effected are California, Florida, and Texas.

Gentlemen, producing, harvesting and handling fruits and vegetables takes place in an entirely different setting in Mexico than it does from the United States. The food programs, the labor programs, the environmental programs are entirely different.

Food production in the United States grows out of all of the social history and background of a great industrialized nation. Food production in Mexico, insofar as it is affected by their exports to this country, comes out of the production of crops for export.

Fruit and vegetable growers are predominantly free traders by nature and in reality. We are accustomed to dealing in a market economy. And consequently, a trade agreement has a lot of appeal to us. But there must be provisions in the agreement that will bring about a more level and not a less level playing field.

Fruit and vegetable growers in this country work hard to reach the highest level of food security. We work harder at it than do our counterparts in Mexico and we are more successful. With that extra effort those extra burdens that are imposed upon us are expensive. They are a burden that our Mexican counterparts do not bear. We ask that Congress decide if they would prefer to have a Mexican level of food security in this country or a U.S. level of food security in this country.

If you choose the latter then let the Mexican grower that is exporting to this country be expected to raise his standards to those of this country; and let the phasing out of the tariff protection take place in step with the phasing in of U.S. level food security.

There must be adequate standards. There must be transparency. But this should impose no problem, because the American farmer is expected to do the same and has done it for years. Labor and services are always spoken of. Labor and services must also be addressed.

Farm labor is a service just as much as movie stars are and farm labor is skilled labor. The fact is that our society needs Mexican farm workers just as much as Mexican farm workers need our jobs. We pay Mexican farm workers in this country as much in an hour as Mexican farmers pay them in a day. We export billions of dollars of American money to Mexico in exchange for labor that comes back as part of the balance of trade payments.

The CHAIRMAN. I will have to ask you to summarize, Mr. Bouis.

Mr. BOUIS. Mr. Chairman, no matter what theories lie behind these proposals, the fact is that they must produce an acceptable relationship between our countries, a relationship that the consumers, the workers, the entrepreneurs and the communities, both in the United States and Mexico can live with. And if that is not accomplished, then we will have an agreement that we will wish that we did not have.

Thank you.

The CHAIRMAN. Thank you very much.

[The prepared statement of Mr. Bouis appears in the appendix.]

The CHAIRMAN. Ms. Kelly?

STATEMENT OF MARY E. KELLY, EXECUTIVE DIRECTOR, TEXAS CENTER FOR POLICY STUDIES, AUSTIN, TX

Ms. KELLY. Mr. Chairman and distinguished members of the committee, good morning and thank you for the opportunity to address the committee on the issue of environment and the free trade agreement.

My name is Mary Kelly. I am the executive director of the Texas Center for Policy Studies based in Austin, TX. The testimony I will give today is also being provided on behalf of number of other environmental organizations.

The Texas Center for Policy Studies has several on-going research and technical assistance efforts dealing with environmental problems in the Texas and northern Mexico border area.

As a result of this border area and binational work, we have come to understand that economic integration, which has been occurring even with a free trade agreement, can have significant ad-

verse environmental effects if not accompanied by proper controls. We believe the proposed free trade agreement between the United States, Mexico and now, very likely, Canada, will set the course for the future of the environment in the United States-Mexico border region for many years to come. This belief is shared by many of our counterparts in the Mexican environmental communities.

I want to make it clear at the outset that neither the center nor the endorsees of this statement are opposed in principal to a comprehensive trade agreement between the United States and Mexico. We are, however, concerned about the potentially disastrous consequences of a trade agreement that does not include explicit measures to protect the environment and foster sustainable development in both countries.

It must be recognized at the outset that a trade agreement is more than just an agreement on the rules for trading goods and services. While setting the rules is one function of such an agreement, it is clearly not the only function or consequence. As we have heard earlier, a trade agreement will also promote increased U.S. investment and industrial production in Mexico and increased production in both countries, possibly to serve export markets. A trade agreement thus begins to set a pattern of industrial and resource development.

As you have all no doubt heard by now the Maquiladora program along the border has resulted in several serious environmental problems. A few specific examples are cited in my written remarks.

The reason, however, that these problems have developed is that neither the United States or Mexican Governments considered the restrictions necessary to ensure that the Maquiladora program would result in sustainable and environmentally sound development.

The Maquiladora program did not require U.S. industries transferring their operations to Mexico, to invest in adequate sewer, water or housing infrastructure for the vast surrounding communities of workers drawn to the plants. It did not require that the Federal and State Government agencies plan for reasoned and sustainable use of scarce water resources, nor did it establish an environmental regulatory structure to monitor Maquiladora operations, test for pollution levels or enforce environmental laws.

The result of failing to address these issues simultaneously with institution of the Maquiladora program has resulted in a mess that we can no longer ignore and that will be extremely expensive to clean up.

Including environmental concerns in a trade agreement itself is the most direct way for the two governments to address the issues and to demonstrate to Congress exactly how the potential problems will be addressed.

It must also be acknowledged that we are facing a unique situation with Mexico due to the disparities in regulatory structures, available resources for funding those structures, the great need for employment in Mexico, and the shared geographical border, and the direct impacts on U.S. citizens of pollution in the border area.

All these factors combine to make the need for consideration of environmental issues in any trade agreement between the United States and Mexico undeniable and urgent.

The Environmental Agenda that is attached to my statement sets out several specific mechanisms that environmental groups have discussed for addressing these issues. Given the limited time, I will not discuss all of those. Let me touch on just a few, however.

The CHAIRMAN. Those all will be included in the record.

Ms. KELLY. Yes, sir; thank you.

First, the need for an environmental assessment. An environmental assessment of a potential trade agreement, following the guidelines of the national environmental policy act will provide necessary information for the public and Congress to evaluate the potential environmental impacts of a trade agreement with Mexico.

Second, the agreement should include specific measures for binational cooperation in pursuing sustainable development policies. The trade agreement must also specifically recognize and preserve the rights of Federal, State, and local governments in each country to enact measures protecting the environment, public and worker health.

Third, the agreement must include specific funding measures to aid Mexico in strengthening environmental planning and regulatory efforts. Possible funding sources are listed in the remarks. Also, the agreement should include explicit provisions for actions by Mexican citizens in U.S. courts against U.S. companies that cause property damage or personal injury in Mexico.

Fourth, the agreement should include specific funding measures to improve physical infrastructure strained by increased U.S. investment in industrial development.

In conclusion, we believe that Congress must take a proactive role in assuring that environmental considerations are explicitly addressed in any trade agreement between the United States, Mexico and Canada.

Thank you for your time; and I will be happy to answer any questions.

The CHAIRMAN. Thank you. We are pleased to have you, Ms. Kelly.

[The prepared statement of Ms. Kelly appears in the appendix.]

The CHAIRMAN. Mr. Berman, in meeting with President Salinas in Mexico late last year he assured me that they are going to legislate on this and do that this spring. They have by executive decree, as I understand, tried to protect some copyrights and some sound recordings, but obviously have much further to go.

I must agree with you about the cultural exemption. Because as far as I am concerned, that one with Canada is really economic protectionism. In spite of what my Canadian friends say, I do not think there is that much difference in the cultures of the two countries, but you have that concern, obviously, with Mexico.

Mr. BERMAN. Well, very often, Mr. Chairman, as you know, and particularly in the case of Canada, Commerce has often been masked as culture and that was, in fact, the issue in Canada. It had nothing to do with Canadian culture, which I am hard pressed to distinguish from the culture here in the United States.

It had to do with who had the right to exploit the exhibition of U.S. copyrighted works. And having fallen into this trap in regard to the Canadians, it is our hope that we will not be forced to do so

again in regard to Canada by opening up the Mexican FTA to the Canadians as well.

As far as the Salinas administration's performance in this regard, yes, there have been a number of promises and bills were actually introduced over the course of the last session of the Parliament providing copyright protection, not only for U.S. sound recordings, but for intellectual property rights involving patents and trade marks as well, which is another serious issue.

Unfortunately, none of those were enacted.

The CHAIRMAN. I must say I met with some of the members of the legislature too who have also assured me that is going to happen.

Mr. BERMAN. I believe it is going to happen, Mr. Chairman. And because I believe it is going to happen we are supporting the notion that the Congress ought to grant fast track negotiating authority in this regard. If it does not happen, I think it will be a precursor of the way negotiations will go and I think it would set an awfully bad environment.

The CHAIRMAN. That would concern me too.

Mr. Bouis, let me say that I spent my summer months as a kid working in orchards and I was in the citrus business, in a substantial way, until the 1983 freeze in South Texas, but I am still concerned and interested. The ITC study shows that fruit and vegetables is an industry that does take a serious hit.

It concerns me as a south Texan who is very much seeing his neighbors involved in that and for what we see for Florida and California and Arizona and others who are in that business, that it is going to be a difficult one to address and to negotiate on, whether it is a question of longer transition periods or trying to see that the insecticides, pesticides used in Mexico are acceptable here for protecting our health standards.

But I for one will be concerned about it, trying to see what we can do to address it.

Mr. BOUIS. Mr. Chairman, could I respond to that a moment, please, sir?

The CHAIRMAN. Yes.

Mr. BOUIS. The seriousness, there are two seriousness' of it. One of them is that the parts of the country and the people that do these things are not to be used for other things. The second is that it is the food supply of the country that is being talked about. And the third thing is that it is the Mexican workers that work in American agriculture.

Now we suggested that it is not necessary that it all be bad. We suggest that if, in fact, Mexican food production methods are raised to those of this country or contrarily that U.S. food production methods be reduced to that of Mexico, that would be one thing.

We suggest secondly that Mexican workers, as they are needed for competitive purposes, to continue to come to this country, to maintain the competitiveness of American agriculture and all of the other jobs that are associated with it, plus the earning the capacity of the Mexican workers.

And thirdly, we suggest that there should be a provision whereby the Mexican agriculture can be harmonized with the American agriculture. That is going to lead to a better way for all of us.

The CHAIRMAN. Mr. Bouis, let me say as one born and reared on that border, the integrity of our borders is important to a country. I feel very strongly about that in spite of the fact that it is for the poorest. And the Mexican workers here, as far as I am concerned, ought to be here only legally.

Ms. Kelly, I appreciate your concern and I share your concern with the environmental problems there. But I look at the Presidential Summit meeting in Monterrey in November, as I recall, where they announced the formation of a joint effort on the part of the United States and Mexico to develop an overall plan for that purpose, to try to assist in the environmental concerns.

Are you encouraged by that or not?

Ms. KELLY. I am certain encouraged by that, sir. But I do not think it is a replacement for putting the environmental issues on the table in trade negotiations.

The CHAIRMAN. Well we really have some tough problems on the border as far as environmental concerns.

Senator Packwood?

Senator PACKWOOD. Jay, I agree with you also on the cultural exemption. It was a mistake in the Canadian agreement. We are always on the fringes of it with Europe. We are never quite sure what they are going to do. But I think you and I know what they would like to do if they had their druthers in the name of cultural purity. I hope we do not go down that road.

Mr. Bouis, do any of the fruits and vegetables that you grow or any of the growers you have, do any of them have marketing orders?

Mr. BOUIS. Yes, sir.

Senator PACKWOOD. Is it common in the industry?

Mr. BOUIS. Marketing orders are more used in California than they are in Florida. In Florida they are used on tomatoes and some on grapefruit and celery. For various reasons, marketing orders are less important in Florida than they are in California.

Senator PACKWOOD. Now do you see any opportunities for the fruits and vegetables that you grow or that you represent—and the reason I ask this is because I have had a number of growers in Oregon who think they see an opportunity for what they are growing in Oregon in the Mexican market. I almost sense from you that you do not see any upside at all for any crops.

Mr. Bouis. You didn't give me enough time to get all the way down to that. The Mexican economy is growing more rapidly than the U.S. economy is. Their population grows more rapid. There is a market there. In fact, some strata of Mexican society would rather have U.S. fruits and vegetables than Mexican because they are better. And I could say more about that than I would like to.

However, repeatedly stumbling blocks are placed in our way by the Mexican bureaucracy so we cannot get there. Part of a trade agreement should be to do away with those obstacles.

Mr. Senator, we are not opposed to a trade agreement. We think in the long run it probably, almost certainly, will be a good thing. We are opposed to a bad one. We have got a bad relationship with Mexico now—vis-a-vis trade practices, labor practices, illegal workers, all kinds of things—let us not make it worse.

Senator **PACKWOOD**. Let me say it is a pleasure to have you come testify. It is worthwhile to hear testimony from somebody who is in the business and actually has a hands-on knowledge of it. You are a good witness.

Ms. Kelly, let me ask you, in any of these trade agreements we may enter into in the future—and I think there is going to be others, should environmental equality be a *sine qua non* of most agreements?

Ms. **KELLY**. To make sure that I understand your question, sir, by environmental equality you mean the same standards apply?

Senator **PACKWOOD**. Yes.

Ms. **KELLY**. I think that should be our ultimate goal as long as those are set at the higher level. Now take for example the difference between Mexico and United States. There are many small industries in Mexico that would have extreme difficulty meeting current U.S. environmental standards. So there needs to be an appropriate process for phasing in harmonization and I think the environmental community would support harmonization as long as it is at the higher level and countries are not forced to lower their own standards.

Senator **PACKWOOD**. And to the extent that we would enter into agreements with countries that have higher standards than we do, we should have to adhere to their standards then?

Ms. **KELLY**. Yes, sir.

Senator **PACKWOOD**. And you would have the same feeling—because I think within 5 to 10 years we are going to be negotiating trade agreements with Asian countries on free trade agreements—you would have the same strictures there.

Ms. **KELLY**. I think the environmental community is coming to realize very strongly that economic integration and environmental issues are not separate issues, that they are entwined very closely. I think interestingly enough some of the trade people are coming to realize that as well.

Senator **PACKWOOD**. Thank you very much.

Thank you, Mr. Chairman.

The **CHAIRMAN**. One of the concerns I have in the trade agreement with Mexico is where they have gone to a 20-percent maximum tariff and an average of under 10 percent; but when it comes to horticulture products they still use a lot of licensing. And licensing can be maneuvered in effect to be quotas. I think we are seeing a lot of that in Mexico today. That is a real concern to me.

Then we are seeing insofar as certain health standards, I think we are seeing that manipulated too; and that, too, is of concern to me.

Let me say I can understand why you are president of your association. You effectively argue your point of view.

Mr. **BOUIS**. It is serious and it is going to get worse. We get more than half of our fresh produce from Mexico at certain times of the year.

The **CHAIRMAN**. Yes.

Mr. **BOUIS**. They do not meet the same standards as American production, which is not to say that it is not safe. They are, but I am saying it is different. I am saying that an ill-considered trade agreement with Mexico that has no other programs in it will move

more of that production south of the border so that the United States is going to be fed its fresh fruits and vegetables from foreign sources, not in the mainstream of the American philosophy; and I do not think anybody wants that, and I do not think it is necessary.

The CHAIRMAN. Thank you. That has been very helpful testimony. We appreciate that.

Our next panel is James Piatt, who is the Regional Commissioner of the U.S. Customs Service, Houston, TX; Mrs. Suzanne Azar, who is the mayor of the city of El Paso, TX; and Ed Pastor, who is the county supervisor of Maricopa County, Phoenix, AZ.

Mayor Azar, we are pleased to have you and I would like for you to proceed as the first witness.

STATEMENT OF SUZANNE S. AZAR, MAYOR, CITY OF EL PASO, EL PASO, TX

Mayor AZAR. Thank you. My name is Suzanne Azar. I am the mayor of El Paso, TX. I would like to talk about the free trade agreement between the United States and the Republic of Mexico.

I have a number of charts. First, I would like to show you the border along the United States and Mexico and you can see that from San Diego to Brownsville is about a 1,600 mile stretch of land with about 7.8 million people. Millions of Americans and Mexicans commute to and from the United States and Mexico everyday to attend social and cultural events, to conduct business along both sides of the border.

El Paso, which sits in the very center of the United States/Mexican border is the 22nd largest city in the United States. I would like to say that the new census shows that we are larger than Denver, larger than New Orleans—a really major city, although we are so far from the center of government.

Chart No. 2 will show you a little bit about that population. As you can see, the figures for 1990, the city of El Paso has over 530,000, but the city of Juarez, which is immediately adjacent to El Paso, with 1.2 million; and projections for the year 2010 in the El Paso/Juarez Metroplex would be over 3.5 million people.

Physically, socially and economically, the two cities are one. If you will show the next chart, please. We have four international bridges that are the arteries that feed the international life blood of these two vibrant communities, creating one of the largest port of entries in the world. Students, shoppers, tourists, maquila employees and commuter workers cross daily in both directions; and to the west—you can see two orange dots on this chart—are two new ports of entry that have been proposed for Anapra and Santa Teresa, New Mexico, and that will be seven ports serving our area.

The changes of policy in Mexico City and Washington, DC, are immediately felt at the border city level. Unprecedented growth now in the maquila industry ensued on Juarez, Mexico created over 135,000 jobs for Mexican workers in 320 large plants. We have seen a 25 percent contribution to our job growth directly related to maquilas in El Paso during the last decade.

I believe the free trade agreement will be good for El Paso and the United States because business will grow. Investment opportunities will develop, industrial land values will go up, new and

better materials will be available in both countries, employment opportunities will increase, and the flow of materials and ideas will increase.

There is no doubt that the scale of these economies and the movement of goods and services between the border communities has great impact on existing infrastructure, job transformation and support distribution systems.

A major change, such as free trade between the two countries, is certain to have profound short and long-term effects; and I have specific concerns that relate to the need to plan for this change and to anticipate both problems and opportunities resulting from the free trade agreement.

As mayor, my biggest concern, of course, is population growth, environmental problems, increased vehicular and pedestrian crossings and additional manpower needs—Mr. Piatt can talk more about that—needs at the ports of entry, and increased commercial and domestic traffic on our streets and highways.

El Paso will need additional housing and urban development funds for low and moderate income housing construction as competition for affordable housing increases due to worker migration to the U.S. border cities. CDBG funds will also be needed to provide community facilities that revenue poor cities with small tax bases will be unable to afford.

El Paso's air pollution is a serious threat to the public health. We are the eleventh in the nation as far as serious air pollution problems. The problem is aggravated by the burning of tires, wood, paper and kerosene by the residents in Juarez, Mexico to satisfy some of their basic cooking and heating needs.

In addition, their automobiles and our automobiles contribute approximately 56 percent of the ambient air contamination. We have many of these vehicles forming long lines waiting for the Federal inspection process in crossing those bridges.

There is no sewage treatment in Ciudad Juarez. All raw sewage is collected by a network of sewer trunk lines and is discharged five miles downstream into a sewage canal that parallels the Rio Grande River, which is the international boundary. It flows adjacent to the river for about 50 miles until it dissipates into the ground or is used for agricultural purposes.

This sewage canal parallels the El Paso city limits and is a mere 300 feet from our city limits line. The threat of disease and ground and surface water contamination is real. Governments at all levels need to plan for joint use of treatment plants at once to effectively eliminate this massive public health threat.

Chart No. 4 will give you some of the statistics as far as vehicle traffic. You can see that over 11 million vehicles crossed northbound only, passenger vehicles, in 1976; and that number grew to over 15 million in 1990.

But in particular, take note of the commercial vehicles. The northbound motor freight crossings jumped from 85,500 in 1976, then 149,029 in 1985, and over half a million commercial vehicles in 1990.

We have a number of real needs that are going to be affected by the growth of that kind of transportation with free trade, which means highways; and particularly, it means a lot more manpower

for those Federal inspection stations that clog that traffic up and back it up for miles. And right now if today you asked me how many inspectors I needed, I need 150 additional Immigration and Naturalization inspectors; 200 additional U.S. Customs inspectors; and 100 Agriculture inspectors, with more staffing needed as free trade increases border traffic.

The CHAIRMAN. Thank you.

Mayor AZAR. I would just like to close with a comment that Mexico is making extraordinary efforts to privatize and open its door to free trade and competition. A free trade agreement could mean economic viability in Mexico. Mexico's economic crisis has forced many of its citizens to seek a better life by immigrating across the border.

Our response over many decades has been to build walls. In some areas of El Paso along the border we have four rows of barbed wire fences known as the "Tortilla Curtain." Let us build bridges, solve our associated infrastructure problems instead of building walls.

Thank you.

The CHAIRMAN. Thank you very much, Mayor.

[The prepared statement of Mayor Azar appears in the appendix.]

The CHAIRMAN. Now, Commissioner, you heard how many she needs. [Laughter.]

Mr. PIATT. The check is in the mail.

The CHAIRMAN. Mr. Piatt, I am delighted to see you again and enjoyed our visit down in Brownsville. We look forward to your testimony.

STATEMENT OF JAMES C. PIATT, REGIONAL COMMISSIONER, U.S. CUSTOMS SERVICE, HOUSTON, TX

Mr. PIATT. Thank you. Mr. Chairman, members of the committee, I appreciate the opportunity to appear before you today to talk about the topic of a free trade agreement with Mexico. I will be discussing the impact of such an agreement on U.S. Customs operations at the Southwest border locations. My area of responsibility is for the Mexican border, except for the California part of it.

Before answering this committee's questions, I would like to make a brief statement which summarizes our Agency's response to the potential impact of a free trade agreement with Mexico. I have provided the committee with a comprehensive statement for the record.

We are making two basic assumptions in constructing plans for the short and medium term for a possible free trade agreement with Mexico. First, trade will increase. Second, it will be gradual instead of being an immediate major change.

There are three areas of Customs operations that will be especially impacted by a free trade agreement. They are facilities, staffing and implementation of the agreement.

Congress recognized the importance of facilities in 1988 when it appropriated funds for a major capital improvement program for the inspectional facilities at the southern border crossings. In the Southwest region alone, which includes the States of Texas, New

Mexico, Arizona, and Oklahoma, we have 36 improvement projects in varying stages of completion.

These include renovations and expansions recently completed at eight crossings; construction in progress to renovate and expand eleven crossings; work to completely replace three existing stations; the building of one new bridge; and the replacements or additions of 13 other sites.

These efforts, some of which we began planning 5 to 10 years ago, are calculated to provide adequate space for increased commercial and noncommercial vehicle traffic for at least the next 5 to 10 years. Additionally, the designs of the newer facilities are such that they can be easily expanded to handle expected increases.

New bridges and new facilities require additional manpower. We anticipate hiring more inspectors. These are the individuals who perform the actual screening of passengers and examination at the various crossings. By the end of this September I plan to hire 275 inspectors for the bordering crossings in the southwest region—155 of these have already been selected.

In addition to the inspectional force, there are two other groups of employees involved in Customs commercial operations—that is, import specialists and regulatory auditors. There are presently 83 import specialists throughout the southwest region. We intend to add seven more by September. One of the things we are doing, Mr. Chairman, is adding a new office in Harlingen to service the Rio Grande Valley, which we believe will give better service.

Our 1992 budget also requests additional auditor positions. We believe that certain new features of automated processing system will help the Customs Service cope with increases in commercial cargo and documentation. One of the elements of our 5-year plan is to come up with increased usage of high technology, one of which will be the use of x-rays—to try to x-ray large conveyances coming across the border. We think that that makes very good sense.

Our final area of planning for a Mexican Free Trade Agreement involves the actual steps for implementation. We will have two parallel training programs—one for our employees, and one for the trade that we deal with.

As a final point, I would like to add that the U.S. Customs Service has begun establishing a close working relationship with Mexican Customs. As you may be aware, that was not always the case. Our new Commissioner has done wonders in improving the relationships with Mexico.

In summation, I would like to say that the U.S. Customs Service will be ready to handle the increased workload involved in the foreign trade agreement if one should happen.

Thank you.

The CHAIRMAN. Thank you, Commissioner.

[The prepared statement of Mr. Piatt appears in the appendix.]

The CHAIRMAN. Yes, I must say I think there has been quite a change in attitude on our side insofar as the Commissioner.

Mr. PIATT. Yes, definitely.

The CHAIRMAN. Mr. Pastor, we are pleased to have you. If you would go ahead.

STATEMENT OF ED PASTOR, COUNTY SUPERVISOR, MARICOPA COUNTY BOARD OF SUPERVISORS, PHOENIX, AZ

Mr. PASTOR. Thank you, Mr. Chairman. Mr. Chairman and members of the committee, I am Ed Pastor.

The CHAIRMAN. How long did you spend in Minneapolis?

Mr. PASTOR. Too long.

The CHAIRMAN. I'm sorry about your travel problems.

Mr. PASTOR. Thank you, Mr. Chairman.

I am a member of the board of supervisors in Maricopa County, AZ. I appreciate the opportunity to appear before you today.

Let me go on record at the outset as stating that I support the actions to date of the Governments of Mexico and the United States, with respect to the Free Trade negotiations. I further support the addition of Canada to the discussions and believe that when this is brought about to a successful conclusion, the North American Continent will represent the largest and most powerful economic zone in the world.

As you know, trade has increased between Mexico and the United States. As a native of Arizona I am aware of the trade impact on my home State. During 1989 at the Mexico/Arizona border we had crossings of 26 million people, 7.8 million vehicles, 200,000 commercial trucks and 200,000 cargo containers. A study completed for the U.S. Customs Service indicates that by 1994 cargo container crossings will be up by 50 percent; and people and vehicle crossings will increase by 20 percent.

Further, by the end of the decade it is estimated that the vehicle crossings will increase by 40 percent. We can predict that the free trade agreement, the percentages, will increase dramatically and we need to be ready.

While technically a separate issue, I believe the matter of adequate infrastructure needs to be addressed, perhaps in parallel to assure success in the implementation of the free trade agreement. There are both short- and long-term infrastructure issues.

Due to the increase in pedestrian traffic, vehicles and cargo Customs facilities must either be expanded or established at key border crossings. The U.S.-Customs Service must be able to process the traffic in a more efficient, effective manner and still protect the interest of the United States.

The Federal Government must make the commitment to provide the necessary facilities to enhance the success of any accord. Obviously, the trained personnel required to staff these facilities must also be provided to meet the increased demand for services.

Of equal importance is the automation of Customs services for both countries. It is very important that the telecommunications and the computerization of both countries be compatible and up to date. If they are not, they could serve to thwart the implementation of the free trade agreement and mitigate its benefits.

A slightly longer term issue with respect to the free trade agreement is the infrastructure required to successfully address the environmental implications of expanded trade between the two countries. The industrial expansion of the past decade along our border has demonstrated that both the United States and Mexican ecologies are directly affected. Because of the geographical and ecologi-

cal characteristics of the border region, communities along both sides share common air and water supplies.

Due to the terrain characteristics, contamination of natural resources on one side results in pollution on the other. While infrastructure issues have historically been the responsibility and the province of local governments I would suggest that the rapid growth of the border areas has created a situation where many political subdivisions find themselves unable to fulfill the legitimate needs of the population.

As a result, I would suggest that both Federal Governments must realize that they need to assist local authorities with reasonable amounts of technical assistance and financial aid to ensure that the infrastructure required to protect the public health and environment is in place as the expanded and industrialization occurs.

Free trade, Mr. Chairman, is a national issue. The benefits to the United States will be felt nationwide, not just the border. Accordingly, it is responsible to share some of the costs. The infrastructure issues, while not glamorous, are important and must be addressed in order to ensure that the full benefits of any free trade agreement are reached.

I urge your careful consideration of them during this process.

The CHAIRMAN. Thank you very much, Mr. Pastor.

Mr. PASTOR. Thank you.

[The prepared statement of Mr. Pastor appears in the appendix.]

The CHAIRMAN. Mayor, with your intimate knowledge of the problem and your deep concern for it, last year the Congress appropriated \$14 million for additional Customs stations in El Paso. Now when that is all completed, do you think that is going to take care of the problem or are you going to be back talking to us about more because of a free trade agreement?

Mayor AZAR. You have to know with the number of crossings that we already have we still have long lines backed up at the bridges. Facilities are very important and I think we are getting caught up.

The money that was appropriated for the Zaragoza Bridge is being utilized right now. We are still in construction phase. We have temporary facilities set up there. But we still have some real problems with long, long lines. Because at the Cordova Bridge, which is our central bridge, there are only eight stations. We have talked to the District Director, Mike Mack, and said, "How can you pass people through more rapidly?"

Those eight stations take 20 to 30 seconds per car. We are looking for drugs. We are looking for illegal goods. We are looking for lots of things, immigration inspections as well. So that inspection process pushes that traffic back in long, long lines. So, yes, the facilities expanding to more numbers of booths and also increased numbers of manpower at all of those facilities.

Right now we need an expansion at the Cordova Bridge, as well as the new facility that is under construction.

The CHAIRMAN. There you are, Mayor. We have tough competition for funds, tight budgetary restraints. I would guess if I went to mayors along that border that virtually every one of them would say they need more Customs people, they need more Immigration people and they need more infrastructure, more bridges.

Now in that competition for priorities how do we single you out? What makes you different?

Mayor AZAR. I might just say that we at the local level—and my budget is not in the top 50 cities, even though I am the 22nd largest city. We have taken municipal responsibility for a lot of the infrastructure like highways and roads; and I think we have a very good system on our side of the border. We approved a half cent sales tax for mass transit. We have a very good municipal transit system; and we are doing our share to make that work, to make those populations move back and forth.

The problem that is imposed on us by, in fact, having a border there is all Federal policy—Federal rules on immigration, Federal rules on goods and services. And so this causes a great deal of congestion on what might otherwise be a very good free-flow of trade and economic viability.

I would say that the Federal Government, since they impose the rules on us, ought to enforce those rules and make it work in a viable way. And that we will serve our community. We are going to provide as many other services—the police services, the fire services, everything else for our community.

We are only asking the Federal Government to really respond to those things that are out of our control, those laws and policies and procedures of inspection that are determined here in Washington, DC.

The CHAIRMAN. Mr. Pastor?

Mr. PASTOR. Yes, sir, Mr. Chairman.

The CHAIRMAN. We have this enormous competition for funds and we have a real budget crunch. How do we pick Arizona out or Phoenix and say that it has any higher priority than one of these other border cities?

Mr. PASTOR. As we indicated, I think all border cities will be impacted. It is my understanding—and I may be corrected—that the budget for Custom Services around \$1.5 to \$2 million, but yet they generate over \$20 million of revenues. Possibly, rather than putting those \$20 million in the general fund, maybe some of those monies could be dedicated for the implementation of the fair trade act, especially in helping the border communities as the trade act is implemented to gradually develop that infrastructure that is available.

So I would think that you would give higher priority to border towns due to the fact that the Nation will benefit. The impact, if there is an adverse impact; as well as some positive impact, will be at the border town. Maybe looking at the revenues generated versus monies expended might be a way of addressing it.

The CHAIRMAN. Commissioner Piatt, you were talking about working on better cooperation with the Mexican side. That is critical. There is no question about that. The cooperation has not been particularly good and it has not been all the fault of Mexico.

But when we talk about coordination there, do we not have some things to do in getting our own house in order insofar as cooperation between Customs and Immigration and DEA and the rest of it? Now they have been able to do it, I understand, in the Persian Gulf. How about you fellows?

Mr. PIATT. Essentially along the border we do have very good cooperation. We do have good relationships with INS. INS and agriculture would be probably the two main players that Customs would interface with on as far as traffic coming across the border. With DEA, we work with them on drug investigations and we have generally very good relations with them too.

Some of the things that we are doing with the Mexicans right now are the agreement. We are working on interchanging data. So they would very much like our import data. We would very much like their export data. So we are trying to somehow come up with some kind of an automated interchange to do that. There are some issues that have to be worked out there, as far as they would like our export documents which are Commerce documents and census documents, and there are some details that have to be worked out there.

But it is, I think, a step in the right direction. We have been highly automated in our entry processing, probably for the last 5 years; and have been working at various stages on that for the last 20 years. Mexico has just really started getting into automating the Customs entry process in the last year or two. So we are working with them on offering any advice that we can; and we have offered them basically our entire software that they can use if they would like to.

The CHAIRMAN. Has there been an exchange of information insofar as harmonizing and so far as classifications of things by Customs and how they evaluate them and we evaluate them?

Mr. PIATT. Yes. We have committees that are working on that type of a topic.

The CHAIRMAN. With the Mexicans?

Mr. PIATT. With Mexican Customs.

The CHAIRMAN. All right.

Mr. PIATT. In fact, there was just a meeting in San Diego last, I think it was last January or December when we met. Some of our auditors met with their auditors trying to work up some exchanges of information.

The CHAIRMAN. That would be very helpful I would think in trade between the countries.

Well, thank you very much. It has been helpful. We appreciate very much your testimony.

Thank you.

[Whereupon, the hearing was adjourned at 12:24 p.m.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED

PREPARED STATEMENT OF SUZANNE S. AZAR

Ladies and Gentlemen of the Senate Finance Committee: My name is Suzanne Azar. I am the Mayor of El Paso, Texas. My brief remarks today are to present to you a framework of issues and concerns related to the Free Trade Agreement between the United States and the Republic of Mexico.

Extending from San Diego to Brownsville and from Tijuana to Matamoros, is a 1600-mile stretch of land along the United States-Mexican border which is the home of 7.8 million people. Millions of Americans and Mexicans commute to and from the U.S. and Mexico for shopping, for social and cultural events, and to conduct business along both sides of the border.

Before discuss the Free Trade Agreement, let me give you some background on the Border Region and, specifically, on the City of El Paso. Situated on the border at the southwest tip of the State of Texas and contiguous with the southeast boundary of New Mexico, El Paso is the 22nd largest city in the U.S. El Paso is located midway between San Diego, California, and Brownsville, Texas. Today, the combined population of the El Paso and Juarez Metroplex exceeds 2 million people, and makes up one of the strongest economic regions along the U.S.-Mexican Border. The City of El Paso has approximately 530,000 people and Ciudad Juarez is home to 1.2 million residents. In the Year 2010, the El Paso-Juarez Metroplex will have 3.5 million people.

Physically, socially, and economically, the two cities are one. We have four international bridges that are the arteries that feed the international life blood of these two vibrant communities creating one of the largest ports of entry in the world. Students, shoppers, tourists, maquila employees, and commuter workers cross daily in both directions. To the West, two new ports of entry, Anapra and Santa Teresa, New Mexico, are proposed to be opened in the near future. In all, seven ports will serve our Metro area.

The downtowns of El Paso and Juarez, Mexico, are separated only by the Rio Grande River. Eighty-four (84) million persons cross the international boundary both ways, within the City Limits of El Paso and Ciudad Juarez, annually. Such interdependence will be definitely impacted by a free trade agreement with Mexico. Such an agreement must take into account the infrastructure, manpower, and facility needs of border cities that will be impacted by anticipated trade activities.

The cities along this border are among the poorest cities in the United States with the highest unemployment rates, ranging from 10 to 18 percent. This relates directly to our proximity to Mexico, its economic crisis, and a flood of immigration to our border cities.

Any change of border law or policy activated in Washington, D.C. or in Mexico City is immediately felt at the border city level.

Unprecedented growth in the maquila industry in Ciudad Juarez, Mexico, has created jobs for over 135,000 Mexican workers in 320 large plants. It is estimated that for every job created in the maquiladora industry in Mexico, two jobs are also supported in the U.S. The maquila system is benefiting both the U.S. and Mexico. Twenty-five (25) percent of the new jobs created in El Paso in the last decade are directly related to the maquilas.

I believe the Free Trade Agreement will be good for El Paso and the United States because:

- Business will grow
- Investment opportunities will develop

- Industrial land values will go up
- New and better materials will be available in both countries
- Employment opportunities will increase, and
- The flow of materials and ideas will increase.

There is no doubt that the scale of these economies and the movement of goods and services between the border communities has great impact on existing infrastructure, job transformation, and support distribution systems.

A major change, such as a Free Trade Agreement between the two countries, is certain to have profound short and long term effects. My specific concerns relate to the need to plan for the change and to anticipate both problems and opportunities resulting from the Free Trade Agreement. As Mayor, my concerns include:

1. Population Growth
2. The Environmental Problems
3. Increased Vehicular and Pedestrian Crossings and Additional Manpower needs at the Ports of Entry, and
4. Increased Commercial and Domestic Traffic on our Streets and Highways.

Unlike the United States-Canadian border, where the economies are approximately equal, the case of the U.S.-Mexican border is vastly different. The chasm of economic disparity is awesome. The peso to dollar ratio in 1980 was 100 to one . . . today it is 3000 to one. Poverty abounds on the Mexican side. The population growth in Ciudad Juarez is, and will continue to be, dramatic. The major problems faced by the burgeoning population of Juarez are housing, schools, health services, jobs, water, and the environment.

El Paso will need additional Housing and Urban Development Funds for low and moderate income housing construction as competition for affordable housing increases due to worker migration to the U.S. border cities. CDBG funds will also be needed to provide community facilities that revenue-poor cities with small tax bases will be unable to afford.

El Paso's air pollution is a serious threat to the public health. We are 11th in the nation in the air pollution category. The problem is aggravated by the burning of tires, wood, paper, and kerosene by the residents in Mexico, to satisfy some of the basic cooking and heating needs. In addition, the automobile contributes approximately 56% of the ambient air contamination. Many of these smoking vehicles form long lines awaiting the Federal inspection process.

There is no sewage treatment in Ciudad Juarez. All raw sewage is collected via a network of sewer trunk lines and is discharged five miles downstream into a sewage canal that parallels the Rio Grande River (the international boundary). It flows adjacent to the River for about fifty miles until it dissipates into the ground or is used for agricultural purposes. This sewage canal parallels the El Paso City Limits and is a mere 300 feet from our city limits line. The threat of disease and ground and surface water contamination is real. Governments at all levels need to plan for joint use of treatment plants at once to effectively eliminate this massive public health threat.

The escalating population growth will accelerate the use of the water resources in both cities. Currently, El Paso and Juarez are served by the same underground water source which is being depleted faster than it can be replaced.

Border crossings have increased from over 11 million vehicles northbound from Ciudad Juarez to El Paso in 1976, to 15,278,014 in 1990. In particular, the northbound motor freight crossings jumped from 85,501 annually in 1976, to 149,029 in 1985, and to 511,083 in 1990. El Paso will need help from the Federal Government to reach its pressing goal: to provide for mobility and safety to this area.

Another problem directly related to vehicles, air pollution, and poor international relations is the chronic lack of an adequate number of Federal port of entry personnel: Immigration, Customs, Health, Agriculture, and Border Patrol officials. When the Free Trade Agreement goes into effect, the manpower needs will be even greater.

On each Wednesday of every week, one thousand people line up to get shopping passes. It takes an extra day, for a citizen from Mexico, to take a flight out of El Paso Airport because of limited Immigration and Naturalization Service personnel needed to process their documents.

Of utmost importance is the need to increase the number of Federal inspectors assigned to El Paso ports of entry. At least 150 additional Immigration and Naturalization inspectors, 200 additional U. S. Customs inspectors, and 100 additional U.S. Department of Agriculture inspectors are needed today—and more staffing will be needed as free trade increases border traffic.

El Paso has a long history of providing a transportation network where mobility and safety have been the primary goals. Presently, El Paso's five-year transportation plan indicates a need for improvements to our freeway, highway, and arterial network in the amount of \$726 million. Recently, El Pasoans voted to provide a ½-cent sales tax to support needed mass transit improvements. However, the current transportation plan does not consider the possible impact of a Free Trade Agreement.

Both El Paso and Juarez have made sustained efforts to keep up with the arterial and thoroughfare needs required by neighboring border communities. On the U.S. side, I will push hard to extend the Loop 375 Border Highway to link up the rest of our Outer Loop System, which is designed to decrease traffic on our freeways.

When the ports of entry in Anapra and Santa Teresa, New Mexico, are placed into operation, we must join efforts with New Mexico State officials to link our roadways with theirs. These two ports are located within six and twenty miles, respectively, from downtown El Paso. Millions of new highway dollars will be necessary to meet the most basic needs of the international traffic demand.

I am, today, asking the Federal Government to let the front-line communities along the border have a major role in shaping the Free Trade Agreement, and plan with us for the inevitable transition that will be necessary in the areas I have briefly mentioned, to protect the health, safety, and welfare of our citizens in the United States and those in Mexico.

Finally, as the Mayor of El Paso, I would like to invite key negotiators to visit the El Paso-Juarez Border area. In order to have an effective Free Trade Agreement, at least one meeting should be held in each of the major cities along the U.S.-Mexico Border Region, with appropriate Federal representatives from both the U.S. and Mexico. El Paso's strategic location on the border makes it the logical site for one of these diplomatic sessions since it will provide a firsthand look at the intricacies of a vibrant and interdependent international trade environment.

Mexico is making extraordinary efforts to privatize and open its doors to trade and competition. A Free Trade Agreement could mean economic viability for Mexico.

Mexico's economic crisis has forced some of its citizens to seek a better life by immigrating across the border. Our response over many decades has been to build walls. In some areas of El Paso, along the border, there are four rows of barbed-wire fences, better known as "The Tortilla Curtain." Let's build bridges and the associated infrastructure instead of walls.

CITY OF EL PASO—CIUDAD JUAREZ

[Population]

	1960	1990	2010
City of El Paso	276,687	533,454	752,000
Ciudad Juarez	262,119	1,216,885	2,570,033
Total	538,806	1,750,339	3,322,033
Total population projection for the El Paso-Ciudad Juarez metroplex for the year 2010			3,500,000

CITY OF EL PASO—CIUDAD JUAREZ

[Border crossings]

	1976	1985	1990
Passenger vehicles	11,125,504	12,329,673	15,278,014
Commercial vehicles	85,501	149,029	511,083
Total persons	28,095,183	32,302,886	42,189,709

PREPARED STATEMENT OF JAMES K. BAKER

Good morning Mr. Chairman. My name is James Baker, and I am Chairman of the Board of Directors of the U.S. Chamber of Commerce, and Chairman and CEO

of Arvin Industries, a Fortune 500 manufacturing company specializing in auto parts, based in Columbus, Indiana.

On behalf of the Chamber, I am pleased to testify in support of comprehensive Free Trade Agreement (FTA) negotiations between the United States and Mexico. The Chamber believes that such an agreement would be beneficial to a broad base of its 180,000 members—ranging from most of the Fortune 500 companies to tens of thousands of small and medium-size firms.

Trade between Mexico and the United States exceeded \$59 billion in 1990. Today, Mexico is our third largest market—behind Canada and Japan—while the United States is Mexico's largest market and Mexico's largest foreign investor, with \$12 billion in investments. The opportunity is at hand to increase these figures several fold within a few years, thereby expanding employment and domestic prosperity in both countries, and equipping the two nations to compete globally. The removal of tariff and non-tariff barriers to trade and investment under an FTA will increase business opportunities on both sides of the border.

However, we should be under no illusions that these negotiations would result in a simple copy of the Canadian-U.S. Free Trade Agreement model. The United States and Canada had extensively integrated markets and a considerable exchange of investment capital long before they embarked on free trade negotiations. This is not the case between the United States and Mexico. Therefore, given this relative disparity between our two economies, the Chamber feels strongly that both governments should consult closely with their respective business communities as negotiations proceed.

GUIDING PRINCIPLES FOR FTA NEGOTIATIONS

In supporting FTA negotiations, the Chamber is not guaranteeing its ultimate support for the final negotiated agreement. We will only support a final agreement that is in the interest of the U.S. business community. Therefore, we have established nine principles that serve as criteria for an acceptable agreement. These are attached to my testimony, but I would like to summarize those principles:

- **The negotiations should be comprehensive.** In particular, the U.S. and Mexico should negotiate agreements on tariffs, non-tariff barriers, agriculture, investment, services, intellectual property, and institutional mechanisms to improve bilateral economic relations.

It has been our hope that these issues would be substantially advanced in the Uruguay Round of the GATT, thus facilitating the FTA negotiations. Should the current round not succeed, it should not jeopardize an FTA; it will only mean more work for our negotiators to conclude an FTA.

However, we do not believe the FTA negotiations should be made the catch-all for every economic and non-economic issue between our two countries, as some have suggested. Other issues, such as environmental degradation, immigration, narcotics, and labor conditions, while important in our overall bilateral relationship are already being addressed through mechanisms more appropriate than would be the FTA negotiations.

- **The comprehensive nature of the FTA negotiations could present economic and political challenges for both governments.** The negotiations should, therefore, also address appropriate transition periods based on a **program of staged, full-phased elimination of tariffs and non-tariff barriers consistent with GATT obligations**, meaning that reductions will be phased in over an agreed-upon period of time, and that all sectors of the economy can be covered in the agreement.

- **We recognize that the liberalization process could create dislocations affecting labor as well as various industries and localities.** Therefore the agreement should provide **temporary safeguards and adjustment assistance**. This would provide a mechanism for industries to seek temporary relief from sudden import surges resulting from the reduction of import barriers, and provide assistance for businesses and workers that suffer displacement. Existing U.S. law providing such safeguards and assistance should be used to the maximum extent possible. The agreement should also provide **effective dispute-settlement procedures and periodic reviews**.

- **A Free Trade Agreement should establish clear rules of origin, which will provide verification that products are actually made or originate in the U.S. or Mexico.** This will prevent third countries from acting as "free riders" in the agreement, thus ensuring that trade benefits accrue to both the U.S. and Mexico.

We feel that these principles lay the groundwork for a successful, mutually beneficial agreement. Of course, it is also essential that Congress allow the President to negotiate under fast-track authority. Without this authority it would be difficult, if not impossible, for the USTR to conclude a successful agreement, because the agree-

ment would be subject to Congressional alterations which may be unacceptable to the Mexican government.

FAST TRACK AUTHORITY

Many argue that if fast-track authority is granted, the Administration will have *carte blanche* to include or exclude anything it wants in the agreement. This is not the case. As you are well aware, the fast-track process is not really all that fast. The notification, consultation, and approval processes provided in the fast-track mechanism give Congress ample opportunity to influence the outcome of the negotiations. We also believe that the Administration should and will consult closely with U.S. business, since an agreement not acceptable to the broad spectrum of American business is doomed to failure.

IMPLICATIONS FOR THE UNITED STATES

Some have expressed concern that an FTA will result in a transfer of U.S. jobs across the border as American firms take advantage of Mexico's lower wage levels. As many others have said before me, if wage costs were the principal determinant of business success, then Haiti would be an industrial powerhouse. Other factors, such as the skill and education level of the workers, their productivity, the available infrastructure, ease of getting inputs to a plant site, and the ease of operating in a different culture are also considered when deciding on a plant location. It is true that some American companies have found it necessary to move part of their operations to Mexico in order to remain competitive with imports in the U.S. market. But in many cases these companies must choose between moving a portion of their operations to Mexico or to other countries where wage rates are even lower. It is to the advantage of the U.S. economy that these jobs are given to Mexicans, who are large consumers of U.S.-produced goods. This way, the largest possible number of jobs are maintained in the U.S., while at the same time new markets are created for U.S. exports, thus producing employment opportunities here at home.

Others have also argued that Mexican wage levels will be kept artificially low to attract U.S. investment, thus depressing U.S. wage levels so that they are competitive with Mexico's. The experience of other countries has shown that this should not be the case. When Spain was integrated into the European Community, there were similar concerns that the wage levels of other EC countries would suffer as a result. Not only has this not occurred, but wage levels in Spain rose 8.3% in 1987, 6.5% in 1988, and they continue to rise. At the same time wage rates have also risen in Germany, England and France. Moreover, development patterns in the emerging Asian newly-industrialized countries have shown that when low-wage countries expand their export markets, new jobs are created and wages increase. Korea is a good example. It was once one of the lowest-wage countries in Asia. Since Korean exports started to boom in the mid-1980s, wages increased 19.6% in 1988, 25% in 1989, by 18% in 1990. Finally, Mexican officials have said repeatedly that they do not seek sustained export success through low wages. Rather, the result of this agreement should be to increase the standard of living in both countries. Creating new employment opportunities in Mexico—a country where 15% of every consumer dollar is spent on U.S.-produced goods—will help the U.S. increase its exports in consumer and capital goods.

HEMISPHERIC IMPLICATIONS

We have recently heard that Canada will join in the FTA negotiations with the U.S. and Mexico, thus permitting the development of a tripartite accord. This will put the U.S. in a North American economic unit with a combined output of \$6 trillion, which is 25% greater than the European Community's output of \$4.8 trillion. Such an arrangement should grant the U.S., Mexico and Canada—individually and collectively—increased influence for obtaining greater access to other markets. Including Canada in the negotiations would also move us closer to President Bush's objective of a free trade zone extending from "Anchorage to Tierra del Fuego"—a goal he set when he announced his "Enterprise for the Americas" Initiative last June.

ENTERPRISE FOR THE AMERICAS

This Free Trade Agreement is important for the success of the President's Enterprise for the Americas Initiative—a new foreign policy for Latin America and the Caribbean. Rather than "throwing money" at the region's problems—the historic U.S. response to difficulties faced by developing countries—the President has proposed a mix of investment, trade, and debt relief incentives to encourage countries

to adopt free market-oriented policies that can bring about long-term economic growth and political stability. Since this will not only benefit Latin America, but also expand U.S. export markets and investment opportunities, the Chamber supports this Initiative. A successfully concluded FTA with Mexico will serve as a model for the hemispheric free trade zone proposed in the President's Initiative.

CONCLUSION

Mr. Chairman, it is time for the Congress to look beyond the short term, and to do something that will help the competitive position of the U.S. far into the future. Clearly, this agreement will help Mexico as well. More importantly however, this agreement can be beneficial to small and medium American business as well as larger U.S. firms. If the negotiations follow the principles we have set forth, we feel very strongly that the Chamber will be able to support the final agreement in the interest of the broad spectrum of our members.

ATTACHMENT

The U.S. Chamber of Commerce believes that a comprehensive FTA would benefit a broad base of our 180,000 members—most of whom are small and medium-sized firms.

It is doubtful that these negotiations will result in a simple copy of the Canadian-U.S. Free Trade Agreement. The U.S. and Canada had extensively integrated markets and exchange of investment long before our FTA. This is not so between the U.S. and Mexico. Therefore, we feel that both governments should consult closely with their business communities as negotiations proceed.

In supporting negotiations, the Chamber does not guarantee ultimate support for the FTA. We will only support an agreement that is in the interest of the entire U.S. business community. Therefore, we established the following principles that serve as criteria for an acceptable agreement:

- Be comprehensive, with a view to going beyond the Uruguay Round agreements;
- Cover tariffs, non-tariff barriers (NTBs), agriculture, investment, services, and intellectual property protection;
- Ensure that trade benefits accrue to both the U.S. and Mexico. Specifically, to avoid third-country components from being processed in Mexico, stamped "Made in Mexico," and exported to the U.S., rules of origin must be established;
- Allow temporary safeguards and measures to deal with serious injury to industries, labor and/or localities resulting from the liberalization process;
- Include a well-defined process for removing technical and administrative barriers to trade and investment that are identified during the operation of the FTA;
- Establish a program of staged, full-phased reductions of tariffs and NTBs, consistent with GATT obligations;
- Provide effective dispute settlement procedures;
- Establish periodic reviews of the FTA; and,
- Lay the groundwork for a single market encompassing the U.S., Mexico and Canada, which individually and collectively, will have more influence for obtaining greater access to other markets in the world.

PREPARED STATEMENT OF SENATOR MAX BAUCUS

After WW II, the U.S. assumed the role of rich uncle to the world.

The U.S. opened its markets without demanding that our trading partners do the same in order to encourage growth in the rest of the world.

During those years, trade policy was made by the State Department.

And the State Department was more concerned with using international trade to boost foreign development than in promoting the interests of U.S. exporters, farmers, manufacturers, and workers.

Trade concerns always took the back seat to diplomatic and defense concerns.

Those misguided policies are largely responsible for the competitive problems and trade deficits that we face today.

Thankfully, in the face of increasing concern over declining U.S. competitiveness and massive trade deficits, that pattern changed.

Consistent congressional pressure forced the Administration to increase the priority given to trade policy.

Over the last few years, this new emphasis has been successful in opening foreign markets for U.S. exports and encouraging export growth.

The U.S. export sector grew at a 14% annual rate from 1987 through 1989. In fact, exports kept the U.S. from slipping into recession one quarter earlier.

It now appears that exports are the economic horse that can pull the economy out of the mud of the current recession.

PROMOTING U.S. COMMERCIAL INTERESTS IN A U.S.-MEXICO FTA

Unfortunately, there those in the Administration that would hobble that horse. There are those who would like to slip back into their old patterns of using trade to promote foreign policy objectives at the expense of commercial objectives.

Their efforts are apparent in the Administration's effort to begin negotiations on a U.S.-Mexico Free Trade Agreement.

Don't get me wrong.

I support the concept of a U.S.-Mexico Free Trade Agreement. In fact, I sponsored a resolution in the 1984 Trade Act that supported negotiation of a U.S.-Mexico FTA.

Further, I have long argued that the United States must aggressively pursue a policy of negotiating bilateral trade agreements wherever possible to open markets and stimulate broader multilateral negotiations.

But I do not believe that the Administration has developed strong commercial objectives in the proposed negotiations with Mexico.

There are those in the Administration who wish to increased access to the U.S. market as a substitute for foreign aid to Mexico.

Certainly, Mexico is an important neighbor and ally.

But the United States must set commercial objectives above all others in trade negotiations. If a proposed agreement does not further commercial objectives—no matter what foreign policy objectives it may promote—the agreement should not be negotiated.

Certainly, access to the U.S. market cannot be used as a substitute for foreign aid.

Unfortunately, I have heard a great deal from this Administration about the importance of Mexico as an ally and precious little about the commercial objectives that would be promoted by an FTA.

PROPOSED COMMERCIAL OBJECTIVES

This is unfortunate because there are commercial objectives that could be promoted in a U.S.-Mexico FTA.

Mexico is already the U.S.' third largest trading partner. And if Mexico can break out of its current economic doldrums it could become a fast growing market for U.S. agricultural and manufactured products.

The United States' first priority in FTA negotiations with Mexico should be expanding U.S. exports. This would entail removal of most of Mexico's tariff and non-tariff barriers, including export licenses. In most if not all sectors, the United States should strive to eliminate tariffs. Priority should be given to eliminating those tariffs that block significant U.S. exports.

CONCLUSION

Despite my qualms about the Administration's commercial objectives in these negotiations, I am prepared to vote to allow the Administration to begin negotiations with Mexico.

Given that there is potential commercial benefit to a U.S.-Mexico FTA, I believe the negotiations are worth beginning.

However, before I am willing to agree to an extension of authority to negotiate such an agreement, I must see a strong set of U.S. commercial objectives for the negotiations.

If an agreement is eventually reached, I will measure it against those objectives. And if it does not measure up, I will vote against it.

I will vote against the agreement, not because I am an enemy of Mexico, but because I am a friend of U.S. exporters.

PREPARED STATEMENT OF JAY BERMAN

My name is Jay Berman and I am president of the Recording Industry Association of America. On behalf of the association and its more than 50 members, I want to express my appreciation to the committee for giving me the opportunity to appear before you today. We represent the copyright owners of over ninety percent of the prerecorded music in America, with worldwide sales in excess of ten billion dollars a year. Our membership includes the so-called majors—familiar companies

such as Warner Bros., Capitol and RCA as well as small companies like Sparrow and Jamie Records. The common thread is a fragile existence based upon the adequate and effective protection of sound recordings around the world. This thought conveniently brings me to the topic before us today—Mexico.

I appear before you as a man caught between a sponge and a soft place. I say this because everyone that I speak to on the issue of the protection granted to U.S. sound recordings seems to agree with me. The Salinas administration calls the adequate and effective protection of intellectual property, including sound recordings, a priority of the highest order. The Bush administration informs us, and has informed you, that they expect legislation overhauling Mexico's inadequate intellectual property laws to be enacted in April or May of this year, resulting in express protection for U.S. sound recording copyright owners. You the Congress, and this committee in particular, have made your intentions with respect to intellectual property very clear—from the CBI initiative to GSP, from the 1988 Omnibus Trade and Competitiveness Act to your oversight over the Uruguay Round. You have forcefully commanded that countries that do not afford adequate and effective protection to United States. Intellectual property may not be permitted access to the U.S. market.

So if everyone agrees with me, and it does not make sense to preach to the converted, what am I doing here? The answer is simple . . . I've yet to hear any fat ladies singing and it is essential that you understand the details of existing problems in Mexico as well as the political and policy implications of these issues.

I want to start off by expressing my indebtedness to and appreciation of the work of this committee in demonstrating its resolve in the fight for adequate and effective copyright protection worldwide, as well as my support and admiration for the tireless efforts of Ambassador Hills and her staff for her market opening initiatives in the Uruguay Round and in bilateral negotiations. In response to the concerns and priorities that you articulated in, among other things, the Omnibus Trade and Competitiveness act of 1988, she has done a yeoman's job of fighting the battle for fair and open trade and for improvements in levels of protection of intellectual property. The U.S. intellectual property industries in general, and the U.S. recording industry in particular, have been the beneficiaries of this unending joint campaign.

I cannot overemphasize the importance of adequate and effective copyright protection in foreign markets. U.S. record companies claim about fifty percent of the world's \$22 billion a year trade in recordings, and nearly 40 percent of sales occur outside the United States. The percentage of overseas sales will only increase as the newly industrialized and lesser developed countries move further into the mainstream of world commerce. The development of new technologies permitting rapid dissemination of information and entertainment will further ensure that U.S. sound recordings will reach an even wider audience, and that revenue from the U.S. market as a share of total revenue, will further decrease.

Developments in technology, coupled with the world's thirst for U.S. culture, primarily conveyed via our music and our films, has raised the already high stakes in terms of adequate and effective copyright protection worldwide. Technology is a double-edged sword. For while it may offer new creative solutions to the age old problem of distribution, as well as an incentive for the creation of new classes of works, it can, if unchecked, completely undercut a copyright owner's ability to control the unauthorized reproduction and distribution of his works—thereby undermining the economic incentive upon which our entire copyright system is based. Inadequate copyright protection has the potential, therefore, to create major trade distortions, particularly in an environment in which copyright owners may lose control of their works as a result of the advent of new technologies.

At this point, some of you must be wondering how this relates to Mexico and the issues before us today. allow me to make the connections.

Mexico today offers no protection to sound recordings—none to U.S. recordings, none to Mexican recordings. We estimate that annual sales of pirated sound recordings in Mexico exceed \$250 million—at least \$75 million represents losses to U.S. record companies. U.S. and Mexican record companies, performers, musicians, studio engineers, songwriters and publishers are being devastated by rampant piracy. There are reports that there are over 4 thousand vendors of pirate recordings in Mexico City alone.

I am hopeful that this fundamental and gaping inadequacy in Mexican legislation will be resolved in April or May of this year when the Mexican parliament reconvenes. In my view, Mr. Chairman, the issue of copyright protection for sound recordings is not an appropriate subject for the FTA. Given existing market conditions and losses to U.S. record companies, it needs to be resolved even before the FTA. If it is not, you will hear from me again prior to the final vote on extension of negoti-

ating authority. Again, let me say that I assume it will be resolved, but seeing is believing.

Let me turn now to a few of the underlying issues that need to be addressed in the context of extending negotiating authority for the FTA. The U.S. has a great deal at stake in ensuring free trade and the adequate and effective protection of intellectual property both here and abroad. "Trade" can and should, as Ambassador Hills often says, be a force for peace and prosperity. Sound recordings offer an interesting glimpse at how this may work. American cultural life and the individual freedom of expression so central to our democratic ideals finds its best expression in American music. Through our music we express our hopes, our fears, and our individual visions. American music has frequently been credited with helping to foster democratic movements in Eastern and Central Europe, the Soviet Union, and in China. Shared universal ideals flowing from an appreciation of individual liberties and freedom of expression are powerful tools for the creation of a more peaceful world.

At the same time, the effective protection of copyrights in sound recordings gives rise to U.S. and world prosperity by encouraging investment in the creation and distribution of recorded materials. Ralph Oman, U.S. Register of Copyrights, once testified convincingly that "by insisting on protection, we are allying ourselves with the most worthy elements of [a foreign] society—the authors and inventors—and we are strengthening the position of those people, and weakening the vultures, the parasites, and the pirates . . . [w]e should be supporting the creative, inventive people in . . . developing countries—those who will build prosperity and create a national identity . . . there are high ideals at . . . we want to encourage freedom and democracy. Copyright allows authors to survive without relying on the largesse of [the government]."

Free trade as a force for peace and prosperity is an idea whose time has come, and I therefore urge you, in support of these ideas, to support the extension of fast-track negotiating authority to allow the administration to engage in market opening initiatives. Make clear, however, that free trade does not simply mean free access to the U.S. market. Free trade must be a two-way street, and must result in real market access for U.S. companies, and in the establishment of adequate intellectual property standards and their vigilant enforcement. These standards must reflect a changing world and not remain static, tied to outdated technologies and business practices. The most effective mechanism for ensuring such living and breathing standards is through the dialogue of free trade.

I am confident, Mr. Chairman, that this committee will maintain close oversight over all free trade negotiations, for free trade, as you know, is without a fixed meaning in its particulars and is subject to ever-changing criteria in its evaluation. Free trade without meaningful intellectual property protection is an oxymoron. Free trade permitting entire sectoral exclusion from national treatment and non-discrimination on the basis of culture is unacceptable and must be resisted. The so-called "cultural exemption" provision in the Canada free trade agreement cannot be extended to the tri-lateral agreement. The apparent rationale for a cultural exclusion is rooted in a misplaced nationalism and in a deep misunderstanding about the nature of culture. Culture is not, as the Canadians seem to think, merely the preservation of historical national characteristics. It is more than the past, for it must include the present as well. In truth, Mr. Chairman, we do not seek to destroy other national cultures, but merely to permit others to have access to ours.

Worse yet, "culture" is frequently merely a convenient, if thinly veiled, disguise for economic protectionism, and has little to do with content, but a great deal to do with who will profit from the exploitation of American copyrighted materials.

In conclusion, let me say that I place great hope in the future of free trade negotiations generally and in this Mexico-Canada-U.S. trilateral in particular. Outside of the negotiations on the FTA, Mexico has pledged to enact a copyright law extending adequate protection to sound recordings and enact similar intellectual property reforms in other areas. If enacted, this would serve as a symbol of the good faith such negotiations might take. Given this scenario, I would support extending the President's fast track negotiating authority, for the future competitiveness of the U.S. economy relies on a healthy world trading system—made more viable by the development of 'sound local business environments around the world. At the same time, I caution you to read between the lines of free trade banners and to ensure that the limitations on free trade—for example non-application of national treatment for so-called cultural purposes--not swallow up the rule of free trade. The highest levels of intellectual property protection mean little if barriers erected in the name of culture prevent meaningful access to a market.

PREPARED STATEMENT OF FRANK BOUIS

Mr. Chairman and Members of the Committee, I am Frank Bouis, a citrus farmer and President of the Florida Fruit and Vegetable Association. I am honored to appear before you today to discuss the impact on fruit and vegetable agriculture of the proposed free trade agreement between the United States and Mexico. I have discussed the proposed agreement with a number of producers of fruits and vegetables from a number of states across the country. I will attempt to convey to you their concerns as well as my own.

In international trade, most sources acknowledge agriculture to be one of the most highly controversial areas in negotiations. As you know, failure to reach an agreement on agriculture has derailed, for the time being, the multinational Uruguay round of negotiations on the General Agreement on Tariffs and Trade (GATT). Agriculture is no less contentious in the proposed free trade agreement with Mexico.

The United States and Mexico are major trading partners, especially in agricultural products. Over the last 5 or 10 years, U.S. imports from Mexico have grown to about 2 billion dollars per year. During the same period U.S. exports to Mexico have grown to about 2½ billion dollars per year. However, the Mexican exports are principally high value fruits and vegetables while the Mexican imports are principally staples of grains and meat products.

The Administration is using the bulk of this huge increase in activity as an argument for a Free Trade Agreement with Mexico, suggesting that an improvement of a good thing will be a better thing.

However, knowledge of the facts of the comparative competitive conditions between Mexico and the United States is necessary to predict the consequences of a Free Trade Agreement. The rapid increases in agricultural trade have taken place because the competitive advantage has shifted toward Mexico and away from the U.S.

Fruit and vegetable agriculture is heavily dependent on labor, especially when production is for the fresh market. It is heavily dependent on pest control management. It demands compliance with certain environmental standards. We have a myriad of regulations which seriously handicap the American farmers' ability to grow fruits and vegetables and which greatly increase the costs of doing so. Lastly, welfare, inflation, the urbanization of America have seen a migration of skilled farm workers from the farm into the city.

These conditions have enabled entrepreneurs in Mexico (often with financial and other support from the U.S. and encouragement from their government) to develop a capacity for fruit and vegetable production and to penetrate the U.S. market to the extent of about 20%.¹ The percentages vary widely from forum to forum,² from crop to crop, and from season to season.³

This development has happened in spite of tariff protection for certain fruits and vegetables. Now, we believe, a Free Trade Agreement which removes those tariffs, and has no other protective features, will lead to a further loss of U.S. fruit and vegetable production, especially fresh and fresh frozen, whether there is a phase-in period or not.

No less an authority than the International Trade Commission says "Mexican producers are able to supply the U.S. market with many (horticultural products) at much lower costs. This is particularly true for citrus crops and winter vegetables that are manually harvested."⁴ If we continue to ignore the facts, the consequences will be unpleasant for most of us.

That this is not an idle worry is shown by the fact that Mexico has given up on becoming self-supporting on food and is going to seek a more attainable state of equalizing their agricultural imports and exports.⁵

How much would the losses be? We don't know, of course, but there are some indications. The U.S. government predicts that 20% of the Florida tomato industry would be lost immediately, with further losses to follow. This reflects a loss of 8,700 tomato workers.⁶

The Administration tends to downplay the importance of fruits and vegetables but they are a very big thing. To the consumer they represent 25% of his food bill and, according to the Surgeon General, his best chance of health from dietary input. Fruits and vegetables are grown in every state, but they are concentrated in California, Florida and Texas. They are so big a thing that California and Florida rank No. 1 and No. 2 among all the states in cash receipts from growing crops.⁷ In Florida alone, they represent something like one million acres of economic activity. We do not know how many people are involved but 500,000 is a defensible guess, consider-

ing field workers, truck drivers, all the packing house workers, mechanics, salesmen and others.

Indeed, food security has become one of this nation's foremost concerns. Fruit and vegetable production in the United States is grown keeping in mind the national concern with safety for the consumers, the workers, and the environment. It is vital for our national well-being that additions to our fresh and fresh frozen fruit and vegetable supply be made a part of our existing food security system. This can be done, but it will take a little time and effort.

We do not suggest that there should not be an agreement with Mexico. Indeed, the millions of violations of the present legal relationships show the people of both countries want a new arrangement. But, a new arrangement should be one we all can live with. It should be acceptable to the people of both the U.S. and Mexico. It should protect the U.S. consumers and the U.S. workers and the communities in which they live. It should even protect the Mexican workers who come to this country to find a better life and who provide the raw materials for thousands of jobs for American citizens. Mexican workers in the U.S. are paid the same as U.S. citizens, as much in an hour as they would get in a day at home in Mexico. Every year they send billions of U.S. dollars home to their families, while they provide fruits and vegetables for the American consumer grown according to the American system.

Our proposal is to retain the tariffs while necessary adjustments are being made. That is, tariff removal should not be on a set calendar. Rather, it should be a consequence of the implementation of necessary actions within the two countries.

There are two major considerations. One is the continued competitiveness of the American farmer operating in an industrialized country vis-a-vis the Mexican farmer operating in an economy only a fraction of ours. The other is to integrate this foreign produce, fresh and frozen, into the U.S. system of food security.

Thus, a sufficient number of Mexican workers should be allowed to remain here to keep the American farmer competitive so far as worker costs, treatment and availability is concerned. This can be done within U.S. law.

Field and packaging sanitary (including field standards for workers) and phytosanitary standards and enforcement mechanisms in Mexico should be brought to the U.S. level. It is often said this cannot be done, for it is an invasion of privacy. But, it is no more than the American farmer faces. It is no more than the transparency that should exist between our two countries and does exist in American agriculture. This provision can be within the agreement.

It should be established based on facts (not promises) that Mexico has and is fully abiding by the General Agreement on Tariffs and Trade.

Mexico must agree to eliminate all subsidies, licenses, permits and other such practices including their price control on food grains.

Mexico should provide adequate historical statistical data on commodities shipped to the United States.

Such an agreement should include reform in foreign investment and trade in services. American agricultural entrepreneurs should be able to go to Mexico just as their counterparts can invest here.

Mexico should agree not to ship on consignment any fruits or vegetables to the United States.

Mexico should agree to ship and market fruits and vegetables in accordance with U.S. grade standards.

The disparity between regulations in the United States and Mexico provides Mexican producers with an artificial comparative advantage founded only in the differences in these governmental regulations. We estimate that 25% of costs to the U.S. fruit and vegetable farmer are imposed by the U.S. government.

To effectively attain "free trade" in fruit and vegetable agriculture, therefore, all laws and regulations affecting agriculture must be harmonized. Additionally, all laws and regulations must be enforced as they are in our country. This harmonization will allow comparative advantage to be determined by the factors of production and not by the differences in government regulations.

A free trade agreement with Mexico seems inevitable. The Bush Administration in the United States and the Salinas Administration in Mexico are working diligently to make this happen. The danger we see is that they are working too quickly. Some of the most important issues in Mexican-U.S. economic relations are likely to be off the eventual negotiating agenda. Neither side wants to talk about an economic union: Mexico, with a per capita income one-tenth that of the United States and a gross domestic product one-thirtieth in size, fears that it would be crushed in an agreement limited to the movement of goods and services rather than people.

The Bush Administration wants to keep environmental concerns in a separate agreement. This is *not* satisfactory. If trade is to be free, all aspects affected must be

considered. The fruit and vegetable producers in the United States are as close as United States agriculture comes to free trade. We receive no government subsidies, participate in no government programs. We are "free traders." If the tariffs are removed, we simply want to level the playing field so that we can compete without relocating to Mexico.

ENDNOTES

1. Foreign Agriculture Trade of the U.S., USDA, Economic Research Service, National Agricultural Statistical Service, Jan./Feb. 1990, Page 5.
 2. Fresh and Frozen Fruit, 33.0% of the U.S. Market;
Canned Fruit, 13.0% of the U.S. Market;
Fresh vegetables, 7.0% of the U.S. Market.
U.S. General Accounting Office Testimony entitled "Impacts of Fruit and vegetable Imports" before the Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition Committee on Agriculture, House of Representatives on May 10, 1988.
 3. 1986-87—Fresh Tomatoes 31.5%;
Winter Squash 59.0%;
Eggplant 41.6%;
Winter Green Beans 20.0%;
Winter Cucumbers 48.2%.
- Department of Food and Resource Economics, IFAS, University of Florida, Gainesville, Florida, 1990.
4. The Likely Impact on The United States of a Free Trade Agreement With Mexico, U.S. International Trade Commission, Publication Number 2353, February 1991.
 5. Seeley Lodwick, Speech to International Trade Conference at the Annual Convention of United Fresh Fruit and Vegetable Association, Anaheim, California, February 1, 1991.
 6. The Potential Effects of Labor-Intensive Agriculture In Mexico On United States-Mexico Migration, Thompson and Martin, Commission for the Study of International Migration and Cooperative Economic Development, Washington, D.C., December 1989.
 7. U.S. Total—1988 \$72.6 billion;
California Total—1988, \$11.9 billion;
Florida Total—1988 \$4.7 billion.

These are farmgate values without the value-adding activities of packaging, processing and preserving. Farmlife Magazine, USDA, Economic Research Service, inside back cover, July 1990.

PREPARED STATEMENT OF SENATOR DENNIS DeCONCINI

I want to thank Chairman Bentsen and members of the Finance Committee for giving me the opportunity to testify on an issue of great potential economic importance to our country—U.S.-Mexico Free Trade Agreement. I also want to congratulate the Finance Committee for bringing members of the Administration, Congress and the private sector together to address this issue today and through future hearings.

I commend Presidents Bush and Salinas and Prime Minister Mulroney of Canada on yesterday's decision to pursue a trilateral free trade agreement between the United States, Mexico and Canada. I believe this decision will give added impetus to the free trade agreement. With a market larger than the European Community both in terms of population and output, a North American free trade zone would truly be one of the most important international trade agreements of the decade.

The Chairman and I both come from border states which enjoy a special relationship with Mexico. Cultural, economic and historical ties between Arizona and Mexico add a rich element to the state's culture. It is in part because of the positive relationship which Arizona and Mexico have developed that our state has taken a particularly strong interest in the potential U.S.-Mexico Free Trade Agreement.

I commend President Bush and Mexican President Salinas de Gortari for their initiative in pursuing a U.S.-Mexico Free Trade Agreement. Our countries face great economic challenges. Adapting to changes in the global economy will not be easy. Building our economic relations with neighboring countries is crucial to strengthening our competitive standing in the international market. I support a Free Trade

Agreement with Mexico for this reason—it is crucial to the future global competitiveness of the United States. However, neither I nor other supporters of a U.S.-Mexico Free Trade Agreement are willing to give the President or the United States Trade Representative a blank check in these trade negotiations with Mexico. It is critical that Congressional input throughout the process be maintained at a high level.

The growth in U.S.-Mexico trade which has accompanied the economic liberalization undertaken by President Salinas has been remarkable. U.S. exports to Mexico doubled between 1986 and 1989 to \$25 billion dollars. This figure is estimated to be \$28 billion for 1990. I commend President Salinas for the steps he has taken to open the Mexican economy to foreign trade and investment. The result has been improved bilateral trade relations between our countries.

Under the leadership of President Salinas, Mexico has privatized state owned enterprises, deregulated foreign investment and reached a debt service agreement with her commercial creditors. While Mexico must still take additional steps to truly open her economy, the importance of the measures undertaken so far should not be minimized. They represent real economic reform, not synthetic gestures. The elimination of trade barriers, while especially beneficial to some American sectors, offers unique opportunities to most American exporters and the American consumer.

As a Senator from a border state, I have an obvious interest in the potential Agreement and the increased flow of goods over the Arizona border which will result. The Chairman is familiar with the importance that Mexico trade already holds for border states. In 1989, Texas and Arizona respectively exported more than 9.5 billion and 730 million dollars in goods to Mexico. The elimination of trade barriers to the Mexican market will increase those figures. The new jobs, investment and the location of industries in the border region that will result from a FTA are an encouraging sign for the much needed economic revitalization of this area. Of deep concern to all border states is stemming the current need of many young people from these communities to look outside their states for employment.

While I am generally supportive of a Free Trade Agreement, Mr. Chairman, let me briefly address one particular aspect of a U.S.-Mexico Free Trade Agreement that is high on my agenda and I hope on Ambassador Hills'—the environmental implications of expanded trade between our countries. Environmental pollution knows no political boundary, recognizes no legislative fiats and does not stop at border stations.

Historically, industrial expansion in Mexico has occurred within twenty miles of the border. The U.S.-Mexico Border Industrialization Program has demonstrated that industrial behavior in Mexico not only directly affects the ecology of Mexican host communities but their sister U.S. "twin-cities" as well.

Because of the geographic and ecological characteristics of the border region, communities along both sides share common water and air supplies. Contamination occurring in northern Mexico ultimately finds its way back into the United States either through the air or underground aquifers.

I would like to point out a situation with which the Chairman is very familiar: air quality problems which many border areas experience. One of these areas is the El Paso, Texas—Juarez, Chihuahua valley; El Paso has never met EPA standards for air quality. It would be inaccurate to say that pollution coming from Mexico is the entire cause of that city's failure to meet Federal air quality standards. It would be reasonable, however, to assume that pollution coming from Mexico partially explains El Paso's air quality problems.

Urban sewage piped into the ocean near Tijuana and San Diego contaminates beaches in the area. Raw Sewage traveling into the United States from Nogales, Sonora is being discharged from damaged sewage lines and threatens drinking water supplies which service both communities. Although not all these environmental threats can be completely attributed to industrial expansion along the border, it is no coincidence that these threats to the environment have increased simultaneously with expanded trade between our two countries.

During these trade negotiations, we have an opportunity to anticipate environmental problems that will likely result from the removal of trade barriers and increased industrialization. We can prepare for this situation by increasing the ability of border communities to solve environmental problems. For such environmental goals to be realized, adequate financial resources for environmental monitoring, management training, and hazardous materials emergency planning should be discussed.

I do not believe environmental concerns are an impediment to increasing trade between our countries. The United States should, however, be committed to ensur-

ing that both Mexican and U.S. industries operating in Mexico conduct themselves with environmental responsibility. We must ensure that expanded U.S.-Mexico trade opportunities do not burden border communities with the negative byproducts of industrial expansion.

Another issue I would like to raise today concerns a type of trade none of us wishes to see increased—illegal narcotics. I am pleased with the stronger commitment President Salinas has shown to fight the Drug War. I do not believe we would be here discussing the possibility of a U.S.-Mexico Free Trade Agreement, regardless of its economic importance, if Mexico had not made the commitment to join the United States in fighting this war. Although I have been critical in the past of Mexico's commitment to the war against drugs, I am hopeful that President Salinas will keep his promise to "fight with utmost energy" the production of illicit drugs and the trafficking of those drugs across the border. Bilateral cooperation in fighting this war is essential to eliminating this national threat.

Finally, I would like to discuss an issue which I believe is essential to increasing U.S.-Mexico trade—the improvement and expansion of ports of entry along our border. Inadequate border facilities are an unintended, but significant, barrier to trade between our countries. Delays and bottlenecks at border crossings cause loss of money to brokers and shippers on both sides of the border.

As a result of the growing drug epidemic, our Federal inspectors must scrutinize everyone and everything coming into the United States. These precautions are essential to our success in the drug war. I believe, however, that we can conduct the necessary inspection for drugs at border crossings and ensure the expeditious processing of passengers and merchandise through our border facilities.

Four years ago, Senator Domenici and I, as Chairman and ranking member of the Senate Treasury Appropriations Subcommittee, began an intensive national program to upgrade U.S.-Mexico border facilities. We created a new program within the General Services Administration for this purpose and, as a result, many of the long overdue border improvements projects from Texas to California are underway. Last year we were successful in completing the funding for this program. In total, \$360 million has been appropriated to date to modernize our U.S.-Mexico border facilities.

As negotiations begin on a U.S.-Mexico Free Trade Agreement we must ensure that our border facilities have adequate staffing and equipment. We must also continue to work with the Mexican government to identify locations for new facilities and see that Mexico provides funding to construct, staff and equip its own facilities. A Free Trade Agreement without these assurances would fail in its goal to eliminate real barriers to bilateral trade.

Because of the opportunities I believe a U.S.-Mexico Free Trade Agreement offers both our countries, I am holding a conference with Customs Commissioner Carol Hallett, the Deputy Trade Representative for North American Affairs, Don Abelson, and the Arizona-Mexico Commission in Tucson on February 11. It is through such conferences and hearings such as today's that I believe we can identify our national interests in a Free Trade Agreement with Mexico.

I want to thank the committee again for addressing this issue which holds great economic promise for our country. I look forward to working with my colleagues in the coming months to ensure that the issues I have raised today and others which may also arise, are adequately addressed in the FTA. I also look forward to continued cooperation between the Administration and the Congress on this matter which I believe is essential to final Congressional approval of a U.S.-Mexico Free Trade Agreement.

PREPARED STATEMENT OF THOMAS R. DONAHUE

Mr. Chairman, members of the Committee, the AFL-CIO welcomes this opportunity to present its views on the proposed U.S.-Mexico free trade negotiations. There are few public policy issues confronting this nation that have as much significance for American workers as does this Presidential initiative. We strongly believe that the substance of the Administration's proposal is ill-conceived and ill-advised, and we are alarmed at how the Administration wishes to carry out these negotiations.

With virtually no public discussion or debate, Presidents Bush and Salinas announced on June 10, 1990, their intention to enter into negotiations leading to the enactment of a comprehensive free trade agreement (FTA) between the two countries. President Bush is seeking to conduct these negotiations under special congressional authority known as "fast track," which allows the President to submit implementing legislation resulting from a trade agreement for congressional consider-

ation under a closed rule. The use of "fast track" seriously limits both public and congressional involvement in discussions with Mexico, and dilutes the law-making authority of the Congress.

The AFL-CIO believes that the relationship between the United States and Mexico is too important to be addressed in this fashion. A free trade agreement would have serious and far reaching consequences for the two countries, and in particular, for workers in both countries. Such an initiative requires a full and open debate to identify its effect on economic growth, wages, income distribution, the environment, and quality of life in both countries. The Administration, in seeking "fast track" authority, wishes to stifle that debate.

The enactment of a free trade agreement with Mexico, as proposed by President Bush, would be an economic and social disaster for U.S. workers, and their communities. Under current trade arrangements, tens of thousands of American workers have lost their jobs and tens of thousands more have seen employment opportunities vanish, as U.S. companies transferred production to Mexico to take advantage of the poverty of Mexican workers, and the absence of any effective regulations on corporate behavior.

A free trade agreement will only encourage greater capital outflows from the U.S., bring about an increase in imports from Mexico, reduce domestic employment, as the United States moves deeper into a recession, and accelerate the process of deindustrialization that has confronted this country during the 1980's.

What is at stake is not more or less trade with Mexico, but the nature and quality of that trade. The United States will stand to lose in the competition for world markets if the economic relationship emerging with Mexico contributes to the further deindustrialization of the American economy and to the erosion of the skill base of this country. Such a scenario is likely when innovation and technical change in the domestic manufacturing sector is blunted by the availability of cheap labor in Mexico, leading to meager productivity increases. By the same token, a free trade accord ignores the social dimension of economic integration and may increase tensions and frictions between the two countries, thus sharpening differences, and blocking the development of a more harmonious relationship.

This second point is vital for both the interests of the United States and Mexico. Unregulated trade for the United States, will result in less job creation, less productivity increases, and regression in environmental and other social standards. For Mexico, it could well reduce that country's comparative advantage to simply cheap labor, turning Mexico's economy into one large export platform, sacrificing balanced and equitable economic development. This view was emphasized last November by six Mexican leaders, including former Finance Minister Jesus Silva Herzog and author Carlos Fuentes, who wrote: Low Mexican wages cannot be a permanent feature of North American economic relationships. That comparative advantage is too costly for everybody involved; too humiliating and unproductive for Mexican dignity and economic development; too costly in jobs and welfare for American and Canadian workers; too destructive for our common environment and civilization."

TO EXTEND THE U.S.-CANADA FTA

It has been argued that a free trade agreement with Mexico would merely be an extension of the pact entered into with Canada in 1989, thereby creating a North American free trade area. The AFL-CIO opposed the U.S.-Canada FTA because we were, and still are concerned, that the agreement would inhibit U.S. governmental efforts to address economic and social problems in the United States, while at the same time, approving a significant disparity in the way the two governments involve themselves in economic development. That being said, Canada, at least, has wage levels, living standards, and regulatory structures similar, if not superior, to the U.S. A free trade agreement with Mexico, a country where wages and social protections are almost nonexistent when compared to our own, simply invites disaster for U.S. workers.

TO COMPETE WITH EUROPE

Proponents of a U.S.-Mexico FTA have also suggested that it is a necessary step to balance actions being taken in Europe to form a single market. This comparison is also misleading, and ignores a variety of factors that separate the European experience from the proposal now under consideration. In Europe, a crucial aspect of ongoing talks is the development of a social dimension to the internal market. There, the freeing up of capital movements, and the liberalization of trade in goods is taking place side by side with efforts to set minimum work place standards and benefits, as well as to establish common regulatory regimes. As currently described,

U.S. negotiations with Mexico will deal exclusively with trade and capital liberalization and ignore the social dimension of trade and production.

U.S.-MEXICO TRADE

Trade between the United States and Mexico has grown rapidly during the last decade. Imports from Mexico have increased 40 percent since 1985 reaching 26.6 billion dollars in 1989. A major stimulus to this increase has been the massive devaluation of the Mexican peso and the coincident growth of the in-bond or maquiladora program. This program effectively suspends Mexican import duties on U.S. production related machinery, as well as components that are incorporated into exports, and U.S. duties on the U.S. content of products imported from these plants. Located largely in the border area, its size has mushroomed from 120 plants, employing about 19,000 workers in Mexico 20 years ago, to some 1800 plants, employing about 500,000 workers today. The significance of this activity is reflected in the growth of imports under harmonized tariff system item 9802, which eliminates U.S. tariffs on the U.S. content of the imported products. The value of this trade has doubled since 1985, and now represents 45 percent of all U.S. imports from Mexico.

The free trade agreement, as proposed by President Bush is designed to expand this type of economic activity, by encouraging U.S. investment in Mexico for production for export. The AFL-CIO believes that this type of program will do little to help solve America's trade problems. Indeed, it only makes that problem larger. At the same time, it does little, if anything, to improve the lives of the vast majority of Mexican citizens.

This is not to say that no one benefits from this program. Certainly, the profits of U.S. companies are increased, and I imagine a narrow group of managerial and political elites in Mexico are advantaged. U.S. financial interests also have a major stake in this export oriented activity, since export earnings are used to pay interest on Mexico's crushing debt burden. Today, 40 percent of Mexico's export earnings are used to merely service their \$95 billion debt.

Any benefit derived by U.S. workers who lose their jobs as production is transferred, or Mexican workers who are being paid barely subsistence wages, is more difficult to discern.

EMPLOYMENT IMPACT ON U.S. WORKERS

There has been considerable discussion and debate over the domestic employment effect of current U.S.-Mexico trade relations, as well as the potential employment impact of a free trade agreement. This is a debate that has been clouded through the use of supposedly sophisticated economic studies, and models, which tend to downplay any negative employment effects. This type of analysis merely serves to camouflage the obvious. The one thing we do know is that there are some 500,000 workers producing goods destined almost solely for this market. If our market was being serviced by domestic production, even taking productivity differences into account, employment would clearly be hundreds of thousands higher. Tens of thousands of workers across America in companies like Electrolux, Trico, Zenith, Westinghouse, Farrah, GE, AT&T, GM, Ford, Chrysler—the list could go on and on, have seen their jobs disappear to Mexico. They, better than any model or projection can describe the employment impact of this type of trading relationship.

Beyond actual experience, common sense tells us that a free trade agreement with Mexico, a country where wages are less than one tenth those in the United States, is bound to impact negatively on U.S. employment and income. Why should firms invest in the United States if they can move a hundred yards across the Rio Grande River and dramatically reduce their labor costs? At minimum, such an agreement would have a significant downward effect on U.S. wage levels, as domestic companies sought to cut costs in order to compete with \$.60 an hour labor.

NO HELP FOR U.S. EXPORTS

It has been asserted that a free trade agreement will boost exports, and therefore improve the U.S. trade position. Administration officials frequently cite the huge Mexican market of 85 million consumers who presumably are clamoring to buy U.S. made goods. Unfortunately, the reality is somewhat different. Given the extreme poverty of Mexico, there are only about 10 million who are in the position to buy much of anything at all. The other 75 million are merely trying to survive, and provide themselves, and their families with food and shelter. Secondly, it is likely that a free trade agreement would encourage growth along the lines of the maquiladora program. In this economic structure there are no real exports. By definition, the U.S. content is returned. Indeed, it is estimated that 40 percent of U.S. exports to

Mexico are brought back to the United States as finished products. This is not trade in the conventional sense of the word. The U.S. is merely renting low wage Mexican labor.

COMPETITIVENESS

The argument that the maquiladora program, or a full fledged free trade agreement is necessary in order for a company to become more competitive, is merely an attempt to justify what may be a company's easiest solution to competitive problems, but not one that is beneficial for the U.S. economy and American workers. The transfer of production to Mexico under these circumstances turns the traditional concept of international trade on its head. Here, an industry's competitiveness, or a nation's comparative advantage is not determined on the basis of the cost or quality of the completed product. Rather, comparisons can now be made for each stage of the production process in deciding on foreign or domestic sourcing. The historic strength of the U.S. economy has been based on a variety of factors, including a highly educated, productive, and well-paid work force, ample capital and natural resources, innovative production techniques, strong managerial skills, and continued technological advances. Together, these elements have led to the high standard of living enjoyed by so many Americans. This wealth, however, and its continued growth, requires high income levels. The maquiladora program, not to mention totally free trade, permit a company to separate decent and justified wage levels from all other aspects of production. Mexico's single comparative advantage is the poverty of its citizens and their willingness to work for subsistence wages. The skill, productivity and contributions of American workers become irrelevant in this context, and the growth of this activity threatens one of the essential pillars of the American economy. No matter how productive, U.S. workers cannot compete with labor costs of less than one dollar an hour.

DEVELOPMENT

The huge differential in wages and its impact on economic development is illustrated by a pay stub (attached) from a worker at a Zenith plant in the Mexican city of Reynosa. For a 48 hour week, this worker, who is engaged in the manufacture of television and other electronic components, netted 71,700 pesos which, at the time, February of last year, translated into the sum of \$26.16. Gross pay amounted to a mere \$.61 an hour.

Even by Mexican standards, this is low and gives workers little reason to be committed to long term employment with a company or more fundamentally, to be committed to their community. Few workers have the benefit of union representation, and problems concerning occupational health and safety, and the environment are rampant.

Improvements in the quality of life, normally associated with the kind of economic investment witnessed in Mexico over the last ten years have not occurred. Indeed, investment has brought beautiful, brand-new production facilities. It has also brought a first-rate road from the plant to the U.S. border. But it has brought nothing to the communities where the plants are located. For example, it is estimated that between four and five hundred thousand people in Juarez, Mexico have no running water, sewers, or electricity. Workers in many of the plants are forced to live in dormitories, or in shacks made of packing materials from the factory. Their drinking water is contained in large 50 gallon drums that used to contain toxic materials. Schools, hospitals, and parks remain unbuilt.

A few years ago, when Mexican wages were actually higher in dollar terms than they are today, the Twin Plant News, a magazine supportive of industry, published an article on the subject of wages stating: "There are ways to keep the minimum wage people at minimum wage." The article suggested "free or subsidized lunches" and assistance with transportation costs. It also asked "How about a free kilo of tortillas each week or a few kilos of frijoles." It went on to suggest that the employees of the U.S. parent corporation could "clean out their closets of those items they'll never get to again" and send them to the Mexican plant for distribution, "where it will do the most good." Remember, "many of the houses (on the Mexican side of the border) are poorly heated, if heated at all, and warm clothing and blankets feel good on those cold nights." It strains credulity to believe that development in Mexico is assisted when people working 48 hours a week need handouts of food and clothing in order to survive.

Under these circumstances, any developmental gains by Mexico are marginal at best. Subsistence wages do not generate the demand necessary for a healthy and growing economy. Even if permitted, the workers could not afford to purchase the

products they produce. Claims by some that the existence of these plants boosts the economy of the U.S. border region are simply not credible in light of \$5.00 a day wages.

Indeed, the reverse seems to be true. Corresponding to the growth of U.S. investment in the maquiladora industry, there has been a reduction in Texas border income, relative to the national average, and an increase in health problems.

Today in El Paso county, for example, tuberculosis is double the national average, salmonella is three times the national average, and hepatitis A is five times the national average. A free trade agreement with Mexico will simply encourage more of the kind of economic activity that appears to be harmful to the very people it purports to assist.

IMMIGRATION

Both the United States and Mexican Governments have argued that a free trade agreement will slow down illegal immigration by providing jobs in Mexico. Certainly, the creation of good jobs at wages that provide food, housing, and a decent standard of living, would encourage people to stay in their communities. Jobs at less than a dollar an hour, however, will not have that effect, and may actually serve to increase illegal immigration by drawing people to the border to work in the Maquiladora industry, who, after a short time, will continue on into the United States.

Beyond the question of immigration, the issue of labor mobility, despite U.S. Government assurances to the contrary, will be addressed in the proposed negotiations under the subject of trade in services. Mexico will be seeking, as it has done in the Uruguay Round of trade negotiations, easier access for its population to enter the U.S. market on a "temporary" basis to provide services. In their submission in the Uruguay Round, the Mexican government stated "The expansion of the service exports of developing countries and their increased participation in world trade in services depends on the liberalization of cross border movement of personnel covering unskilled, semi-skilled, and skilled labor, and that effective access to markets for their service exports can mainly be realized through this mode of delivery. Temporary entry for providers of services was expanded significantly in the U.S.-Canada free trade agreement, and there is no reason to believe the outcome will be different with Mexico.

SOCIAL PROTECTIONS AND THE ENVIRONMENT

Beyond the question of wage differentials, the vast differences in regulatory structures and social protections cannot help but create serious difficulties for U.S. production. In one sense, the establishment of a U.S.-Mexico free trade area would be, in commercial terms, no different than if one drew a circle around the city of Houston and said, for example, that inside that circle U.S. minimum wage or child labor laws wouldn't apply, occupational health and safety regulations need not be observed, workers compensation and unemployment insurance need not be paid, and environmental protection laws could be ignored. All these standards, and others like them impose costs on U.S. producers. We as a nation, however, have decided those costs are necessary to improve the standard of living of all our citizens. In Mexico, there are no such costs to be borne.

Noting this problem, one article, in a series on the Maquiladora industry published by the *Arizona Republic*, cited a Tucson based consulting company that sends prospective clients a flier stating that one of the advantages of doing business in Mexico is "minimal government regulator controls, i.e., no OSHA, EPA, EEOC, AAP, Air Quality Control, etc." This newspaper series also cataloged a variety of problems confronting workers in the Maquiladora industry, including the employment of a 13-year old girl by General Electric on the 4:30 PM—1:30 AM shift, making electric wiring strips, the mishandling of toxic materials used in production processes, and the resulting pollution problems, and the growing use of used chemical drums by workers to hold drinking water.

The impact of different regulatory structures was also highlighted in a May 14, 1990, *Los Angeles Times* article on the Southern California furniture industry. According to the *L.A. Times*, furniture makers have been leaving Southern California and setting up production down the road in Tijuana, in order to escape tough environmental rules imposed in 1988, concerning the use of solvent-based paints, stains, and lacquers. By moving, they also avoid paying California's workers' compensation insurance premiums, which, because of the hazards of woodworking, cost employers a basic rate of \$.19 on each \$1.00 paid out in gross wages.

The tragic irony of this is obvious. The pollution that California sought to eliminate remains. It merely originates a few miles away, across the border. Workers in

the U.S. have lost their jobs, and Mexican workers are endangered by the absence of effective health and safety regulations.

On a larger scale, the Federal Clean Air Act, enacted into law last year, will impose even wider-ranging costs on domestic producers, and may generate more transfers of production to Mexico. The solution is not to lessen the effort to reduce pollution, but to recognize that such efforts produce related problems that must be addressed.

All along the U.S. Mexico border, drinking water supplies and irrigation waters are being polluted, and fish and wildlife face extinction. The fragile ecosystem is endangered by indiscriminate dumping of waste in land dumps. The region lives under the threat of toxic poisoning caused by transportation or industrial accidents. Adequate waste treatment facilities are lacking on both sides of the border, and health problems are skyrocketing. Mexican workers in the maquiladora plants are frequently denied basic health and safety protections against occupational illness or disease, and they risk the loss of their jobs if they protest these dangerous conditions. Commenting on the maquiladora industry, the Wall Street Journal on September 22, 1989 stated "Their very success is helping turn much of the (Mexico-U.S.) border region into a sink hole of abysmal living conditions and environmental degradation." A March, 1990 report by the U.S. International Trade Commission quotes two Mexican government officials on environmental problems. One stated "protecting the environment is a luxury activity: it has a price." while another states that "Mexico does not want industries that pollute, but we must remain competitive, that's why we don't push environmental enforcement."

WHAT CAN BE DONE

AFL-CIO believes that the huge differences that presently exist between the United States and Mexico make the establishment of a free trade area both damaging to U.S. workers, and of little benefit to Mexican workers. It would only serve to perpetuate a division of labor that separates the people of the two nations into low cost producers on the one hand, and consumers on the other. In order to prosper, people need to both work and consume, and U.S. efforts should be directed to that end.

The problems of poverty and economic development in both the United States and Mexico are too serious to be left to the interests of private capital. Significant debt relief, so that Mexico can invest in its own future, foreign aid, so that standards and enforcement mechanisms can be improved, development planning, and efforts to raise the wages and living standards of Mexicans, as well as efforts to address the current environmental degradation of the border area, are all elements that must be dealt with on a governmental level. This is particularly true with respect to those American-owned manufacturing plants, the maquiladoras, in which exploited Mexican workers produce goods for the U.S. market.

The Bush Administration's free trade proposal does not address any of the factors that are vital to improving the relationship between the United States and Mexico. Granting the Administration fast-track negotiating authority will ensure that these issues are either ignored, or side-tracked into separate commissions, studies, or committees.

Fast-track authority is not necessary to negotiate with Mexico. Congress can direct, and the Executive can undertake discussions without this special authority. Any agreements reached would then have to be brought back to Congress for its consideration under normal legislative procedures. The AFL-CIO believes that if the problems between the United States and Mexico are to be addressed in a positive fashion, Congress and the American people must play a major and continuing role. The issues noted above must be dealt with before any consideration is given to further trade liberalization, so that the majority of people in both countries will benefit, and not be harmed, by international trade. Rejection of "fast track" negotiating authority is essential to insure the realization of this goal.

**PARTES DE TELEVISION
DE REYNOSA, S.A. DE C.V.**

R.F.C. PTR 771828

FECHA DE EMISIÓN	PTA.	Supervisor	No. DE SEGURO SOCIAL	No. RECIBO
11/02/90	1			

EMPLEADO	DEPTO.	C DE COSTOCUENTA	NOMBRE DEL EMPLEADO		REG. FED. CONT.			
			CONCEPTO	HORAS	PERCEPCIONES	CVE.	CONCEPTO	DEDUCCIONES
			ORDINARIO OBR	48.00	60,480.00	0122	APORT. FONDO A	4,234.00
			SEPTIMO DIA		10,080.00	0161	DESC. DESPENSA	5.00
			BONO TRANSPORTE		11,400.00	0245	CUOTA SINDICAL	2,117.00
						0506	CUOTA IMSS	3,858.00
			RET CUPONES NETO		7,500.00			
			TOTALES		91,960.00			10,214.00
							PAGO NETO	\$71,700.00

RECIBO DE LA COMPAÑIA ANTERA INDIKADA EL SALARIO QUE LE CORRESPONDE POR LOS DIAS TRABAJADOS A LA FECHA QUE SE EMITE ESTE RECIBO NO RESERVA NINGUNA ACCION LEGAL QUE LEER-CIVIL, PRESENTE Y FUTURA EN CONTRA DE LA EMPRESA, POR NINGUN CONCEPTO QUE SEÑALA LA LEY FEDERAL DEL TRABAJO NI DE NINGUNA OTRA NORMATIVA.

FIRMA

Reynosa
Zenith

48 horas

\$71,700

11 feb. 1990
Primer grado

120

U.S.A. # 26.16

IUE FACT SHEETU.S.-MEXICO "FREE TRADE" AGREEMENTI. IUE MEMBERS AND THE INDUSTRIES IN WHICH WE WORK WILL BE AMONG THE HARDEST HIT BY A FREE TRADE AGREEMENT.

The IUE represents production and maintenance workers in a variety of industries, including electrical-electronics, transportation, fabricated metal, power-generation equipment, and automotive parts. At one time, we had 360,000 members. Today we have 165,000. During the past decade, our employers have cut back or totally shut down their U.S. operations in favor of other countries, such as Mexico, where workers are paid rock bottom wages and easily are exploited. The result has been job loss for tens of thousands of IUE members and other American workers.

The U.S. already has lost entire industries to other countries -- the radio and black and white television industries are two examples -- and many others are rapidly following their path to extinction. While millions of American homes now contain color TVs, CD players, major appliances, and other electronic and electrical goods with American brand names, most of these products are no longer made in this country. The U.S. based consumer electronics and appliance industries have become mere fractions of what they once were. Our members who are employed in these industries are among those with the most to lose if a free trade agreement with Mexico is approved by the U.S. Congress.

II. THE MAQUILADORA PROGRAM HAS CONTRIBUTED TO THE DECLINE OF THE U.S. ELECTRONICS INDUSTRY.

"Maquiladoras" are assembly plants established in Mexico by foreign corporations. Approximately 90% of the "maquilas" are owned by U.S. based corporations, and the products from these plants mostly are sold in the U.S. Maquila workers are paid only 60 to 70 cents an hour -- less than \$6.00 per day.

Electronics manufacturing and assembly constitute the third largest maquila industry. Maquila workers now assemble a variety of products that are made -- or were once made -- in the U.S. by IUE members. These products include radio and TV components, electrical and electronic sub-components, auto parts and components, household appliances, transformers and furniture. During the past decade, IUE employers such as Bendix, General Electric, General Motors, Litton Industries, North American Phillips, RCA, Sylvania, United Technologies, Westinghouse and Zenith have cut back or totally closed their assembly operations in the U.S. and relocated them to Mexico.

III. U.S. WORKERS ALREADY HAVE LOST TOO MANY JOBS TO MEXICO.

Our experience with the maquiladora program tells us what we may expect from a free trade agreement with Mexico. Such an agreement would give our employers and other companies even more incentive to move jobs out of this country. The following are just some of the many examples of IUE jobs already lost to Mexico:

• IUE Local 74B, Jefferson City, Tennessee: In 1978, with over 2,000 production workers, the North American Phillips Consumer Products Division was one of the largest employers in eastern Tennessee. IUE members made electronic components for TVs and video games, as well as TV cabinets for other companies. In 1982, the company moved 800 jobs to Mexico -- even though the average wage of its Jefferson City workers was a modest \$5.40 per hour.

- IUE Local 849, Evansville, Indiana: When Zenith shut down its two Evansville plants in the late 1980's and moved the work to Mexico, 1,000 hourly and salaried Evansville workers lost their jobs.
- IUE Local 717, Warren, Ohio: In 1973, IUE represented about 13,000 production workers at this GM, Packard Electric Division. Today, only 8,200 jobs remain in Warren. In Mexico, GM now has 24 manufacturing plants employing 23,700 workers.
- IUE Local 463, Brooklyn, New York: In the early 1980's, IUE represented some 600 workers at a Parker Mannifau (Ideal Clamp Division) shop. The company then opened a plant in Matamoros, Mexico. The Brooklyn shop is now closed.
- IUE Local 255, Pittsfield, Massachusetts: Fifteen years ago, GE employed some 15,000 workers in Pittsfield. By 1987, employment was down to 5,000. Today, only 1,000 hourly jobs remain. Last year, another 60 jobs were lost to Mexico.
- IUE Local 731, Memphis, Tennessee: In 1989, 400 workers assembled automobile lights at this plant. Last year, 44 workers were laid off because their jobs went to a GE plant in Acuna, Mexico. Shortly thereafter, the company announced that additional jobs would be going to Mexico.
- IUE Local 118, Warwick, Rhode Island: In 1979, 550 wiring assembly jobs at this GE plant were lost to Mexico. Today, no wiring work is done at this plant. Only 28 workers, who now manufacture lighting controls, remain.
- IUE Local 761, Louisville, Kentucky: Three years ago, when GE purchased the Roper Company, members of Local 761 were told they could expect 600 new jobs. None of those jobs materialized, however, because the Roper range is being built in Mexico.
- IUE Local 806, Kirkland, Indiana: In October, 1990, twenty-eight people, making wiring harnesses for auto suppliers, were employed at AES Interconnects. The next month, when a customer shifted a \$45,000 order to another company with a manufacturing facility in Delianosa, Mexico, the Indiana workforce was reduced to fourteen.
- IUE Local 840, Troy, Illinois: Since 1982, membership at Basler Electric has declined as the work, including the entire magnetics assembly operation, has been relocated to Reynosa and Matamoros, Mexico.
- IUE Local 1010 FW, Los Angeles, California: In April 1990, IUE negotiated its first contract for 45 production workers with Chair Factory, Inc. Six months into the contract, the company, citing "economic hardship," transferred 30 jobs to a subcontractor in Tijuana, Mexico.

PREPARED STATEMENT OF RUDIGER DORNBUSCH

A free trade agreement with Mexico would represent a significant step in focusing trade policy on creating *more* and *better* jobs. Most of the work in improving the standard of living must come from education, skill building and research, but trade policy can contribute by opening and strengthening markets for our export industries. Except in the case of Japan or some Asian countries, increased market access will inevitably require that we also must give in on remaining protection at home. More and better jobs therefore come at the price of more competition for protected industries and they are sure to cause *some* losses of employment and wage pressure in uncompetitive sectors. That is bad news at a time where real wages are depressed and employment at best stagnant. (See Figure)

We must be concerned with these difficulties, but they must not mesmerize us into maintaining the status quo for poor jobs. We accept and indeed applaud competition as the key driving force responsible for raising the standard of living in the home economy and we recognize in looking at Eastern Europe that lack of competition is responsible for the desperate state of their economies. We should not let go of competition but displaced workers should get adjustment programs, skill building and education to help them get into good jobs. It is bad trade policy, however, to keep workers and their children in poor jobs and even pervert protection to the point where we attract immigrants into to perform this work. This state of affairs is responsible for the controversy surrounding the proposed FTA with Mexico, but the controversy is misplaced. Free trade with Mexico cannot be a panacea for all US problems, nor will it create "an economic and social disaster for US workers and their communities" as argued by the AFL-CIO.¹

The other reason labor opposes the FTA is that their experience with trade opening focuses on Japan and developing economies which have participated in successive GATT trade liberalization rounds without much visible effect on their openness, thus creating a sharply biased competition. Labor is right on that score and should urge remedies in our trade relations with Japan. But that has no bearing on the proposed free trade agreement with Mexico. The dramatic effect of opening measures in Mexico is already amply demonstrated by the experience of the past three years.

TRADE AND EMPLOYMENT EFFECTS OF A FTA

Concerns about the effect of free trade on US jobs focus on the low level of Mexican labor cost. Numbers such as 61 cents an hour are routinely cited. Of course, Mexican labor costs, as shown in Table 1, are far higher than that even if they are low by comparison with the US. Moreover, even with these low labor costs, a move to free trade stands no chance of having major effects on the US economy at large or on manufacturing. Puerto Rico with an average wage of 5.70 in manufacturing has not destroyed manufacturing in the continental United States, nor has the free trade agreement with Israel where hourly compensation is half that in the United States.

Three factors support the assertion that an FTA with Mexico cannot plausibly bring major harm and is very likely to be beneficial. First, Mexico is very small relative to the US. Any significant increase in Mexican exports (measured on the US scale) would increase labor requirements and wages in Mexico dramatically and thereby squash competitiveness.

Table 1.—THE UNITED STATES AND MEXICO COMPARED: 1989

	United States	Mexico
GNP (Billions of U.S. dollars).....	5,461	225
Manufacturing.....	948	50
Population (Millions).....	251	81
Labor Force.....	124	30
Compensation (U.S. dollars/hour) ¹	14.21	2.32

¹ 1989 Hourly compensation for production workers in manufacturing reported by the US Bureau of Labor Statistics, Report 794.

¹ This view was advanced by Thomas R. Donahue, Secretary-Treasurer, AFL-CIO, before the Senate Finance Committee on February 6th, 1991: "The enactment of a free trade agreement with Mexico, as proposed by President Bush, would be an economic and social disaster for U.S. workers and their communities, and do little to help the vast majority of Mexican workers."

Second, although Mexican labor costs are low relative to those in the US, these labor costs also reflect a low level of productivity and in some areas such as textiles the very low quality of output. The quality factor especially is a major obstacle to a dramatic development of Mexican exports.

Third, the United States is a very open economy. Competition from abroad is not a threat but a complete reality. Protection continues only in a few sectors, not across the board in all lines of activity. Moreover, Mexico enjoys already a privileged position both as a result of the GSP and more importantly as a consequence of the maquila program which exempts reimports from US duties except for the Mexican value added component. The combination of factors reduces the *extra* impact of US trade liberalization to a few sectors and to a total effect that have simply no chance of amounting to much in terms of aggregate employment or output.

Employment Effects: A FTA will create more and better jobs, but in the process of doing so, some jobs are almost certain to be lost. The accompanying Table, drawing on the USITC study, reports the key sectors where employment impacts can be expected.

Table 2.—SECTORS WITH SIGNIFICANT REMAINING TRADE BARRIERS

	U.S. employment (1,000s)	Hourly compensation	High trade barriers ¹		FTA ² Effect
			United States	Mexico	
Agriculture	NA	NA	7%*	11%*	+ + / -
Automotive Products	992	21.51	*	*	+ + / -
Cement	20	NA	-	10%	+
Chemicals	835	18.19	-	15%*	
Energy Products	275	21.26	-	*	+
Electronic Equipment	2,000	14.51	2%	16%*	+ +
Glass Products	143	14.52	22%	20%	-
Machinery and Equipment	110	15.33	3%	10-20%	+
Steel Mill Products	277	23.49	0.5-11%	10-15%	+ +
Textiles and Apparel	1,818	8.75	6%*	12-20%*	+ + / -

¹ Figures report average tariff rates where these are high and an asterisk stands for some form of nontariff barrier.

² A plus denotes a moderate export gain, a minus a moderate import increase, double signs denote trade significant changes.

Source: Adapted from USITC Publication 2353 and US Bureau of Labor Statistics data.

The table shows that Mexico still has significant protection in key areas where the United States can as a result expect to score export growth. This includes specifically electronic equipment, automotive products, steel and textiles. Textiles in fact are a key example of an industry that has already demonstrated its ability to compete very effectively in Mexico. In 1989, and more so in 1990, the United States ran a bilateral trade surplus with Mexico in textiles and apparel. The key to understanding this is to look at *quality*, not only at wages. In the quality perspective, the US is to Mexico, what Japan is to the US.

Since the United States does continue to protect certain sectors with high duties and nontariff barriers, a FTA would open these areas to Mexican competition. Interestingly, the USITC identifies only horticulture and inexpensive household glass products as the areas where significant import increases must be expected. The explanation, once more, is that the United States is already substantially open to competition from low cost countries and even more so to Mexico. In automobiles, for example, the maquila program offers Mexico the opportunity to compete in the US.

To the extent that import increases can be expected in an area such as apparel, part of the extra imports will mostly displace sales by low cost producers in Asia. In part it will also reflect the result of US textile exports to Mexico which raises the quality of Mexican apparel to the levels required for the US market.

Table 3.—UNITED STATES-MEXICAN TRADE

[Billion of U.S. dollars]

	1986	1987	1988	1989
Exports	12.4	14.6	20.6	25.0
Imports	17.3	20.3	23.3	27.2
Oil	3.7	3.8	3.3	4.3

Table 3.—UNITED STATES-MEXICAN TRADE—Continued

(Billion of U.S. dollars)

	1986	1987	1988	1989
Non-oil Balance.....	-1.2	-1.9	0.6	2.1
Maquila Value Added.....	-1.3	1.6	2.3	3.0

The upshot of this discussion is that trade liberalization will give rise to increased imports, but that there is no plausible alarm scenario. Moreover, going beyond the particular loss of sensitive industries, trade creation induced by the FTA will produce new good jobs. It will cost primarily bad jobs or jobs that, in any event, are under threat from world competition. The maquila program has been cited as a major source of US job losses in the 1980s and a FTA is interpreted as a vast maquila program. But the fact is that the maquila program is quantitatively small—less than one third of a percent of US manufacturing GNP. More important, recently trade with Mexico has been a source of net job creation in the US. Since 1986/87 our non-oil trade with Mexico has swung by \$3.6 billion toward a surplus and that means more jobs were created than destroyed. In fact, using the rule of thumb of 30 workers per \$1 million exports, the swing in the non-oil trade balance has created more than 100,000 jobs in the United States.²

The focus on the non-oil trade balance is appropriate because the trend in the bilateral balance is the chief determinant of net job creation. To the extent that a FTA reinforces confidence in Mexico's modernization, as it already has started doing, flight capital will return to Mexico and foreign direct investment will grow. The availability of external capital until now has been a severe constraint on growth and on investment in Mexico.

With modernization reinforced by a FTA, capital availability will largely disappear as a serious problem and Mexico will resume trade deficits as appropriate for developing countries. Because the United States is Mexico's chief supplier, Mexican growth and deficits become a source of increases in US employment. Assuming that Mexico runs a trade deficit of 2 percent of GNP, US job creation over the next 5 years could be as high as 150,000. Even larger numbers are quite possible because a FTA gives us privileged access.

Foreign Investment in Mexico: Investment in Mexico by Asian or European firms should not be considered an unqualified disadvantage of a FTA. Clearly, such investment will be motivated to a large extent by the desire to build up an export base to the US market and as such seems threatening. But for the most part the goods come anyway, whether it be from Thailand or from Korea and Japan.

The penetration of our market by imports from Asia is already a fact, the only question is whether, at the margin, shifting the production from Asia to Mexico is in our interest. And here the answer is clearly yes. Mexican workers spend a far larger share of their income on our goods and hence we have an interest in their having good jobs at good wages. It is understood, of course, that import content provisions would apply. Location of Asian plants in Mexico cannot simply be a means of circumventing US trade restrictions by performing negligible assembly tasks in Mexico. The experience in Europe with certificates of origin demonstrates that while administratively cumbersome, it is by no means overwhelming.

The argument used for Asian producers goes in the same way for US firms. Co-production with Mexican labor is far better, from the point of view of US labor, than losing and entire operation to Asia or other locations. In many industries it is today totally implausible to produce goods fully with labor priced at the US level; foreign production is far too cost competitive. Co-production with Mexico represents by a wide margin the lesser of the two evils. In fact, the cost reducing effects may well be important enough to allow higher US wages and, at the same time, increased US competitiveness at home and abroad.

PROGRESS IN MEXICO

Democracy, workers' rights, safety and environmental standards are obvious issues on the political agenda of modern, open economies. A Free Trade Agreement

² See F. Duchin and G.M. Lange "Trading Away Jobs: The Effect of the US Merchandise Trade Deficit on Employment." Working Paper No. 102, Economic Policy Institute, Washington DC, October 1988.

supports modernization in Mexico and thus nurtures these objectives. It will also help raise wage levels in Mexico, back to their 1980 level and beyond. By contrast, trade restriction here must mean even more poverty there; poverty in turn fosters political radicalism, which is not in the American interest.

If we are seriously concerned about the standard of living in Mexico, and about democratization, we cannot escape the recognition that a thriving, open market economy will raise wages, create individual freedom, decentralize political power and allow people to organize around local issues. If Mexico prospers, it will in a better position to take up costly but urgent measures on safety standards at the work place and the environment.

Work standards and environment standards can obviously not become part of a free trade agreement; even in Europe where political integration is the object, standards are a political agenda, not an object of the 1992 regulations. But it is altogether plausible to foster crossborder union dialogue on the issue of safety standards. There is also an urgent need in reinforcing regional and North American environmental policies. This should be handled separately from the FTA discussion, but at the same time. Agreements might be expected to phase in stricter Mexican standards by requiring new plants to abide by US environment standards, while existing plants might have 12 years to adjust.

In discussing standards abroad we must not be tempted to make foreign producers uncompetitive. The object is to spread prosperity at an affordable pace. It will take a long time before Mexico will look like the United States, but we can start making some headway.

REGIONAL CONCERNS

If Mexico prospers, Central America will benefit. Mexican authorities already have started taking an active hand in the economic stabilization of Central America and much more can be expected. The United States shares in this stabilization: enhanced political stability and security in the region and reduced pressure of immigration are clearly in the national interest.

The example of Europe deserves far more attention in our design of trade policy. The core countries of the Common Market have systematically reached out to the periphery to spread prosperity and stability. Bringing Greece or Portugal into the Common Market is no different from a FTA with Mexico. And the discussion now with Eastern Europe serves much the same purpose. Unless the periphery has trade access there will be no investment. Without investment, jobs will be poor and the pressure for migration enormous.

Mexico is recognizing these realities on her own border in the South, responding to the dramatic decline in living standards in Central America, notably in Nicaragua. Mexico has now started filling the leadership vacuum, helping stabilize the region. A rising tide raises all ships; a prosperous Mexico will be a powerful shock absorber for us and a great help in nurturing economic stability and prosperity in a region that is too close to neglect but, except for communist threats, too small to draw much of our attention.

NO GOING BACK NOW

At this stage it has become very expensive to turn back on a free trade agreement. In Mexico, the idea of trade opening has become a corner stone of the economic modernization strategy. The United States has every interest in Mexico's demonstration that with sensible policies all of Latin America can return to prosperity.

Turning our back on trade opening means inviting a resurgence of protectionism not only in Mexico but throughout Latin America and beyond. Going back on the FTA with Mexico would send signals to the world economy far worse than the recent failure of the Uruguay Round.

In the postwar period the United States has invariably favored an open world economy. Successive GATT rounds have opened markets, at least across the Atlantic. In Europe, on a parallel track to GATT, the Common Market has pursued an aggressive project of regional integration with unquestioned benefits. The United States has so far done little to exploit the parallel track. Free trade with Mexico offers an important market opening for the 1990s and beyond. The focus must shift from seeing trade as a threat to viewing it as an opportunity for jobs and profits.

This is an unusual opportunity to implement an outward looking trade policy with Mexico. Looking for modernization as the way out of a difficult economic situation, Mexico today is open to far reaching trade reform. If we miss this opportunity,

we are bound to fail building an important Western Hemisphere trade and investment block in the 1990s.

ADDENDUM TO THE TESTIMONY OF RUDIGER DORNBUSCH

During the hearings questions were raised about wages in Mexico and about the likely impact on working Americans. I would like to expand on my remarks with a few facts.

1. What are the available facts on Mexican labor compensation?

The following tables show data from three different sources regarding Mexican labor compensation. The coverage in each case is different, but the data point to the fact that there is no merit whatsoever to the claim that Mexican wages are anywhere in the neighborhood of 50 or 60 cents an hour. Of course, Mexican wages are extremely low relative to US wages. In part that reflects the depressed conditions of the 1980s, but in a significant measure it is also a reflection of a low level of productivity.

Table 1.—UNITED STATES AND MEXICAN HOURLY COMPENSATION IN MANUFACTURING

[U.S. dollars per hour and index United States = 100]

	United States	Mexico	Ratio
1979-82.....	10.33	2.91	0.28
1983-86.....	12.70	1.88	0.15
1987.....	13.39	1.57	0.12
1988.....	13.85	1.99	0.14
1989.....	14.31	2.32	0.16

Source: U.S. Bureau of Labor Statistics

Table 2.—MEXICAN COMPENSATION IN MANUFACTURING SURVEY DATA: 1990

[U.S. dollars per hour]

	Skilled		Unskilled	
	Maquila	National	Maquila	National
Base Salary.....	1.34	1.57	0.91	1.09
Supplemental Guaranteed.....	0.56	0.65	0.37	0.43
Supplemental Nonguaranteed ¹	0.48	0.55	0.32	0.37
Total.....	2.40	2.70	1.60	1.85

¹ Including profit sharing and labor related taxes

Source: Intergamma de Mexico

Table 3.—MEXICO: COMPENSATION PER HOUR IN INDUSTRY

[Dollars per hour]

	Compensation per employee	Wage earners	Salary earners	Social overhead
1988.....	2.19	1.16	2.52	0.63
1989.....	2.64	1.32	3.12	0.80

Source: INEGI, Mexico.

2. How do US-Mexico compensation differentials compare to those inside Europe. Specifically, is the proposed FTA with Mexico in any way comparable to Greece, Portugal, and Spain joining the Common Market?

Table 4 shows that for the Germany:Portugal comparison the wage relation is broadly the same as for the US-Mexico case. Spain's wages, however are almost half the German wage.

Table 4.—HOURLY COMPENSATION IN MANUFACTURING

[U.S. dollars per hour]

	1980	1989
United States.....	9.84	14.31
Canada.....	8.37	14.72
Mexico.....	2.96	2.32
Israel.....	3.79	7.69
Germany.....	12.35	17.58
Spain.....	5.96	9.10
Greece.....	3.75	5.48
Portugal.....	2.06	2.77

Source: U.S. Bureau of Labor Statistics, Sept 1990

Spain's wages, however are almost half the German wage. But, of course, the absolute difference between US and Mexican wages is not very different from that between German and Spanish wages. Spain's relative wage advantage has attracted some automobile investment and also other industries. But it surely has not undermined employment in Germany. On the contrary, Spanish imports have grown far more rapidly than exports.

It is interesting to note that the merger of East and West Germany involves a situation where the East German wage is one third that in West Germany. For Hungary, Poland or Czechoslovakia the wage relation is far more extreme and yet these countries are expected to gain free trade access to the European Common Market.

3. It has been asserted that an FTA could appreciably reduce the standard of living of 70 percent of the American working population. Is that a plausible prediction?

Harmful effects of an FTA will result primarily in the manufacturing sector. Manufacturing employment in the United States is only 15 percent of total employment. Assuredly not all manufacturing workers will suffer a set back even under extreme conditions. Thus the 70 percent assertion is extremely remote from what can occur.

In fact, in the extreme situation where all workers in the industries listed in Table 5 were to be hurt even then only 4.2 percent of all working Americans would be set back. In conclusion, the 70 percent number is entirely indefensible.

Table 5.—UNITED STATES EMPLOYMENT BY SECTOR

[Million]

Labor Force.....	124.0
Manufacturing.....	19.0
Automotive Products.....	0.99
Electronic Equipment.....	2.0
Glass Products.....	0.14
Steel Products.....	0.28
Textiles and Apparel.....	1.82

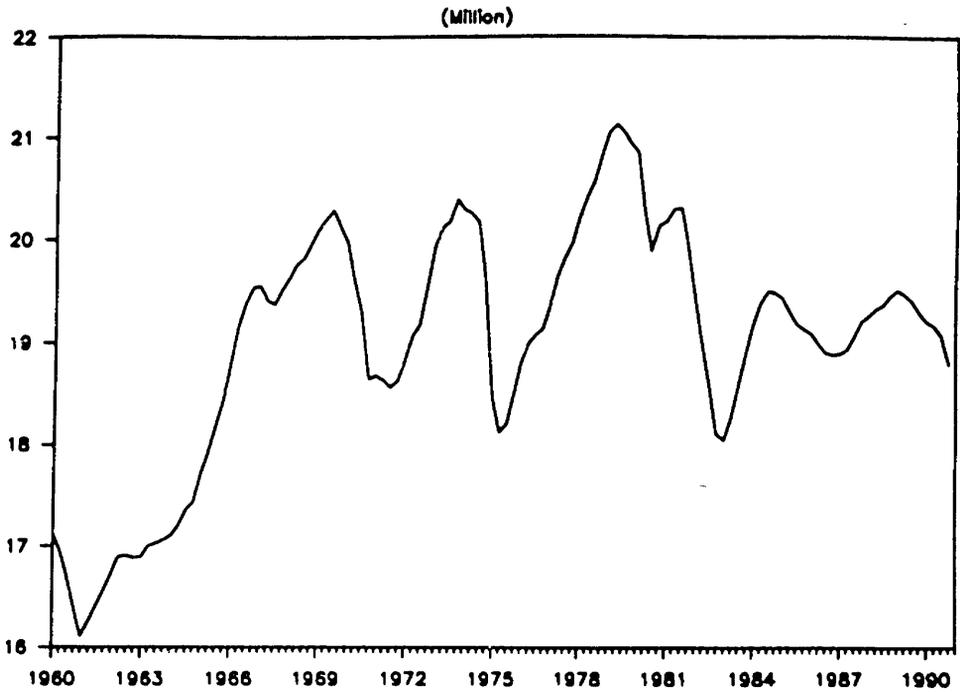
An adverse competitive effect for some firms and workers in industries such as inexpensive household glass, apparel though not textiles or in some automobile parts industries is likely. But that does not mean firms will go bankrupt and workers will have to take massive cuts. For most firms it means a restructuring toward higher value added and higher quality so that they can remain competitive. A substantial phase-in period for the FTA helps support this adjustment and implies that jobs and ultimately wages will become better. Continued protection removes pressure for adjustment and guarantees maximum vulnerability should a sudden opening occur.

The experience in the European Common Market does not suggest that massive dislocation occurred as a result of opening to countries with half the wages of say Germany. The comprehensive report *Social Europe* (Special edition of *European Economy*, 1990) documents in detail the competitive problems of various countries. It

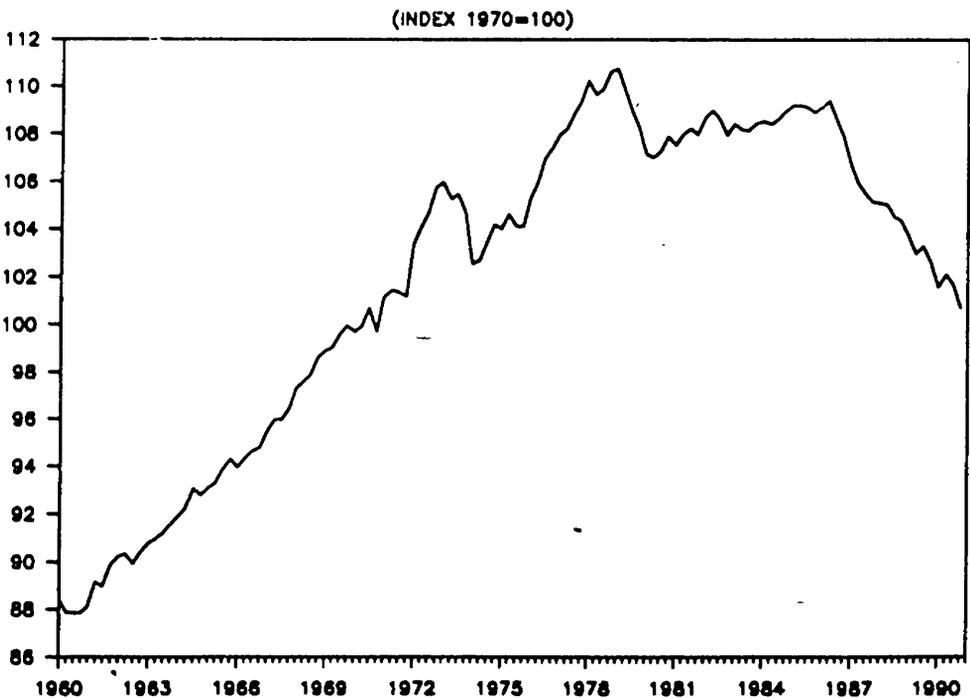
makes clear that the massive losses of particular industries feared in the US-Mexican case simply did not occur. Nor is there the slightest evidence of industry flight to low wage locations. The quality dimension and sheer inertia remain quite obviously important aspects of location.

These findings are directly relevant to the United States experience. If cheap labor were the only concern, all production would move to China where wages are so low that they easily cover the extra transport costs.

US EMPLOYMENT IN MANUFACTURING



REAL HOURLY EARNINGS IN MANUFACTURING



PREPARED STATEMENT OF JEFF FAUX

Mr. Chairman, members of the Committee, I am pleased to be here this morning to share my views on the proposed Mexico-U.S. free trade negotiations, now apparently to be extended to Canada.

The integration of the economies of North America is a worthy goal. But it is a complex and risky task and must be carefully designed to support prosperity in all three nations, rather than undermine it. By this criteria, the Mexican Free Trade Agreement (FTA) as proposed by the President fails.

The economic argument for the FTA is this: it will result in losses for unskilled workers, especially in industries at the lower end of the wage ladder (e.g., apparel, footwear, textiles,) but such losses will be offset by lower prices paid by more skilled workers in higher wage industries (e.g., autos, machinery, chemicals) and higher incomes for U.S. shareholders of certain corporations.

The Committee will recognize that no one can accurately predict the outcome of this proposition with any accuracy. Economists have a hard enough time making relatively easy predictions—such as what our GNP will be six months from now—much less the complex long term interactions between the U.S. and Mexico that would flow from this radical and unprecedented proposal. It is therefore a question of *judging* risk; do the probable benefits outweigh the probable costs?

In that regard, an examination of even the best case made for the proposal—the U.S. International Trade Commission's recent report to this Committee, *The Likely Impact on the U.S. of a Free Trade Agreement with Mexico*—shows that any small gains are likely to be overwhelmed by larger job and incomes losses to American workers and their families.

1. The general statement of the ITC study in support of the Mexican Trade Agreement is based largely on the authors' faith in free trade economic theory. Even so, they admit that benefits are likely to be small. But who wins and who loses? According to the report: "Unskilled workers in the United States would suffer a slight decline in real income, but skilled workers and owners of capital services would benefit more from lower prices and thus enjoy increased real income." No one should be misled by the term, "unskilled." According to the definitions used by the ITC study, *this refers to over 70 percent of all U.S. workers!*

The ITC Report does not quantify the words "slight decline." (Indeed, the Economic Policy Institute's economists were refused access to most of the underlying data, making a complete evaluation of the report impossible.) But obviously, the net effect is a shift of income from the bottom and middle three-fourths of working Americans to the top one-fourth and the shareholders of major financial corporations.

The Americans who would be most hurt are those who have suffered major real incomes losses over the past decade, particularly workers under 35 without college degrees. Between 1979 and 1987 (the last year for which we have the data), the real income of families headed by high school graduates aged 25-34 dropped 7 percent. Among white male high school graduates with 1-5 years work experience the drop was 18 percent. Given the steady decline in real wages since 1987, we know that the economic squeeze among young working families is now even worse.

2. The ITC study seriously minimizes potentially large job and income losses in the U.S. by making unrealistic assumptions. First, it simply assumes full employment in the U.S. economy, which in essence defines away the problem of joblessness.

Second, the report dismisses the possibility of American firms shifting significant production investment to Mexico, because, it says, the much smaller size of the Mexican economy limits such investment. But the attraction of Mexico to U.S. manufacturers is not Mexico's general economy, it is the labor force of almost 30 million willing to work for wages that average one-tenth of ours.

This point is underscored by warnings scattered throughout the report that if U.S. investment in Mexico does increase substantially, job and income losses will be much higher than they have guessed and will extend to those U.S. industries that the ITC now assumes will be gainers from the FTA, such as automobiles and machinery. For example, the study hints that the Big Three U.S. automakers are likely to invest significantly in Mexico. But because the Big Three's actual intentions are today "unknown," the report does not consider the potential impact of increased investments on U.S. employment. Likewise, the Machinery and Equipment industry is presumed to be a winner. Yet the study admits: "In the long run, and assuming that an FTA does not result in the equalization of wages and health, safety, and environmental standards, U.S. firms may accelerate the process of producing more finished machinery and equipment in Mexico."

Ignoring the effects of the diversion of U.S. investment to Mexico is curious because the assumption of high growth in Mexico made by most proponents depends on high U.S. investment there.

3. Past experience shows that the lure of low wages is not limited to low wage U.S. industries. When the Maquiladora free trade zone on the U.S. border with Mexico was established 20 years ago, the major activity was sewing garments. Today, less than ten percent of Maquiladora workers are in the apparel trades. Almost 40 percent work in electronics and 20 percent in transportation equipment (mostly autos). IBM, Hewlett-Packard, Wang, and Westinghouse are among the major employers.

4. The assumption of proponents that American workers who lose their jobs because of low wage competition from Mexico will be "freed up" to take higher-paying skilled jobs also is contradicted by our experience. Americans who have lost their jobs because of imports typically have ended up with less skilled jobs at lower pay—when they have managed to be reemployed at all. The last national survey of dislocated workers found that in January 1986 approximately one-third of those who had lost their jobs in plant closings in the early 1980's were still unemployed. In the apparel sector almost half were without work. For a large part of the U.S. labor force, there simply is no upward ladder.

5. The analogy between the FTA and the entrance of Spain and Portugal into the European Community is misleading. Mexico's population is much larger relative to that of the U.S. and the gap between its income and ours is much wider. Western Europe has a strong social safety net for the unemployed and a world-class retraining and relocation system. Moreover, part of the deal that brought Spain and Portugal into the EC involved a dramatic increase in subsidies to these poor areas in order to help them catch-up to the rest of the EC.

In stark contrast, the U.S. lacks effective systems of retraining, job search help, and economic redevelopment assistance for industries and communities hit with low wage competition. Given tight public budgets at all levels of government for the foreseeable future, the meager levels of assistance available to those who lose their jobs because of an FTA can only shrink further. The indifference of the Administration to the fate of affected workers is reflected in this year's budget, in which the budget for trade adjustment assistance is zero!

6. Proponents of the FTA point to the narrowing of the trade gap between the U.S. and Mexico since 1986 as proof that the U.S. will benefit from the FTA. But these gains were a result of the liberalization of *trade that has already occurred*, releasing the pent-up demand by the Mexican middle class to buy U.S. goods. Given the extremely low levels of income in the rest of the Mexican population, it requires heroic assumptions to forecast much more gain to the U.S. coming from that source.

The low incomes in Mexico and the resultant small size of its economy (a Gross Domestic Product that is 3.6 percent of ours—equivalent to one good year of U.S. growth) severely limits the future potential market for goods made in the U.S. Based on optimistic assumptions, the ITC projection of the long term benefit to the U.S. economy of the FTA works out to an export gain of only 0.16 percent of our Gross Domestic Product in 20 years. Claims that this tiny market will create new economies of scale for American firms are simply not credible.

7. Proponents assert that as Mexican plants and workers reach U.S. levels of efficiency the wage gap between the countries will automatically close. But numerous studies—including a study of the evidence to be released this week by the Economic Policy Institute—have shown that wage differences between the U.S. and Third World nations far exceed productivity differences. One case study of automobile engine production, for example, showed Mexican plants operating at 80 percent of U.S. productivity while wages were 6 percent!

Despite growth in Mexico since 1986, there has been little closing of the gap between U.S. and Mexican wages, which is generally agreed to be on the order of 10 to 1. The ITC analysis concludes that we can expect the gap to close considerably *less* than 18 percent (although, characteristically, it does not tell us how much less). Materials produced for a joint seminar led by U.S. Secretary of Commerce Mosbacher and Mexico Commerce Secretary Jaime Serra Puche last year forecast that the gap between U.S. wages and Maquiladora wages would actually widen by 1994. One basic problem is that one million jobs must be created each year just to keep pace with Mexico's labor force growth. This will require an astounding 6.5 percent per year real growth rate for the next 20 years to absorb the country's surplus labor.

8. Costs of dislocation in Mexico are also likely to be considerable. There is, for example, the prospect of the displacement of large numbers of subsistence Mexican farmers who could not possibly compete with U.S. grain farmers in a free trade

regime. This could further swell the ranks of the urban unemployed making wage gains more unlikely.

9. Proponents often point to the experiences of South Korea or Taiwan as examples of the potential of the Mexican economy for rapid growth based on export markets. But the actual experience suggests the opposite conclusion. Nations like Korea and Taiwan grew by keeping their domestic markets protected from outside competition, by keeping wages artificially low, by tight controls over capital investment and with heavy government subsidies, including aid from the United States. If East Asia is the inspiration, then the free trade model that is being applied to Mexico is wrong.

10. Nor can one have much faith in the claims that rapid economic growth will reduce illegal immigration from Mexico. First, Mexico's recent rapid growth has not seemed to have reduced the flow of immigration. Secondly, since the growth in Mexico will continue to be oriented towards the U.S. market, Northern Mexico will increase its appeal to migrants from the rest of Mexico and Central America, many of whom—after experiencing the Maquiladora's low wages and desperate living conditions—will simply move on further north, as they have in the past. Indeed, the high turnover in the Maquiladora is an indication that the industrialization of Northern Mexico may well be adding to immigration pressures.

11. It is a mistake to see the problem of the adjustment of U.S. workers and businesses to a free trade agreement as a "one-time only" problem. An unregulated trade agreement along the lines of the Administration proposal would subject an *increasing* number of American workers to continuous pressure to lower their wages, benefits, and living standards in order to compete with low-wage Mexican labor using hi-tech machinery and equipment. The effect will not be limited to those in firms out-sourcing or threatening to out-source to Mexico. It will spill over to most companies employing workers with average skills.

12. Perhaps the greatest danger to the U.S. economy of an Administration-style FTA is that it will encourage American firms to find a low-wage solution to the problem of global competitiveness. As the recent report of the high level task force on the U.S. economy chaired by former Secretaries of Labor Bili Brock and Ray Marshall concluded, we are facing an historic strategic choice in how we respond to the global marketplace. One strategy—the "high-skills, high-wage" path—competes by producing innovative high-quality goods efficiently so that they can be sold at high enough margins in the global marketplace to pay high wages and maintain U.S. living standards. This path requires the maintenance of correspondingly high levels of private and public investment to continually upgrade the quality of our capital and labor.

The alternative "low-wage" path means competing on the basis of cutting labor costs. This is the strategy of the Administration's proposal. With a large labor pool of Mexican workers willing to work for ten percent of U.S. wages in an environment free of U.S. regulations over working conditions, health and safety and environmental pollution, why would rational managers invest in labor-saving capital equipment? Why would they opt for the riskier path of improving the quality of the product when cutting labor costs with cheap wages is an easier path? As major expansion or relocation decisions come up, why would not more and more firms choose to produce in Mexico rather than in Texas or Louisiana or New Jersey?

13. Proponents tell us that the Mexican government is committed to strengthening environmental and worker protections. Even at face value, these intentions are not reassuring. Such laws are made effective not by a transient government's promises, but by the strength of institutions *independent of government*, such as labor unions and environmental groups, coupled with a genuine multiparty competitive political system. Hopefully, they will evolve in Mexico, but they do not exist today. Without them, enforcement mechanisms are extremely weak.

14. We must also be skeptical about assurances that new rules will prevent Asian and European firms from using Mexico to subvert U.S. trade law. Who will we rely on to identify the country-of-origin of the flood of new imports into the U.S.? Even today our own customs services cannot adequately monitor import traffic.

Mr. Chairman, my point is not that we shouldn't discuss economic integration with Mexico. It is that it is much too complex a question for the Congress to deny itself, and the nation, time for a thoughtful debate over an agreement negotiated by an Administration indifferent to its domestic consequences. Ninety days is not enough. Our own experience with the ITC report suggests that a party with legitimate concerns could spend ninety days on a Freedom of Information Act filing just to look at the numbers behind the arguments and assertions.

The fast-track procedure makes sense where the subject is a GATT agreement with 100 nations. But with just two countries who are our neighbors, the problems

of possible amendments are not insurmountable. Yes, it would make the lives of the USTR negotiators easier. Yes, the present Mexican Government would prefer a fast-track, although it is hard to believe that if this is as beneficial to them as they say. Mexico would refuse to negotiate within a more deliberate framework. In any event, such considerations should not be permitted to justify a fast-track for a proposition that poses such serious risks to the living standards of large numbers of Americans.

PREPARED STATEMENT OF SENATOR CHARLES E. GRASSLEY

Mr. Chairman: Let me begin my remarks by telling you and the other members of the committee how pleased I am to be back on the committee with you.

As we discuss the potential of a Free Trade Agreement between the United States and Mexico am reminded of the discussions we had a few years back on this committee when we discussed a U. S./Canada Free Trade Agreement.

In reviewing some of the arguments for and against the issue then, I see many of the same concerns being raised during this debate. One of the things which complicates the issue this time however is the resurgence of a possible trilateral agreement where we would not have just a U.S./Mexico Free Trade Agreement, but rather a U.S./Mexico/Canada Free Trade Agreement.

As we are all aware Mexico currently faces unprecedented economic and political challenges which have sweeping implications for the United States and the entire Western Hemisphere. It is clear to me that what ever the outcome of the debate on this issue, a dramatic change will take place between the United States and the rest of the hemisphere well into the next decade.

I have had an opportunity to poll several of my industrial and agricultural leaders in Iowa on the issue of a U.S./Mexico Free Trade Agreement prior to today's hearing. I am pleased to tell those who support the proposition that the initial responses show tacit approval. Nevertheless, there remains a great deal more to learn about how it will affect not only Iowa businesses, but the overall state of the U.S. economy before I can come to my final support or disapproval on this agreement.

A free trade agreement must concern itself with such things as rules for investment, establishment of financial and other service activities, protection of intellectual property, techniques for consultation, and procedure for settling disputes, to name a few. It must also address the question of whether an agreement between our neighbors to the north and south have the potential for weakening the multilateral GATT structure. And finally, in my mind at least, whether an extension of the fast-track at the Uruguay Round and a U.S./Mexico Free Trade Agreement would come at the expense of U.S. Agriculture.

Mr. Chairman, I look forward to the testimony that will be presented this morning. To expedite the process, I will retain my interest and concerns, until the question and answer period.

Thank you.

PREPARED STATEMENT OF CARLA H. HILLS

Mr. Chairman and members of the Committee, I am pleased to appear before you today to discuss the proposed negotiations for a free trade agreement (FTA) between the United States and Mexico and the President's announcement yesterday of the decision to expand the talks into a trilateral negotiation including Canada.

Eight months ago, Presidents Salinas and Bush announced a bold initiative to establish a comprehensive FTA between the United States and Mexico. Prime Minister Mulroney has made it clear that Canada shares that goal, and our three nations are now prepared to negotiate a free trade agreement that stretches from the Yukon to the Yucatan.

I would like to review with you where we stand in the process with Mexico and Canada and look toward what we hope to accomplish in our initiative.

THE FREE TRADE AGREEMENT—FIRST STEPS

Last June, Presidents Bush and Salinas strongly endorsed the goal of a comprehensive free trade agreement between our countries. They directed the Mexican Commerce Secretary, Dr. Serra, and me to begin the preparatory work and consultations needed to start FTA negotiations and to report back to them as soon as practicable.

Following that announcement, the Administration held a series of meetings with Congress and the private sector, seeking advice on the idea of an FTA with Mexico.

While there were some concerns, there was a good deal of interest in and support for negotiations.

Based on this preliminary work, in August Dr. Serra and I jointly recommended to the Presidents that the United States and Mexico formally initiate negotiations on a comprehensive, bilateral FTA. We agreed that an FTA should lead to the progressive elimination of impediments to trade in goods and services and to investment, as well as to the protection of intellectual property rights, and the establishment of fair and expeditious dispute settlement mechanisms.

Both Presidents welcomed this recommendation, and on August 21, President Salinas wrote to President Bush proposing that the United States and Mexico negotiate a free trade agreement, a step required under the fast-track provisions of the Omnibus Trade and Competitiveness Act of 1988. On September 25, in accordance with the 1988 Trade Act, President Bush wrote to you, Mr. Chairman, and the Chairman of the House Committee on Ways and Means, Mr. Rostenkowski, notifying you of his intent to negotiate an FTA with Mexico. President Bush also notified you in that letter of Canada's interest in participating in the FTA negotiations and our intent to consult trilaterally about that prospect.

This notification was the first step in the process toward negotiating an FTA under U.S. "fast-track" laws and procedures. It triggered the 60 legislative day clock, during which time this Committee and the House Ways and Means Committee can review our proposal and, if either Committee so chooses, disapprove fast-track procedures for the negotiations. Although the Congress cannot preclude negotiations as a legal matter, without the procedural advantages of fast-track authority, the practical impediments to negotiating an agreement would be all but insurmountable.

IMPACT OF MEXICO'S COMMITMENT TO OPEN TRADE

Consideration of the FTA initiative is possible because of a reorientation in Mexico away from statist, interventionist policies toward a market-oriented system. These changes started in 1986, when Mexico joined the General Agreement on Tariffs and Trade (GATT). They have continued with Mexico's unilateral policies of tearing down trade barriers, privatizing industry, and opening doors to foreign investment.

The opening in Mexico has had a dramatic impact on U.S. trade with Mexico. U.S. exports to Mexico have more than doubled, rising from \$12.4 billion in 1986 to roughly \$29 billion in 1990; U.S. imports from Mexico have grown far less. Although trade deficits are primarily determined by macroeconomic factors, the surge of U.S. exports to Mexico has contributed to a two-third cut in our bilateral trade deficit with Mexico, from \$5 billion to roughly \$1.9 billion. Excluding petroleum, we now enjoy a merchandise trade surplus of about \$2 billion with Mexico.

Some examples of how this expanded trade with Mexico benefits our economy are the following:

- Mexico is our third largest agricultural trading partner, with U.S. exports totaling over \$2.5 billion last year.
- U.S. exports of telecommunications equipment have more than doubled since 1986, with exports reaching about \$1.2 billion in 1990.
- We now have a surplus in iron and steel trade with Mexico exceeding \$300 million; in 1986, we ran a \$12 million trade deficit. This switch occurred at the same time that Mexico received a substantial increase in its steel quota under the President's Steel Trade Program.
- We also enjoy a trade surplus in textiles and apparel. Four years ago, we had a deficit of \$91 million.

WHY AN FTA?

The review period for fast track gives both the Congress and the American people an initial period in which to consider the merits of an FTA with Mexico. I would like to briefly highlight what we see as some of the potential benefits of our initiative.

Recent growth in exports to Mexico has been tremendous and has meant jobs for our workers and sales for our companies. Through an FTA, we can consolidate and build on the progress to date and expand opportunities available for our firms and our farmers. Further Mexican liberalizations on goods, services, and investment, will stimulate Mexican growth and increase Mexico's demand for U.S.-produced goods and services. Consumers on both sides of the border will benefit as increased competition leads to greater efficiency and lower prices for traded goods. For example:

- Mexico still has an average applied tariff of about 10 percent, compared to about 4 percent in the United States. Moreover, while Mexico's top applied tariff rate is 20 percent, it currently has the legal right to unilaterally raise its tariffs to 50 percent, the rate bound under the GATT. An FTA would lock in a schedule to reduce and ultimately eliminate tariffs and other barriers to market access, creating new business opportunities for American exporters.

- In agriculture, a restrictive import licensing system still applies to about 40 percent of the value of U.S. agricultural exports to Mexico, including such commodities as grains, dairy products and certain fruits and vegetables. Licenses are granted or withheld in an arbitrary manner and often act as import bans. FTA talks could provide an avenue through which these restrictions might be dismantled.

- While Mexico has liberalized its investment regulations, much more could be done. We seek an open, nondiscriminatory investment environment in Mexico, free of performance requirements and investment restrictions that distort trade and investment flows. Investment is an issue we have agreed to address in our FTA negotiations.

- In services, we seek additional openings in many areas, including banking, securities, insurance and transportation. In these areas in particular, market entry is restricted, and in some sectors U.S. firms are totally denied access to the Mexican market. We could use the FTA negotiations to seek needed liberalization in these sectors.

With respect to intellectual property rights, we expect action even before FTA negotiations. In January 1990, Mexico announced a program to overhaul and modernize its patent and trademark regime. While the Salinas Administration introduced a new industrial property law in December 1990, this law was not enacted. Although we were disappointed that the law was not passed in 1990, given the assurances we have received from Mexico, I expect these laws to be enacted soon after the Mexican Congress reconvenes in April. We also have had indications that Mexico will modernize its copyright laws to protect producers of sound recordings and computer software. Mexico must provide effective protection and enforcement of intellectual property rights, with reforms offering immediate commercial benefits to intellectual property rights holders. Embodying intellectual property rights protection in the FTA will make such reforms secure for Americans and Mexicans alike.

In sum, the FTA would secure much of the liberalization that Mexico has conducted unilaterally and would provide avenues for additional liberalization. The FTA would be a catalyst for economic growth and development in Mexico and the United States. Both countries would obtain significant mutual benefits from increased trade, investment flows and jobs. The FTA would help strengthen the Mexican economy and create a firm foundation for Mexico's future economic growth. Lower trade barriers and faster economic growth in Mexico will spur U.S. exports and help the U.S. economy expand. Reduced barriers will improve the efficiency and productivity of U.S. and Mexican industries and enhance their competitiveness in international markets.

Mexico also is important as the cornerstone of a comprehensive Western Hemisphere policy. An FTA would be the first step toward President Bush's longer-term goal of hemispheric free trade. And Mexico's example of market-oriented economic reform is a significant role model for other countries in the region.

Finally, Mexico is a close neighbor and a good friend. There are extensive cultural, historical, family and language ties that link us. Our two Presidents are committed personally to maintaining excellent relations based on mutual respect and cooperation. We have a broad bilateral agenda that goes well beyond trade, economic and investment links. U.S. agencies, including the Environmental Protection Agency and the Departments of Justice, State and Labor, are actively engaged in working with Mexico on such important issues as the environment, narcotics, immigration, human rights and worker standards. By boosting economic prosperity in the United States and Mexico, an FTA would enhance each country's ability to deal with these important issues.

BEYOND MEXICO—A NORTH AMERICAN FREE TRADE AGREEMENT

In his letter of September 25 to you, Mr. Chairman, President Bush noted that the Canadian government had expressed a strong interest in expanding the U.S.-Mexico talks into a three-way negotiation. The President welcomed the chance to work with Canada and Mexico toward this end and noted we would be exploring the possibilities for a trilateral negotiation.

Since September 25, I have met with my Mexican and Canadian counterparts three times, and my deputy has met with his counterparts four times, to consider

the issue of a trilateral negotiation. In addition, there have been numerous meetings at the staff level to consider various aspects of a negotiation. We have also consulted with the Congress and the private sector to seek advice on whether to proceed trilaterally.

Based on our work, the three governments have decided to proceed with trilateral negotiations—that is, to negotiate a North American Free Trade Area (NAFTA). The President so informed you, Mr. Chairman, and Chairman Rostenkowski on February 5.

An agreement among the United States, Mexico and Canada would be a dramatic move forward. It would create an enormous free trade area, with 360 million producers and consumers and a total output of almost \$6 trillion. Eliminating trade and investment barriers and achieving common rules among our countries will harness the energies and talents of three great nations, helping them to meet the global economic challenge. A NAFTA would be a bold step toward establishing free trade in the Western Hemisphere and would create a solid foundation for North American growth and prosperity into the 21st Century.

Our consultations have shown that all three governments have the will and determination to make these negotiations a success. In considering how a trilateral negotiation might take place, we have agreed that the negotiation will proceed along the same timetable as originally agreed by the United States and Mexico. That is, we will finish the negotiation by the end of this year. We fully expect to meet this deadline; if it proves unfeasible, we understand that we can proceed bilaterally and still meet our schedule.

Finally, both the United States and Canada agree that the U.S.-Canada free trade agreement sets a floor for commitments between the two countries. Trilateral negotiations will give us an opportunity to improve and expand the U.S.-Canada free trade agreement; the negotiations will not be a vehicle for retreating from the trade and investments disciplines or liberalization achieved in the U.S.-Canada FTA.

The time is right to attempt this negotiation. In all three governments, there is a shared vision of a North America freed of barriers to trade and investment, where economic success is based on complementary competitive strengths.

THE FTA—NEXT STEPS

As I noted earlier in my testimony, we are now in the midst of the 60 legislative day review period for our notification on Mexico. With respect to Canada, the clock has just started.

In addition to this review, we face the expiration of the entire fast-track authority on June 1. If the President wishes to seek an extension of the fast-track authority, he must do so by March 1. Clearly, in order to pursue our proposed trade initiative with Mexico and Canada, we will need such an extension, although the form of that request is yet to be determined.

Assuming that we clear the 60-day review for the FTA initiative and that a request for fast-track authority has not been disapproved, we would expect formal negotiations to begin sometime in the Spring.

As we have been doing since before the joint Presidential announcement last June, we will continue to actively consult with this Committee and others in the Congress. As part of this process, we will seek your views as well as those of other members of Congress. With the exception of large-scale labor mobility, which has been ruled off the table for the negotiations, we have an open mind on issues surrounding the FTA. I welcome this Committee's guidance and promise to listen closely to you.

We will continue to consult with our advisors from agriculture, industry, and labor, as well as others in the private sector with an interest in any such agreement. We also will consult with state and local governments. The best way to develop a trade agreement that benefits our nation and our people is through a partnership among the Congress, the private sector and the Administration.

CONCLUSION

At no time have the United States, Mexico and Canada jointly shared such a firm commitment to opening markets and expanding trade and investment. We should seize this opportunity and build a firm foundation for growth throughout North America into the 21st Century. I look forward to working with you as we take this opportunity and make it into the reality of free trade in North America.

Attachments.

RESPONSES OF AMBASSADOR CARLA H. HILLS TO QUESTIONS SUBMITTED BY SENATOR
RIEGLE

Question No. 1. You have suggested that environmental enforcement could be addressed in a separate, parallel or side agreement. What about enforcement of fair labor standards? Do you envision a similar separate agreement? If not, how will this issue be addressed?

Answer. The Administration has an open mind as how to proceed on these issues. Trade and investment issues are only a part of a broad agenda between the United States and Mexico. We want to make progress on all issues, although I am not convinced that they all must or should be subsumed within an FTA itself. For example, we have agreed that immigration issues should not be addressed in the FTA. We will be working with the Congress, the private sector, and various Executive Branch agencies to develop alternatives for how these issues could be addressed, and we would welcome your advice.

I should note that, as in the case of environmental standards, Mexico has a better series of protections than generally is known. Mexican law provides for a wide array of workers rights. The constitution guarantees workers the right to form unions and approximately 30 percent of the Mexican work force currently belongs to one. Unions may organize and collective bargaining is widespread. Mexico has ratified some 67 ILO conventions, including conventions providing for freedom of association and prohibiting forced labor. Mexico also has laws on child labor and occupational health and safety.

The Mexican Government has been pursuing improved enforcement of labor and environment standards. We want to encourage that effort.

Question No. 2. One thing troubles me about Canada's participation. In the Canadian Free-Trade Agreement negotiations, Canada resisted a strong rule of origin for automobiles. They continue to resist even though a binational panel of experts has recommended that the rule of origin be raised from 50 to 60 percent. How will you avoid getting a "least common denominator" rule of origin? This is vitally important to U.S. industry.

Answer. On the issue of the value content of the automotive rule of origin in the United States-Canada Free-Trade Agreement (FTA), we continue to press the Canadian Government to enter into negotiations to increase the value content from 50 to 60 percent. Canadian officials have stated that they would not agree to an increase in the rule of origin unless it clearly benefited the Canadian industry and improved its competitiveness.

I raised this matter directly with John Crosbie, Canadian Minister for International Trade at the last Trade Commission meeting in October 1990. I suggested that he consider carefully his position in light of larger considerations, particularly within the context of Canadian desires to participate in FTA negotiations with the United States and Mexico.

In upcoming trilateral negotiations with Canada and Mexico, we intend to seek rules of origin which are predictable, transparent, and which reserve the benefits of eligibility for the negotiated, preferential tariff treatment for the participating parties.

MEXICAN ENVIRONMENTAL LAWS, REGULATIONS AND STANDARDS; PRELIMINARY
REPORT OF EPA FINDINGS

INTRODUCTION

Since January 1991, EPA's Office of General Counsel has undertaken a detailed review of the Mexican environmental legal regime. In early April, as part of this effort, a mission of ten lawyers from Office of General Counsel and Office of Enforcement, including a State Department lawyer, visited Mexico to study Mexican environmental laws, regulations, and standards, assess compliance monitoring and enforcement, and share information on U.S. practices in the areas of air pollution, water pollution, hazardous waste pollution and environmental impact assessment. They met with SEDUE¹ officials and officials from the Ministries of Health and Commerce and with the National Water Commission, spoke with environmental lawyers, and visited several factories. In their evaluation of the Mexican environmental legal regime, project participants used their knowledge of U.S. environmen-

¹ EPA's counterpart in Mexico is the Secretaria de Desarrollo Urbano y Ecologia ("SEDUE"), or, Ministry of Urban Development and Environment. SEDUE has three subsecretariats, one of which is the Environment.

tal laws as a point of reference and attempted, insofar as possible, to compare the two regimes.

The research indicates that Mexico has a strong commitment to protecting its environment which is reflected in: budgetary and staff increases, particularly in the areas of inspection and enforcement; efforts to ensure that new sources meet pollution standards comparable to U.S. environmental standards; and significant enforcement actions, especially plant closings, designed to bring existing sources into strict compliance with environmental laws.

CONCLUSIONS

Mexico's environmental laws, regulations and standards are in many respects similar to those in the United States. The comprehensive 1988 General Law of Ecological Equilibrium and Environmental Protection (the "General Ecology Law") embodies principles similar to ours, and the regulations and technical standards implementing this law take a approach comparable to that in the United States. There are some aspects of the United States regulatory regime which are not yet covered, such as Superfund, and the regulation of underground storage tanks. SEDUE has indicated it intends to address these issues in the near future.

New facilities in Mexico must comply with the new environmental regime, which means that new Mexican investments or alterations to existing facilities in Mexico are subject to standards which are in general comparable to those in the United States. Mexican officials have stressed that the country is committed to ensuring new source compliance and to "growing clean." Where no standard exists for certain sources, Mexican officials have indicated that they may include limitations in the individual facility permits which are similar to those in use in the United States.

United States and Mexican practice differs mostly in the degree of compliance monitoring and enforcement. While major Mexican industrial facilities have permits, over 90% of all industrial facilities, particularly smaller ones, reportedly do not. Monitoring facilities are still sparse outside Mexico City, although Mexico does plan to establish monitoring networks which will cover 60% of the population. Until recently, SEDUE had only 19 inspectors country-wide. Mexican officials are dined to remedy the situation, and World Bank funds are expected to be available to assist. Already SEDUE has hired 100 more inspectors, 50 for Mexico City and 50 for the border area.

In the past year, Mexico has taken strong measures to bring existing sources into compliance with its environmental regulations and standards and to demonstrate its commitment to enforcing its laws. These measures include the closing during the past two years of over 900 plants on a temporary or permanent basis, the permanent closing of a PEMEX refinery, closing military facilities for a day, and during the last several weeks, conducting over 115 inspections in Mexico City resulting in the temporary closing of more than 70 plants. SEDUE plans to continue the accelerated rate of plant inspections and closings in other parts of Mexico and to develop compliance schedules with existing sources. In particular, it has been inspecting maquiladora plants at an accelerated rate and closing those found to be in non-compliance. Some nongovernmental environmental organizations in Mexico are recognizing the seriousness of the commitment that is being shown and have commented favorably on it in the press.

SEDUE's environmental investment budget suffered a very sharp decline in 1987, but rose again significantly in 1990. The 1991 budget, at \$38.9 million, is more than three times the 1990 budget and exceeds the highest spending level achieved prior to the budgetary decline. Out of the total 1991 budget, \$4.27 million is targeted to be spent on inspection, monitoring and enforcement, including \$2.77 million for monitoring and inspection of air and water sources. SEDUE's budget is expected to grow beyond this year's commitment if a pending loan from the World Bank is approved. Clearly, Mexico needs significant new resources to carry out needed compliance monitoring and enforcement efforts.

Mexico's Cultural Differences and Civil Law System

While conducting any comparative analysis of U.S. and Mexican environmental laws, it is important to note that the laws, regulations and standards of each country are enacted, developed, carried out and enforced within different legal systems and frameworks. The United States has a common law tradition, while Mexico has a civil law tradition. This limits the degree to which the two environmental law regimes can be neatly compared.

The principal difference between the two legal systems lies in the almost exclusive reliance within the Mexican system upon administrative proceedings as op-

posed to litigation for enforcement. This means a far less active role for the Mexican judiciary as compared with the U.S. judiciary.

Relationship Between the New General Ecology Law, Regulations, and Technical Norms

The Mexican environmental regime has been established pursuant to Article XXVII of the Mexican constitution which refers directly to "all natural resources." Mexico's General Ecology Law which supersedes earlier environmental statutes, covers pollution control, natural resource conservation and environmental impact assessment. The comprehensiveness of the Mexican statute contrasts with the United States environmental legal regime in which there are separate statutes for air pollution, water pollution, solid waste disposal, environmental impact assessment, and various natural resource issues.

The 1988 General Ecology Law provides general criteria and policy guidance for developing specific regulatory regimes, and leaves wide discretion to SEDUE to develop the details of environmental programs through regulations and technical standards. Since 1988, four "reglamentos" have been signed by the President in a number of important areas: environmental impact assessment, air pollution (national), air pollution (Mexico City), and hazardous wastes. A new regulation dealing with water pollution has been drafted and is expected to be released within several months, which will replace a 1979 regulation covering water pollution. A 1979 regulation addresses marine contamination. These regulations set forth general requirements.

Technical ecological standards or norms (NTE's) implement the regulations and the General Ecology law. They are scientific or technical rules which set forth the requirements, procedures, conditions and limits that must be met. As distinct from the regulations, they provide numerical limits or requirements. As of November 1990, 55 NTE's had been developed for the purpose of fully implementing the regulations. SEDUE's efforts to develop NTE's are ongoing. Since November 1990, several additional standards involving source categories for water have been approved by the Secretary of SEDUE. Other NTE's, particularly in the air and hazardous waste pollution areas, are slated to be presented for approval later in the year.

The health-based numbers upon which air and water pollution standards are based are developed by the Department of Health. SEDUE then translates these numbers into legally-enforceable standards and circulates these within the Mexican government. They are also sent to state and municipal governments and attempts are made to reach out to the scientific, professional, and educational communities. SEDUE indicated that no standard is developed without a close examination of what has been done in the United States to address the same problem.

Mexican industry has a role in standards formulation and is consulted by SEDUE about proposed standards and their effective dates as these affect particular economic sectors or industries. This negotiation process is justified on the basis that there exists, in most Mexican industries, a wide range of operations in terms of size. Such a policy serves to protect smaller, Mexican industries against the technology and greater resources of the multinationals (which may, in any event, adhere to a more stringent standard applied for internal business reasons on a world-wide basis). Such negotiations could result in the enactment of standards lower than those sought by SEDUE, but SEDUE insists this happens in only a small number of cases.

The Role of Public Participation in Mexico

The public plays a significant role in the United States in the development, implementation and enforcement of environmental regulations. As compared with the United States, the public in Mexico plays a relatively small role in the enactment and enforcement of environmental laws, regulations and standards. This was noted as a weakness of the Mexican system and Mexican authorities have given assurances of their desire to involve the public to a greater degree. SEDUE views the issue of public participation to be bound inextricably with the problem of inadequate resources. SEDUE is hopeful that through World Bank and other assistance, resources will be made available to study how the public can become more involved in decision-making and enforcement, and to implement those recommendations.

Environmental Law of Mexican States

Eighteen of the 31 Mexican states (including three states along the U.S.-Mexican border) plus the Federal District have recently adopted their own environmental statutes. These are the states of: Aguascalientes, Coahuila, Colima, Durango, Guanajuato, Guerrero, Hidalgo, Jalisco, Nuevo Leon, Morelos, Queretaro, Quintana Roo, San Luis Potosi, Sonoma, Tabasco, Veracruz, Yucatan, and Zacatecas. These laws

have been issued pursuant to Mexico's General Ecology Law. It is expected that Mexican states will be able to assume more responsibility for environmental protection in the future.

Enforcement

The General Ecology Law vested authority to enforce environmental laws, regulations and standards primarily in SEDUE. The top management and staff of SEDUE is a dedicated group of professionals with the will to mount a credible and effective environmental enforcement program. This is most recently reflected by the closure this year of a large number of industrial plants and facilities including the permanent closure of a large PEMEX facility near Mexico City for failure to comply with environmental regulations and standards.

In fact, the number of inspections conducted in Mexico has been increasing since 1982. In the period 1982-84, there were 1,209 inspections; from 1985-88, 3,525 inspections with fines imposed on 179 plants; and from 1988-90, 5,505 inspections under the new law with 43 permanent closings, 908 partial or temporary closings, 29 relocations, 1032 agreements negotiated for compliance scheduling and 679 voluntary compliance agreements. These facts are especially significant in light of the fact that until 1991, when 100 additional inspectors were hired, Mexico had 19 inspectors for the whole country.

SEDUE has lacked adequate resources to construct a fully-effective enforcement regime. Despite inadequate funding, however, very significant strides have been made in enforcing Mexico's still evolving environmental regime and in applying regulations and standards. An increasing percentage of SEDUE's budget is being designated for enforcement and enhancement of inspection capabilities. The 1991 budget provides for an expenditure of the equivalent of \$4.27 million on inspection, monitoring and enforcement. Mexico also expects to receive approximately \$45 million in World Bank funds, such amount to be matched by the Mexican government. A portion of these funds is intended to be earmarked for improved compliance monitoring and enforcement and for carrying out increased numbers of industrial inspections.

SEDUE has also expressed its desire to create an effective environmental communications policy to encourage wider compliance and increase the deterrent effect of the Secretariat's enforcement actions. Moreover, it has become important for SEDUE to respond in a concrete fashion not only to concerned environmentalists in the United States but to a growing percentage of the Mexican population concerned about further degradation of the Mexican environment. Air pollution problems in Mexico City have contributed to a heightened awareness of the importance of environmental enforcement in one of the world's most populous cities.

Specific actions taken, including the plant closings mentioned above, and recent public statements made by SEDUE may put the above analysis in context. There appears to be a resolve to mount a credible environmental enforcement program despite less than adequate funding. The Group of 100, a Mexican nongovernmental environmental group recently supported SEDUE's closing of the PEMEX facility with the following widely published statement: "The government's promise to clean up industry in the Valley of Mexico looks legitimate." They went on to say that "by closing the Pemex '18 de Marzo' refinery in Azcapotzalco, the government now holds the moral authority to force industries to clean up or close down."

Mexico and the United States take somewhat different approaches to environmental law enforcement. Enforcement in Mexico generally involves one of three techniques: permanent plant closings or temporary closings intended to lead to the negotiation of settlement agreements; the imposition of fines; and voluntary compliance agreements. These administrative enforcement tools are frequently used while criminal prosecution, which involves turning the matter over to the Attorney General's office, is exceedingly rare. In the U.S., criminal actions and civil law suits, including those brought by citizen groups, against violators of U.S. environmental laws are common.

In Mexico, plant closings generally lead to consultations between SEDUE and corporate entities formally charged with violating environmental regulations. A compliance plan or agreement conning timetables for compliance with media specific regulations is usually worked out between SEDUE and the violating industry, with which industries—especially small local industries—can reasonably comply. These "agreements" are then monitored by SEDUE to the extent resources permit.

The closing of Mexican industrial facilities, which involves closure in advance of negotiations and reopening once agreement is reached, has encouraged substantial numbers of companies operating in Mexico to approach SEDUE to negotiate voluntary compliance agreements. Once these are entered into, they are monitored by SEDUE.

In recent years, SEDUE has been reluctant to impose fines on violators; however, SEDUE presently intends to rely more heavily on the imposition of fines to discourage future violations. The existing law permits the imposition of fines, which are indexed to inflation, up to the equivalent of US \$80,000. Even a substantially lower amount would be a significant charge to a medium-sized Mexican company. An increased reliance on fines is believed by SEDUE to be likely to function as an effective deterrent. SEDUE also intends through these charges to pass along the costs of facility inspection. Administrative detention (as distinguished from criminal arrest) has also been imposed for up to a total of thirty-six hours. This might involve deprivation of a corporate officer's freedom for several hours each day until agreement is reached on future compliance.

Administrative proceedings before SEDUE are generally "paper" proceedings in which the parties argue by affidavit. In deciding whether to close a facility temporarily or permanently, SEDUE acts as both prosecutor and judge. When SEDUE investigates and then closes a facility, all the formalities of Mexican law must be strictly observed by investigators. On occasion, proceedings against an industry have been discontinued because SEDUE has found that its own staff is guilty of technical legal violations. SEDUE has attributed this problem to difficulties in retaining large numbers of good inspectors and inadequate training of new inspectors. They intend to designate a portion of World Bank funds and matching government funds for staff training. If an industry continues to disagree with the enforcement action and the SEDUE requirements for an acceptable plan, it can invoke "amparo" proceeding and bring the matter to the Ministry of Justice. To date, this procedure has been very rarely used.

Negotiated settlements are also widely used in the United States. Approximately 95% of EPA's administrative and civil judicial actions are concluded as negotiated settlements. Generally, EPA sends a violator a notice of intent to sue which triggers the beginning of a negotiation period. In most cases, a civil complaint is filed simultaneously with a consent decree, the terms of which were negotiated with the violator. In other cases, the civil judicial complaint is filed after the notice of intent to sue is issued to the violator and the case proceeds on a trial schedule. In some cases, the litigation is settled and a consent decree is filed before proceeding to trial. The court must approve and enter the terms of any settlement. Once entered, the settlement is judicially enforceable.

Mexican enforcement practice is ahead of U.S. practice in one notable respect: multi-media integration of inspections. In the U.S., inspectors generally look for violations of specific media regulations during each visit. In Mexico, however, inspectors engage in a multimedia inspection, looking for violations with respect to all media at each facility. There is ongoing interest demonstrated by SEDUE in having joint site visits in the border area and in increasing the level of training and expertise among SEDUE inspectors.

MEDIA—SPECIFIC DISCUSSION AND FINDINGS

New Sources

Most of the NTE's or standards apply to both new and existing sources. There are a few, such as location standards for hazardous waste disposal facilities, that are directed to new sources. SEDUE has indicated that it tries to apply "best available technology" to all new sources.

New facilities or modifications to existing facilities require prior authorization from SEDUE. As part of this process, all new sources are required to file with SEDUE an environmental impact analysis and, for hazardous activities or dangerous substances, a risk assessment. SEDUE reviews these analyses and has the authority to deny authorization for a project and to impose conditions on the design, construction, and operation of facilities so as to avoid significant adverse environmental effects. This means that even in cases where not all applicable NTE's have yet been developed, SEDUE can impose limits and other conditions. For example, in the water area this process is used to impose facility-specific special conditions."

It appears that in all media, SEDUE has found guidance in U.S. regulations when establishing conditions on the operation of new sources, and in reaching compliance agreements regarding the continued operation of existing sources.

Air Pollution

For twenty years, the core of U.S. stationary source controls arguably has been the setting of national ambient air quality standards ("NAAQS") for "criteria" pollutants and state planning to attain and maintain those standards through the state implementation plan ("SIP") process. Clean Air Act section 110 and Part D of title I. The criteria pollutants are one (O₃), sulfur dioxide (SO₂), particulate matter (now

measured by PM₁₀ or fine particulate matter, replacing total suspended particulates or "TSP"), carbon monoxide (CO) nitrogen dioxide (NO₂) and lead. States are responsible for demonstrating "reasonable further progress" toward attainment in those areas not meeting the standards. States are also required to impose "reasonably available control technology" on certain existing stationary sources in such nonattainment areas. The 1990 Clean Air Act ("CAA") Amendments call for numerous additional requirements for nonattainment areas, depending on the severity of the pollution problem.

In the U.S., all major new sources must undergo review to determine whether the proposed project will meet applicable requirements, which vary depending on the location. In addition, new sources in categories for which a "new source performance standard" ("NSPS") has been promulgated under section 111 must also comply with that standard. To date, EPA has promulgated approximately 65 NSPS.

The 1990 CAA Amendments completely revamped the standard-setting process for toxic air pollutants, calling first for the establishment of technology-control for sources of toxic emissions to be followed eventually by standards limiting residual risk to human health from emissions from such sources. The 1990 Amendments also contained special, new provisions for addressing acid rain, stratospheric ozone and permitting. Major new provisions provide for the development of "cleaner" fuels to help address mobile source emissions.

To implement the 1988 General Ecology Law, Mexico has adopted two regulations related to air pollution and numerous technical standards under those two regulations. The broader of the two regulations contains five chapters covering general provisions, stationary source controls, mobile source controls, establishment of a national air quality monitoring system, and enforcement, including sanctions. The second regulation is much narrower in scope, being designed to address air pollution in Mexico City and environs by regulating traffic, motor vehicle emissions, and vehicle inspections. Most of the NTE's issued under these regulations address air pollution from specific types of stationary sources and from various classes of mobile sources. Others set forth procedural requirements, such as for speck permitting, test methods and test procedures.

Both the Mexican and U.S. air pollution programs require adoption of ambient air quality standards for specific pollutants. Mexico has issued such standards, called "maximum permissible levels" or "MPL's," for ozone, CO, SO₂, NO₂ and TSP, and, according to SEDUE, is about to issue standards for lead and PM₁₀. These are the same pollutants covered by the U.S. NAAQS. In addition, both laws require the implementing agencies to establish emission limits and technology-based standards for certain individual source types. Like the U.S. air protection program, Mexico's law provides for monitoring the air and for maintaining inventories of emissions.

Currently, one of the main differences between the U.S. and Mexican system lies in monitoring capability. In the U.S., a nationwide air monitoring system operated by state and local governments monitors concentrations of all criteria pollutants at numerous locations in each of the 50 states. Mexico has yet to develop such a nationwide system. There are very few air quality monitors outside of Mexico City, although with U.S. assistance SEDUE is beginning to establish monitoring systems in the border cities of Monterrey, Tijuana and Ciudad Juarez. SEDUE recognizes the need to improve its monitoring capability in other cities and hopes to begin this process when expected loans from the World Bank are approved. As soon as possible, SEDUE plans to establish networks in about 20 cities representing approximately 60 percent of Mexico's population.

Mexico and the U.S. also have different approaches for attaining the ambient standards. In the U.S., states develop SIP's which are submitted to EPA for approval. Attainment and maintenance of the standards is demonstrated through air quality modeling, which relates emissions to ambient air quality levels. In addition, states must adopt a number of measures prescribed by the CAA and include them in their plans. Mexico does not have such a state or local air quality planning system with Federal oversight. Instead, it relies on a source permitting program which, at the moment, is carried out at the Federal level.

The maximum permissible level ambient standards appear to be used for informational purposes (*i. e.*, comparing actual pollution levels to the maximum permissible levels) and for triggering the "contingency plans" in Mexico City. These plans call for cutbacks in production by certain industries when pollution reaches dangerous levels and when meteorological conditions indicate that concentrations will not decrease without a cutback in emissions.

Like the U.S., Mexico has developed a system for further restricting emissions in chronically polluted and vulnerable areas, called "critical zones." To date, nine critical zones have been designated. Two critical zones along the U.S.-Mexico border—

Ciudad, Juarez, and Tijuana—appear to have been so designated at least in part because of transborder pollution problems.

Mexico controls stationary source air emissions through a source permitting program. After receiving and reviewing a permit application, SEDUE sets the emission limits for the permit. Where a technical standard has been promulgated for that source category, the limits in that standard would be incorporated into the permit. As of April 1991, SEDUE has issued eight stationary source standards. The standards most resemble U.S. new source performance standards in that they set maximum permissible emission levels for various pollutants per unit measure of raw material or production, although they apply to both new and existing sources. Only several of the promulgated stationary source standards appear to differentiate between new and existing sources (producers of benzene sulfonic acid, sulfuric acid, and cement calcining kilns). Where no standard has been promulgated for the category, SEDUE indicated that it looks to U.S. standards to guide its decision. In practice, SEDUE usually tries to require "best available technology" for new sources while being more lenient for existing sources that might find meeting such stringent levels to be prohibitively expensive.

SEDUE plans eventually to turn most permitting responsibilities over to the states (except where there is Federal jurisdiction and where a source affects air quality in two or more states) as contemplated by Mexico's air regulation. To date, SEDUE has focused on permitting the largest types of facilities. Currently, less than ten percent of all industrial sources in Mexico hold permits. However, these permitted sources would include many large manufacturing facilities.

Once a source has a permit, it must report certain information, including air stack test emissions data, every February. The permit must be modified if changes are made to the source. In the absence of modification, the lifetime of a permit is unclear. SEDUE reviews the submitted data and, if a violation appears to have occurred, may inspect the source and close it temporarily or permanently or impose a fine. Fines appear to have been rarely used.

SEDUE reports that it plans to eliminate the import and export of CFCs, which destroy the stratospheric ozone layer, through the permitting process. SEDUE has not discussed how it plans to address domestic production of CFCs. The Global Change Division in EPA's Office of Air and Radiation reports, however, that Mexico (the first country to sign the Montreal Protocol) has already entered into a number of voluntary agreements with major industrial sectors for reductions in CFC production. According to the Global Change Division, Mexico is ahead of the reduction schedule for developing countries set forth in the Montreal Protocol.

Mexico's mobile source controls are more easily compared to its U.S. counterpart program. The four major aspects of Mexico's controls are tailpipe emission standards, vehicle inspection and maintenance programs, fuel content specifications and characteristics, and restrictions on driving. While SEDUE only recently adopted programs for the first three types of controls (required in the U.S. for several years), Mexico appears to be moving quickly toward standards for at least some measures that are similar to U.S. limits. Driving restrictions, though rarely adopted in the U.S., have been a matter of everyday life in Mexico City for the past two years.

An ecological standard issued in 1988 establishes tailpipe emission standards for new cars. The new car standard requires decreasing emissions beginning in 1989, with dramatic reductions beginning in 1991, apparently envisioning a phasing-in of cars with catalytic converters. This standard effectively will require catalytic converters to be installed on all cars that are manufactured in Mexico in 1993 and afterwards. Most 1991 model cars are expected to have catalytic converters. SEDUE is also considering requiring the retrofitting with catalytic converters of certain vehicles in Mexico City (such as taxis) and vehicles in Tijuana that have had their catalytic converters removed.

Certain issues relating to the effectiveness of these provisions remain unclear: Mexico's test procedures for determining compliance with the emissions standards; whether cars must meet the standards for a specified "useful life" (U.S. rules for passenger cars require five years or 50,000 miles); whether there are warranty and recall provisions; and whether there are any restrictions on the sale of "aftermarket parts" that could affect emissions performance if original equipment is replaced. A recent development is that SEDUE now has authority to regulate the content of fuels, as does EPA in the U.S. Previously, PEMEX had sole authority in this area. SEDUE hopes to exercise this authority beginning in 1992.

Twenty-two cities in Mexico now have vehicle inspection stations. SEDUE reports that in some areas along the border, emission inspection standards are more stringent than in Texas. The regulation governing motor vehicle pollution in Mexico City mandates inspections in the Federal District and in the suburban municipalities.

Since 1989, Mexico City (*i.e.*, the Federal District) has had "no drive days." Each car may not be driven one day of the five-day work week. In addition, driving may be suspended in certain parts of the city when ambient pollution levels are high.

Water Pollution

In the U.S., the Federal Clean Water Act ("CWA") regulates point source discharges of pollutants into U.S. navigable waters through led-state standards, implemented through a permitting system. The law prohibits unpermitted discharges and those that fail to comply with permit requirements. Under the U.S. program, each discharge of pollutants from a point source is subject to effluent limitations, which are based on two considerations. The first is technology: all sources must meet effluent limitations that are based on the best available technology economically available ("BAT"). EPA has established nationally applicable technology-based effluent guidelines and standards for numerous categories of industrial dischargers, which must be factored into the permit, where applicable. If no national regulation applies, the permit-issuing authority (which may be EPA or an authorized state), must make its own determination of what effluent limitations are BAT. In addition to technology-based limitations, each permit must assure that dischargers will not contribute to a violation of applicable water quality standards. These standards are developed by each state, in accordance with water quality criteria published by EPA, for individual bodies of water (or segments thereof), subject to EPA approval and oversight. The standards are required to assure attainment of the use designated for the water body (or segment) in question.

The Mexican water pollution law contemplates a regulatory system that if fully implemented would control point sources of pollution as broadly as the U.S. CWA. The Mexican General Ecology Law contains provisions to control surface, ground and marine water pollution. These provisions require: (i) Federal or state governments to authorize wastewater discharges into bodies of water or into the soil or subsoil; (ii) sources to refrain from polluting the receiving body of water, interfering with water purification and disturbing the sewer system or hydraulic capacity of the watershed; and (iii) pretreatment (whether discharging directly to the receiving water or indirectly into the sewer system) to meet NTE's developed at the Federal level. The first requirement appears to correspond to the CWA's permit system; the second and third appear to provide a framework that would allow such implementation tools as U.S. effluent limitations, water quality standards and Federal guidance.

The principal sources of Mexico's water problems are scarcity and pollution. Uncontaminated water for drinking and other uses is in short supply, particularly in Mexico City and other urban areas. Most rain in Mexico falls in sparsely populated areas. Accordingly, optimal use and preservation of the country's water is of high priority for SEDUE and the Mexican National Water Commission ("NWC"). Among other things, SEDUE is encouraging industry to look for ways to recycle process waters and minimize the production of wastewater.

With respect to treatment, capacity exists to treat about 8% of Mexican wastewater; but 4% is actually treated, however. Both new and existing sources are subject to regulations and 27 categorical NTE's. (A separate NTE applies to discharges into municipal sewer systems.) Like the effluent limitations guidelines and standards promulgated by EPA, the NTE's are based on economic and technical feasibility and reflect technologies of sedimentation, flocculation and precipitation. Requirements more stringent than those of the NTE's may be imposed with respect to: (a) discharges to sources of drinking water; (b) injection underground (allowed only if study shows that aquifer will not be damaged); and (c) discharge into marine waters through "soft marine" channels.

Discharges may also be subject to plant-specific "special conditions" that take into account, among other things, the quality of the receiving water, although this is most likely to be true for new sources. To date, approximately 4,000 of 40,000 discharges are subject to such conditions. New source special conditions are developed in conjunction with the environmental impact assessments. Facilities subject to special conditions are required to report to SEDUE monthly; SEDUE intends to put this information into a computerized data base.

A facility needs authorization to discharge wastewater; unpermitted discharges can trigger penalties or closings. The NWC authorizes discharges from continental sources into continental rivers. The Secretary for Marine Affairs issues permits for discharges from mobile sources. The regulation for protecting the marine environment from spillage of wastes and other discharges sets a number of environmental and health criteria for the issuance of permits by SEDUE. It is noteworthy that article 10 of the regulation prohibits the issuance of permits for discharges which

would present a danger to human health or well being, ecological systems, or to recreation areas. It should also be noted that Mexican Federal law "de la rechus" also requires a permit for dischargers to make use of the country's water. Violators of NTE's or other laws are liable for "contributions" to be used for water pollution control projects. The payments, which are not considered to be fines or penalties, are based on volume of flow, discharges of the conventional pollutants, settleable solids and biological oxygen demand ("BOD"), and the cost of pollution abatement.

Both SEDUE and the NWC conduct periodic and surprise inspections of discharging facilities. Enforcement efforts rely on tips and monitoring by SEDUE and NWC. In addition, each facility must submit a monthly report. Fines for substantive violations may be levied up to the equivalent of U.S. \$80,000.

Three government agencies participate in setting water quality standards: SEDUE, NWC, and the Navy. The NWC also classifies uses of water bodies. The standards are based in part on the "assimilative capacity" of the water body. Sometimes, the government can take measures to assure that the assimilative capacity is not exceeded. SEDUE has also established water quality criteria that set long-term goals or objectives to be achieved. The criteria, which are similar to EPA's water quality criteria (although used for a different purpose), are based only on scientific evidence.

Mexican and U.S. water law share some similarities. Both rely on technology-based controls on effluent discharges. However, it appears that the Mexican scheme is not as comprehensive as that of the United States. Very few facilities have permits, although this situation is expected to change with the increased number of inspectors. Much of the enforcement system appears to cover only discharges of conventional pollutants rather than toxic metals or organics. In addition, Mexico is only now developing a formal control system for discharges into municipal sewers. It is also not clear that every stream segment in Mexico has a designated use supported by water quality criteria, as does the United States, or that criteria for the downgrading of existing or designated uses are as stringent as those of the United States.

Hazardous Waste Pollution

In the U.S., two major statutes address the treatment, storage and disposal of hazardous waste: the Resource Conservation and Recovery Act ("RCRA"), 42 USC §6901 *et seq.*, and the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"), 42 USC §9601 *et seq.* RCRA sets forth a comprehensive "cradle to grave" framework for managing hazardous waste. Hazardous waste must be manifested, treated and stored or disposed of in accordance with permits incorporating substantive and procedural requirements specified in the statute and in EPA regulations. RCRA discourages land disposal of hazardous waste and EPA's implementing regulations require that most waste be treated with the "best demonstrated available technology" prior to disposal. RCRA also requires that owners and operators of hazardous waste facilities undertake corrective action for release of hazardous constituents.

While RCRA is aimed primarily at the active management of hazardous waste, CERCLA establishes a program for responding to releases of hazardous substances² into the environment from unmanaged sites. CERCLA provides legal authority and resources to allow a Federal response to address the harm caused by such releases. It also establishes a strict regime of civil liability for those responsible for the releases.

Mexico's legal regime for managing hazardous waste is quite similar to that of the United States, although it has not adopted several key aspects of the U.S. regulatory scheme such as land disposal restrictions and the underground storage tank program. In one aspect, SEDUE may go further than the U.S. by regulating the generation of hazardous waste and requiring generators to obtain authorization.

As in other areas of environmental regulation, Mexican controls on the management of hazardous waste tend to be more stringent for new sources than for existing sources. Most notably: a person wishing to construct a facility that will generate or manage hazardous waste must receive prior government authorization, a process that also involves an environmental impact assessment. Construction of a new facility is subject to detailed siting criteria. New facilities also must use BAT, while existing sources are called on to strengthen pollution controls and recycle. As in the U.S., provisions for corrective action may be part of the operating authorization, which is fairly specific and detailed.

² Hazardous substances, defined in §101(10) of CERCLA, include but are not limited to RCRA hazardous wastes.

Both new and existing facilities must reduce the volume of waste generated and then apply physical, chemical, or biological treatment to the waste. Hazardous wastes must ultimately be disposed of in a controlled confinement or disposal facility in accordance with applicable NTE's and regulations. Storage of hazardous waste is also subject to specific regulatory requirements. The NTE's and regulations are quite detailed and similar to their U.S. counterparts, although not completely identical. The most significant differences in the legal regimes governing hazardous waste disposal are that SEDUE has not yet promulgated treatment-oriented land disposal restrictions equivalent to those under RCRA or addressed the issue of leaking underground storage tanks. SEDUE has indicated that it intends to address these issues in the near future.

It appears that there are few, if any, authorized operating off-site waste disposal facilities. SEDUE officials recognized the need to develop more waste disposal capacity but noted that efforts to develop that capacity may be hampered by Mexican state laws against importation of hazardous waste, which apparently are valid.

Mexican law on manifesting hazardous waste appears similar to its U.S. counterpart. Under the Presidential Agreement of May 5, 1989, manifests are required for the delivery, transport, and receipt of hazardous waste, as well as for any "incidents" involving hazardous waste. Manifests must be submitted to SEDUE every 6 months. A monthly report is required for hazardous waste confined in final disposal sites.

As in other media, the number of facilities in Mexico that operate with required authorizations is quite small. However, maquiladora compliance is considerably better. Releases of hazardous constituents are not allowed; SEDUE can shut down or fine facilities that do so. It is more common, however, for SEDUE to shut down a facility temporarily and then enter into a compliance agreement with that facility.

Like EPA, SEDUE has only "normative" responsibility over municipal waste, which is under local control. SEDUE has identified three prototypes of "correct" landfills and gives technical assistance and information to municipalities for developing and operating landfills and other solid waste disposal facilities.

There is no Mexican equivalent of the U.S. Superfund law. Mexico does have a program to solicit voluntary contributions from industry for cleanup of abandoned hazardous waste sites. SEDUE's role in implementing the program will be to identify sites, select remedial action and provide oversight. To date, no systematic effort has been made to identify the sites where releases pose a significant risk to human health or the environment. Since Mexico is likely to face a significant problem with existing hazardous waste contamination, the "voluntary fund" is not likely to be adequate for a significant number of comprehensive cleanup operations.

Environmental Impact Assessment

The U.S. National Environmental Policy Act ("NEPA") requires the preparation of an environmental impact statement to accompany proposals for "major Federal actions significantly affecting the quality of the human environment." The two fundamental purposes of this requirement are to ensure environmentally informed decision-making by Federal agencies and to provide a springboard for public comment. Although explicitly attaching to Federal actions only, in practice, actions subject to NEPA encompass a variety of state, local and private activities due to Federal funding or regulatory involvement. U.S. environmental review law relies on a procedural process to fulfill its objectives: once an environmental impact study is prepared, NEPA does not constrain Federal decision-makers from deciding that non-environmental values outweigh environmental concerns.

Mexican environmental impact assessment law requires that the appropriate Federal, state, or municipal government authority, based upon an environmental review, authorize and impose conditions on both public and private activities that may cause adverse ecological effects or violate environmental laws. Environmental review subject to SEDUE oversight is required for Federal public works projects; water power projects; public highways; oil, gas, and coal pipelines; the chemicals, steel, paper, sugar, beverage, cement, automobile, and electricity industries; mineral and non-mineral mining and refining activities; Federal tourism developments; hazardous waste facilities; and forestry enterprises. Accordingly, Mexico's Federal environmental review regime may achieve broader coverage than the analogous U.S. regime, since U.S. Federal environmental review requirements apply only to Federal actions. In Mexico, moreover, in the case of activities considered highly dangerous, a separate risk study is also required to minimize and plan for accidents.

Other types of activities are subject to review under state and municipal law. To date, eighteen of thirty-one states have promulgated state environmental review laws. Although the breadth of the state requirements vary, all eighteen states have

so far provided for environmental review of state public works projects. Finally, Mexican law mandates the preparation of environmental reviews for any activity that may have significant transboundary effects, which goes beyond the U.S. obligations which apply only to appropriate Federal activities. Mexico's Federal environmental review scheme, although enacted less than three years ago, already produces environmental documents in numbers roughly comparable to the U.S. system.

To obtain the authorization of SEDUE, an interested party must present SEDUE with an environmental impact analysis prior to initiating an activity. A brief, preliminary report is sufficient in cases where the activity has no adverse ecological effects and complies with applicable legal standards. Depending upon the gravity of a project's potential impacts, a "general," "intermediate," or more detailed, "specific" environmental review is required.

Both Mexican and U.S. law require an analysis of a proposed project's potential environmental impacts, possible mitigation measures, and compliance with other environmental laws. U.S. law, however, also requires consideration of all reasonable alternatives to a proposed action, including no action. In addition, U.S. law requires, more broadly, consideration of cumulative impacts resulting from the proposed action when added to other past, present, and reasonably foreseeable future actions.

Mexico's law mandates that proposed activities be carried out consistent with conditions imposed upon them by SEDUE or other appropriate Federal agencies based upon the environmental review. SEDUE's broad discretionary authority to impose conditions effectively goes beyond U.S. Federal environmental review law, which establishes procedural mechanisms to ensure environmentally informed decision-making but places no substantive constraints on particular decisions. Mexican environmental impact assessment law also mandates that proposed activities comply on a continual basis with any established conditions and provides for monitoring, inspections, and sanctions for non-compliance. In contrast, U.S. environmental review law has to date focused primarily on pre-decisional aspects of the process.

Early public participation has yet to be integrated into Mexico's environmental review process. When an environmental review is completed, a notice is published in Mexico's *Ecological Gazette*. Access is also allowed to the public file once project conditions have been established. Upon publication of the notice, any individual may request additional consideration of issues by SEDUE. In contrast to U.S. law, Mexican law does not provide for private right of action, though an administrative challenge to Federal Government action could be made.

Concluding Note

This Report does not cover environmental laws, regulations and standards relating to pesticides and toxic substances. This is to be the subject of an additional study, directed by the EPA Offices of International Activities and Pesticides and Toxic Substances.

**A SIDE-BY-SIDE COMPARISON OF
U.S. AND MEXICAN ENVIRONMENTAL LAW**

U.S. LAW**MEXICAN LAW****AIR**

Health-based primary ambient standards and welfare-based secondary standards (the "NAAQS"). Criteria pollutants.

State implementation plans (SIPs) control emissions of criteria pollutants.

National new source performance standards (NSPS) for certain stationary sources; all major new sources undergo new source review.

National standards for hazardous/toxic air pollutants.

New programs on stratospheric ozone protection and acid rain.

Mobile source program. Tailpipe emission limits, fuel and fuel-additive regulation, and vehicle inspection programs.

Comparable for health-based standards, no welfare-based standards. Same pollutants, two in process of promulgation.

National permit program controls emissions. Pollution management program for Mexico City.

Similar. Nationally applicable standards (NTEs) apply to new and existing sources, although standard sometimes stricter for new sources.

NTEs limit emissions of both toxic and nontoxic pollutants; more NTEs covering toxics in development. Siting may be restricted for high-risk facilities.

Voluntary CFC reduction agreements with industry, resulting in faster curtailment than required under Montreal Protocol. No special acid rain program, but SO₂ and NO_x emissions from particular sources regulated.

Similar. Unleaded gasoline being phased in nationally. Auto emission standards comparable to US, requiring catalytic converters for all new 1993 cars. Driving restrictions in Mexico City.

WATER

Point source pollution focus. Industrial and municipal sources covered. Federal and state implementation through permitting system.

All point source discharges require permit; technology and water quality based requirements. Industrial dischargers to municipal treatment plants must pretreat.

Wetlands protection program. Permit required for dredge and fill.

Comparable. Intended to control point sources as broadly as US law. Primary implementation a Federal responsibility; states coordinate sewage treatment facility construction.

Industrial discharges require permit and must comply with technology-based requirements; some existing and all new sources subject to water quality-based special conditions.

Wetlands may be designated ecologically sensitive. Dredge and fill only for exempted uses.

BEST AVAILABLE COPY

U.S. LAW

MEXICAN LAW

HAZARDOUS WASTES**Management**

Hazardous waste defined by 4 hazardous characteristics or by listing.

Similar: toxicity characteristic more stringent; fewer wastes listed.

Manifest required for off-site management of HW

Equivalent.

Comprehensive design, operating, and closure requirements

Comparable, but no standards for incineration of hazardous waste.

Treatment with best demonstrated available technology required prior to land disposal.

SEDUE authority to require treatment prior to disposal; no regulations.

Comprehensive regulatory and remedial program for underground storage tanks.

No equivalent.

Remedial Action for Releases

Federal response authorized.

General police power.

Multi-billion dollar trust fund.

Voluntary fund established; SEDUE oversight and control.

MUNICIPAL WASTES

Federal standards for sanitary landfills.

Standards expected this year.

State enforcement.

State enforcement.

PESTICIDES

Pesticides and residues in food covered.

Similar. Fertilizers also covered.

Registration prior to sale or distribution; extensive testing and premarketing review. Labeling, use restrictions and other requirements may be imposed.

Foreign (US) certifications together with other information accepted. Most registered pesticides imported from developed countries. Few pesticides refused approval in US are used in Mexico.

Tolerance levels set for use on food crops.

Comparable. Extensive use of EPA-established tolerance levels; other tolerances generally based on CODEX. Mexico cooperates with US to ensure food crops exported to US within US tolerance levels. Most current violations relate to unapproved crop use of US-registered pesticides.

Registration may be changed, canceled or suspended based on newly available information.

Comparable; Authority to cancel registrations, close plants and seize products.

U.S. LAW

MEXICAN LAW

TOXIC SUBSTANCES

Manufacture, processing, distribution in commerce, use and disposal of chemical substances, articles and mixtures covered.

Authority to ban or restrict any time in chemical's lifecycle; may require labeling, testing or reporting. Test methods and laboratories strictly regulated to ensure data quality. Imports must meet domestic requirements.

New substances reviewed to ensure adequate controls before entering commerce.

Major facilities publicly report annual releases of certain chemicals.

Comparable coverage, but facilities regulated as well as chemicals.

Comparable power to restrict chemicals. Test methods called for but not yet developed. No imports if banned in country of origin.

Government commission (CICOPLAFEST) may deny or restrict new substances. Procedures being developed.

No direct equivalent.

ENVIRONMENTAL IMPACT ASSESSMENT

Major federal actions covered.

Risk studies not required.

Public participation important element throughout process.

Goal of environmental impact review is informed decision-making.

Comparable. In addition, private actions also covered.

Risk studies required for high risk activities.

Public participation weak during early stages of process.

Similar. In addition, projects may be rejected or modified as a result of the review.

PREPARED STATEMENT OF MARY E. KELLY

Mr. Chairman and distinguished members of the committee, good morning and thank you for the opportunity to address the Committee on the important issue of the environment and free trade negotiations.

My name is Mary Kelly, and I am the Executive Director of the Texas Center for Policy Studies. The testimony I will give today is also being provided on behalf of the National Wildlife Federation, the National Toxics Campaign, Friends of the Earth, the Border Ecology Project and Arizona Toxics Information, Inc.

The Texas Center for Policy Studies, based in Austin, Texas, has several on-going research and technical assistance efforts dealing with environmental problems in the Texas/Northern Mexico border area. The center is also developing a binational network of environmental and community groups in this region and working closely with environmentalists, university researchers and others in Mexico.

As a result of this border area and binational work, we have come to understand that economic integration, which has been occurring even without a free trade agreement, can have significant adverse environmental impacts if not accompanied by proper controls. We believe the proposed free trade agreement (FTA) between the United States, Mexico and now, very likely, Canada, will set the course for the future of the environment in the U.S./Mexico border region for many years to come. This belief is shared by many of our counterparts in the Mexican environmental communities. In addition, we believe an FTA would have broad implications for the environment and public health in the interiors of both countries.

I want to make it clear at the outset that neither the Center nor the endorses of this statement are flatly opposed to a comprehensive trade agreement between the United States and Mexico. We are, however, concerned about the potentially disastrous consequences of a trade agreement that does not include explicit measures to protect the environment and foster sustainable development in both countries.

In that regard, the center and the Border Ecology Project in Arizona have recently released a discussion paper which sets out many of the issues and options for dealing with them in the context of trade negotiations. We would like to submit this report for the hearing record, with the Committee's consent.

It must be recognized at the outset that a trade agreement is more than just an agreement on the rules for trading goods and services. While setting the rules is one function of a such an agreement, it is clearly not the only function or consequence. The Mexican government believes that a free trade agreement will promote increased U.S. investment and industrial production in Mexico and will spur increased production by its domestic industries to supply new export demands.

A trade agreement thus sets a pattern of industrial and resource development. The issue, then, is how to ensure that the agreement both (1) fosters development that is *sustainable*, and (2) preserves the rights of Federal, state and local governments in both countries to take actions restricting unsustainable forms of industrial and resource development.

As you have all no doubt heard by now, the maquiladora program along the border has resulted in several serious environmental problems. Among the more obvious effects: raw sewage and toxic wastes pose hazards to this desert region's scarce water supplies; air pollution threatens public health in rapidly growing border cities; the supply of livable housing is woefully inadequate; and border crossings are increasingly facing daily gridlock.

A few specific examples follow:

- A study by the Texas Center for Policy Studies found that in a 2½ year period only 33 of the approximately 600 maquiladoras in the Texas/Mexico border area had filed the required notices for return of their hazardous wastes from Mexican operations to the United States (as required by Mexican law). Since many of the types of industries operating as maquiladoras use significant amounts of solvents and generate other wastes considered hazardous, this is nowhere near the number of re-import notices one would have expected to be filed if maquiladoras were indeed returning their hazardous waste as required. Other studies by EPA Region VI, Region IX, the Texas Water Commission and the environmental agency in Mexico, Secretaria de Desarrollo Urbano y Ecologia (SEDUE) reveal similar estimates of the amount of waste actually being returned.

- Studies in Nogales, Arizona/Sonora have revealed that the underground aquifer, Nogales Wash, which supplies water to some of the Sonoran side's poorest residents, is contaminated with industrial solvents and other chemicals. Maquiladora plants in Nogales, Sonora use the vast majority of the chemicals that have been found in the groundwater. Little monitoring data are available for other shared drinking water aquifers, such as the one underlying the El Paso, Texas/Cd. Juarez,

Mexico area, but many local officials have expressed serious concern about potential contamination from improperly disposed maquiladora waste.

- The pollution-intensive chemical manufacturing sector is one of the fastest growing areas for maquiladora production, according to the American Chamber of Commerce in Mexico. This industry generates significant amounts of water and air pollution and hazardous wastes and a continuing risk of accidents to communities on both sides of the border.

- There have been several hazardous materials release emergencies in border area maquiladoras, some of which have required evacuation of workers and surrounding neighborhoods. For example, in December, 1990, a maquiladora manufacturing chemical products in Matamoros (across from Brownsville, Texas) had a poisonous gas accident that sent almost 60 people to the hospital.

The *reason* these problems have developed is that neither the United States or Mexican governments considered the restrictions necessary to ensure that the maquiladora program would result in sustainable and environmentally-sound development. The maquiladora program did not require U.S. industries transferring their operations to the Mexican border to invest in adequate sewer, water or housing infrastructure for the vast surrounding communities of workers drawn to the plants. It did not require that the responsible Federal and state government agencies plan for reasoned and sustainable use of scarce water resources in the border region. Nor did it establish an adequately funded environmental regulatory structure to monitor maquiladora operations, test for pollution levels or enforce environmental laws.

The result of failing to address these issues simultaneously with the institution of the maquiladora program is impossible to ignore—and now it is going to be very expensive to clean up the mess. Already, one hears talk of a “Superfund” for the problems caused by the maquiladora industry’s irresponsible management of its hazardous waste.

The administration seems to have taken the position that environmental issues can and should be addressed outside free trade negotiations. The argument seems to be that many of the environmental issues of concern will arise under Mexico’s unilateral deregulation effort, even if there is no trade agreement.

In response, let me suggest three important considerations. First, while there has been significant movement toward integration and U.S. investment in industrial operations in Mexico even without a trade agreement, it can be expected that a trade agreement will significantly increase the rate and intensity of that U.S. investment. This is the primary motivation for even entering negotiations. Failure to *simultaneously* address the environmental implications of this increased investment will result in the same type of problems we already have with the maquiladora industry, where the countries have sought to deal with the environmental problems . . . the context of the legislation creating the maquiladora program.

Second, any trade agreement would be a powerful contract and legal mechanism that could allow challenges to U.S. or Mexican laws, regulations and practices that are necessary to protect the environment and public health, by sweeping them into the “non-tariff” trade barrier category. It is difficult to conceive of any separate track agreement or process that could adequately address this problem. Thus, it is our position that the trade agreement itself must explicitly preserve the rights of Federal, state and local governments to enact measures that protect the environment and public health.

Finally, including environmental concerns in trade negotiations and the agreement itself is the most direct way for the two governments to address these issues—and to demonstrate to Congress exactly they propose to deal with the problems.

It must also be acknowledged that we are facing a unique situation in integrating the economies of the United States and Mexico through a trade agreement.

First, there are great disparities between the United States and Mexico in terms of resources available for a functioning environmental regulatory structure. Mexico, because of its crushing debt burden, has little money available to devote to financing and training regulatory personnel or to enforcing its environmental laws. For example, in Ciudad Juarez, across from El Paso, Texas, there is one Federal inspector for over 300 maquiladora plants for all the Mexican domestic industry plants. The total annual budget for pollution control of Mexico’s environmental agency, SEDUE, was approximately \$3.1 million in 1990 for the entire country. Compare this to almost \$50 million for the annual budget of the agency in Texas for water pollution and hazardous wastes.

Second, because Mexico desperately needs additional employment for its people, the government is under great pressure to “look the other way,” even when serious environmental violations occur. The maquiladora industry has consistently argued against raising wages of untrained workers to a livable level and has not substan-

tially invested money on infrastructure for surrounding communities. Given Mexico's "pro-maquiladora" investment policy since the peso devaluation of 1982, combined with the aforementioned lack of funds, it is to be expected that government response to problems created by the maquiladora industry will be restrained.

And, finally, because we share a border with Mexico, many of the adverse environmental and health consequences resulting from the type and rate of increased industrial development and resource exploitation fostered by the maquiladora program and by Mexico's other recent deregulation has directly affected and will continue to affect residents and environmental quality in the U.S.

All these factors combine to make the need for consideration of environmental issues in any trade agreement between the United States and Mexico undeniable and urgent.

The attached Environmental Agenda lays out several mechanisms identified to date through consultations among environmental groups and others. We are in ongoing discussions with our Mexican counterparts regarding these issues as more information on the potential impacts of a trade agreement is developed.

We believe many of the items listed in the Environmental Agenda are appropriate for inclusion in a social charter, the idea of which has been advanced in many forums.

Given the limited time, it is not possible to discuss all the Agenda items in detail. Let me just touch on a few, however:

1. Need for Environmental Assessment

An environmental assessment of a potential trade agreement, following guidelines of the National Environmental Policy Act¹ should be performed in the United States. It should include an assessment of environmental impacts created on both sides of the Mexico-U.S. border and include an assessment of all available options to eliminate or mitigate adverse impacts.

2. Mechanisms for Guaranteeing Sustainable Development

The agreement should include an agreement for binational cooperation in pursuing sustainable development policies by establishing mechanisms for binational resource conservation (particularly in the border area); promotion of smaller scale, less resource-intensive development through multi-lateral bank funding or other means; and control over private exploitation of finite natural resources. Mexico's current directional development policies (directing industries outside of already polluted areas) should be explicitly exempted from challenge as a trade barrier.

The agreement must also specifically recognize and preserve the rights of Federal, state and local governments in each country to enact measures protecting the environment, public and worker health and controlling development of finite natural resources.

3. Measures to Improve Environmental Law Enforcement

The agreement must include specific funding measures to strengthen environmental planning and regulatory efforts in Mexico. Possible funding sources include multi-lateral development bank loans, increased bilateral aid, contributions from private industry and cancellation or reallocation of a portion of Mexican debt to be reinvested in environmental planning and regulatory efforts.

The agreement should also include explicit provisions for actions by Mexican citizens in U.S. courts against U.S. companies that cause property damage or personal injury in Mexico. Private enforcement has proved to be a powerful incentive for compliance by domestic industry, at little cost to the government regulatory agencies.

4. Measures to Improve Physical Infrastructure

The agreement must also include specific funding measures to improve physical infrastructures strained by increased U.S. investment in industrial development. Again, possible funding sources include multi-lateral development bank loans, increased bilateral aid, contributions from private industry and cancellation or reallocation of a portion of Mexican debt to be reinvested in physical infrastructure development.

5. Direct Foreign Investment in Oil

Direct U.S. investment in Mexico's oil resources should stay off the table. Increased investment in other aspects of the Mexican oil industry should be linked to a Congressionally-approved U.S. national energy policy based on maximum conservation efforts, increased energy efficiency and development of environmentally-

sound alternative fuels. The trade agreement should not be used to further U.S. addiction to fossil fuels.

6. Appropriate Dispute Resolution Mechanisms

The dispute resolution mechanism should be "transparent" (i.e. accessible to public inquiry) and should provide for appropriate citizen participation through NGO representation or other mechanisms.

In conclusion, we believe that Congress must take a pro-active role in ensuring that environmental considerations are explicitly addressed in any trade agreement between the U.S., Mexico and Canada.

ENVIRONMENTAL CONCERNS RELATED TO THE PROCESS BY WHICH THE FTA IS NEGOTIATED

- An environmental assessment of the agreement, following NEPA guidelines, should be performed in the United States. It should include an assessment of environmental impacts created on both sides of the Mexico-U.S. border and include an assessment of all available options including the "no-action" option. It should also suggest alternatives to prevent or minimize identifiable impacts. Assessments should be conducted by the relevant environmental agencies in Canada and Mexico as well.

- Public hearings in the United States, directed to airing environmental concerns related to the FTA, should be conducted as soon as possible. Public hearings should be held in Canada and Mexico as a condition for going forward with the negotiations.

- A long-term management plan, such as that currently being developed by the European Community, should be developed for dealing with the environmental problems that will be set in motion by the increased investment, transportation, and natural resource use inspired by the FTA. The three signatories to this agreement should work together to develop and implement this plan which can serve as a model by which to guide long-term economic integration of the three countries.

CONCERNS RELATED TO THE SCOPE OF THE AGREEMENT

- Funds must be included as part of this agreement for the institutional strengthening and monitoring activities of SEDUE, the Mexican environmental agency, as well as for the necessary infrastructure (e.g. sanitation and sewage systems) to accommodate the growth of Mexican industry, particularly the growth of foreign-owned companies in Mexico. Such funds might come from contributions from private industry, increased bilateral aid programs, and/or cancellation of an increased portion of public external Mexican debt to be reinvested in these areas.

- Intellectual property proposals should be off the table unless an effort is made to consider how such proposals can be tailored to promote a sustainable management of genetic and biological diversity, from which many of the patentable products to be sold in Mexico are to be derived. The value of *in situ* management of these diverse resources should also be recognized as part of an improved intellectual property agreement.

- Direct investment in Mexico's oil resources (i.e. foreign ownership of these resources) should be off the table. Increased investment in other aspects of the Mexican oil industry should be linked to a Congressionally-approved U.S. national energy policy based on increased efficiency and development of environmentally sound alternative fuels. The FTA should not be used to further U.S. addiction to fossil fuel consumption.

- An improved, enforceable agreement on the use of shared water resources between the U.S. and Mexico should be included in the FTA that takes account of present and *future* demands on water use, and the impacts on water quality, generated by this agreement.

- Signatories to the agreement should agree to a plan of action for the eventual elimination of the imports and exports of hazardous waste, taking into account the relative capacity for different countries to deal with the disposal of these wastes.

CONCERNS THAT MAY BE APPROPRIATE FOR INCLUSION IN A SOCIAL AND ENVIRONMENTAL CHARTER

- Frequent and on-going disclosure must be made by firms in all sectors operating in Mexico of the environmental hazards associated with their production processes. In particular, disclosure must be made of the kinds, quantities, and risks associated with hazardous wastes and other hazardous substances used at and released from their facilities. Disclosure must be made to workers and communities where facilities are located, or who might be affected by these facilities. similar disclosure re-

quirements should be established in Canada and the United States if they are not already in place. Record-keeping systems must also be established that allow for public review.

- Firms operating in Mexico must reduce the amount and toxicity of hazardous substances that they use, and minimize the amount and toxicity of the wastes that they generate, and demonstrate publicly their use of best available technology and pollution abatement programs in their production processes. Similar requirements should be established in the United States and Canada if they are not already in place.

- Criteria that are established for foreign investment must include the requirement that technical and financial resources necessary to prevent or mitigate environmental damage, and protect human health, will be provided by the investor according to the principle of "polluter pays."

- Companies investing in another country must comply with whichever standards are stricter, either those of the host country or their own. Remedies must be established under U.S. law for action against U.S. companies that do not adhere to this guideline. Other possible actions against companies that violate this guideline might include revocation of trade privileges that their products enjoy. Another remedy must include the right of private citizens or public interest groups to sue these corporations for injuries to themselves or the environment, even in the case where the corporations are operating in a foreign country. For example, the agreement should explicitly provide that Mexican citizens and United States citizens who are injured or suffer property damage as a result of the operation of U.S.-owned operations in Mexico may maintain suit in the Federal courts in the United States to seek recovery for such damages under U.S. law. The agreement should also provide that the countries mutually grant free access to their court systems for redress of injuries.

- To assure proper enforcement of these rights and standards, a trilateral agreement should be concluded for monitoring of environmental pollution and resource degradation problems in the United States and Canada as well as Mexico. SEDUE, EPA, and the Canadian Department of Environment should jointly monitor transboundary environments for such problems as surface and ground water contamination and air pollution. The trilateral agreement should also lead to the establishment of a trilateral institution comprised of governmental, industry, and non-governmental representatives, that would have the responsibility of resolving environmental disputes related to trade not dealt with as part of the judicial process.

- The trilateral institution set up to resolve environment and trade disputes must have some measure of public accountability, and their deliberations must be made public.

- Any nation that fails to abide by international environmental or conservation agreements or standards should be subject to trade sanctions that are proportional to the short-term economic gain realized by that nation due to its violation of the agreement or standard (e.g. Mexico's failure to join CITES, the Convention on International Trade in Endangered Species, and perhaps a future reluctance on the part of the U.S. to pay so-called "carbon taxes" levied on polluting nations).

- Protection of environmental quality, the integrity of ecosystems, and maintenance of scarce biological resources should be explicitly recognized as legitimate aims of trade-related legislation. A country's right to use trade restrictive measures for conservation purposes should be explicitly guaranteed as part of the agreement.

- If harmonization of health and food safety, and other environmental standards is sought, international standards should be viewed as minimum criteria which a nation is required to meet, but the power of each nation to exceed the international standards must be preserved.

- Local state and national governments must remain free to set the highest possible environmental standards that they deem to be appropriate. The FTA must explicitly guarantee this right.

- Signatories to the agreement must be prohibited from exporting products which are banned from sale domestically (e.g. pesticides).

- A country's right to assist its agricultural producers financially and technically to undertake a transition to more sustainable farming practices should be guaranteed in the FTA.

- Minimum occupational health and safety standards must be adopted and enforced in each signatory country.


Texas Center for Policy Studies
 P.O. Box 2618
 Austin, Texas 78768
 512/474-0811



DISCUSSION PAPER

MEXICO-U.S. FREE TRADE NEGOTIATIONS AND THE ENVIRONMENT: EXPLORING THE ISSUES

Preface

The Texas Center for Policy Studies, of Austin, Texas and the Border Ecology Project of Naco, Arizona have been involved in a variety of research projects involving the environment and public health issues in the U.S.-Mexico border region. Because of the dramatic industrialization of the border region and the growth of the maquiladora industry, much of the work of these organizations has focused on the environmental impacts of the economic integration of the two countries in the region. Lessons from this region appear to be relevant to the potential increased integration that a U.S.-Mexico free trade agreement could bring.

This discussion paper raises many of the issues that will have to be faced if a free trade agreement is signed. There is no question that the environment and public health in both the United States and Mexico will be affected by further integration of the economies. As the paper indicates, the impacts can be anticipated in the negotiations and dealt with explicitly in the agreement or a parallel process.

The job of collecting the data and opinions of experts in the field was given to Jan Rich, an environmental researcher and writer, and author of *Air Pollution in Mexico City: A Crisis in Environmental Policymaking*.

There is much that could not be examined in this initial quick review; there is much that is still unknown. Also, because of the short turn-around time, we have had only limited contact with other NGOs in Mexico and the United States. Both BEP and TCPS, however, plan to use this document to continue discussion with our counterparts in Mexico and the United States, and we would appreciate comments on this paper as the investigation continues.

OVERVIEW

For the past five years, Mexico and the United States have dramatically increased the amount and variety of their trade. A number of industries, such as the automobile manufacturing sector, are in the process of full-scale integration. Now, the United States and Mexico have agreed to enter negotiations on a free trade agreement.¹ While the economic integration process will likely continue with or without a free trade agreement (FTA), it is clear that if the negotiations are successful, an FTA will increase the amount and pace of economic integration between the two countries.

A number of important environmental issues are linked to increased economic integration.² In the southwestern United States and in northern Mexico, the effects of integrated rapid development are already evident. The U.S.-Mexican border infrastructure, which has not developed concomitantly with increased industrialization, is strained beyond its capacity. Among the more obvious consequences: raw sewage and toxic wastes pose hazards to this desert region's scarce water supplies; air pollution has become a problem in rapidly growing border cities; there is an inadequate supply of livable housing; and border crossings are increasingly facing daily gridlock.

To date, U.S. attention to the environmental and public health issues associated with industrialization in Mexico has been primarily limited to the border region, where negative effects are visible to U.S. border residents. Since Mexican border air and water pollution or hazardous material emergency planning risks may also affect residents across the boundary line, this is not surprising. Increased industrial and agricultural development in the interior of Mexico by U.S. industry may pose hazards that will not be easily scrutinized by the United States--evolving into an "out-of-sight", "out-of-mind" situation.

¹ In 1985, reversing an earlier position, Mexico joined the General Agreement on Tariffs and Trade (GATT). Mexico is also currently the United States' third largest trading partner, behind Canada and Japan. For a general discussion of current U.S./Mexico trade and recent liberalization of the Mexican economy, see USITC, Review of Trade and Investment Liberalization Measures by Mexico and Prospects for Future U.S.-Mexico Relations (2 vols.), USITC Pubs. Nos. 2275 (April 1990) and 2326 (October 1990). It is very likely that Canada will be part of the FTA negotiations with Mexico. This paper, however, deals solely with U.S./Mexico issues

² There are also many other social and human rights issues involved in increased economic integration. This paper, however, deals with environmental, public health and selected worker health issues.

Free trade between an industrialized nation and a under-developed nation such as Mexico must be approached with great caution. Ignoring the very real impacts in both countries that are associated with increased economic integration and trade will lead to severe future problems. The free trade negotiations, we believe, can provide an avenue for resolving some of these problems, if the discussions are opened up to include the proper spectrum of development issues.

The potential of a U.S./Mexico free trade agreement raises many development-related questions, yet the official U.S. and Mexico negotiating positions are that these issues are "not on the table." Important issues include impending water shortages on both sides of the border, how to govern the environmental performance of the increasing number of U.S. corporations expected to operate in Mexico under an FTA, and the means by which the two countries can provide the physical and regulatory infrastructure necessary to absorb increased industrial and agricultural activity that is expected with unrestrained trade. Failure to recognize these issues can only lead to further environmental and public health degradation. Issues also arise regarding the ability of each nation to protect the environment and public health, a goal which is basically contrary to some industries' view of harmonization of standards at the lowest common denominator in an effort to eliminate "trade barriers."

There is still time for the administration to recognize that a narrowly negotiated free trade agreement is a prescription for environmental and social crises of major proportions. President Bush submitted his request to Congress for "fast track" authorization to negotiate a U.S./ Mexico FTA on September 25, 1990.' Congress has 60 legislative days (late January, early February, 1991) from that date to accept or reject fast-track authority.'

' If an agreement is negotiated on the "fast track", Congress must vote "up or down" on the agreement presented to it. There can be no amendments or additions to the agreement at the Congressional level. § 151 of the Trade Act of 1974 19 U.S.C. § 2110, et seq., sets out fast-track procedures. These procedures are made applicable to the FTA by § 1103 of the Omnibus Trade and Competitiveness Act of 1988, P.L. 100-418.

' Unless either the House Ways and Means Committee or the Senate Finance Committee affirmatively disapproves the request for fast track, it is automatically approved. A question arises about whether a formal entry of Canada into the FTA negotiations with Mexico would change the existing timelines by requiring a new notification to Congress.

In addition, the legislative provision for fast-track authority expires on June 1, 1991, unless it is extended. The general consensus is that the administration will ask for an extension of fast-track authority to negotiate the U.S./Mexico FTA. Such a request must be made by March 1, 1991. The request can be denied by a disapproval resolution of either the House or the Senate. See § 1103 of the Omnibus Trade and Competitiveness Act of 1988, P.L. 100-418.

This discussion paper explores some of the environmental and public health issues that are associated with increased economic integration between the United States and Mexico. Because of the perspective and location of the organizations involved in preparing this discussion paper, there is a substantial focus on the U.S./Mexico border area. We emphasize, however, that many of the issues discussed will be of importance to the interior of both countries, as well as the border areas.

The first section addresses various issues that cut across economic sectors. The second section discusses issues in specific sectors: assembly/manufacturing, petroleum/ petrochemicals, agriculture/livestock, mining, timber, transportation/ automotive, and fishing. The general format is a brief statement of and background on the issue, followed by a short discussion of options that have been identified by the authors and others as potential avenues for addressing the issue. The options range from alternatives that could be included in a FTA agreement itself to those that might be negotiated as part of a FTA but set out in separate agreements to unilateral actions that can be taken by the United States Congress.

I. CROSS-SECTOR ISSUES

A. SUSTAINABLE DEVELOPMENT

Issue: What considerations must enter into free trade agreement negotiations to move both countries toward more sustainable economic development?

The concept of "free trade" is favored by many because it stresses reduction in restrictions and government controls. Reducing restrictions and controls will no doubt encourage economic development, but the type of economic development needs to be examined. If the resulting development is based on short term economic goals, future generations can suffer greatly. If the resulting development is located in areas already burdened by resource shortages and infrastructure problems, the new development could create more problems than it solves.

Like the concept of the "free market", free trade has to recognize the externalities. Government controls to avoid over exploitation of common resources has for years been accepted as needed in a free market. Thus, air pollution control regulations protect public health, since the industry does not voluntarily include the costs associated with damage to public health in its production costs. We also have regulated withdrawal rates for oil and gas production to avoid loss of potential production due to short term incentives to pump as fast as possible. And we have government restrictions to protect resources with no readily determinable monetary value, but which are nonetheless important, like endangered species and historic sites.

Thus, there are legitimate areas for government control that must not be sacrificed in the search for economic development and the integration of the economies of the U.S. and Mexico. Important areas of control include many of the environmental and health issues that will be discussed below. Governments, at times, also must control the type, location or rate of development to assure sustainability.

Mexico's directional development policy is an example of these legitimate controls.

Due to increasing industrialization without attention to the need for comprehensive sustainable development policies, the natural resources and environment of the Mexico-U.S. border area and Mexico's three largest cities are already greatly strained. Mexico now has a plan to redirect development away from its primary and most polluted industrial centers--Mexico City, Guadalajara and Monterrey--toward cities that can better absorb the effects of industrial development. Directed development is a top priority for President Carlos Salinas de Gortari, says Mexico's Subsecretary for

Environment in the Secretariat of Urban Development and Ecology (SEDUE), Sergio Reyes Lujan.⁵

Although Mexico's recent deregulation has opened all unclassified and a significant portion of classified sectors of the economy to 100% foreign investment, current Mexican policy prohibits foreign corporations from having 100 percent ownership in companies established in Guadalajara or Monterrey without special permission. This policy is aimed at alleviating the strain on infrastructure and water supplies in overburdened Mexican cities.⁶

Incentives or limitations for directional development and other sustainable development controls in Mexico could potentially be challenged as non-tariff barriers to free trade, if the agreement does not expressly preserve such rights to the contracting countries.

The United States does not have a directed development policy--either to direct development away from areas where natural resources are over-exploited or toward areas where unemployment is high. At a minimum, it seems that a public debate over the FTA should include development considerations for the United States, although this debate is not tied solely to a trade agreement with Mexico.

Unplanned development has adversely affected the U.S. border area's water quality, water supply, air quality and other natural resources as well. Some examples: (1) industrial and vehicle pollution in the rapidly growing El Paso/Juarez area have combined to cause serious air contamination; (2) the common groundwater aquifer serving Nogales, Mexico and Nogales, Arizona has been contaminated with industrial solvents as a result of unsound industrial disposal practices (the vast majority of industry in Nogales, Mexico is maquiladora plants); (3) the quality of the Rio Grande/Rio Bravo in Texas is threatened by from untreated or poorly treated sewage and agricultural run-off from both sides of the border while sewage problems in Tijuana/San Diego and Nogales have persisted for a number of years; and (4) habitat for endangered or threatened species is disappearing in both countries at an alarming rate.

⁵ Telephone interview with Sergio Reyes Lujan, Subsecretary for the Environment, Secretaria de Desarrollo Urbano y Ecologia, Mexico City, January, 1991. See generally United Nations Centre on Transnational Corporations, "Criteria for Sustainable Development Management" (1990).

⁶ Personal interview with Douglas Alexander of the Austin, Texas law firm of Brown, Maroney & Oaks Hartline, January 1991.

Options

a. The FTA could include an agreement for binational cooperation in pursuing sustainable development policies, by establishing mechanisms for resource conservation (particularly in the border area); promotion of smaller scale, less resource-intensive development through multilateral development bank funding or other means; and controls over private exploitation of finite natural resources.

b. Mexico can continue with its redirection plan to target mid-sized cities - those with populations ranging from about 10,000 to about half a million - as the alternatives for industrial development.

Mexico's development plan now lists 44 of these cities - those with industrial parks and sufficient water supplies, says Reyes Lujan. Some of the most prominent ones are Puebla, Puebla; Queretaro, Queretaro; Guanajuato, Guanajuato; Pachuca, Hidalgo; Hermosillo, Sonora; and Ciudad Acuna, Coahuila. He said operating permits are practically impossible to obtain for cities like Mexico City that have critical water shortages.

However, the Mexican government has had difficulty in implementing its decentralization program. Too little money has been available for infrastructure enhancement in mid-sized cities.

B. GOVERNMENT REGULATION

Bilateral Issues

Issue 1: Is there adequate regulatory and oversight structure to oversee environmental impacts of free trade?

Mexican and U.S. policymakers are mixed in their views of whether the United States and Mexico need to create a new agency to oversee enforcement of binational environmental agreements. Alberto Szekely, legal advisor to the Mexican Foreign Ministry, supports such a measure, but Sergio Reyes Lujan voices confidence in the current relationship between SEDUE and EPA.

⁷ Telephone interview with Alberto Szekely, legal advisor to the Mexican Foreign Ministry, Mexico City, November 1990. Also see Mr. Szekely's Establishing a Region for Ecological Cooperation in North America, a Proposal, publication forthcoming by the International Transboundary Resources Center/Centro Internacional de Recursos Transfronterizos, University of New Mexico School of Law, Albuquerque, New Mexico.

A significant amount of criticism from both Mexico and the United States has been aimed at the International Boundary and Water Commission for failing to take the initiative in pollution studies or projects, although Paul Storing of the IBWC section of the State Department says the agency's mandate was always limited and that the agency has, in fact, negotiated several agreements for new binational municipal wastewater treatment systems.'

The working relationship between EPA and SEDUE has also been limited by poor funding, the fallout of U.S.-Mexican political issues like the border war on drugs, and sovereignty issues. Additionally, the two agencies are hampered by their relationships to other, more powerful agencies within their respective governments.

Options

a. The EPA-SEDUE relationship could be strengthened through legislation or treaty.

b. Other inter-agency contact between countries could be fostered by legislation and agreement. These agencies could include the U.S. Occupational Safety and Health Administration and the Mexican Secretaria de Salud, and the Department of Commerce and SECOFI.

c. A new binational agency or commission with more enforcement powers could be created as part of a free trade agreement or as part of separately negotiated agreements.

The Grupo de los Cien in Mexico City advocates establishment of a joint commission that includes representation of non-governmental organizations from the United States and Mexico to monitor issues and compliance.' Because a FTA would create a long list of social impacts requiring negotiation and implementation, a formal commission with both multi-level governmental and NGO participation could include agencies with other than just environmental responsibilities.

For such a Commission to function properly, there must be adequate public access to present issues and monitor proceedings and the Commission must be structured in such a way to be accountable to the public in both countries.

' Telephone interview with Paul Storing, U.S. Department of State, Section of the International Boundary and Water Commission, Washington, D.C., November 1990.

' Letter from Homero and Betty Aridjis to Jan Rich, University of Texas, Austin, Texas, January 11, 1991.

Issue 2: With limited resources, how can SEDUE and U.S. regulatory agencies provide additional enforcement to deal with increased industrial development that might result from a free trade agreement?

SEDUE has few financial, personnel and technical resources. Reyes Lujan has said his greatest challenges are "the lack of people and training and more sophisticated technology."¹⁰ He said he has difficulty training people fast enough to keep up with technological changes in pollution control and monitoring. "I think our main weakness is the lack of trained people," he said.

SEDUE has a technical staff of only about 140 people to enforce environmental laws throughout Mexico. As a result Mexico has traditionally relied on a program of voluntary industrial compliance with environmental regulations. Despite these shortfalls, however, in recent months SEDUE has begun to crack down on polluters - including some U.S. corporations - with stiff penalties and temporary plant shutdowns.¹¹

On the U.S. side, state and federal environmental agencies are already under severe funding constraints and have little flexibility to devote resources to border area environmental problems caused by increasing economic integration and trade.

Options

a. International loans can be directed specifically toward improving regulatory oversight capabilities in Mexico.

Reyes Lujan also says that the Mexican government recently submitted a request to the World Bank for \$80 million in SEDUE financing for laboratories and testing equipment, personnel and personnel training over the next four years. The \$80 million loan is, however, viewed by some as an effort at a quick fix to a complicated problem. There is little independent assessment of the problems with the environmental division of SEDUE. Some are concerned that it is overly centralized and that the loan will exacerbate this problem. In addition, adding resources to SEDUE will not solve the problems if the environmental division is not given the support and freedom to use those resources for environmental protection activities by the Minister of SEDUE and the Salinas administration.

¹⁰ Interview with Reyes Lujan, SUDKA, n. 5.

¹¹ Chavez, Hector Miguel, "En Tamaulipas, Detecto la Sedue 25 Basureros Usados por Maquiladoras para depositar sus desechos toxicos," Excelsior, Mexico City, August 23, 1990.

One step for broader solutions has been suggested by the Grupo de Cien, which advocates a SEDUE reorganization under which environmental programs become part of a separate ministry, with its own budget. This ministry could be given effective enforcement powers over other government agencies, the group believes. Similar proposals have been made for reorganizing U.S. agencies, including a proposal for giving cabinet status to the EPA.

b. A binational mechanism could be established to provide local authorities and non-governmental organizations with technical training and equipment to monitor pollution where foreign-owned industries are established. (See Infrastructure Financing Section).

c. The 1990 Clean Air Act provisions requiring EPA to work with Mexican authorities to monitor and potentially remediate air pollution on the border could be expanded so that EPA could work with Mexican authorities to protect airsheds in other parts of Mexico.

Issue 3: Can or should the 1983 La Paz agreement be used as the basis for future binational environmental agreements?

The La Paz border environmental agreement has provided a general framework to address certain environmental problems within 100 kilometers of the international boundary, including accords on industrial pollution, such as from the maquiladoras or smelters. Annex 3 of the agreement governs transboundary hazardous material use within the boundaries of both countries and includes damage provisions that lay out general, sometimes unenforceable, responsibilities for both governments to restore the ecosystem and to prosecute polluters.

Despite a few success stories, the La Paz agreement process has not been effective. Disadvantages include the unenforceable nature of the agreement, the lack of opportunity for public participation from either the U.S. or Mexico and insufficient financial and other resources devoted to making the agreement work well.

Options

a. The La Paz agreement could be strengthened and geographically broadened to encompass the sovereign territory of both the United States and Mexico, increase its enforceability and open up the process to public participation from both countries.

Issue 4: How can the issue of hazardous waste regulation and management in Mexico and the U.S. border area be addressed?

Mexican law prohibits the import of hazardous wastes into Mexico for disposal. Even maquiladoras operating in Mexico must return the hazardous waste to the country that supplied the raw

products for the manufacturing, unless the wastes can be "recycled" into useable products." There is a serious question of whether such a ban on movement of hazardous waste would be viewed as a barrier on free trade.

In addition, under current law and accords, foreign industry that is not in-bond (maquiladora) is not required to return wastes to the country of origin. Questions exist as to the capacity of the Mexican waste industry to handle the rapidly growing quantity of wastes generated. For example, there are currently no commercial hazardous waste disposal sites in the immediate Texas/Mexico border area--the closest is a landfill in Corpus Christi, Texas. Also, in Hermosillo, Sonora, the industrial waste dump is located less than one-half mile from the city's drinking water supply, and the question of future risk and liability is inevitable.

The United States border region and Mexico currently have very limited hazardous waste disposal capacity. Properly designed and operated facilities are obviously preferable to illegal disposal, but a proliferation of disposal or incineration facilities provides no incentive for waste reduction.

Options

a. A free trade agreement or a separate accord could require that any U.S. corporation operating in Mexico must return all hazardous wastes to the United States, perhaps for a limited amount of time, thus allowing use of superior U.S. waste infrastructure until adequate waste industry is developed in Mexico.

b. A policy of toxics use reduction and other waste minimization methods is preferable. Several U.S. states already have laws requiring such practices. These policies might be made part of a free trade agreement or a separate environmental agreement.

Unilateral Issues

Issue: Should the U.S. regulate its citizens and corporations operating in Mexico?

Options

a. One approach would be to establish U.S. legislation governing the behavior of U.S. companies operating in Mexico. In

" See, Texas Center for Policy Studies, "The Maquiladora Boom on the Texas:Mexico Border: Environmental and Public Health Implications and Potential Legal Remedies", June 1990.

a related approach, the Grupo de los Cien in Mexico City believes the Mexican government should stipulate that all foreign corporations operating in Mexico adhere to specially established laws as a condition of foreign investment.

Alan Neff of the Chicago Corporation Commission has already proposed a unilateral action by the U.S. to establish such a framework - a U.S. Foreign Environmental Practices Act modeled after the Foreign Corrupt Practices Act.¹³ Neff proposes to attach this statute to the Securities Exchange Act of 1934.

Under Neff's proposal, U.S. corporations or citizens would be subject to both criminal and civil prosecution in the U.S. courts for violating applicable U.S. environmental laws and regulations. The public disclosure provisions of recent U.S. laws might also help locally-established ecological committees and concerned local groups, which are just beginning to be developed in border communities like Ciudad Juarez, Matamoros and Agua Prieta, to monitor industrial development and pollution.

Roberto Sanchez, director of environmental studies at El Colegio de la Frontera Norte in Tijuana, believes Neff's proposal should be expanded to include occupational health standards to avoid loopholes in the legal framework.¹⁴

Serious questions arise as to how non-compliance of U.S. corporations in Mexico could be documented. If right-to-know provisions of U.S. law are extended to corporations operating in Mexico, how would Mexico's existing governmental structure make such records public?

b. Some potential legal liability for releases of hazardous substances may already exist in the U.S. Superfund law and could be used to require cleanup in Mexico.

c. A free trade agreement could explicitly provide that Mexican citizens and United States citizens who are injured or suffer property damage as a result of the operation of U.S.-owned operations in Mexico may maintain suit in the federal courts in the United States to seek recovery for such damages, under U.S. law.

¹³ Neff, Alan, "Not in Their Backyards, Either: A Proposal for Foreign Environmental Practices Act", 17 Ecology Law Quarterly 471 (1990).

¹⁴ Sanchez, Roberto, "The Mexican Perspective" (of environmental impacts from free trade), U.S.-Mexican Industrial Integration: The Road to Free Trade, 1991, Westview Press (forthcoming).

The agreement could also provide that the countries mutually grant free access to their court systems for redress of injuries."

C. INFRASTRUCTURE FINANCING

Issue: How can needed infrastructure projects be financed so that communities can absorb the effects of economic integration?

Mexico has been severely limited in infrastructure financing by its financial crisis since 1982. The Secretaria de Comercio y Fomento Industrial (SECOFI) will make this a priority issue in trade negotiations, says Aslan Cohen, a member of SECOFI's trade negotiating team." He views it from the standpoint of a need to bolster Mexico's competitive position, but it also applies to environmental conservation.

Economic stability would presumably enhance Mexico's ability to obtain loans and grants from multilateral lending institutions. Mexican government officials, for example, are working to secure funds from the World Bank to address a number of existing pollution problems. However, Mexico is already deeply in debt to such multilateral lending institutions, which poses an obstacle to future borrowing.

The U.S. infrastructure also needs significant improvements, particularly in the border region where increased population of the Mexican cities has severely strained medical and social services, and public works.

Options

a. Debt-for-nature swaps have been mentioned as one method of financing infrastructure projects that affect the environment.

" For an example of such language see Treaty of Friendship, Commerce, and Navigation, July 10, 1851, United States-Costa Rica, art. VII, Para. 2, 10 Stat. 916, 920, T.S. No. 62.:

The citizens of the high contracting parties shall reciprocally receive and enjoy full and perfect protection for their persons and property, and all shall have free and open access to the courts of justice in the said countries respectively, for the prosecution and defense of their just rights; . . .

" Telephone interview with Aslan Cohen, Oficina de Negociacion del Acuerdo del Libre Comercio, Secretaria de Comercio Y Fomento Industrial, Mexico City, January 1991.

Debt-for-nature swaps stem from debt-for-equity swaps, under which a corporation planning an investment buys loans from a bank at a percentage of the loan's face value. The corporation then exchanges that debt for national currency equal to more than the value paid for it. Debt-for-nature swaps occur when an international organization raises funds outside the debtor country to purchase the debt at a discount. The organization then exchanges the debt for bonds in the local currency and can donate the bonds to an environmental group, which uses the funds to purchase endangered or sensitive lands.

Debt-for-equity swaps have certain drawbacks, however. They are limited by the demand for them and they have had inflationary effects on the debtor country's economy because the government many times simply prints additional currency to finance them.

One twist would be to use debt-for-environmental protection swaps, in which the debt can be used by corporations to finance infrastructure or other environment projects. The drawback to such swaps could be finding a mechanism to ensure that the swapped debt is actually used for an environmental project.

b. A 1989 World Bank Report on Mexico's environmental problems suggests that Mexican municipalities be given the power to charge user fees to finance and operate certain infrastructure projects like solid waste disposal systems¹⁷.

SEDUE has not ruled out assessing user fees to guest industries operating in Mexico to support regulatory efforts in Mexico. Reyes Lujan says this issue will be discussed in upcoming meetings with the EPA, the Foreign Ministry and the State Department as the two countries implement an 18-month study of joint environmental issues. It is unclear whether user fees to support regulatory efforts, which are now common in the United States, could be challenged as non-tariff trade barriers.

c. More emphasis could be placed on developing workable mechanisms, such as trust funds, which utilize private industry investment to address infrastructure problems, particularly pollution prevention, control, and monitoring.

d. U.S. Senator John McCain has proposed legislation to provide a \$10 million contingency fund to remediate acute environmental problems generated in either country that affect either country. The fund could have provisions requiring reimbursement from private industries that are shown to be

¹⁷ World Bank, "Mexico: Environmental Issues and Strategy Paper", Latin America and the Caribbean Regional Office, April 19, 1989.

responsible for pollution. President Salinas has committed \$4 million for this effort for the border".

D. STANDARDS AND NORMS

The three main areas of concern regarding environmental, public health and worker safety norms are: pre-emption; harmonization and resource exploitation restrictions. All these issues have received significant attention in the context of the current GATT negotiations."

The pre-emption issue involves the question of whether or not a binational trade agreement would pre-empt state and local governments in either country from setting stringent environmental, public health or worker protection standards. For example, more stringent standards for pesticide residues in food that cannot be met by products from Mexico may be viewed as illegal non-tariff barriers to trade under the FTA.

The harmonization issue involves questions of (1) whether environmental, public health and worker protection standards should be the same in one country as in the other and (2) whether lower standards may actually function as indirect subsidies.

The resource restriction issue involves the right of a country to restrict the rate at which finite natural resources, such as timber, oil and gas or fish are developed and exploited and not have these restrictions challenged as non-tariff trade barrier under an FTA.

Pre-emption

Issue 1: Can individual state standards be pre-empted by free trade?

In the Canada-U.S. free trade agreement, negotiators did not resolve the issue of whether or not state and provincial environmental protection standards can be pre-empted by lower, harmonized standards.

" Healy, Eric, "Salinas pledges cash for environment", The Arizona Daily Star, Tucson, Arizona, December 14, 1990 and Hernandez, Ruben, "Mexico to Fund Border Clean-Up", December 14, 1990, Tucson Citizen.

" See, National Toxics Campaign Fund and Institute for Agricultural and Trade Policy, "Trading Away our Environment" (1990).

Under many U.S. environmental laws, individual states can set environmental standards more stringent than those required by federal law. Thus, some states like California have higher standards in certain areas such as air quality emissions and regulation of toxic hazards than do other states. Pre-emption of state and local standards by international agreement has long been favored by some industry and government representatives in an effort to circumvent such initiatives as Proposition 65 in California.

Mexico's new 1988 environmental law allows states and local governments to develop their own standards in some areas.

Option

a. The FTA could explicitly exempt state and local environmental, public health and worker safety standards from challenge as non-tariff trade barriers, even if such standards are more stringent than required by respective federal laws.

It is interesting to note that the U.S./Canada FTA exempted oil and gas exploration and development subsidies from challenge as trade barriers.²⁰

The European Community the treaty provides that stricter state standards may remain in place, if they are verified by the European Commission as not arbitrary or disguised trade restrictions.²¹

Harmonization

Issue 2: Should environmental or public health standards, such as those for pesticides, food additives, and antibiotics and hormones used in livestock production, be harmonized?

Under proposed GATT rules, food safety regulations would be harmonized using the food codes established by the United Nation's Codex Alimentarius Commission. These codes have been criticized for inadequately safeguarding against residues of pesticides on fruits and vegetables that have been banned in the United States as known carcinogens or health hazards. A 1990 report of the National Toxics Campaign Fund and the Institute for Agriculture and Trade

²⁰ Article 906, Canada-U.S. Free Trade Agreement.

²¹ U.S. International Trade Commission, "Effects of Greater Economic Integration within the European Community on the United States, Second Follow-up Report" (USITC Public. # 2318), p. 4-30.

Policy indicated that about 16 percent of the pesticide tolerance standards set by the Codex are weaker than EPA standards."

In U.S.-Mexican agricultural trade, officials of both countries argue that the other uses sanitation and safety rules to limit imports. Mexican food industry consultants complain about U.S. restrictions on pesticides, authorized waste in agricultural production, and the use of filth tests for handling and processing foods."

The pesticide issue also concerns Mexican government officials. They complain that many of the agricultural products that Mexico attempts to export to the United States are rejected because of the use of unauthorized pesticides even though these pesticides are manufactured and marketed by small U.S. enterprises established in Mexico."

U.S. officials complain about Mexico's sanitary restrictions on livestock imports. In March, 1989, Mexico stipulated that U.S. swine must be vaccinated for hog cholera 30 days before export. U.S. exporters refused, saying that the United States had been free from hog cholera since 1978 and that vaccination could lead to outbreaks of the disease in hogs."

Options

a. One solution to unequal standards may be to establish two-tiered standards under which producers operate under their own existing standards when they are stricter, and those operating under lower standards are allowed to gradually phase-in to the higher standards.

A dual system of regulation that discriminated against U.S. businesses or farmers could create political pressure to lower U.S. standards.

" Looker, Dan, "Activists: Trade stance could weaken food safety", Des Moines Register, May 25, 1990; supra, n. 19.

" Alvarez Rivero, Jose Carlos and Herbert Weinstein, "The Mexican Perspective", (of food industry integration), U.S.-Mexican Industrial Integration: The Road to Free Trade, 1991, Westview Press (forthcoming).

" Alvarez, supra, n. 23.

" U.S. General Accounting Office, "U.S.-Mexico Trade: Trends and Impediments in Agricultural Trade," Briefing Report to the Chairman, Committee on Agriculture, House of Representatives, January 1990.

b. The FTA could provide that the United States will not be forced to remove bans on certain dangerous chemicals and allow them again into the United States and that the United States will adopt legislation to prevent such chemicals from being sent to Mexico.

The Grupo de Cien believes the Mexican government should agree to prohibit the use of pesticides that have been banned in the United States. "As it stands now, many pesticides which theoretically are prohibited by the Mexican government are actually in use, and cases of intoxication by agricultural workers who receive inadequate or no training in their use are not infrequent," according to Homero Aridjis, spokesman for the group."

Issue 3: Should water quality, hazardous waste, air quality and other environmental standards be harmonized?

Although Mexican environmental law in some respects is modeled on U.S. law, in many aspects Mexico's 1988 Law of Environmental Equilibrium and subsequent regulations and technical standards are less specific and less comprehensive than counterpart U.S. law. The less specific Mexican laws and regulations allow Mexican officials more flexibility in dealing with industrial polluters. It might be argued, however, that the less specific standards are more lenient and, therefore, function as indirect subsidies to Mexican industries.

With respect to Mexican environmental protection standards which may be less stringent than those in the United States, there is concern that small Mexican domestic industries would not be able to remain competitive if they were required to immediately meet higher "harmonized" standards.

Mexican environmental law does allow government officials to require plant shutdowns more quickly than in the United States, because of differences in statutory due process measures. This enforcement measure has not been widely used, however.

Options

a. The FTA could provide that, in areas where environmental protection standards differ greatly, a binational commission would make recommendations for future harmonization to the higher level.

Note that this would apply equally to U.S. environmental protection standards that may be more lenient than those in Mexico. Also, under this option, consideration must be given to the financial and technical ability of smaller domestic industries in

* See n. 9, supra.

both countries to meet higher standards with regard to any timetable for harmonization.

b. The FTA could provide that environmental protection standards be exempt from challenge as non-tariff trade barriers, under any circumstances.

E. WATER RESOURCES

Issue 1: Can increased industrialization and development under free trade take place without undue depletion of water resources in the border areas and other areas, especially in Mexico, and how can existing water supply shortages be alleviated?

Water shortages have already occurred throughout the border region, such as in Nogales, Arizona/Sonora and Agua Prieta. The supply for Ciudad Juarez/El Paso is sufficient only for immediate needs and rapid pumping is creating salinity problems. In various areas along the border, cities are pumping groundwater at a rate 20 times faster than aquifers can recharge.

Surface water supplies are also threatened. Alberto Szekely predicts that before the end of the century, the United States will have real difficulties in delivering to Mexico the water allocations outlined in the 1944 Colorado River treaty." Already, the levels of salinity in the water the United States is obligated to deliver to Mexico are causing problems for Mexican agriculture." Federally-subsidized water use in the United States has been identified as a root cause of the increased salinity in deliveries to Mexico."

Option

a. Both Mexico and the United States could benefit through passage of a groundwater treaty. Rights to groundwater, could be negotiated separately from, or in concert with, a free trade agreement.

Some support for a groundwater treaty exists in Mexico, according to Alberto Szekely." Groundwater users in northern

" See n. 7, supra.

" The 1944 treaty for delivery of Colorado River water to Mexico does not address water quality issues.

" See, Knesse, Allen, "Environmental Stress and Political Conflicts: Salinity in the Colorado River", in 4 Transboundary Resources Report (Summer 1990), Univ. of New Mexico Law School.

" See n. 7, supra.

Mexico and southwestern U.S. states would have to give up or limit their rights to pump unilaterally, without regard to the affect on supply for other users. In the U.S. border states, policies on groundwater usage vary widely, from Texas' right-of-capture to more restrictive allocation measures in New Mexico, Arizona and California.

b. The two countries could consider whether to renegotiate these water rights, including the quality issue, in light of increased development and resulting shifts of population that will arise from changing development patterns.

For the border water shortage, Mexican support exists for renegotiating of the 1944 Colorado River water allocation treaty, according to Alberto Szekely.

c. Water shortages in the border area and other parts of Mexico could be addressed through the use of resource conservation guidelines for both U.S. and Mexican industries.

As part of these guidelines, water-intensive development in both countries could be directed away from water-short areas, with a more comprehensive approach to shared water resources, rather than relying solely on a river-by-river basis for solutions.

Issue 3: How can border water quality be improved?

Water quality is deteriorating primarily because of overdevelopment. One threat is to groundwater, which provides drinking water to many border communities. A second threat is to surface water, which is used for both agricultural and drinking water, especially in the Lower Rio Grande Valley of Texas.

Many of the communities on both sides of the border lack adequate sewage treatment systems. This has serious health implications. The Council on Scientific Affairs of the American Medical Association recently called the border region "a virtual cesspool" of pollution and disease. The council concluded that 46 million liters of raw sewage flow each day into the Tijuana River in Baja, California, 76 million into the New River at Calexico-Mexicali on the California border, and 84 million into the Rio Grande between Texas and Mexico.

A study of the Nogales area indicated that sewage flowing from Nogales, Sonora to Arizona via the Nogales Wash peaked at 110 million liters per day in October, 1990, according to the IBWC. Government officials blamed the sewage for contaminating wells at produce houses in Nogales, Arizona. Water from these houses was used to wash Mexican produce on its way to U.S. markets.

Options

a. A mechanism could be established so that border industry, in addition to the two federal governments, contributes to infrastructure funding. (See Infrastructure Financing Section).

b. More joint funding of sewage collection and treatment facilities for the Mexican border communities could be committed.

II. SECTORAL ISSUES

A. ASSEMBLY AND MANUFACTURING

Issue: How can transboundary pollution from booming border manufacturing and assembly operations be minimized?

The primary catalyst for border development has been the maquiladoras, which are primarily manufacturing and assembly plants. About 90 percent of the maquiladoras have been established by U.S. companies. About 80 percent of the over 1800 maquiladora plants in Mexico are on the border, although a recent trend has been for these operations to move to the interior, partly as a result of border labor turnover and partly because of infrastructure problems on the border.

In recent years, the maquiladora industry has grown at a rate of about 15 percent annually²⁷ and many of the border cities more than doubled in size in a short time. Ciudad Juarez grew by 135 percent between 1975 and 1985, and now has between 800,000 and 1.5 million residents. Tijuana grew from less than 200,000 in 1960 to between 750,000 and one million today.

Some or all of the maquiladora (or "in-bond") program may diminish as part of free trade, but assembly operations would probably continue to take advantage of inexpensive Mexican labor rather than leave the country.

Sergio Reyes Lujan has said he is increasingly concerned about pollution from border development. "We believe that we are having more and more important problems in the border area due to the growing of the maquiladora industries and some other industries," he said.

Illegal dumping of toxic wastes and hazardous materials emergencies have become problems in the U.S.-Mexico border as the region has developed over the past two decades. No one knows how much has occurred, but certain incidents are telling:

* In October, 1989, health officials in El Paso, Texas discovered 175 leaking drums of PCBs in an inner city neighborhood two blocks from the U.S.-Mexican border. The drums apparently were abandoned en route from Colorado to an illegal dumping ground in the Mexican state of Chihuahua, which borders Texas."

²⁷ See n. 14, *supra*.

²⁸ Bath, Richard, "The U.S. Perspective" (of environmental impacts from free trade), U.S.-Mexican Industrial Integration: The Road to Free Trade, 1991, Westview Press (forthcoming).

* In July, 1990, the Quimica Organica plant in Mexicali released a plume of mixed sulfuric and hydrochloric acid into the atmosphere that resulted in the evacuation of thousands of people and an undetermined number of hospitalizations. U.S. officials were not notified for three days."

* In the groundwater of Nogales, Arizona/Sonora, and the sewage system of Tijuana, Baja California, evidence of illegal industrial contamination by solvents is growing."

* In November, 1990, SEDUE estimated that 52 percent of the nation's 1,963 maquiladoras generate hazardous waste. Of those, 307 have complied with federal regulations to provide SEDUE with information on the volume and characteristics of the waste they generate. About 19 percent, or 195 maquiladoras, are returning their waste to their country of origin or recycling their waste in compliance with Mexican law. SEDUE estimates that another 150 maquiladoras return their waste without filling out all the necessary paperwork. That leaves 578 maquiladoras that have not accounted for their wastes, by SEDUE's estimate."

Options

a. Mexico and the United States could agree to quickly complete their inventory of border industries and industrial hazardous waste produced by those industries so that the extent

" Personal communications between Kamp, Dick, Border Ecology Project, and Kathleen Shimmin, U.S. EPA Region 9; SEDUE officials; and Industrial Ecology International, Inc., July 1990.

" This was a conclusion of water samples taken in June and October, 1990, as part of the Nogales Water Management Project, funded by the Ford Foundation and conducted by the University of Arizona, Udall Center for Studies in Public Policy, Colegio de la Frontera Norte, Instituto Tecnológico de Sonora, Comisión de Agua Potable y Alcantarillado de Estado de Sonora, Arizona Department of Environmental Quality, Border Ecology Project, Inc., and other government agencies from both countries. See also Telephone interview with Roberto Sanchez, director of the Department of Environmental Studies, Colegio de la Frontera Norte, Tijuana, Baja California, November 1990.

" Secretaria de Asentamientos Humanos y Obras Públicas, memo entitled "Maquiladoras que han cumplido con el mandato de manifiesto de generadoras de residuos industriales peligrosos, según el artículo 8 del reglamento en materia," Mexico City, 1990.

and nature of the problem becomes evident. The inventory will be essential to determining what systems are needed to handle the wastes."

b. Most of the southwestern United States and northern Mexican border states do not currently monitor groundwater or surface water for industrial contamination and thus, the source and level of such contamination is unknown. An FTA or a separate agreement could provide for a binational water and air monitoring network, financed by a combination of government funds, multilateral development bank loans and contributions from industry through user fees or other mechanisms.

B. PETROLEUM/PETROCHEMICALS

Issue 1: Will Mexico permit direct or indirect foreign investment in its oil and gas industry, thereby increasing integration and related oil and gas environmental concerns in this area?

Mexican officials have repeatedly denied that the constitutional prohibition against foreign ownership of Mexican oil and gas reserves is even on the table for discussion in the FTA negotiations. It is nonetheless clear that U.S. interest in Mexico's extensive oil and gas reserves has not abated."

Mexico currently exports over 60 % of its 800,000 barrels per day oil production to the United States. Not only is U.S. demand for Mexican oil likely to increase (especially in the wake of the Gulf War) domestic demand in Mexico, which is 90 % dependent on crude oil for primary energy production, is growing. Analysts estimate that without additional investment by Mexico's government,

" See n. 9, SUPRA.

" Access to a "stable and uninterrupted" supply of fossil fuel energy from Canada was a major motivation for negotiation of the U.S./Canada FTA. Since that agreement became effective, two major energy development projects have been forced through the Canadian regulatory process--an enormous natural gas pipeline across the Canadian arctic (with 87 % of the gas set for export out of Canada) and hydroelectric power from the James Bay area. See Shrybman, Steven, "Selling the Environment Short: An Environmental Assessment of the First Two Years of Free Trade Between Canada and the United States", presented at a Briefing for Congress, January 15, 1991 and available from the Canadian Environmental Law Assoc., Toronto, Ontario.

the country could become a net oil importer by the year 2004, predicting that \$ 2 to 3 billion per year will be necessary."

Obviously, foreign investors believe they can provide the kind of influx of capital necessary for such development levels. Rogelio Ramirez de la O, director of Ecanal, a Mexico City economic analysis firm, believes that the government will be forced to change its position on foreign involvement in oil and gas exploration and production." He has said Mexico will likely be forced to increase oil exports and permit foreign investment in oil production if a free trade agreement is to have the effect of improving workers' wages and the country's economy."

Opening up Mexico's oil and gas to U.S. investment increases the potential for rapid depletion of a finite natural resource and the increased potential for devastating environmental pollution attendant with all oil and gas production. Moreover, for the U.S., access to another source of fossil fuels can only reduce incentives for conservation and development of alternative energy sources.

Additionally, some petrochemical specialists in Mexico believe integration may lead to construction of a petrochemical pipeline from northern Texas to the Texas-Louisiana coastal areas, where more than one-half the U.S. refining capacity is concentrated. This is possible in part because an excess of primary products is expected in the United States in the 1990s, whereas Mexico is likely to have a surplus of secondary petrochemical production, thus providing a basis for increased trade."

Options

" "Can Mexico Prime the Oil Pump Without Foreign Capital?", Wall Street Journal, Oct. 19, 1990, p. A15.

" Los Angeles Times News Service, "Study finds need for foreign investment in Mexico", published in the Austin American Statesman, January 1991.

" There may be indirect avenues of opening up the oil and gas industry in Mexico to U.S. investment, such as restructuring PeMex, the government-controlled oil company, into a holding company and allowing U.S. investment in subsidiaries responsible for exploration and production.

" Bucay F., Benito, "The Mexican Perspective" (of petrochemical industry integration), U.S.-Mexican Industrial Integration: The Road to Free Trade, 1991, Westview Press (forthcoming).

a. The FTA could provide that no U.S. investment, direct or indirect, will be permitted in exploration or development of Mexico's oil and gas reserves.

b. The United States currently recognizes the threat posed to the environment from oil and gas development by charging a Superfund tax to producers of primary olefins and aromatics. Currently, Mexico is not exempt from paying the Superfund tax.⁴ The FTA could explicitly protect this tax from challenge as a non-tariff trade barrier.

c. The FTA or a separate agreement could provide that there will be no development of a joint petrochemical infrastructure until a full environmental and economic impact analysis has been completed, with adequate public participation in both countries and alternatives have been fully considered.

C. AGRICULTURE/LIVESTOCK

Issue 1: Will free trade agreement result in the elimination of government environmental and conservation programs in the agricultural sector?

Within the Uruguay Round, the Bush Administration proposed elimination of all export subsidies over a five-year period and reduction or elimination of all domestic price support policies, including promotion of sustainable agriculture, federally subsidized irrigation projects, federal grazing fees, seed, fuel, and fertilizer subsidies, and credit subsidies like reduced interest FHA loans.

The current GATT proposal would cap spending levels for conservation programs, research and extension, resource retirement programs and some food reserve programs. If this concept is extended to the Mexico-U.S. free trade agreement, soil conservation programs and other crop management programs that reduce soil erosion and water usage can be affected in both countries.

One of the prime examples is the farm subsidy program under which U.S. farmers receive stipends to keep more than 30 million acres out of production each year as part of resource conservation management objectives. These measures are aimed at preventing over-production that leads to resource exploitation and its consequent environmental effects.

⁴ Quijada, Rina, "The U.S. Perspective" (of petrochemical industry integration), U.S.-Mexican Industrial Integration: The Road to Free Trade, 1991, Westview Press (forthcoming).

The most recent survey of the soil erosion problem in 1980 indicated that about 80 percent of Mexico is subject to some degree of erosion, and severe erosion now affects about 40 percent of its territory." Government estimates indicate that by the turn of the century, the production of maize - a Mexican food staple - could drop 12.5 percent without adequate soil and water conservation measures, and more than one million hectares of forests, and land that supports crops and livestock will be irretrievably lost over the next seven to ten years.

Options

a. The FTA could exempt measures in both countries that promote environmentally sound and sustainable farming practices from challenge as non-tariff trade barriers. The FTA or a separate agreement could affirmatively encourage such programs as part of an overall agreement to encourage sustainable development practices.

b. The FTA need not include caps on spending levels for farm conservation and environmental protection programs.

Issue 2: Can pesticide and other food inspection programs keep up with increased trade?

Money and expertise are already lacking on both sides of the border for pesticide residue inspections. The U.S. General Accounting Office, in a 1990 report, concluded that U.S. inspections and processing requirements are not applied consistently at all ports of entry."

The U.S. government needs additional money to monitor the increased flow of fruits, vegetables and other commodities that may come with liberalized agricultural trade. Local U.S. border communities lack funds to address these problems, and the federal government and border industries have not demonstrated an adequate financial commitment.

These inconsistencies could worsen under accelerated trade if additional funds are not provided for inspection programs.

Option

" World Bank, supra, n. 17.

" Texas Department of Agriculture, "The Environmental Implications of the GATT Negotiations", memo, 1990.

a. The FTA or a separate agreement could establish mechanisms, such as user fees, to fund the increased levels of inspection necessary to deal with increased cross-border movement of agricultural products.

Issue 3: Should all agricultural import restrictions be phased out?

Mexican negotiations could parallel GATT negotiations on this issue. In a recent series of agricultural proposals for the Uruguay Round, the United States proposed a plan that would phase out import restrictions by converting existing import regulations to fixed tariffs, which would then be phased out over time."

Expanded imports and exports could have adverse environmental consequences, both for the United States and Mexico. Farmers might not be able to compete against imports dumped into their markets. The destruction of local food production capacity could force farmers to use more damaging farming practices in order to survive and push small farmers off their land, leading to corporate-type farms that use energy and chemical-intensive farming practices.

The U.S. proposal would also take final authority over environmental and food safety regulations away from Congress and place it in the hands of panels of specialists from international agencies. Environmental regulations not completely endorsed by the specialists on these panels could be declared illegal under GATT. See Standard and Norms, § I(D), above.

D. FISHING

Issue 1: Will U.S. laws designed to protect valuable marine life, such as dolphins and sea turtles, be challenged as non-tariff trade barriers?

Already, Mexican tuna fisherman, who have the most modern tuna fishing fleet in the world, have bitterly complained about the provisions of the U.S. Marine Mammal Protection Act, which forbids the sale of tuna in the U.S. if a certain number of dolphins are killed in the tuna catch." They view these provisions as unnecessary and a disguise for economic protection of the U.S. tuna industry.

Option

" TDA, n. 44, SUPRA.

" "US Tuna Ban May Snag Trade Talks with Mexico", Christian Science Monitor, Nov. 7, 1990, p. 6.

a. The FTA could exempt such resource protection laws from challenge as non-tariff barriers.

Issue 2: Will certification of fishing grounds continue?

Seafood is served in more than 80 percent of Mexican restaurants" and is likely to be a popularly traded commodity under free trade. But some of the fishing grounds of the United States and Mexico are polluted with lead, mercury, cadmium, and other chemicals.

Currently, the shellfish products that Mexico exports to the United States come from areas which have been analyzed and certified as safe by U.S. officials.

Option

a. The FTA could include provisions for joint certification of U.S. and Mexican fishing grounds, using current standards and procedures for certification.

E. Mining

Issue: How will free trade affect this industrial sector?

There is a world-wide resurgence in mining activity, especially with regard to those base and precious metals that can be mined with relatively inexpensive leaching procedures, such as gold and copper. Mexico has significant reserves of these metals. Liberalization of foreign investment restrictions has already increased copper and gold mining in Northern Mexico.

Mining activities are water-use intensive and create significant pollution problems. An example is the copper mining at Cananea in Northern Mexico. In previous years, spills from the mine tailings ponds were contaminating an 80-mile stretch of the San Pedro River, the last 40 miles of which were in the United States. The ponds have since been reinforced, but spills will now flow south into Mexico's Rio Sonora." Smelter operations result in air pollution problems (as evidenced in the border regions of Arizona, Sonora, New Mexico and El Paso, Texas). There are also increased risks associated with transport of toxic process chemicals associated with mining operations.

" Alvarez, supra, n. 23.

" Oldfather, Geoff, "Cananea Mine Still Taints San Pedro", Sierra Vista Herald, February 11, 1979; Arizona Dept. of Health Services, "San Pedro River Basin Water Quality Status Report: 1973-1979" (January 1991); communication with Michael Gregory, Arizona Toxics Information, Inc., January 1991.

Option

a. The FTA or a separate agreement could include strict environmental controls on mining operations, especially those with the potential to cause transboundary pollution problems.

Annex 4 of the current La Paz agreement contains some provisions regarding binational action on sulfur dioxide pollution problems from specific copper smelters in the border region.

F. TIMBER TRADE

Issue: How will free trade affect Mexico's dwindling forests and U.S. timber resources?

Mexico loses more than 2,500 square kilometers of forests each year to cultivation, overgrazing and fire (World Bank Report). Loss of forests has threatened or endangered 47 species of native animals and 241 species of plants unique to tropical forests.

Multilateral lending for forestry development projects already appears to be unduly exploiting those forests remaining. For example, in August, 1989 the World Bank approved a \$45.5 million loan to Mexico to help finance a \$90 million forestry development project in the Sierra Madre within the Mexican states of Chihuahua and Durango, home to one-third of the remaining coniferous forests in Mexico." The project aimed to increase economic activity and to provide development to benefit the Amerindian communities in these areas. However, four months before World Bank approval of the project, the bank staff warned the bank directors that the project carried a number of environmental risks.

In a November, 1990 evaluation of the project, TCPS concluded that the project poses a serious risk to an area suffering from severe erosion, with several threatened species." Future development could adversely impact the watershed of the Rio Conchos, the largest tributary of the Rio Grande/Rio Bravo below El Paso, Texas.

Additionally, the Grupo de los Cien opposes the razing of Mexican forests for cattle operations, which might be expected to increase under free trade rules. They are particularly concerned

" Lowerre, Richard, "Evaluation of the Forestry Development Project of the World Bank in the Sierra Madre Occidental in Chihuahua and Durango Mexico" published by the Texas Center for Policy Studies, Austin, Texas, November, 1990.

" See n. 49, SUPRA.

about such practices in the Montes Azules biosphere reserve in the Lacandon forest area in southern Mexico."

Option

In this area, additional study is needed to determine how timber trade between the United States and Mexico is affecting forest resources and how such trade might be specifically addressed in an FTA.

G. TRANSPORTATION/AUTOMOTIVE

Issue 1: Can or should U.S.-Mexican automotive emission standards be harmonized?

Automotive emission standards vary significantly between Mexico and the United States. The Mexican government has announced its intention to match all U.S. requirements by 1993, but the ability of the automotive sector to do so is doubtful.

As the automotive sectors continue to integrate and Mexico's rapidly evolving automotive industry pushes into U.S. markets, it is unclear how long it will take Mexico to match U.S. standards.

Options

a. Allow the United States to continue its current policy of prohibiting vehicle imports that do not meet its pollution control standards.

Issue 2: What truck safety standards will be used under free trade?

Currently, U.S. truckers are prohibited from operating in Mexico, but Mexican truckers can enter U.S. commercial zones.²¹ This would change under free trade, with trucking activity increasing on both sides of the border in an expanded area.

With increased trucking, standards for truck safety, inspection, air emissions, and licensing will come into questions. Mexico lacks a comprehensive, nationwide system of inspection for its registered vehicles.

Options

a. Regularly announced inspections of Mexican vehicles by the U.S. Department of Transportation could be increased.

²¹ See n. 9, *supra*.

²² World Bank, *supra*, n.17.

b. Exempt vehicle safety standards from change under the FTA.

I. WILDLIFE

Issue: How will enhanced trade affect endangered wildlife?

Mexico and the United States are both struggling to conserve wildlife species as their natural habitats become developed. In the United States, the issue centers on what constitutes an endangered species, but the country does have an existing framework for dealing with this development-related problem. Numerous communities each year hold hearings to determine whether certain wildlife should gain endangered species status.

In Mexico, home to a number of threatened or endangered species, the issue often centers on controlling the illegal trafficking of these species, but others are also working on habitat conservation. Mexico has few personnel for this job. SEDUE, charged with policing 63 protected areas, has only four to five personnel per state to do so." Overall, SEDUE has only about 300 vigilance and protection personnel for all environmental issues in Mexico.

Option

a. The Mexican government could allow SEDUE to retain the proceeds from confiscations and stiff fines for such trafficking that are imposed under the new environmental act. Presently, SEDUE is forced to turn these resources over to the federal government, which returns only a small portion of the proceeds to SEDUE.

" World Bank, supra, n. 17.

CONCLUSION

This paper has provided only a brief overview of the many environmental and related issues associated with increased economic integration and free trade between the United States and Mexico. Many of these issues must be explored further, and there are certainly many options beyond those we have suggested here to deal with the problems.

Again, we invite comment and suggestions. It is our hope that this discussion paper, if nothing else, acts as a catalyst for a full public debate of the environmental and economic integration and development issues so crucial to the future of the United States and Mexico.

PREPARED STATEMENT OF REPRESENTATIVE JIM KOLBE

Mr. Chairman and members of the Committee, thank you for allowing me to appear before you today to comment on the prospects of a free trade agreement (FTA) between the United States, Mexico and Canada. While the Uruguay Round of the GATT talks has been the focus of attention in the eyes of many trade policy makers, the U.S./Mexico FTA has clearly emerged from GATT's shadows to become a top trade issue of the day.

I testified before the Ways and Means Trade Subcommittee last June to express my hope that free trade between the United States and Mexico would someday be realized. Well, we have clearly passed that conceptual stage. It is now a solid proposal with solid backing.

The President endorsed an FTA in his State of the Union Address.

The Canadians have signaled intent to enjoin this trade alliance, and their desire to be a part of a broader, more prosperous North American trading community.

The Mexicans have tailored their economy, their responses to environmental concerns, their treatment of the GATT talks and their entire foreign policy on the success of free trade negotiations.

These hearings today, both in the Senate Finance Committee and the House Ways and Means Trade Subcommittee, demonstrate Congress' interest in exploring this issue.

President Salinas brought his bold vision of Mexico's future to Washington last June with his call to begin the process for negotiating a free trade agreement between our two nations.

He has been the driving force behind an economic restructuring that has resulted in dramatically reduced tariffs, liberalized foreign investment regulations, lower inflation, privatization of hundreds of state-run entities, and the emergence of Mexico as a country eager to trade, especially with the United States.

Increased economic, social and cultural cooperation between our two nations is a natural evolution of our relations with Mexico, just as it was with Canada during the mid 1980's leading up to the U.S./Canadian FTA.

As Dr. Jaime Serra, Mexican Secretary of Commerce and Industry recently said, "We will be neighbors forever."

Of course, we are not the only ones looking for regional partners for trade integration. Obviously the Europeans also believe in regional economies of scale, and are pursuing their common market. There are those nations in Asia as well that seem to be going down this same path.

I am hopeful that a successful conclusion of the Uruguay Round can diffuse some of the worldwide impact of these emerging world trading blocs. The fact is however, the conclusion of the Round is far from certain, and that these blocs will go forward whether GATT is successful or not.

I do not necessarily like the idea of regional trading blocs, but on the other hand I do not want the United States put into a position of comparative disadvantage simply because we did not take the next natural step for North America: A North American Free Trade Agreement (NAFTA).

So, let's focus on North America.

We are looking at a trading community encompassing more than 360 million people; a GNP of close to \$6 trillion; and total trade flows amounting to more than \$225 billion—impressive numbers on which to build free trade.

North America would become the single most powerful economic region in the world, with a population larger than the European Economic Community and the largest combined GNP in the world.

Greater economic integration is already happening—NOW.

Look at the Canadian Free Trade Agreement. While it is still a new agreement initial reports show that advantages are there. The agreement has proceeded smoothly and tariff reduction schedules have been accelerated. Investors and firms on both sides of our northern border have taken advantage of the new found trade opportunities.

To the south, Mexico is already our third largest trading partner behind Canada and Japan. Trade between our two nations is estimated to be \$59 billion for 1990, a 70 percent increase from 1987. This is a genuine tribute to the trade liberalization initiatives of President Salinas.

Let's take a closer look, however, at how the U.S. stands to gain. After all, no member will support an agreement that does not benefit U.S. industry and its workforce.

I wouldn't.

The International Trade Commission's most recent report indicated that an FTA with Mexico "will benefit the U.S. economy overall by expanding trade opportunities, lowering prices, increasing competition, and improving the ability of U.S. firms to exploit economies of scale."

But what does this mean? A North American free Trade Agreement boils down to this: U.S. industries and specific firms will be able to offer a wider array of products—to a much larger number of people—at reduced prices, and American exports will increase substantially.

This is great news for the American economy. Exports have led economic expansion in the United States, accounting for 90 percent of our GNP growth. Every billion dollars of exported American goods accounts for roughly 22,000 jobs.

Any economist these days will tell you that export led growth is one of the best strategies for the U.S. in the 1990s. I know that many members already feel constrained during the current recession because the traditional tools of economic growth—fueled by fiscal and monetary policy—are no longer available.

That is why exports may be our best medicine in the coming decade for avoiding a prolonged recession and even more serious budget deficits.

Mexican consumers are hungry for U.S. exports. Right now, only Canada and Japan exceed Mexico's consumption of U.S. goods and services. At least two-thirds of current Mexican imports come from the United States.

These exports are not just coming from border states, as some may believe. New York exported roughly \$760 million worth of goods to Mexico in 1989. The figure for Pennsylvania was \$424 million. Colorado had \$89.4 million in exports. Georgia exported \$213 million to Mexico in 1989.

If an agreement can be structured that reduces trade barriers then we will see greater access to the Mexican market which will benefit tractor producers in Illinois, apple growers in Washington, grain producers in Kansas, Nebraska and Iowa, and auto manufacturers in states such as Michigan and Ohio.

Now, let's focus on Mexico for a moment. We have all heard the opposing arguments that claim an FTA will only exploit the Mexican workforce. I am puzzled by opponents who claim that the FTA won't benefit either the U.S. or Mexico because Mexican workers cannot afford American products. They further claim that an FTA will only exacerbate this situation as Mexican workers are exploited by U.S. corporations that immediately dash south of the border to take advantage of "cheap" labor.

I believe we need to give the Mexican Government more credit than that. Why would President Salinas want an FTA with the United States if he knew that it would result in the exploitation of Mexican workers, or if he believed it would not increase the standard of living for his people?

The International Trade Commission's report indicates that there would be a significant narrowing of wage differentials between workers in the United States and Mexico. Between rising wages and significant consumer demand, the Mexican standard of living will have the opportunity to increase like never before.

Further, a Peat Marwick study that will soon be released will indicate that the overall "wage bill" in Mexico, which combines wage rates with employment figures, will increase significantly under an FTA. There will be more Mexican workers employed, and at steadily increasing wages.

I might also add that the Peat Marwick study also indicates that the wage bill for United States workers will also rise with the long-term implementation of an FTA with Mexico and Canada. More American workers will be employed at higher wages.

Mr. Chairman, I would be remiss today if I did not briefly touch on the benefits for my home state of Arizona, which along with the rest of the border states, will be impacted more quickly than the rest of the country.

The mirror image of the benefits of a free trade agreement for the nation as a whole are reflected for Arizona as a state. Mexico is Arizona's largest trading partner; 3 percent of the nation's exports to Mexico come from Arizona. This equals \$734 million in exports that translates into thousands of jobs throughout Arizona and the southwest region.

Additionally, the Department of Commerce recently cosponsored a trade fair in Mexico City. Nine Arizona companies came home with \$2 million in sales and another \$5 million in additional commitments.

We are going to hear in the days ahead about issues that I believe are side issues to the main topic of free trade. Though no less important, these issues should not distract free trade negotiations, but rather should be addressed in parallel forums.

I am pleased to say that this is currently happening. As U.S./Mexican cooperation on the narcotics problem demonstrates, we do not need free trade negotiations to solve complex bi-national problems.

Immigration, for instance, has long been a source of consternation between the United States and Mexico, and the FTA will influence this issue. Some contend that illegal immigration will increase. I seriously doubt this claim.

As I already discussed, under an FTA the Mexican economy will expand and provide more and better jobs for its people. An increased standard of living will result in less illegal immigration across the southern border, not more.

President Salinas recently noted in the *Wall Street Journal* "the key question is, where do you want Mexicans to work, in Mexico or the United States? I would rather export goods than labor."

Another issue will be infrastructure. Admittedly, the U.S. and Mexican governments have to commit themselves to assuming some of the costs that will be needed for additional roads, customs stations, border crossing points, bridges, railroad networks and all of the other items needed to facilitate increased trade.

However, increased commerce will pay for these improvements, just as the Federal Highway System has paid for itself by facilitating the interstate flow of goods.

Private firms as well must bear some of the infrastructure costs, and I believe they will be willing to do so. Late last year I was in Hong Kong for a conference on Mexico (such a conference must say something about the universal interest in Mexico). A group of investors there were discussing the possibility of building a Port in Guaymas.

They were interested because 40 percent of all goods that off-load at Long Beach and Los Angeles are bound for the east coast of the United States. But these ports have no room to grow, are plagued by labor problems and have transportation problems through the City of Los Angeles. Guaymas, while a day further from Asia by sea, is 350 kilometers closer to New York City by land, and may be able to serve as an alternative, cost-effective, trading port.

Who knows if the Guaymas Port idea will ever gain fruition, but this is only one example of the kind of creative thinking a free trade agreement with Mexico can stimulate. Infrastructure requirements will represent new and unique opportunities for American firms, and they are beginning to realize it.

One final ongoing issue is environmental protection. I know these concerns are real. However, we must look at the dramatic steps are being taken to address these environmental problems and anticipate future issues.

The Environmental Protection Agency (EPA) and the Mexican government are today cooperating to solve sewage and wastewater treatment plans and improve air quality.

The Mexican Government, under President Salinas' leadership, passed new environmental laws in 1988 that will modernize Mexico's efforts at environmental protection. These laws are generally modeled after our own.

One of the effects of these laws was the recent implementation of strict auto pollution reduction measures in Mexico City. All motor vehicles within a 50-square block area in downtown Mexico City have been banned. Auto emission testing has been mandated for buses and trucks entering the city, and the government has introduced unleaded gasoline for new cars which will be required to use catalytic converters.

The real problem for the Mexican government is not the environmental laws on the books, but finding the resources to implement and enforce them. An FTA will raise valuable revenue for the Mexican government to require compliance with environmental laws. Without an FTA, it is unclear where Mexico will find these additional funds.

Mr. Chairman, the final and most important comment that needs to be made deals with the process to get to negotiations.

Yes, there are some who do not want to pursue this chance for fear of losing jobs, harming the environment or exploiting Mexican workers. We've heard the arguments, and they are compelling.

But isn't it ironic that they oppose an agreement that is yet to be negotiated?

At the very least, the Congress must allow Ambassador Hills and our trade negotiators to enter into free trade negotiations with Mexico and Canada to see what kind of agreement can be reached.

At that time that we would be in a better position to decide if in fact the agreement helped or hurt our economy. If it hurt, I wouldn't support an agreement.

Despite what may happen in the Uruguay Round, I urge my colleagues to not disapprove of the extension of fast track authority for a U.S./Mexico/Canadian free trade agreement. This authority was passed by Congress to improve the prospects of entering into trade agreements. Without fast track, the interference of 535 Members of Congress in trade negotiations would make reaching agreements unwieldy.

Make no mistake, without fast track authority we will not have the opportunity to explore free trade with Mexico and Canada.

I could go on much longer about the positive impact of a U.S./Mexico/Canada free trade agreement. Instead, I will end by simply stating that I am committed to seeing better relations with Mexico. The Mexican Government has made more economic progress in the last five years than in the past 50. The continuance of the progress for Mexico rests with a vigorous and open trade policy. In this context, the U.S. and Mexico have mutual interests and aims, and we should pursue them vigorously.

Again, I thank the committee for this chance to testify, and I fully support going forward with free trade negotiations with Mexico and Canada.

PREPARED STATEMENT OF SENATOR JOHN MCCAIN

Mr. Chairman: The political transformations that have occurred throughout the world are nowhere more remarkable than in our own hemisphere. With few exceptions the Americas are now democracies. Latin America is no longer the land of personal dictatorships and Marxist-Leninist tyranny. The magnitude and pace of democratization in Latin America is breathtaking, and has, understandably, occasioned nearly as much celebration in the United States as it has in Latin America.

But it is important to recognize, Mr. Chairman, the fragility of democratic institutions in Latin American countries. And of all the threats to democratic governments in Latin America—military intrusions into politics, political violence, drug cartels and communist insurgencies—the most dangerous, of course, are economic crises.

As former Secretary of State William Rogers wisely recognized: "The world of the future will not flourish behind walls—no matter who builds them and no matter what their purpose. A world divided economically must inevitably be a world divided politically."

Mr. Chairman, it is wise to begin our pursuit of a hemisphere without political or economic divisions with the establishment of a free trade zone throughout the Americas. That understanding forms the basis of my strong support for a free trade agreement (FTA) between the United States and the Republic of Mexico.

A free trade agreement between our two countries would serve as the cornerstone of a hemispheric free trade zone—a free trade regime that would compete globally and successfully with regional trading blocs in Europe and Asia. And I was very heartened to hear the Administration announce yesterday that Canada would be a partner in the negotiations with Mexico. That is a critical first step in laying this cornerstone. A North American free trade market would include a population approaching 400 million, a population. As President Salinas observed, that is larger than the European Community. The strength of a single market throughout the Americas beggars the imagination.

Experience has shown that free trade agreements help all the countries involved. And while those business sectors where a country holds competitive advantages tend to profit most from free trade agreements, while other sectors may suffer, the

incontestable net result of free trade agreements is an increase in new job creation and a rise in national income for all participating countries.

As elected officials, we are obviously most concerned with the impact of the FTA on our own constituencies. Arizona, as one of four states that share a border with Mexico, stands to gain more than some others from the formation of a free market with Mexico. But let us be certain, the benefits that accrue from adding 85 million consumers to the American market will be enjoyed well beyond our 2000 mile border with Mexico. Stimulating economic growth in Mexico will increase the demand for U.S. goods and services from all regions of the country.

My confidence that the benefits of free trade between Mexico and the U.S. will not be limited to only one region of the country is supported by our experiences since Mexico began opening its markets. As we all know, Mexico is the United States third largest trading partner. Since 1986 when Mexico joined the GATT and began reducing trade and investment barriers, U.S. exports to Mexico have doubled, while imports have increased at a much lower rate.

Mexican tariffs on imported goods have now been reduced from 100% to a range from 10%-20%. If you exclude oil, the United States is currently running about a \$2 billion trade surplus with Mexico. Clearly, border states have been the main beneficiaries of liberalized trade with Mexico, but we are not the sole beneficiaries. While Arizona exported \$734 million worth of goods to Mexico in 1989, New York exported \$759 million.

Industries that have benefited from greater access to Mexican markets include motor vehicle parts, agricultural products, processed foods, telecommunications equipment, pharmaceuticals, aircraft and steel. Obviously, these industries are not restricted to Texas, New Mexico, Arizona and California.

My state does stand to benefit greatly from a free trade agreement with Mexico. Mexico is Arizona's largest trading partner. Last year exports to Mexico accounted for about 18,300 jobs in Arizona. Arizonans understand the advantage of our location. A healthy Mexican economy means more Mexican buyers come to Arizona simply because of our close proximity. With a free trade agreement, the southern boundary of the U.S. will become the trade and commerce center between the U.S. and Mexico.

Arizona's high-tech industries will probably enjoy the greatest advantage in a free trade environment, but they will not be the sole beneficiaries. Fluid milk exports from dairy producers in my state are currently subject to price controls in Mexico making them non-competitive. Presuming that such restrictions will be eased in the FTA, U.S. milk exports could grow to 3 million liters a day—an enormous market.

To be sure, not all American industries will be winners in a free trade agreement with Mexico. But I am hopeful that conditions that put these industries at an unfair trading disadvantage can be worked out during the negotiating process by our very able Trade Representative, Ambassador Hills.

Citrus producers and vegetable growers in Arizona and California have very real and very legitimate concerns about the FTA. It is incumbent upon the Administration to address those concerns throughout the process and ensure that when the agreement is concluded it is, indeed, accurately described as a free trade agreement.

It is also critically important that we anticipate what problems will result from commercial and residential development on the other side of the border, so that we can address those problems before they become crises. Arizona has directly experienced one problem associated with development that has occurred as the maquiladora industries have expanded; pollution. Arizona is currently confronted by environmental problems, like raw sewage flowing into Nogales and Naco, resulting from intensified development in Mexico.

The Federal Government must take the opportunity provided by free trade negotiations to help ensure that growth will be handled in a responsible manner on both sides of the border. Public health, as well as air, land and water resources are as important to Arizonans and all Americans as is their material prosperity.

Problems can be addressed not only by USTR during the negotiating process for FTA, but by other appropriate Federal agencies like the Environmental Protection Agency and the Department of Labor. Additionally, Congress must play a role in resolving these problems by adopting legislation to address the social and business costs that will be incurred under a free trade agreement.

That is why close consultation with Congress *at every step of the negotiating process* is so vitally important. Congress must be aware of what problems will be addressed in the negotiating process and what problems will need to be addressed legislatively. I will soon introduce legislation to create with Mexico a joint fund to prevent and respond to environmental emergencies along the border. There may be other bilateral problems related to a free trade environment that will need to be

addressed by Congress as well. One area that comes to mind is the need for a Federal commitment to provide more customs, immigration and USDA officers to handle the consequences of growth along the border.

In closing, Mr. Chairman, let me say that I am confident that Congress and the Administration can meet these challenges. I have confidence in the process, in Ambassador Hills, and in the Presidents of Mexico and the United States to pursue what is obviously in the interests of both countries vigorously and with sensitivity to all the issues that are involved. Ultimately, I am confident that the people of Mexico and the United States recognize what is in their best interests and recognize, also, the historical significance of a North American Free Trade Agreement. I am confident that we will seize this opportunity to fulfill the promise of the New World—the promise of a hemisphere of free, prosperous societies at peace with one another and serving as a model for all the world.

PREPARED STATEMENT OF ED PASTOR

Mr. Chairman, members of the Committee, I am Ed Pastor, a member of the Board of Supervisors in Maricopa County, Arizona. I appreciate the opportunity to appear before you today.

Let me go on record at the outset as stating that I support the actions to date of the Governments of Mexico and the United States, with respect to the Free Trade negotiations. I further support the addition of Canada to the discussions and believe that when this is all brought to a successful conclusion, the North American Continent will represent the largest and most powerful economic zone in the world.

We all know the antecedents of this issue. In the summer of 1990, Presidents George Bush and Carlos Salinas de Gortari stated that they supported negotiations for a U.S.-Mexico Free Trade Agreement, with comprehensive elimination of trade barriers as the ultimate objective. They called for the elimination, to the extent possible, of tariffs, and a reduction in non-tariff barriers such as import quotas, licenses and other technical impediments to trade. Quick and fair dispute settlement procedures, and protection for intellectual property rights were also contemplated to be part of the Accord, which we hope will result in an expansion of the flow of goods, services and investment between our two countries.

I am not that naive as to think that everyone is looking positively at this proposal just to be good guys. On the contrary, in large part, the realities of world economics forced it upon us. But, nevertheless, I sincerely believe that a Free Trade Agreement can be positive for all concerned.

In Mexico, President Carlos Salinas de Gortari recognized that there was a lack of foreign investment coming from other countries. Japanese investors were taking a "wait and see" attitude before committing to significant additional activity. Similarly, as the Eastern European countries were changing politically, European investment moved towards emerging opportunities there. Salinas also saw the development of regional trading blocs in Europe and the Asia-Pacific nations and perhaps felt the need to form a union with the United States, at least for defensive reasons.

Though Mexico's sudden willingness to discuss a Free Trade Agreement surprised the United States (we had been concentrating on the Uruguay Round of GATT negotiations), I commend Congress and the Administration for moving swiftly to take up the subject.

The general implications of a Free Trade Agreement can easily be discerned. Historically, when an economic union is forged, the country with the lowest income usually increases its standard of living more in percentage terms. This was the case with Italy in the European Economic Community. It is also good for the United States. Quite simply, it means that Mexican consumers will have more money with which to buy goods produced here. Also, the addition of 82 million Mexicans and 26 million Canadian consumers to our 250 million population will result in a large increase to America's consumer market.

But, we must be frank and honest with one another during this process. On balance, free trade is positive, but not everyone will come out ahead.

It appears that a Free Trade Agreement would favor those types of U.S. industries which involve a high-tech process; those cases where manufacturing cannot be easily shifted to Mexico; industries such as telecommunications, computers and sophisticated pollution-control equipment.

The U.S. losers could include those industries with more traditional processes. Companies that would have a greater probability of relocating to Mexico would be textile, clothing, and to some degree automobile assembly operations.

Looking at the impact from a Southwestern perspective, we are not heavily endowed with textile, clothing, and auto assembly industries, which have a greater probability of being potential "losers." Conversely, the Southwestern region of the United States does have a certain presence in telecommunication and the computer industry—two potential "winners." Hence, we see our region benefiting particularly.

Behind Canada and Japan, Mexico is our third most important trading partner. It is one of the top three Latin American countries in terms of U.S. investment. It is the third best market for U.S. agricultural products, and is the fourth most important source of petroleum. U.S. exports to Mexico doubled from \$12 billion to \$25 billion between 1985 and 1989. For 1990, this figure is estimated at \$28 billion. U.S.-Mexico trade is also reasonably in balance since we account for two-thirds of Mexico's exports and about 68% of their imports.

The United States has other interests in Mexico, also being the largest source of foreign investment there. Two-way tourism is also important; not just for the revenues it brings, but also as an enhancer of cultural understanding.

Of additional interest to American producers should be Mexico's population and demographics. Mexico is projected to increase from a population of roughly 82 million in 1990 to at least 109 million by the year 2000; an annual increase of 2.3%. Those numbers show a growing market for consumer goods, many of which will be produced in the U.S.. Another interesting statistic, is that nearly half of this population presently under the age of 19; people who are just now beginning their "high-consumption" years.

This data shows a relatively large and untapped market for American goods and products as well as a large labor pool from which to draw for those U.S. companies desiring to locate in Mexico for competitive reasons. For Mexico, a Free Trade Accord will help their economy provide jobs for this growing population and should help reduce illegal immigration in the United States.

As a native of Arizona, I am aware of the trade impact on my home state. During 1989, at the Mexico/Arizona border, we had crossings of 26.5 million people; 7.8 million vehicles; 200,000 commercial trucks and 200,000 cargo containers. A study completed for the U.S. Customs Service indicates that by 1994 cargo container crossings will be up by 50%, and people and vehicle crossings will increase by 20%. Further, by the end of the decade, it is estimated that vehicle crossings will increase by 40%. Predictably, with a Free Trade Agreement, the percentages will increase dramatically.

We need to be ready.

While technically a separate issue, I believe the matter of adequate infrastructure needs to be addressed—perhaps in parallel—to assure success in the implementation of any Free Trade Agreement. There are both short and long-term infrastructural issues. Due to the increase in pedestrian traffic, vehicles and cargo, customs facilities must either be expanded or established at key border crossings. The U.S. Customs Service must be able to process the traffic in a more effective, efficient manner and still protect the interests of the U.S. The Federal Government must make the commitment to provide the necessary facilities to enhance the success of any Accord. Obviously, the trained personnel required to staff these facilities must also be provided to meet the increased demand for services.

Of equal importance is the automation of custom services for both countries. It is very important that the telecommunications and computerization of both countries be compatible and up-to-date. If they are not, that could serve to thwart the implementation of the Free Trade Agreement and mitigate its benefits.

A slightly longer-term issue with respect to a Free Trade Agreement is the infrastructure required to successfully address the environmental implications of expanded trade between our two countries. The industrial expansion of the past decade along our border has demonstrated that both the U.S. and Mexican ecologies are directly affected. Because of the geological and ecological characteristics of the border region, communities along both sides share common air and water supplies. Due to the terrain characteristics, contamination of natural resources on one side results in pollution on the other.

While infrastructure issues have historically been the responsibility and province of local governments, I would suggest that the rapid growth of the border areas has created a situation where many political subdivisions find themselves unable to fulfill the legitimate needs of the population. As a result, I would suggest that both Federal Governments must realize that they need to assist local authorities with reasonable amounts of technical assistance and financial aid to ensure that the infrastructure required to protect the public health and environment is in place as the expanded industrialization occurs.

Free Trade is a national issue. The benefits to the United States will be felt nationwide, not just at the border. Accordingly, it is reasonable to share some of the costs.

The infrastructure issues, while not glamorous, are important and must be addressed in order to ensure that the full benefits of any Free Trade Agreement are reaped.

I urge your careful consideration of them during this process.

PREPARED STATEMENT OF JAMES PIATT

Good morning Mr. Chairman and members of the Committee. I am James Piatt, Regional Commissioner of the Southwest Region of the Customs Service. I am here today to participate in the panel discussions relating to the Customs Service infrastructure and the impacts on Customs operations in the event of a Mexican Free Trade Agreement.

The proposed Free Trade Agreement between the United States and Mexico, if implemented, will have far reaching effects throughout the entire Southwestern part of the United States. The main impact will be in the volume of merchandise trade between the two countries. As Customs duties and other trade barriers are gradually removed goods will flow more freely in both directions.

There are two basic assumptions around which we are constructing our plans for the short and medium term on the Southern border in connection with a possible free trade agreement: first, that trade will increase and second that it will be a gradual increase rather than an immediate change. We are basing this on our experience with the Canadian Free Trade Agreement as well as on changes we have seen in trade with Mexico. These changes resulted from the significant liberalizing of that country's trade laws since joining GATT in 1987. From the Canadian trade data of the last two years—the agreement with Canada took effect January 1, 1989—the larger increase in the flow of merchandise has been from this country into Canada. This is due primarily to U.S. merchandise generally being less expensive than similar Canadian goods. Given this fact we can expect any increased merchandise flow to be from Mexico into the United States. Since the Canadian agreement went into effect shipments to Canada from the United States have only increased slightly, in the three to five percent range (Exact figures are not available due to a change in the method of recording these statistics). There is little reason to expect an increase of any significantly greater proportion from Mexico when an agreement with that country is signed. If we look at figures since Mexico became a member of GATT we do not see a picture of a sudden drastic increase in exports to this country. Instead, what we have is a picture of steady, significant increases in the merchandise from Mexico to the U.S. These have averaged between eight and ten percent at our three border locations. Since the Mexican economic infrastructure could not support the kinds of massive capital improvements to radically increase exports in the short and medium term we are comfortable in using the increases of the last two years as a relative barometer of future increases under any MFTA.

Given these two basic assumptions—that a free trade agreement with Mexico will increase trade and that the increase will be relatively small—let us look at the three areas of Customs that we expect will be impacted most and what our responses will be. These areas involve facilities, staffing and implementation. The first two items are somewhat related, in that an increase in the size or number of border crossing points usually requires additional personnel while implementation efforts will depend on the scope, timing and specific provisions of any final document. For our purposes, however, we will discuss each of these topics separately.

Customs has no direct control over or responsibility for requesting and constructing any new crossing facilities. The bridges and other crossing points are all owned by entities other than the Federal Government. This could be anything from a private individual or company to a semi-autonomous bridge authority to an actual city or county. Any of these entities may seek permission from the Federal authorities to erect a new bridge or open a new port of entry. Generally these petitions are based on estimates by local business and government that a very definite need for a new structure exists and that they can make this economically viable. Therefore, Customs cannot say that we are constructing more bridges to meet the demands of any new trade agreement. We can say, however, that local business and civic leaders are very actively pursuing this issue and that we at Customs are in very close consultation with them. Our role in these consultations is to ensure that the facilities that are constructed at these crossings fully meet our needs and requirements.

This determination is based on the size of the proposed facility as well as on the projected volume of commercial and non-commercial traffic.

As I mentioned, there is a very keen awareness in border localities of the impact of increased trade with Mexico, and that awareness is reflected not only in the number of new crossings being proposed but also in the number of renovations planned or actually under construction for existing crossings. Congress recognized the importance of these facilities by authorizing a major capital improvements program in fiscal year 88 for the government facilities at the various crossings. In this Region alone we have 35 projects in varying stages from just completed to the early planning stages. These include renovations and expansions recently completed at eight crossings, construction to renovate and expand 11 crossings, work to completely replace three existing stations and the replacement or additions of 13 other sites, all at a cost of just under \$357 million. These efforts are calculated to provide adequate space for increased commercial and non-commercial vehicle traffic for at least the next five to ten years. Additionally, the designs of the newer facilities are such that they can be easily expanded to handle increased commercial vehicles, especially in the event of examination. In our view, and in the view of those in the private sector with whom we have been working closely, these renovations and additions should allow the Customs Service to cope with the initial stages of any trade increase generated by a Free Trade Agreement with Mexico.

As indicated above, new bridges and new facilities require additional manpower. Based on traffic estimates and using our own models we have estimated that additional inspector positions will have to be added over a five year period, though we cannot yet give you a number. These are the individuals who do the actual screening of passengers and examination of cargo at the various crossings. We have been able to secure significant funding for these positions and are in the process of a massive hiring effort. By the end of this September we plan to hire and train 275 inspectors for the border crossings in my Region. We have already selected and are in the process of bringing on board 155 individuals and we expect to proceed on schedule with the remaining selections.

In addition to the inspectional force there are two other groups of employees involved in Customs Commercial Operations: import specialists and auditors. The import specialists are responsible for appraising, classifying and making admissibility determinations of imported merchandise. These individuals review documentation submitted with imported merchandise and make determinations based on their knowledge of legal and regulatory provisions affecting duty payment and admissibility. It is this group which is responsible for deciding whether goods qualify for the special treatment that will be accorded to merchandise falling under the terms of the agreement. We are also increasing the size of the group, to cope not only with an increase in the number of documents but also their complexity. There are presently 83 import specialists throughout this Region. We intend to add seven more by September, all at our border locations. Our fiscal year 92 budget requests approval for 50 new auditor positions nationwide, many of whom will be assigned to this region. These additional auditors will be needed to do audits of companies in Mexico where there may be a question as to the validity of the qualifying information presented. The experience with the Canadian agreement so far has been that there have been very few instances for suspected fraudulent claims of Canadian origin. We believe that this general pattern will hold true for the Mexican agreement as well, so we are not overly concerned on this issue.

In addition to manpower enhancements we also believe that certain new features of our automated processing system will allow us to cope with increases in commercial cargo and its attendant documentation. The Line Release module allows cargo to be cleared in two to three minutes instead of two to three hours. The program involves prior approval of the participants, based on such factors as the history of the importer, the history of the seller and the commodity. Through the use of an electronic wand device and a bar coded label the inspector is able to instantaneously verify that the merchandise on a truck qualifies for this program and also set up an electronic record of that transaction. This electronic record then becomes part of the other new automated feature, the paperless summary. This automated module allows the filer of the importer's documents to transmit all the necessary data to us electronically. If the data passes certain edits and validations established by the import specialists then the filer receives a message electronically advising that no paper documents are necessary. The computers will process and store all relevant data for us. If any duties have to be paid they will be drawn from the filers bank to a Customs bank account through an electronic funds transfer. We expect that within the next year or two fully twenty percent of the entries filed along the Mexican border will be done through this electronic method.

Our final area of planning for a Mexican Free Trade Agreement involves the actual steps in implementation. Again, we will rely on the experience gained in implementing the agreement with Canada. We will have two parallel training programs. One will be aimed solely at Customs employees and the other one will be for all interested individuals in the import and export trade. The former effort will involve training a select cadre of individuals from field offices who will then return to their locations and provide the training for the remainder of the local staff. This will ensure uniform interpretation of the agreement by all Customs employees. The training for the trade will be done in conjunction with and at the invitation of private groups, such as Customhouse brokers associations, importers associations and the like. The groups involved in this will include experts on the agreement and its implementation from both governments involved and it will be done for groups in both countries. Since we have an adequate pool of bilingual employees to draw from we anticipate no problem in the training in Mexico.

As part of the above implementation process we also anticipate the formation of a binational implementation committee. This committee will be composed of Customs officials from both countries. Their purpose will be to ensure that the provisions of the agreement are uniformly interpreted and implemented in both countries. Additionally, it will also provide a forum for the resolution of disputes that might arise due to differing policies or practices resulting from the agreement. Such a committee was established after the agreement with Canada took effect and it has been highly beneficial to both countries.

As a final point I would like to add that somewhat aside from considerations specifically in a context of a Free Trade Agreement the U.S. Customs Service has begun establishing very close and cordial working relationships at all levels with our Mexican counterparts. At the highest level the heads of the two organizations have met twice in the last year and will meet again in April. They were also both present during the meetings between Presidents Salinas and Bush in Monterrey in December. At a lower level there have been meetings of several working groups from both countries. They are working on areas of exchange of statistical data, compatibility of electronic processing systems and the possible alignment of entry and clearance documentation. We also have the tri-partite agreement program, which involves U.S. Customs, Mexican Customs and maquiladora plants in Mexico. The program involves inspection of all phases of the packing and shipping operations of a maquiladora plant by officials of both Customs organizations. Once approved special seals are provided to the plants which are then used to seal a truck going from the plant across into the U.S. This allows the shippers to bypass often time-consuming examinations on both sides of the border. Finally, contacts and interchanges are occurring at the local level also. Our field managers at the District and port levels hold regular meetings with their counterparts on the Mexican side. We have given our managers wide latitude in dealing with Mexican Customs on matters of strictly local concern and we strongly encourage them to do so. They can resolve such issues as hours of operation for commercial traffic, staffing levels during peak hours and similar matters that affect the daily operations at their specific locations. With a Free Trade Agreement these types of contacts, at all levels, will become a necessary part of our business.

In summation, I believe that United States Customs Service will be very well prepared to handle any increased workloads that a Free Trade Agreement with Mexico might generate. In the critical areas of facilities, manpower and implementation we are in a position to effectively deal with the consequences of any trade agreement with Mexico. Additionally, we believe that we can do it while maintaining the same high level of service to the public that we have attained in the past. The recent inclusion of Canada as a full partner in any future trade talks will in no way alter our needs on the Southern border. We stand poised and ready to meet the future.

PREPARED STATEMENT OF SENATOR STEVE SYMMS

The bilateral trading relationship between the United States and Mexico has seen considerable growth recently, in part due to Mexico working hard to liberalize many of its investment and trade laws. After years of central planning and economic stagnation, Mexico has begun to promote economic growth and eliminate barriers to market access. This re-tooling of the Mexican economy by President Salinas has Mexico on the road to prosperity.

Developing a free trade agreement between the U.S. and Mexico is a natural path for the two neighbors to follow. Mexico is the United States third largest trading partner behind Canada and Japan, and the U.S. is Mexico's largest export market.

Trade between the two countries reached nearly \$60 billion in 1990 as the U.S. exported more than \$29 billion to Mexico while importing nearly \$31 billion from Mexico.

Closer economic ties with Mexico will promote political and economic stability in the region. A stable investment environment is necessary for the financing of Mexico's \$80 billion international debt, one-third of which is held by U.S. banks.

Consumers of both nations should prosper from the benefits of a free trade agreement. Increased market access will result in a higher standard of living for the Mexican population which in turn, will create an increased demand for U.S. goods and services. The American consumer is likely to see lower prices, especially in textiles and apparel. High U.S. tariffs are used to protect American textile manufacturers causing American consumers to pay an exceedingly high price for Mexican textiles with some tariffs reaching as high as 45 to 50 percent. Elimination of these protections would result in lower prices for American consumers.

Serious progress in the agricultural sector is necessary for a fair and sound agreement. Agricultural trade must be addressed because there are many products which are produced in my state that are subject to considerable tariff and non-tariff barriers before entering the Mexican market. One example of a non-tariff barrier that significantly impacts producers is import licensing. The use of import licenses allows the Mexican Government to maintain discretionary control over individual shipments into Mexico. Import licenses are simply quotas designed to discriminate against certain products without paying attention to market demand. Import licenses currently affect nearly 60 percent of agricultural goods that apply for entry into the Mexico market.

When U.S. and Mexican negotiators agree on a new free trade pact, it must be mutually beneficial. There are many issues that will have to be resolved before an FTA can be finalized. A full phase-out of tariff and non-tariff barriers including import licensing and protection of intellectual property rights must be agreed to. Clear rules of origin are necessary to prevent third countries from gaining preferential access to U.S. markets. Finally, a well-defined dispute-settlement mechanism is vital to ensure that difficulties inherent to any agreement of this nature, have a process where they can be resolved.

It the initial stages of a Free Trade Agreement between the U.S. and Mexico, I am supportive yet cautious. An agreement will have to make significant progress toward a free and fair trading arrangement and must be beneficial to both nations.

PREPARED STATEMENT OF KAY R. WHITMORE

Mr. Chairman and Members of the Committee, I am pleased to participate in this hearing concerning the proposed Free Trade negotiations between the United States and Mexico. I speak today on behalf of The Business Roundtable, an association of Chief Executive Officers of 200 major U.S. corporations who examine public issues that affect the economy and develop positions which seek to reflect sound economic and social principles.

In announcing these hearings, Chairman Bentsen issued a statement expressing the view that a Free Trade Agreement between the United States and Mexico has potentially large benefits, but that it also presents significant challenges. His statement goes on to say that analysis of the potential benefits and costs is essential and that the negotiations will need to be managed carefully.

We agree with the Chairman. Like this Committee, The Business Roundtable companies see important potential commercial benefits for the United States in negotiating a Free Trade Agreement with Mexico. But, we are not blind to the challenges that forging this agreement pose. We are aware that this is an unprecedented trade initiative by the United States. We have comparable agreements with Canada and Israel. But never have we endeavored to negotiate a Free Trade Agreement with a country at such a disparate stage of development.

I would like to review for the Committee the steps Roundtable companies have taken and will be taking to meet these challenges.

Our first step was to evaluate whether these negotiations would be in the overall commercial interest of the United States, and whether the United States should go forward. The result of our work was a policy statement released last June, entitled "Building a Comprehensive U.S.-Mexico Economic Relationship: Looking Towards the Future."

We concluded that comprehensive trade and investment negotiations between the United States and Mexico should be initiated. We outlined several objectives for these negotiations, including:

- Broad liberalization of trade in goods and services and investment between our two countries;
- Fostering policies that will enhance the competitiveness of both economies in world markets; and
- Ensuring that, to the extent consistent with the GATT, the benefits of an agreement accrue to the U.S. and Mexico.

We based our support for initiating the negotiations on the following five points:

- First, the bilateral trade and investment relationship already is very important to both our countries. We are by far Mexico's largest trading partner. More important, Mexico is our third largest. In 1989, U.S. exports to Mexico rose by 20 percent to over \$24 billion. We are also Mexico's leading foreign investor, accounting for over 60 percent of its total foreign investment.

- Second, we see many important mutual benefits from closer economic ties, starting with strong commercial gains for the United States. Since this analysis is at the heart of our recommendation to initiate negotiations, I would like to elaborate on this point.

The Roundtable believes that Mexico can be an even more important market for U.S. exports than at present. We have already seen some preliminary indications of what partial trade liberalization can do. Between 1987-89, after Mexico joined the GATT and reduced tariffs, U.S. exports increased by over \$10 billion, faster than to any other region in the world.

With economic growth and full liberalization, the Mexican market will offer significant opportunities for even greater exports of U.S. manufactured goods and services. By the year 2000, Mexico will have 100 million consumers. While today many Mexicans are poor, ten years from now Mexico can be a very different country. No where is it preordained that Mexico must stay at current levels of development.

As Mexico's economy grows, its citizens will have more disposable income, resulting in ever increasing demand for consumer goods. American companies are the logical source for those goods given Mexican proximity and familiarity with our products.

U.S. capital goods manufacturers as well as service industries should also benefit from increased exports to Mexico. After years of depressed investment, Mexico needs capital goods and services to rebuild and modernize its infrastructure. As Mexico's industries develop, they will require materials, components and services. Again, U.S. companies are the logical suppliers.

In addition to the direct benefit of a large and growing market for U.S. exports, we believe that bilateral trade and investment liberalization between the United States and Mexico will lead to new manufacturing and supply relationships which will enhance the competitiveness of U.S.-based production in world markets. Mexico is a logical partner for U.S. business in this regard.

Rather than viewing U.S. investment in Mexico in threatening terms, it should be seen as a positive development for the U.S. economy. Professor Rudiger Dornbusch, Ford Professor of International Economics of MIT, estimates that for every dollar of extra income generated in Mexico, some 25 cents will be spent on U.S. products. Even if the estimate is high, the point remains that economic growth in Mexico generated by investment feeds back positively to the United States. Exports from the U.S. will rise as the result of the increased demand and that means more jobs at home.

- Third, Mexico has undertaken dramatic economic reforms. These reforms reflect a fundamental rethinking of the role of the state in the Mexican economy, and move Mexico towards becoming a modern, industrialized market-based economy. These reforms are the sine qua for entering into negotiations. Roundtable companies would not have considered recommending that our government go forward without them. Further liberalization, however, is necessary and negotiating a Free Trade Agreement offers the best opportunity to achieve substantial additional progress.

- Fourth, with these reforms, we sensed a fundamental rethinking of Mexican attitudes towards the United States. Much of the Mexican private sector, as well as the government, view their futures tied to North America and see closer cooperation as an advantage, rather than something to fear. In fact, in our contacts with the Mexican leadership and the private sector we have directly experienced their desire for closer cooperation. Again, were it not for this new attitude, the Roundtable would not have endorsed entering into these negotiations.

- Finally, The Business Roundtable companies determined that the existing piecemeal framework of bilateral agreements did not go far enough, when the objective is the broad expansion of market opportunities on both sides of the border.

Our second step was to set forth our negotiating objectives. We have devoted substantial resources and time to this effort and are now in the process of finalizing a detailed paper which sets forth our objectives. It is our intention to share our specific objectives with the Administration and the Congress as soon as they are completed.

I would, however, like to highlight for the Committee some of the key issues addressed in this paper:

—With respect to trade in goods, we seek:

- Elimination of tariffs and non-tariff barriers;
- A common rule of origin designed to facilitate bilateral trade and prevent Mexico from becoming a back door point of entry into the U.S. market for third countries; Equal access to energy markets.

—With respect to services, we seek:

- Removal of barriers to market access, including barriers to cross border provision of services and establishment of a commercial presence;
- National treatment and equal competitive opportunity.

—With respect to investment, we seek:

- National treatment and the elimination of performance requirements and restrictions on investments.

—With respect to Intellectual Property Rights, we seek:

- Adequate and effective protection for patents, trademarks, copyrights, trade secrets, and lay-out designs for integrated circuits;
- Transition protection for products not currently protected under Mexico law;

With respect to unfair trade laws, Roundtable companies are firm that there should be no changes in current U.S. law or any special waiver for Mexico, as was the case with Canada. If Mexico improves the standards, administration and judicial review of its anti-dumping laws—and we would hope that this would be part of the agreement—the establishment of a binational panel along the lines of the U.S.-Canada agreement should be considered.

Finally, we recognize that both Mexico and the United States may find it necessary to take reservations in certain sensitive sectors. We hope that these can be kept to a minimum and that they will be limited in duration to a specified time.

We are also carefully evaluating the various economic studies which are currently underway to gauge the economic, sectoral and regional impacts of the proposed Free Trade Agreement.

Roundtable companies intend to consult extensively with the Administration and the Congress on an on-going basis throughout the negotiating process. We believe that on-going intensive consultations are necessary to deal with the many complex and difficult issues which will arise in the context of these negotiations.

There is, however, an important first step which must be taken before the negotiations can get underway: that is maintenance of fast track procedures. This Committee devised the fast track procedures in the Trade Act of 1974 to assure that international trade agreements will be considered by the Congress within a definite timeframe. We believe that maintenance of fast track procedures is essential to negotiate a comprehensive agreement with Mexico that is in the best interests of the United States.

To underscore the importance of maintaining fast track procedures, The Business Roundtable in conjunction with all the other major business associations—The Chamber of Commerce, The Emergency Committee for American Trade, The National Association of Manufacturers, The National Foreign Trade Council, The U.S. Council for International Business, and the U.S. Council of the U.S.-Mexico Business Committee—have joined together in support of fast track for the Mexico negotiations. Today, every member of Congress will be receiving a letter signed by these and 436 other associations, and individual companies. The letter demonstrates that support among American business is broad, diverse and deep.

I would like to summarize this group's key points. First, the letter supports the initiative to negotiate a comprehensive trade and investment agreement. Second, we all believe that maintenance of fast track procedures is necessary to give these negotiations every chance to succeed. Third, and this is a critical point, support of fast track procedures is not a blank check. It does not guarantee the support of this group for the final agreement. To the contrary, business will only support an agreement that is in the U.S. commercial interest. Anything less will be opposed.

We intend to work very hard to make sure that fast track procedures are maintained. Beyond fast track, as outlined above, our strategy is to work very closely

with Congress and the Administration to make sure that this is a good agreement. If at the end of that day, the analysis shows that it is indeed a good agreement in the commercial interest of the U.S., we will work to ensure its implementation.

Speaking for myself, I should like to add a personal note. In the late 1960s, I helped to establish Kodak's manufacturing operations in Guadalajara, Mexico. Not only was this a very satisfying time for me personally, but as a businessman as well. By establishing a photographic manufacturing operation in Mexico, not only did we create jobs in Mexico, but also for Kodak in Rochester, which exports raw materials and finished goods to this plant and the Mexican market. I have watched this relationship grow over the years to the mutual benefit of both.

Kodak's positive experience, which no doubt is similar to scores of other American companies, makes me confident that negotiating a good Free Trade Agreement with Mexico will be positive for the United States.

Thank you.

Attachment.



Building a Comprehensive U.S.-Mexico Economic Relationship:

Looking Towards the Future

June 1990

Introduction

The Business Roundtable strongly believes that it is in the mutual interest of the United States and Mexico to negotiate a comprehensive bilateral trade and investment agreement. These negotiations should commence after the completion of the Uruguay Round of Multilateral Trade Negotiations. The framework for the negotiations should, however, be developed as soon as possible by our respective governments and in consultation with both the U.S. and Mexican private sectors. In a highly competitive global economy, closer economic cooperation between the United States and Mexico will enhance the worldwide competitiveness of both countries.

This paper outlines the importance of forging closer economic ties with Mexico at this time. Section I sets forth The Business Roundtable's policy recommendations for negotiating a comprehensive trade and investment agreement between the United States and Mexico. Sections II through VI provide the basis for these recommendations.

Background

Great potential exists for substantially increased economic activity between the two countries. The Mexican government is fostering dramatic changes in the structure of the Mexican economy. The far-reaching reforms which have already taken place in Mexico and which are continuing to modernize, privatize, and liberalize the Mexican economy make substantially closer economic ties with the United States both possible and desirable. With the changes has come a positive attitude towards increased U.S.-Mexico links. Closer economic ties have the potential to maximize economic growth, jobs, and the international competitiveness of both countries.

During the past several years, the multilateral arena of international trade negotiations has appropriately taken center stage with the ongoing Uruguay Round of GATT negotiations. As the Uruguay Round progresses toward its conclusion, U.S. policymakers should begin to turn their attention to our neighbor to the south. Europe's aggressive pursuit of its 1992 integration initiative and new markets in Eastern Europe, and Japan's dominant trade, investment, and financial position in Asia, highlight the importance of taking advantage of the unique trade and investment opportunities available to the United States and Mexico.

Building closer ties with Mexico is an essential step in developing a comprehensive North American trade and investment strategy. The U.S.-Canada Free Trade Agreement was an important first step towards increased North American economic integration. Now, the time is right to develop closer economic ties with Mexico.

I. Developing a Comprehensive U.S.-Mexico Economic Relationship: Policy Recommendations

The Business Roundtable strongly supports an initiative by the governments of the United States and Mexico to begin comprehensive trade and investment negotiations. These negotiations should commence after the current efforts in the GATT Uruguay Round to further expand multilateral opportunities for economic growth are completed. The framework for the negotiations should, however, be developed as soon as possible by our respective governments and in consultation with both the U.S. and Mexican private sectors. Objectives of the negotiations should include:

- ★ *Seeking broad liberalization of trade in goods and services and investment between the United States and Mexico;*
- ★ *Fostering policies that will enhance the global competitiveness of both the United States and Mexico;*
- ★ *Enhancing increased cooperation between the two economies;*
- ★ *Ensuring that, to the extent consistent with the GATT, the benefits of an agreement accrue to the United States and Mexico;*
- ★ *Establishing a mechanism for an ongoing dialogue between the two countries to encourage continued economic liberalization; and*
- ★ *Providing effective dispute resolution procedures.*

The negotiations should include all sectors. Specific subjects to be covered include all those being negotiated in the GATT Uruguay Round, with a view to moving beyond the multilateral agreements, where appropriate. In particular, the U.S. and Mexican governments should negotiate agreements on tariffs, non-tariff barriers, agriculture, investment, services, intellectual property, and institutional mechanisms to improve the bilateral economic relationship.

The comprehensive nature of the negotiations will present business as well as political challenges for both the United States and Mexico. The negotiations should, therefore, also address appropriate transition periods to minimize economic dislocations which may occur.

The Business Roundtable believes that it is in the interest of both countries to move as quickly as possible towards the elimination of all barriers to economic activity between the United States and Mexico. The resulting agreements should be implemented through amendments to the national laws of the United States and Mexico.

II. The Importance of U.S.-Mexico Trade and Investment Relations

The bilateral trade and investment relationship between Mexico and the United States is critically important to both countries. Mexico and the United States share a variety of economic and social ties. In 1989, two-way trade between Mexico and the United States surpassed \$51 billion. The United States is Mexico's primary export market and its largest supplier of imports. Mexico, in turn, is our third largest trading partner.

Mexico's trade and investment liberalization efforts over the last few years have allowed U.S. exports and investment greater access to its burgeoning market. Thus, in 1989 alone, U.S. exports to Mexico rose by 20% to a total of over \$24 billion. Meanwhile, Mexico's new market-oriented economic policies have also resulted in diversification and expansion of Mexican exports.

With its current \$12 billion of investment in Mexico, the United States is Mexico's leading foreign investor, accounting for over 60% of its total foreign investment in value. Traditionally, Mexico has been the largest Latin American contributor of foreign investment in the United States.

Besides sharing a flourishing trade and investment relationship, Mexico and the United States also have important cultural connections, including an increasing number of persons of Mexican origin in the United States. More Americans reside in Mexico than in any other foreign country. With a 2,000-mile common border, neither country can avoid being affected by the other's economic, social, and political climate. The same concerns - debt, finance, trade, environment, migration, and drugs - dominate the agendas of both countries and are often interrelated.

III. *Mutual Benefits from Closer Economic Cooperation*

Mexico's recent economic reforms, explained in more detail in Section IV, have created an important opportunity to forge closer ties at this time. Both the United States and Mexico stand to benefit substantially from closer economic cooperation.

- ★ *A comprehensive U.S.-Mexico trade and investment relationship can help secure Mexico's commitment to the continued opening and modernization of its economy.* It should be remembered that Mexico has a history of strong economic growth, financial stability, and low inflation. The economic troubles of the 1980's were an aberration and not the norm. With the recent reforms in place, the Mexican economy is at a crossroads. The greater the certainty that Mexico's reforms will continue and are irreversible, the greater the likelihood of achieving a resumption of strong economic growth and stability.
- ★ *The U.S. private sector will benefit substantially from the market opportunities that a strong Mexico can offer.* A growing Mexican economy offers significant opportunities for increased U.S. exports of manufactured goods and services. Mexico will have 100 million consumers before the year 2000. As Mexico's economy develops, its citizens will prosper, resulting in an ever-increasing demand for consumer goods. U.S. companies have a unique advantage in the Mexican market because of proximity and Mexican familiarity with U.S. products. After years of depressed investment, Mexico needs capital goods to support rebuilding and modernization of its infrastructure. As Mexico's industries develop, they will require materials, components, and inputs.
- ★ *Bilateral trade and investment liberalization will lead to new manufacturing and supply relationships between our two countries.* Today, many of America's most successful companies source in distant parts of the world to maintain domestic and international competitiveness. Mexico, with its proximity, increasingly skilled labor force, increasingly stable economic environment, and recent commitment to market principles, is a logical partner for U.S. business.
- ★ *The United States has a vital political interest in fostering Mexico's economic recovery.* Lack of economic growth contributes to political instability, migration problems, and fewer market-oriented government policies. On the other hand, strong domestic growth means Mexican jobs for Mexican workers, rising living standards, and greater political stability, which are clearly in the interest of both countries.

- ★ *In the multilateral context, Mexico can be a leader in supporting trade and investment liberalization in the Uruguay Round of GATT negotiations in the coming months. As a developing country that has committed itself to liberalizing its economy, Mexico can serve as a bridge to those developing countries that continue to resist liberalization. Strong, comprehensive multilateral agreements in the GATT will serve as an important foundation for strengthening the U.S.-Mexico bilateral relationship.*
- ★ *A comprehensive trade and investment accord between the United States and Mexico will help bolster confidence in the Mexican economy, resulting in a return of flight capital and increased foreign direct investment. Mexico's recent reforms have yet to bear fruit in terms of a significant rise in return of flight capital or major increases in foreign direct investment. Capital inflows are essential to Mexico's economic growth and the success of its ambitious reforms. The codification of Mexico's investment reforms into law will further encourage foreign investors to invest in Mexico.*
- ★ *Developing closer economic ties with the United States will create new global export opportunities for Mexican companies as well as promote the international competitiveness of Mexican products. The elimination of barriers between the two countries will facilitate the flow of information, technology, and investment into Mexico and improve its position as an export platform to the United States as well as the rest of the world.*

Despite the disparity in our levels of economic development, the United States and Mexico can forge closer economic ties with mutual benefits. It would be a mistake to view this difference in levels of economic development as a hindrance to increased economic ties. Instead, the focus should be on the complementary nature of the U.S. and Mexican economies. The integration of Portugal and Spain into the European Community and the developing economic relationships among Western European and Eastern European countries demonstrate the potential for a mutually beneficial relationship between countries with different levels of economic development.

IV. *The Emerging Mexican Trade and Investment Framework: Recent Domestic Reforms*

Within the last few years, the Mexican government has reoriented the structure of its development policy from an import-substitution model, which sought growth through domestic subsidies and production of import substitutes, to an export-oriented model of competition in the global market. The Mexican government has enacted a series of trade and investment reforms, which has created new opportunities for the development of international trade and investment relations.

New domestic economic policies are designed to give the private sector the leading role in stimulating economic growth and opportunity, while the government shifts its priorities to the social needs of its people. These reforms reflect a fundamental rethinking of the role of the state in Mexico, moving Mexico towards a modern, market-oriented, industrialized society.

- ★ *Mexico's accession to the General Agreement on Tariffs and Trade (GATT) in August 1986 marked the watershed in the country's trade policy. Historically, the leaders of the Mexican economy had opposed entry into the GATT because it represented a much-feared exposure of local industry to global competition. Thus, Mexico's decision to join the GATT signalled its decision to shift to an open export-oriented model of development.*
- ★ *Since joining the GATT, Mexico has lowered its trade barriers across the board. It reduced maximum tariff rates from 100% to 20% and now has an average tariff rate comparable to industrialized countries. In addition, it eliminated the import licensing requirement for 95% of its imports.*
- ★ *Over the past several years, Mexico has drastically reduced its budget deficit. In an effort to stabilize its economy, Mexico successfully reduced its budget deficit from 16% of gross domestic product in 1986 to near balance in 1989, on an inflation-adjusted basis.*
- ★ *The Mexican government has significantly lowered inflation with the Pact for Economic Stabilization and Growth. The social pact among government, business, and labor is a program for control of wages, public sector prices, some private prices, and the exchange rate. The pact helped Mexico's inflation rate drop to about 20% in 1989 from a high of over 160% in 1987.*

- ★ *The Mexican government has instituted sweeping tax reforms as a noninflationary means to finance public investment in strategic and high-priority areas essential to Mexico's development. By eliminating numerous loopholes in the tax code, tightening enforcement, and broadening the tax base to include some professions that had previously enjoyed exemptions, Mexico has already increased tax revenues by 17%. In order to stimulate its economy, Mexico reduced its corporate tax rate from 42% in 1988 to 35% in 1991.*
- ★ *New foreign investment regulations promulgated in May 1989 granted automatic approval of foreign investments of up to \$100 million, allowed 100% foreign ownership in many sectors of the economy, and opened many other previously closed sectors to foreign investment. These regulations represent a dramatic departure from Mexico's previous practice which limited foreign investors to minority ownership in most industries, barred them completely from many others, and required investment approval through an administrative process which on average took 1 1/2 years to complete.*
- ★ *In January 1990, Mexico began the process of reforming its rules on technology transfer and intellectual property. First, the government promulgated regulations relaxing government monitoring of technology transfers and eliminating ceilings on royalty payments. Second, the government announced that it will send the Mexican Congress a legislative package that would give intellectual property protection "similar to that which is given in advanced nations." In response to the Mexican government's actions, the United States removed Mexico from the "Priority Watch List" established under the 1988 U.S. Trade Act for nations lacking adequate intellectual property protection.*
- ★ *The Mexican government has privatized or liquidated some 800 state businesses, in sectors ranging from airlines to petrochemicals, in an effort to foster competition and unlock state funds for the country's social needs. This year will see the privatization of three of Mexico's biggest government-owned entities - the country's telecommunications company Telefonos de Mexico, the copper mining concern Cananea, and the national basic commodities company Conasupo.*

- ★ *Mexico has obtained the support it needed to escape its debt crisis and carry out its program of economic development with the adoption of the 1990 debt reduction agreement, the first to follow U.S. Treasury Secretary Nicholas Brady's Third World debt initiative. Covering all of Mexico's \$48.5 billion medium and long-term commercial bank debt, the 1989-92 financing package sets a fixed 6 1/2% interest rate on 49% of the debt, reduces the principal on 41%, and infuses new lending totalling approximately 13% of the total debt. The package will save Mexico an estimated \$4 billion a year and give it a 30-year shield against rising interest rates.*
- ★ *The Mexican government has decided to reestablish a private banking system. The return to a mixed banking system with private ownership of commercial banks will strengthen the Mexican financial system and free government resources to assist in the development of the infrastructure essential to economic growth.*

The extensive reforms adopted by the Mexican government represent proof that Mexico is committed to pursuing a market-oriented policy of economic growth and development, which emphasizes export competitiveness and an open trade and investment regime. Mexico's new economic framework provides the foundation for the development of a mutually beneficial U.S.-Mexico trade and investment relationship.

V. Mexico's New Attitude

Perhaps of greatest importance, the recent economic reforms in Mexico have been accompanied by a dramatic change in attitude towards the United States on the part of both the Mexican government and private sector. The already extensive economic interdependence between the two countries and the mutual benefits of a stronger, broader, and deeper economic relationship with the United States, as well as Canada, are recognized as key elements in Mexico's economic future. Preliminary discussions with the United States on how to develop a comprehensive trade and investment relationship, and the signing in March 1990 of a series of economic and commercial understandings with Canada reflect Mexico's decision to work more closely with its North American trading partners.

Mexico's reforms have helped build a dynamic new business environment as many Mexican companies have modernized and restructured in order to compete. Much of the Mexican private sector is poised to take advantage of opportunities arising from establishing closer economic ties with the United States. Many Mexican companies see the potential for mutually beneficial partnerships and joint ventures with U.S. companies. These companies view the United States as instrumental to their own global competitiveness and look forward to promoting increased ties between the United States and Mexico. The support of leaders of the Mexican private sector for closer cooperation between the two countries is evidenced by their endorsement of a comprehensive U.S.-Mexico trade and investment accord in the Mexico-U.S. Business Committee, a coalition of U.S. and Mexican industry leaders.

VI. Existing U.S.-Mexico Bilateral Agreements Do Not Go Far Enough

Over the past several years significant steps have been taken towards developing a closer U.S.-Mexico trade and investment relationship. In November 1987, the countries adopted a framework for consultation and dispute settlement regarding trade and investment matters. In October 1989, Presidents Bush and Salinas signed an "Understanding Regarding Trade and Investment Facilitation Talks," calling for negotiations in specific product areas, as well as on nonsectoral issues.

The 1987 Framework and the 1989 Understanding have played an important role in formalizing both countries' commitment to developing stronger economic ties. They provide an important foundation for future negotiation and cooperation, and they demonstrate that both countries have confidence that substantial benefits will result from eliminating market barriers.

However, existing bilateral agreements were not designed to achieve a comprehensive economic relationship between the two countries. Instead of narrow sector-by-sector trade liberalization, the objective should be a broad expansion of market opportunities on both sides of the border. Only when the entire range of issues is addressed can policies be formed with a full understanding of the linkages among them.

Conclusion

As the Uruguay Round draws to a close, The Business Roundtable urges U.S. and Mexican policymakers to turn their attention to the future economic relationship between the two countries. An opportunity now exists to forge a broader economic relationship with mutual benefits for both the United States and Mexico. It would be a mistake to lose this important opportunity.

COMMUNICATIONS

STATEMENT OF THE ALUMINUM ASSOCIATION, INC.

The 86 member companies of The Aluminum Association, Inc. have a strong interest in international trade negotiations affecting world aluminum markets. On a number of occasions and in a number of forums, we have expressed our support for an open international market for aluminum ingot and mill products. Most recently, we have been strong and early supporters of the U.S. government's market access position in the Uruguay Round.

The members of The Aluminum Association are domestic producers of primary and secondary ingot, aluminum mill products and castings. Mill products include sheet and plate; foil; extrusions; forgings and impact extrusions; electrical conductor; and wire, rod and bar. The Association's membership also includes producers of master alloy and additives. Aluminum Association member companies operate 300 plants in 40 states.

The Association is a primary source for statistics, standards and information on aluminum and the aluminum industry in the United States.

The Aluminum Association supports the immediate elimination of tariffs and non-tariff measures by the United States and Mexico. This position is consistent with our industry's long-standing policy of fostering a barrier-free world aluminum market and fair competition. The Association does recognize Mexico's level of economic development and has no objection to a gradual rather than immediate elimination of specific aluminum tariffs where such a gradual elimination would be appropriate.

The Aluminum Association does not object to the continuation of the current Generalized System of Preference (GSP) duty-free treatment extended to Mexican aluminum imports during a transition to a tariff-free environment. Likewise, we would expect that U.S. aluminum exports to Mexico now receiving duty-free treatment continue to enjoy these benefits.

The Aluminum Association urges U.S. negotiators to seek assurances from Mexico that during any transition period, the Mexican government will not enact new non-tariff barriers affecting aluminum trade. Further, we would ask the U.S. negotiators to seek assurances from Mexican officials that no form of subsidies will be extended to the Mexican aluminum industry during the transition, and that other unfair trade practices such as dumping be prohibited.

Should any of these issues become problems during the negotiations, the U.S. industry would need to reassess its position at that time.

Export and import statistics on aluminum trade between the United States and Mexico are attached.

U.S. IMPORTS FOR CONSUMPTION FROM MEXICO AND U.S. EXPORTS TO MEXICO—ALUMINUM INGOT, SEMI-FABRICATED PRODUCTS & SCRAP

(Figures in thousand pounds (Issued: January 28, 1991))

	1987	1988	1989	1990 (10 months)
U.S. Exports to Mexico:				
Total	127,114 (\$111,778m)	173,856 (\$180,218m)	204,411 (\$241,541m)	171,405 (\$200,934m)
Ingot	14,990	30,791	42,635	43,151
Scrap	47,778	65,828	59,645	37,385
Semi-Fabricated	64,347	77,237	102,131	90,86

**U.S. IMPORTS FOR CONSUMPTION FROM MEXICO AND U.S. EXPORTS TO MEXICO—ALUMINUM INGOT,
SEMI-FABRICATED PRODUCTS & SCRAP—Continued**

[Figures in thousand pounds (Issued: January 28, 1991)]

	1987	2988	1989	1990 (10 months)
Sheet & Plate.....	51,137	56 389	73,905	62,221
Foil.....	1,459	1,168	2,726	2,602
Wire, Rod & Bar.....	4,188	5,075	9,038	7,452
ACSR & Bare Cable.....	966	3,734	4,625	4,513
Ext., Pipe & Tube.....	3,872	6,008	9,301	9,566
Powder & Paste.....	1,069	1,384	1,564	1,110
U.S. Imports from Mexico:				
Total.....	46,012	66,814	60,371	62,788
	(\$21, 940m)	(\$54,287m)	(\$41,59m)	(\$33,869m)
Ingot.....	3,248	15,619	1,702	1,636
Scrap.....	33,743	37,876	45,852	53,525
Semi-Fabricated.....	9,021	13,318	12,818	3,292
Sheet & Plate.....	3,499	6,463	5,260	3,371
Foil.....	24	23	9	891
Wire, Rod & Bar.....	1,143	2,603	5,930	1,201
ACSR & Bare Cable.....	699	18		
Ext., Pipe & Tube.....	3,422	3,422	742	251
Powder & Paste.....	233	306	440	904

STATEMENT OF A.C. MEXICANA

These comments are submitted on behalf of A.C. Mexicana of Mexico City, Mexico, the only Mexican manufacturer and exporter of forklift trucks, in support of the negotiation, under expedited procedures, of a Free Trade Agreement with Mexico. A.C. Mexicana believes that a Free Trade Agreement between Mexico and the United States would be beneficial to the economies of both countries, and would have no adverse impact on the industry producing forklift trucks in the United States.

The Mexican forklift truck industry is a good example of an industry which has not been helped by Mexican import duties and has, in fact, been harmed by those duties. The growth of the Mexican industry has also been stunted by the poor infrastructure in Mexico. The problems which A.C. Mexicana has faced in struggling to become more competitive in its own market have convinced the company that a Free Trade Agreement is necessary to help Mexico become a fully industrialized country.

The Mexican forklift truck industry is dwarfed by the U.S. industry. In 1989, total production of forklift trucks in Mexico in 1989 was only 1.3 percent of total U.S. production. A.C. has made substantial investments to expand production and to increase its productivity, in order to better compete both in the Mexican and in the U.S. market, but these investments have not yet proved to be fruitful.

It is safe to say that a Free Trade Agreement will have little impact on the U.S. forklift truck industry. Forklift trucks currently enter the United States duty-free. Consequently, a Free Trade Agreement will make no change in the tariff treatment of Mexican forklift trucks, and will not encourage any further imports. However, A.C. Mexicana believes that a Free Trade Agreement will be beneficial for a number of reasons, which are tied not to duties in the United States, but to duties in Mexico, and to the overall benefits which will, the company hopes, ultimately accrue from a Free Trade Agreement.

In spite of the fact that Mexico currently imposes a 20 percent tariff on imported forklift trucks, imports nonetheless dominate the Mexican industry. Currently, imports enjoy an 83 percent share of the Mexican market, with most coming from the United States and the Far East. The U.S. industry, which is composed of ten manufacturers, nine of whom are subsidiaries of Japanese or Korean companies, are very competitive in the Mexican market.

Although the duty on finished forklift trucks may save the Mexican forklift truck industry from being completely decimated by imports competition, other duties, im-

posed on the components necessary to build A.C.'s trucks, as well as the inefficiency of Mexican suppliers, have prevented A.C. from becoming more competitive at home and abroad. In order to be able to compete more effectively in Mexico, it is imperative to A.C., and to companies in similar situations, that the infrastructure in Mexico be improved, and that certain import restrictions be eliminated. These problems could ultimately be remedied under a Free Trade Agreement.

There are many basic problems in Mexico which need to be remedied before the country can describe itself as a fully industrialized nation. It is anticipated that a Free Trade Agreement will improve Mexico's competitiveness, and will, over time, contribute to the improvement of Mexico's infrastructure. Such developments will prove extremely beneficial to companies such as A.C., which are finding it difficult to compete effectively even in their own home market. For example, the inadequate transportation facilities and roads in Mexico make it very difficult for companies to operate efficiently. The poor roads increase transportation costs enormously, make distribution difficult, and make timely delivery problematic at best. The inadequate transportation system also increases the cost of insurance tremendously. Mexican companies also suffer competitive disadvantages due to the poor telecommunications system currently in place in Mexico. These are problems which will only be remedied if Mexico succeeds in becoming a fully-industrialized nation and generates enough wealth to completely revamp roads, railways, and other internal systems. A Free Trade Agreement is an important tool in bringing Mexico to the point where it can undertake such massive projects.

Ironically, A.C., a Mexican company, is actually being hurt by Mexican tariffs. A.C. must import more than 30 components used in the manufacture of its forklifts. The Mexican duty rates on these components range from 10 percent to 20 percent, and add a very significant cost to the production of forklifts. These duties further prevent A.C. from becoming truly competitive in its own market. A.C., and other companies which must import significant amounts of component parts from abroad, also suffer a disadvantage in that they must contend with the frequently slow and costly customs procedures in Mexico, which also cut down on the company's productivity. A.C. Mexicana hopes that a Free Trade Agreement will address some of the procedural customs issues, and will make the entry procedure less costly and burdensome, both for U.S. exporters to Mexico and for Mexican importers.

In sum, A.C. Mexicana believes that a Free Trade Agreement between the United States and Mexico is necessary to help Mexican industry become truly competitive, both at home and abroad, and to generate sufficient income to begin to modernize Mexico's aging transportation system and its inefficient telecommunications system. A Free Trade Agreement will provide Mexico with increased access to technology and services, which will, to a very large extent, be sought from U.S. suppliers. Both Mexico and the United States will benefit from this arrangement. A.C. Mexicana therefore respectfully requests that the Senate Finance Committee support the negotiation of a Free Trade Agreement under expedited procedures.

STATEMENT OF THE AMERICAN DEHYDRATED ONION AND GARLIC ASSOCIATION

INTRODUCTION

The American Dehydrated Onion and Garlic Association (ADOGA) is an association of U.S. companies which dehydrate onion and garlic. ADOGA was established in 1956 as a non-profit, voluntary commodity association organized to promote the industry, standardize trade specifications, support research programs and generally improve the quality and safety of U.S. dehydrated onion and garlic products.

The ADOGA membership consists of the three major producers of dehydrated onion and garlic in the United States: Basic Vegetable Products, Gilroy Foods and Rogers Foods. These companies operate plants primarily in rural, central California employing directly about 2,700 workers and indirectly approximately 2,500 additional workers. The ADOGA member companies constitute a significant part of the economic base of the rural communities where their plants operate.

The industry is both capital and labor intensive. Although there are two other small companies in California and Oregon doing similar dehydration activities, ADOGA member companies supply approximately 90 percent of the domestic market for dehydrated onion and garlic products. ADOGA members also supply a majority of the world market. The finished product reaches the consumer primarily as a flavoring or seasoning ingredient in processed foods or industrial food production. It can, however, also be found packaged separately as a spice. The product may

take a powdered form, or remain in larger pieces—minced, chopped, sliced or granulated.

The domestic dehydrated onion and garlic industry is a small, highly specialized agricultural industry. The processors contract to grow a specially formulated seed with California growers from the U.S.-Mexico border all the way to the Oregon border. Because of the specialized nature of the industry, the processors design, build and maintain all their own harvesting machinery. The sophistication of the machinery is state-of-the-art, with the use of such advancements as laser technology to differentiate between the bulbs and the dirt clods. In sum, the domestic industry works hard to maintain a competitive position in the world market.

DISCUSSION

All of the ADOGA member companies are preparing themselves for the ever-evolving free trade environment which the U.S.-Canada Free Trade Agreement, the ongoing GATT negotiations, and the U.S.-Mexico negotiations epitomize. The member companies know that they must be prepared to compete with countries which enjoy far less expensive labor, less food safety regulation, and more government subsidies. In truth, the domestic dehydrated onion and garlic industry has prided itself on its high quality product and sensitivity to food safety; its relationship with its labor force; and the fact that it receives absolutely no subsidy of any kind from the U.S. Government. The ADOGA member companies are willing to work hard to be competitive, but we have concerns that countries such as Mexico may pose an *unfair* competitive threat to our industry.

Experts who have analyzed the possible effects of a U.S.-Mexico free trade agreement acknowledge that such an agreement could result in job losses in the United States as companies shift production to lower-cost Mexico, or as lower-cost Mexican products compete head-to-head with U.S. products. Production shifts are expected in numerous industries but the horticultural industry is expected to be the most disproportionately affected. This possibility concerns the ADOGA member companies.

One of the primary benefits associated with a U.S.-Mexico free trade agreement is increased market access, but clearly until issues such as Mexico's monetary fluctuation and inflation, exchange rate policy, transportation regulation and capacity, and other infrastructure matters are addressed, access to Mexican markets by U.S. companies will be impeded. The undeveloped infrastructure of Mexico—the inadequate highways, railroads, bridges, utilities, ports, storage facilities, educational system, financial system, and more—pose a greater threat to free trade than any transparent import tariff could. If any realistic free trade agreement is to be reached with Mexico, problems associated with the inadequate Mexican infrastructure must be a high priority issue in the early portion of the negotiations.

The disparity between U.S. and Mexican laws and regulations, applicable to agriculture and food safety also causes us concern. The ADOGA membership has set for itself the highest of standards for product safety and quality. Through U.S. Department of Agriculture (USDA) and Food and Drug Administration (FDA) regulations, U.S. producers are under strict Federal direction on food safety and environmental standards. Although Mexico has its own agricultural standards, its food safety and quality standards are not as rigorous & those imposed by the U.S. Government or self-imposed by ADOGA. We believe that adherence to and insistence upon ADOGA-level sanitary standards by producers of foreign competitive products must not be non-negotiable when based upon scientific fact and not simply used as non-tariff trade barriers.

For example, many of the pesticide products which have been banned in the United States are still available to Mexican farmers. Mexican law still allows producers to use some of the less expensive, yet effective, agricultural chemicals that have been banned by the Environmental Protection Agency in the United States. As a result, producers in Mexico can grow pest-free crops for less money than producers in the United States. When they import their cheaper agricultural products into the United States, the products will have pesticide residue levels higher than allowed for domestic production but will be able to be priced advantageously to such foreign competition.

The Association's goal is not to eliminate the imposition of stringent food sanitary regulations in the United States. We support a clean and healthy food supply. However, the playing field must be level. Mexican producers should be required to meet the same high standards for food safety as U.S. producers with regard to their exports to the United States. Without harmonization of such standards, the inequitable regulatory burden imposes a non-tariff barrier on domestic agriculture and places the domestic industry at a trade disadvantage.

Food safety and quality are issues that ADOGA members have been concerned about for years. Back in 1960, the ADOGA members established uniform product standards for dehydrated onion and garlic to inform and assure the American consuming public of the uniform high quality of the product. This concern, now colloquially termed "food safety," is even more of a national concern than it was in 1960. It would be truly unfortunate if, after all these years of the ADOGA member companies ensuring the high standard of their dehydrated onion and garlic, Mexico were allowed to flood the market with low-grade products. Not only would the product quality be diminished for the consumer, but the domestic industry may deteriorate or disappear due to the increased unfair competition.

Another potential problem which concerns the ADOGA member companies is the effect a free trade agreement will have on farm labor wages and resources in California. The dehydrated onion and garlic industry, like many in California, depends heavily on the assistance of Mexican laborers during the intense harvest season. When the crops are ready to be harvested, there is little time to go searching for scarce laborers. ADOGA would caution the negotiators to keep this very important issue in mind.

A major complaint the industry has had in dealing with Mexican agriculture is the inability to obtain accurate figures on Mexican production costs, prices, labor wages, production acreage, product quality and subsidies, both direct and indirect. They fear that without an initial, comprehensive evaluation of Mexican agricultural production and its food processing business, the United States will eliminate all trade barriers coming North only to continue to be subject to hidden trade barriers going South.

As with the U.S.-Canada Free Trade Agreement, one of the greatest fears the ADOGA membership has involves the possibility of transshipment of goods through the country of the new free trade partner. In the Canada agreement, strict rules of origin combined with the fact that there is very little production of dehydrated onion and garlic coming out of Canada, allayed our fears. If products were to be transshipped through Canada, the increasing import numbers from Canada would be immediately obvious. Such is not the case with Mexico. Mexico's climate and production capabilities for dehydrated onion and garlic are such that it would be much more difficult to expose transshipment through that country. Again, the importance of accurate production numbers from Mexico is underscored. Accurate production statistics together with a tightly drafted rule of origin will help protect against transshipment.

Many observers have compared the U.S.-Mexico negotiation to the recently enacted U.S.-Canada Free Trade Agreement. While there are similarities in the negotiating process, the diversities between the U.S. and Mexican cultures and economies are many when compared with the few diversities between the U.S. and Canada. Differences include the asymmetrical levels of economic development, diverse traditions, different languages, and disparate levels of experience in conducting such free trade negotiations.

The process of the U.S.-Canadian free trade negotiation took several years to complete despite the two countries' similar economies. Likewise, Mexico and the United States should study carefully the possible impact of a free trade agreement before embarking on negotiations, and only then proceed slowly to phase in the concessions. As an additional protection for those industries considered to be trade sensitive and disproportionately impacted, a substantial phase-in period should be established. While a ten year phase-in was acceptable for the U.S.-Canadian Free Trade Agreement, some thought should be given to a longer transition period for the horticultural industry which is the most likely to be highly impacted by a free trade agreement with Mexico.

CONCLUSION

The American Dehydrated Onion and Garlic Association opposes a U.S.-Mexico free trade agreement, but we are also aware that its establishment is a very strong possibility. As members of one of the industries which has been listed by the International Trade Commission as one of the most negatively impacted, we urge Congress to maintain a tight rein over the progress of the negotiations and to urge the Administration to take exacting measures to protect the trade sensitive industries.

ADOGA is and has been more than willing to compete with any other country with the quality and price of its products. But the rules for competing in a "free trade" environment must also be fair. Our standards—quality, environmental, sanitary, labor, health, safety, wage—are all much more arduous than those in Mexico. As a result our production costs are higher. We do not resent the standards. We do resent, however, our own government giving away our trade protection and subject-

ing the entire domestic industry to possible annihilation in the name of free trade. As a result, we oppose the enactment of a U.S.-Mexico free trade agreement until our above-stated concerns have been satisfactorily addressed.

STATEMENT OF THE AMERICAN PIPE FITTINGS ASSOCIATION ¹

On September 25, 1990, the President notified the Senate Finance Committee of his intent ion to enter into negotiations with Mexico for the purpose of concluding a free trade agreement with that country. The notification was made pursuant to the statutory "fast-track" procedures. These hearings were announced on January 18, 1991, to aid the Committee in determining whether a resolution of disapproval should be entertained under those procedures.

On February 5, 1991, the President notified the Committee of his intention to enter into trilateral negotiations (United States, Mexico and Canada) with the object of creating a North American Free Trade Zone, building on the United States-Canada Free Trade Agreement which came into force in 1989. Essentially, the February 5 notice was a modification of the prior notice to take Canada's interest into account.

SUMMARY OF POSITION

In theory a single North American market would stimulate economic rationalization and growth. The inclusion of Mexico would expand that market by close to 88 million consumers and would add close to \$200 billion in economic activity (GDP). However, the difficulties inherent in integrating the Mexican economy into the rest of North America seem insurmountable in the near term. Whereas economic organization and development are comparable in the United States and Canada, these conditions are quite different where Mexico is concerned. Differences in legal systems and political traditions, as well as language and cultural differences, merely add to the problem.

The American Pipe Fittings Association does not oppose the concept of a free trade agreement with Mexico. However, we are concerned about the potentially adverse consequences to our members. In that connection, two-way trade in pipe fittings between the United States and Canada and between the United States and Mexico totaled \$200 million in 1990. U.S. producers shipments of pipe fittings from 122 establishments have been around \$1.5 billion in recent years. There are 15,000 persons employed in the domestic pipe fittings and valve industries (SIC 3494) with California, Pennsylvania, Ohio and Indiana accounting for 44% of the total.

THE NEED FOR SAFEGUARDS

In our view the United States should not enter into a free trade agreement with Mexico unless it contains safeguards against wrenching shifts in trade patterns. In particular, we urge incorporation of the following points:

1. *Tariff Phase-Out.* Minimum 10-year phase-out of U.S. tariffs on pipe fittings. Current U.S. tariffs on pipe fittings range between 4% and 6.2%.

2. *Suspension of Phase-Out for Dumped or Subsidized Products.* Freeze on tariff cuts for any Mexican product subject to a U.S. antidumping or countervailing duty order while such order is in effect.

3. *Substantial Transformation Based on 8-Digit Change in Tariff Classification.* Rule of origin based on change in tariff classification (similar to that under the U.S.-Canadian Free Trade Agreement) with required change at the 8-digit level for pipe fittings classifiable under Heading 7307 of the Harmonized Tariff Schedule.

4. *Preserving Integrity of Antidumping-Countervailing Duty Laws.* Assurance against watering down the effectiveness of the U.S. antidumping and countervailing duty laws.

5. *Special Escape Clause Provision.* A liberalized escape clause provision to prevent rapid and disruptive sourcing shifts resulting from an agreement.

6. *Harmonizing Pollution Control Costs.* Obligation to harmonize environmental regulation in accordance with relatively short timetable, coupled with a mechanism for border adjustments to neutralize existing pollution control cost disparities until harmonization is achieved. This principle is important because the disparity in gov-

¹ The American Pipe Fittings Association (APFA) consists of about 50 domestic manufacturers of iron, steel, brass and plastic lined pipe fittings, pipe hangers and supports for commercial and industrial application. In the wake of the United States-Canada Free Trade Agreement, APFA has changed its By-Laws to admit Canadian members.

ernment-imposed pollution control costs as between the United States and Mexico creates an artificial incentive to source in Mexico. Such distortions are incompatible with the rationale of a free trade area.

CONCLUSION

We urge the Committee to obtain assurances from the Executive Branch that any negotiated agreement will provide meaningful safeguards along the lines described herein. Our members would likely be opposed to any agreement that failed to contain such provisions. Thank you for the opportunity to present our views.

STATEMENT OF THE AMERICAN TEXTILE MANUFACTURERS INSTITUTE

This statement is submitted by the American Textile Manufacturers Institute (ATMI) on behalf of its member companies. ATMI is the national association of the textile mill product industry (SIC Industry 22). Its members are engaged in every facet of textile manufacturing and marketing and collectively account for more than 75 percent of the fiber consumed by the domestic textile mill products industry.

The American textile industry and the related industries of chemical fibers and apparel manufacturing, the textile industry's largest supplier and customer, respectively, together suffer an unremitting and oppressive burden of imports into their home market. U.S. imports of textile and apparel products during 1990 amounted to more than 16 billion square meters equivalent (sme),¹ triple the amount imported in 1980. This trebling of imports has forced the closing of hundreds of producing facilities in the United States and the loss of over 400,000 jobs since 1980. There can be no doubt that this relentless tide of imports has seriously injured one of the most important manufacturing sectors in burr nation and, in the process, many of its workers.

Mexico has been a contributor to this injury. Mexico was the United States' sixth largest foreign supplier of textiles and apparel during 1990, having more than trebled its textile and apparel exports to the U.S. between 1980 and 1990. The ability of Mexico to greatly increase its textile and apparel exports to our market and thereby exacerbate this injury is unquestionably real and is the basis for our concern about the proposed free trade agreement (FTA) between our two countries. The only mechanisms preventing Mexico from putting an additional one, two or three million of its citizens to work producing textiles and apparel for export to the U.S. are our import tariffs and the restraints (quotas) embodied in our bilateral textile agreement with Mexico. Both of these would, of course, disappear in an FTA.

The more one studies the immense economic and social disparities between the United States and Mexico the more it becomes apparent that, from the American perspective, a U.S.-Mexico FTA makes little economic sense and we continue therefore to have very great concerns regarding such an agreement.

Nonetheless, if a U.S./Mexico FTA becomes a *fait accompli* our paramount concern and, indeed, the one overarching, guiding principle must be that the only parties to realize significant benefits from the FTA are the United States, Mexico and, if it so chooses, Canada. Every effort must be made to ensure that other countries, who will not be present at the bargaining table and who will make no contribution whatsoever to this alliance, do not end up receiving any of its benefits. As has been reported,² there is already considerable interest by Asian manufacturers and traders in using the U.S./Mexico FTA as a "back door" into the United States market.

This must not be allowed to happen. The means to prevent it from happening are to incorporate into a U.S./Mexico FTA rules of origin insuring that only goods which are truly the product(s) of the two countries are traded in an FTA environment. This necessary not only to ensure true reciprocity and fairness but also to guard against the very real possibility that unscrupulous traders both abroad and in the United States would use the FTA to transship textile and apparel products from third countries through Mexico into our market. The combination of duty and quota exemption for FTA-eligible imports is an irresistible incentive for such illegal practices.

Our concerns as to the injurious effects of a U.S./Mexico FTA on domestic firms and workers derives not only for the reasons cited above, but also from the disparity between U.S. and Mexican laws regarding workers' rights and benefits, workplace safety and environmental matters. For American firms these are very real costs of

¹ Only 12.1 billion sme of which are "officially" reported by the Department of Commerce.

² *Journal of Commerce* 1/16/91; EIU Country Report No. 3, 1990.

doing business which are largely absent from our Mexican competitors' costs. When combined with Mexico's extremely low wages—only a fraction of American textile and apparel workers' wages—they produce a truly unfair cost advantage for Mexico, one which all the modernization, efficiency and productivity which the domestic industry has achieved, cannot overcome.

There is by no means a unanimity of opinion in either the private sector or, it seems to us, the Congress as to the advisability of a United States-Mexico free trade agreement and there remains much, in the way of thorough study and tough negotiating, to be done. If and when the process is complete, Congress must, among other things, make sure that the agreement contains provisions which protect the interests of manufacturers in the United States. The lack of such provisions would be justification enough for our support of Congress' disapproval of the agreement.

STATEMENT OF THE AMERICAN TUNABOAT ASSOCIATION

Introduction:

The American Tunaboat Association (ATA), organized in 1921, is a non-profit trade association formed and operating under the laws of the State of California. Its membership is comprised exclusively of persons who own and operate tuna purse seine vessels. Vessels of this type account for over 98 percent of those domestic tuna landings sold for processing into a canned product by U.S. Tuna Cannerys. This fleet fishes for those species of tuna that are canned with a label describing the tuna as "lightmeat". According to the United States International Trade Commission (USITC), shipments of "lightmeat" canned tuna accounted for 80 percent of the U.S. market in 1989. In 1989, the U.S. cannerys received 222,111 short tons of "lightmeat" tuna from the U.S. Fleet and 212,594 short tons from foreign fishermen. In addition, the U. S. Fleet exported 26,846 short tons to foreign tuna cannerys during such year. According to Government reports, the U.S. Cannerys received 189,044 short tons of "lightmeat" tuna from the U.S. Fleet and 127,649 short tons from foreign fishermen in 1990; exports of frozen tuna by the U.S. Fleet is unavailable.

U.S. Tuna Fleet Background:

At present, the U.S. Tuna Purse Seine Fleet operates exclusively on fishing grounds located in the Pacific Ocean. During the period 1957-1990, there were 270 vessels built or converted as tuna purse seiners for the U.S. Fleet. As a result of removals caused by sales to foreign citizens, losses at sea, and sales for use in other U.S. fisheries, the U. S. Tuna Purse Seine Fleet as of February 1, 1991 is composed of 59 vessels. Three of such vessels are idle because of financial difficulties.

Although the U.S. Tuna Purse Seine Fleet has declined in total number of job berths, vessels and carrying capacity, the fleet remains highly productive and competitive. Production per capacity ton has increased on the average from 2.5 per ton in 1985 to 3.5 per ton in 1989. Catch per vessel has increased on the average from 2,585 tons in 1985 to 3,936 tons in 1989. Nevertheless, job berths in the fleet have declined from a high of 2,176 in 1982 to about 1,060 in February 1991.

U.S. Tuna Cannerys Background:

Since 1985, this Subcommittee and the USITC has obtained much documentation concerning the trade of canned tuna in the United States. Such documentation clearly shows the substantial decline that has occurred in all segments of the U.S. Industry. In 1979, there were 22 U.S. Tuna Cannerys. They were located: Continental United States (14), Hawaii (1), Puerto Rico (5), and American Samoa (2). Today there are only 7 tuna cannerys. They are located in Continental United States (2), Puerto Rico (3) and American Samoa (2). Only one tuna cannery services the fleet in Continental United States: Pan Pacific, San Pedro, California. Two of the five tuna cannerys in operation in January 1990 in Puerto Rico closed down after April 1990. All of the remaining tuna plants operating in Puerto Rico have reduced their operations.

The 1990 USITC Report states that employment at Pan Pacific's California plant "declined from 1,228 workers in 1984 to 525 workers in 1989", and that employment in Puerto Rico's tuna cannerys declined from approximately 15,000 jobs in 1982 to 8,000 in 1989", and that as of "July 1990 the number employed by the cannerys totaled approximately 6,600, a decline of 1,400 workers since 1989".

In 1988-89, Van Camp and its "Chicken of the Sea" brand of canned tuna was sold to an Indonesian company, and Bumble Bee was bought by a Thailand Company. Star Kist, Bumble Bee and Van Camp, the three largest tuna firms in the United States, accounted for about 80 percent of domestic production of canned tuna in 1989. In 1990, Van Camp closed operations in Puerto Rico, and

Bumble Bee substantially reduced its operation in Puerto Rico. Also in 1990, a loin plant in Santa Fe Springs, California was opened by Bumble Bee; such plant deals exclusively with imported products.

Free Trade in Canned Tuna from Mexico Opposed:

Our membership is convinced that unfair competition in the trade of canned tuna, assisted by unrealistic U.S. tariff levels and structure, will continue to cause the removal of cannery plants from United States and Puerto Rico. And in time, also American Samoa where tuna canning is the mainstay of the economy. Frozen tuna, the product produced by the U.S. Tuna Fleet already enters the U.S. market free of duties. Foreign tuna vessels can unload directly to the canners in American Samoa and for transshipment in Guam and the Commonwealth of the Northern Marianas. Foreign tuna fishermen already enjoy substantial trade advantages in the U.S. market. It is the U.S. Tuna Canner that has been directly harmed by low cost imports of canned tuna in water, and therefore, indirectly, the U.S. Tuna Fleet. This is why we are concerned about the impact of a Free Trade Agreement with Mexico concerning the trade of canned tuna.

During the period 1982-1984, the three major tuna canners, Star Kist, Van Camp and Bumble Bee closed their canneries in California and Hawaii. According to a Sea Grant Study published in August, 1985, over 12,500 jobs were lost as a result of such closures. Now, we are witnessing closures of tuna canneries in Puerto Rico, and possibly the closure of the single remaining cannery in continental United States that services the U.S. Tuna Fleet. The U.S. Canned Tuna Industry, particularly those segments located in California and Puerto Rico, have reason to be concerned about their economic survival. We are convinced that without U.S. Tuna Canners located in the United States, Puerto Rico and American Samoa, the competitive ability of the U.S. Tuna Fleet to effectively compete in the international trade of frozen tuna will be substantially destroyed. The U.S. Tuna Fleet must have the option of selling frozen tuna to both domestic and foreign tuna canners in order to enjoy healthy competition. We believe that jeopardy to the domestic tuna canners means jeopardy to the U.S. Tuna Purse Seine Fleet. We believe, therefore, that the present economic condition of the U.S. Canned Tuna Industry could not withstand free trade of canned tuna products from Mexico. Nor do we believe that such free trade of canned tuna would be of long-term benefit to the U.S. consumer. It can be demonstrated that once the consumer of canned tuna is dependent upon foreign caught and foreign processed canned tuna, prices of canned tuna rise significantly.

The Mexican Tuna Industry - Growing and Competitive:

The 1990 USITC Report provides data explaining the growth of the Mexican Tuna Industry during the period 1980-1990. It has the largest tuna fleet operating in the eastern tropical Pacific. According to the USITC, "there were 19 Mexican canneries in operation during 1988 that were equipped to can tuna". The Inter-American Tropical Tuna Commission (IATTC) reported that in 1990 that the Mexican Tuna Fleet of about 86 vessels produced 145,789 short tons of tuna and bonito. This represented 37% of the total catch of the international fleet operating in the eastern Pacific. The USITC 1990 Report states that the Mexican consumption of frozen tuna was 70,962 short tons in 1989. Mexican industry leaders, testifying during conferences sponsored by the IATTC, reported that the Mexican consumption of tuna has currently reached about 90,000 tons annually. The USITC reports that Mexican exports of frozen tuna increased from 32,039 short tons in 1985 to 92,594 tons in 1989, and that Italian Tuna Canners have been the major market during such period for such frozen products.

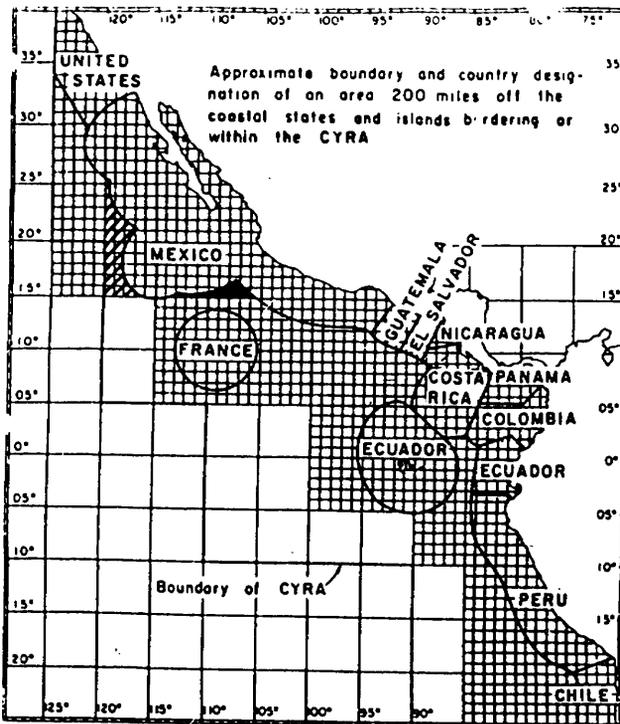
Mexico's 200-mile Exclusive Economic Zone (EEZ) a New Trade Barrier:

The product known today as canned tuna was developed in

California in 1903. Since 1919, the tuna fleet of the United States has developed fishing grounds south of San Diego, California. The eastern tropical Pacific Ocean, that is, an ocean area from California to Chile, produces over 20 percent of the World's production of tuna. This rich tuna fishing area accounts for over 30 percent of the World's production of yellowfin tuna. The U.S. Tuna Industry and the U.S. Government have made enormous investments in the conservation of the tropical tunas of the eastern tropical Pacific since 1950. In 1949, the U.S. and Costa Rica signed a convention that created the Inter-American Tropical Tuna Commission (IATTC). This organization is recognized as the first and most important tuna conservation Commission in the World. For over 70 years the eastern Pacific has been the most important source of yellowfin tuna to the U.S. Tuna Fleet, the U.S. Tuna Cannery, and finally, to the U.S. canned tuna consumer.

During the period 1980-88, an average of 70,788 short tons of yellowfin and skipjack tunas was annually caught within the 200 mile zone of Mexico. The total catch of tunas during such period and within such zone represented about 42 percent of all yellowfin and skipjack tunas caught within all of the 200 mile zones located from the U.S. and Chile.

Attached is a Chart prepared by the IATTC. It shows that 56 percent of all tuna landed by the international fleet fishing in the eastern tropical Pacific is caught within the 200 mile zones bordering the Pacific from the U.S. to Chile. The percentages are based upon IATTC reports. At the present time, no Treaty exists in the eastern tropical Pacific that would establish a regional license arrangement that would allow U.S. vessels to fish within the 200-mile EEZ of Mexico. Mexico does not issue tuna fishing licenses to U.S. tuna purse seine vessels operating in the eastern Pacific. No bilateral licensing arrangement exists between the U.S. and Mexico concerning such fishing.



Average Annual Percentages of Catch of Tuna captured within 200 miles of coastlines and Islands bordering the Eastern Tropical Pacific Ocean 1976-1988

TOTAL TUNA CATCH.....	566
PERCENT TOTAL YELLOWFIN TUNA CATCH.....	326
PERCENT TOTAL SKIPJACK TUNA CATCH.....	691

The 1990 USITC Report refers to the issue of the 200 mile limit and tuna management. On page 1-3, the Report stated:

"The United States does not include tuna under unilateral jurisdiction within its 200-mile fishery conservation zone, nor does it recognize such claims by other nations. The reason for this is that tuna are highly migratory, and it is therefore the U.S. position that no one nation has the ability to effectively manage tuna resources. Instead, the U.S. position historically has been that multilateral management, coordinated with all nations adjacent to a tuna stock's migratory area, is the best means to manage tuna fisheries."

While the 1990 USITC Report was being published, President Bush on November 28, 1990, signed H.R. 2061, a bill that authorized appropriations and amended the Magnuson Fishery Conservation and Management Act (MFCMA). At such signing, President Bush made the following statement:

"Current law defines "highly migratory species to mean only species of tuna and excludes such species from the exclusive fishery management authority asserted by the United States in our EEZ. H.R. 2061 would eliminate this exclusion effective January 1, 1992. Thus, effective as of that date, the United States will assert management authority over tuna in its EEZ. As a matter of international law, effective immediately the United States will recognize similiar assertions by coastal nations regarding their exclusive economic zones. (emphasis added)

The net effect of this Statement is to dejure push the United States Tuna Fleet away from the exclusive economic zones off the Pacific coasts of Latin America from Mexico to Chile. We consider the existence of such 200 mile zones to be a tuna trade barrier, when no multilateral agreements allow regional tuna fishing licenses and regional tuna conservation measures.

Contrary to the 1990 USITC Report (page 1-3), the United States has not successfully negotiated multilateral tuna agreements among Latin American nations. A bilateral albacore tuna treaty applicable to fishing off the Pacific coast of the United States and Canada does exist. This Treaty allows fishing for albacore tuna on a reciprocal basis by both U.S. and Canadian tuna fishing vessels, free of any fishing license charges. It also allows vessels of both countries to enter certain ports of both nations for purposes of provisioning and unloading. This Treaty is similar in its provisions regarding port usage to the Halibut Treaty also in existence between the U.S. and Canada.

CONCLUSION:

The negotiation of a Free Trade Agreement with Mexico on the issue of tuna trade must not be a one-way street for the benefit of Mexico only. Reciprocity should be an essential element in any such agreement affecting the trade of tuna. To allow free trade for Mexican canned tuna in the U.S. marketplace and not obtain for the U.S. Tuna Fleet access to fishing grounds within the Mexican 200-mile exclusive economic zone as well as access to Mexican ports for provisioning and unloading would benefit Mexico only. We strongly urge that such discriminatory result should not be allowed in any negotiation of a Free Trade Agreement between the U.S. and Mexico.

Reports and Hearing Prints mentioned in ATA Statement

1. Subcommittee on Trade, Committee on Ways and Means
U.S. House of Representatives

Committee Hearings:

99th Congress, 1st Session, Committee Print,
WMCP 99-11, September 16, 1985, Pages 281-304

99th Congress, 2d Session, Committee Print,
WMCP 99-19, May 1, 1986, pages 203-339 and
pages 397-413

100th Congress, 1st Session, Committee Print
WMCP 100-26, November 24, 1987, pages 71-98

2. United States International Trade Commission (USITC)

Reports:

Certain Canned Tuna Fish

Report to the President on Investigation No.
TA-201-53 under Section 201 of the Trade Act of
1974 USITC Publication 1558, August 1984

Competitive Conditions in the U.S. Tuna Industry

Report to the President on Investigation No. 332-224
Under Section 332 of the Tariff Act of 1930, as
amended USITC Publication 1919, October 1986

Tuna: Competitive Conditions Affecting the U.S. and
European Tuna Industries in Domestic and Foreign
Markets.

Report to the Committee on Finance, U.S. Senate
and the Committee on Way and Means, U.S. House
of Representatives, on Investigation No. 332-291
Under Section 332 of the Tariff Act of 1930, as
amended USITC Publication 2339, December 1990

STATEMENT OF THE AMERICAN WIRE PRODUCERS ASSOCIATION

On behalf of the American Wire Producers Association, I respectfully submit our views on the proposed negotiation of a free trade agreement with Mexico.

The American Wire Producers Association is a national trade organization which represents American manufacturers of carbon, alloy, and stainless steel wire and wire products. Our membership also includes integrated and mini-mill producers of steel wire rod, wire drawers related to domestic rod producers, wire drawers related to foreign steel companies, and suppliers of machinery and other equipment to our industry. Member companies of the Association operate more than 110 plants in 27 states, and they employ over 20,000 American workers. Our members are efficient producers with modern facilities and a productive labor force. They supply more than 70 percent of the domestic market for steel wire and wire products, including round and flat wire, barbed wire, threaded bars, welded wire fabric, wire rope and strand, nails, staples, chain, coat hangers, concrete reinforcing mesh, and chain link fence.

The Association endorses the promotion of the free and fair exchange of goods between the United States and all of our trading partners, including Mexico. However, the Association is concerned that this goal may be undermined by certain imbalances in current trade relations between the United States and Mexico. We respectfully urge that these imbalances be redressed as part of the proposed negotiations between the governments of the United States and Mexico on a free trade agreement.

First, Mexico imposes a much higher level of duty rates on imported wire and wire products than does the United States. The Mexican rates are generally between 10.0 and 15.0 percent *ad valorem*, whereas the corresponding American rates are between 0.0 and 5.6 percent. These differentials are significant to an industry whose markets are extremely sensitive to even small variations in price.

Second, Mexican authorities impose a number of additional fees and charges with respect to the importation of steel wire and wire products. Mexico assesses a customs service fee in the amount of 0.6 percent, compared with the United States customs user fee of 0.22 percent. Our members also understand that Mexican authorities assess municipal taxes and a Federal value added tax on imported products. These taxes further distort the price differential between Mexican and American products.

Third, our members are concerned that the Mexican industry may be targeting American markets for higher-valued wire and wire products, including mattress spring units, galvanized wire, poultry and stucco netting, and other woven and welded wire products. It is noted that the original voluntary restraint arrangement on steel products was amended in order to contain the surge of fencing and mesh products from Mexico, including steel fence panels, steel wire fabric, and welded wire mesh for concrete reinforcement.

Fourth, our members urge that the United States Government review the programs which Mexican Federal, state and local authorities make available to Mexican manufacturers and exporters of steel wire and wire products. The continued existence of such programs confers an unfair advantage on the Mexican industry, which compounds the effect of Mexico's extremely low wage rates.

The Association is grateful to the Chairman and the other members of the Committee for their consideration of these comments.

ARISTECH,
Pittsburgh, Pa, February 26, 1991.

Ms. LAURA WILCOX,
*Hearing Administrator,
Senate Finance Committee,
Washington, DC.*

Re: Proposed Negotiation of Free Trade Agreement with Mexico

Dear Ms. Wilcox: These comments are submitted on behalf of Aristech Chemical Corporation ("Aristech"), a major U.S. producer of such petrochemicals as phenol.¹

¹ Phenol is a chemical intermediate used in the manufacture of plywood, solvents, and other products; it is classified under Harmonized Tariff System item number 2907.11.00.-

Aristech's Haverhill, Ohio phenol production facilities alone employ over 250 workers.

If the United States enters into any negotiations with Mexico on a possible free trade agreement ("FTA"), Aristech respectfully submits that the following factors should be considered, which apply not only to the petrochemical phenol in particular, but often apply to the petrochemicals sector in general.

One, the U.S. phenol industry is especially vulnerable to injury from low-priced imports (i.e., Mexican) since:

- (a) phenol is a homogeneous, commodity product, with supplier competition focused largely on price;
- (b) phenol demand is highly cyclical, rendering the U.S. industry especially vulnerable to injury during an economic downturn. Given the lamentable shape of phenol's two derivative markets (housing and automobiles) and U.S. recession concerns, this factor is particularly significant now;² and,
- (c) over the long-term, the industry has suffered significant unprofitability and overcapacity.

These are the classic indicia considered by the U.S. International Trade Commission ("the Commission") in its fair and unfair trade investigations to determine if a particular U.S. industry is especially susceptible to injury from imports. During this period of particular sensitivity, Mexican producers candidly admit that elimination of U.S. tariffs on secondary petrochemicals (e.g., phenol) would likely increase Mexican exports perhaps by as much as 100 percent.³ Given this import-sensitivity, any U.S. tariff reductions on phenol under a U.S.-Mexico FTA should be phased-in gradually (just as was provided for under the U.S.-Canada FTA).

Two, for petrochemicals generally, and phenol in particular, free and fair trade between Mexico and the United States requires the elimination of certain trade-distortive practices of the Mexican government. As prior Commission investigations⁴ have found, the Mexican petrochemical industry, which includes phenol, enjoys significant advantages from

- (a) low feedstock prices (often targeted at 80% of world price) from the state-owned PEMEX; and,
- (b) long established, preferential government loan, grant and tax policies favoring the industry.

Any FTA should eliminate such trade distortive policies.

Three, Aristech understands that Mexico proposes "relative reciprocity" under an FTA whereby Mexican tariffs on U.S. product would be reduced at a lower rate than U.S. tariffs on Mexican product. At least for petrochemicals, Mexican producers do not need such preferential treatment. As the Commission has found in prior investigations (e.g., Inv. No. 332-230), Mexican petrochemicals benefit from world-scale plants, state-of-the-art process technology used internationally, and the fact that Mexico is a major player in the global petrochemical industry. Not only is it unwarranted, such relative reciprocity is unfair to the U.S. producers, as far as providing them access to the Mexican market comparable to that provided Mexican producers to the U.S. market.

Finally, four, Aristech understands that Mexico seeks to exclude environmental issues from the FTA negotiations. For U.S. chemical producers, environmental protection is a major cost item. Any negotiations towards an FTA facilitating trade between the United States and Mexico should cover environmental issues to avoid unequal treatment in any unified market.

Aristech appreciates the Committee's consideration of these views.

Respectfully submitted,

D.F. TUTHILL, *General Counsel and Secretary.*

² U.S. demand for phenol is contracting because of the downturn in the economy, particularly the housing and automotive industries. *Chem. Mark. Rep.* Vol. 238, Issue 6, pp. 3, 23 (Aug. 6, 1990).

³ *Review of Trade and Investment Liberalization Measures By Mexico and Prospects for Future United States-Mexican Relations*, Inv. No. 332-282, USITC Pub. No. 2326 (October 1990) p. 2-17.

⁴ *U.S. Global Competitiveness: Building Block Petrochemicals and Completed Implications for Construction, Automobiles, and Other Major Consuming Industries*, Inv. No. 332-230, USITC Pub. No. 2005 (August 1987).



The Atchison, Topeka and Santa Fe Railway Company

1700 East Golf Road
Schaumburg, Illinois 60173-5860

February 26, 1991

The Honorable Lloyd Bentsen
Chairman
Senate Finance Committee
Washington, D. C. 20510-6200

Dear Mr. Chairman:

The Atchison, Topeka and Santa Fe Railway Company (Santa Fe) strongly supports the negotiation of a comprehensive free trade agreement between the United States and Mexico. In order to make this objective possible, the negotiations should proceed under fast-track authority.

The negotiations present a significant opportunity to promote increased rail and rail intermodal transportation between our two countries. Developing an efficient system of cross-border transportation will result in economic benefits for both the United States and Mexico. Issues that should be addressed in the negotiations include: border delays arising from lengthy customs procedures, rail car sanitation problems, harmonization of safety standards, and the expedited movement of containers and truck trailers carried by U. S. railroads.

In general, closer economic ties between the United States and Mexico are likely to benefit the overall commercial interest of the United States. The United States is already Mexico's largest trading partner and Mexico is our third largest. This important bilateral trade and investment relationship between our countries should be enhanced and strengthened. As Mexico continues to make fundamental economic reforms, the Mexican market will offer increased opportunities for U. S. exports, both goods and services.

As a member of The Business Roundtable, Santa Fe endorsed the Roundtable's February 6 letter of support for comprehensive U. S.-Mexico free trade and investment negotiations, which was signed by 443 corporations and associations.

Santa Fe looks forward to working with members of Congress, the U. S. negotiators and the U.S.-Mexico Transportation working group on this important initiative in the coming months.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Mike".

Michael R. Haverty
President and
Chief Operating Officer

STATEMENT OF THE CALIFORNIA AVOCADO COMMISSION

This statement is submitted on behalf of the California Avocado Commission (the "commission") in conjunction with the Senate Finance Committee's February 20, 1991 hearing on the proposed negotiation of a free trade agreement with Mexico. The commission requests that these comments be made a part of the formal written record of the hearing.

The Commission is organized under the laws of the state of California and represents the more than 6,000 avocado growers in the state of California. California is responsible for approximately 90% of total U.S. avocado production. The Commission is broadly responsible for increasing grower returns by conducting advertising, promotion and public relations for California avocados and engaging in industry-related activities that help create a more profitable marketing environment for California avocados. As part of this responsibility, the Commission works actively with the U.S. government on a range of trade policy concerns, including close involvement in U.S. bilateral and multilateral efforts relating to agriculture.

The California avocado industry has a particular interest in the free trade discussions with Mexico because of the United States' long-standing phytosanitary ban on imports of fresh avocados from Mexico. The ban, discussed in detail in Part I below, is based on scientific documentation that Mexican-produced avocados are infested with the seedweevil. The California industry is concerned that Mexico will attempt to redefine the seedweevil ban as a trade barrier issue and to negotiate away the ban in exchange for trade concessions under the free trade negotiations.

Mexico historically has used trade policy issues as a means of addressing the phytosanitary ban. In 1986, the Mexican government sought support for a lifting of the ban by filing for GSP treatment on fresh and prepared or preserved avocados. GSP status was denied because of the U.S. industry's import-sensitivity. Mexican negotiators have already raised the issue of eliminating U.S. phytosanitary restrictions and the U.S. ban on avocados in particular in informal free trade discussions with U.S. counterparts from the U.S. Department of Agriculture.

For the reasons discussed below, the California avocado industry urges Congress and the Administration to reject all attempts by Mexico to lift the phytosanitary ban on fresh avocados unless supported by clear and comprehensive scientific justification.

I. THE PHYTOSANITARY BAN ON FRESH AVOCADOS FROM MEXICO SHOULD NOT BE COMPROMISED IN FREE TRADE AREA NEGOTIATIONS

The U.S. Department of Agriculture ("USDA") maintains a quarantine on the importation of fresh avocados from areas that have an infestation of seedweevils, a pest that is extremely destructive to avocados. Once infested, the pest travels rapidly and can spread through wide areas if given the opportunity. Under the quarantine, fresh avocados from Mexico have been denied access to the United States since 1914. Processed avocado products from Mexico are not affected by the ban. In recent years, Mexico has begun to export substantial quantities of processed avocados, including frozen avocados, to the United States.

The ban is necessary since effective chemical treatment for seedweevil infestation is not available at this time. Even if effective chemical treatment were available, it may not be a viable solution since avocados are an extremely delicate fruit and cannot withstand the amount of chemical treatment that would be necessary to eliminate the pest once infested. The only known effective method of control is to prevent the pest from spreading to U.S. avocado production.

There is no evidence available to either the U.S. or Mexican government to prove that the seedweevil problem in Mexico has been eradicated. In August 1990, the Mexican government's plant-health division, Sandidad Vegetal, submitted a protocol to the U.S. Department of Agriculture's Animal and Plant Health Inspection Service ("APHIS") entitled "Work Plan to Produce Avocados of the Best Quality." The protocol, which includes proposed mechanisms to control the seedweevil problem and its spread to the United States, was designed to convince APHIS to revise and moderate its quarantine ban on the import of fresh avocados from Mexico. Experts and scientists at USDA have found the protocol to be deficient on the basis that it fails to demonstrate that the Mexican government has the capability to either eradicate or control the seedweevil pest. In a letter from the Deputy Administrator for International Services (APHIS) dated October 1, 1990, APHIS responded to the protocol by indicating that "a number of plant pests that are known to attack avocados in Mexico, but do not occur in the United States or have very limited distribution here" make it impossible for Mexico to ship fresh avocados to the United States. The APHIS response further states that "at present, there are no acceptable treat-

ments available that would eliminate these injurious pests without damaging the avocados or leaving unacceptable pesticide residues." The letter states that "data has not been presented to APHIS which shows conclusively that these insects do not occur in Michoacan, or that there is any area of Michoacan that APHIS could consider as an adequate area or district that is free from these injurious pests as required by our regulations (C.F.R. 319.56-2)." APHIS considers "additional documentation to be absolutely essential" before consideration can be given to allowing entry of avocados into the United States from Mexico. APHIS has yet to receive any further written communication from Mexico with respect to a new or amended protocol.

Additional evidence that seedweevil infestation is still a real problem in Mexico is the recent confiscation of seedweevil infested avocados at the U.S.-Mexico border. On September 24, 1990, Mexican avocados infested with seedweevils were confiscated by USDA Plant Protection Quarantine ("PPQ") officials in El Paso, Texas after the fruit had been smuggled into the United States across the Rio Grande River.

Under no circumstances should a relaxation of the import ban be a part of the free trade negotiations until such time, if ever, it is conclusively demonstrated that fresh avocados from Mexico can be imported without the risk of exposing U.S. production to seedweevils and other exotic pests.

To avoid the possibility that U.S. phytosanitary regulations may be bargained away under the free trade agreement in return for a reduction in tariffs or access for other commodities, discussions on phytosanitary and plant health issues should be considered by negotiators separate and apart from tariff and other access issues. Phytosanitary restrictions are based on documented scientific evidence. They are not trade policy concerns and should not be bargained away for trade concessions. Fear that phytosanitary issues may be misunderstood and coming led with other trade-related issues is born out by the International Trade Commission's ("ITC's") recent report on the economic impact of a U.S.-Mexico Free Trade Agreement ("FTA") (ITC report, dated February 1, 1991. "The Likely Impact on the United States of a Free Trade Agreement with Mexico.") That report incorrectly commingles concerns over phytosanitary restrictions with tariff barriers and U.S. marketing orders. (Report at page 4-8).

The commission urges that phytosanitary issues be dealt with by a group of experts, much like what was proposed under the U.S.-Canada Free Trade Agreement. Delegating authority to a group of experts to settle disputes arising in the health and phytosanitary area is the best way to preserve the authority of APHIS to protect the legitimate health concerns of U.S. agricultural industries.

II. TARIFF ELIMINATION MUST BE STRUCTURED TO PROTECT IMPORT-SENSITIVE ITEMS SUCH AS AVOCADOS

The California avocado industry relies on its domestic market for over 90% of its annual sales. In recent years U.S. imports of fresh avocados have increased as Chile has become a significant player in global avocado production. Imports have grown from 760 metric tons in 1981 to over 5,000 metric tons this past year. The U.S. industry's import-sensitivity has been well-documented before Congress, the U.S. Trade Representative and the international Trade Commission in submissions relating to the Uruguay Round and requests for duty-free status under the Generalized System of Preferences ("GSP").¹

Mexico poses a real threat to the U.S. avocado industry in processed avocado products and fresh avocados, if and when the phytosanitary ban is lifted, because of the excessive supply of low-priced avocados produced in Mexico. Mexico is the world's leading producer of avocados. Mexican production figures are not readily available, however, industry sources believe annual Mexican production is between 1 to 3 billion pounds. This compares to U.S. production of 400 million pounds.

The Mexican industry has been encouraged by government subsidies such as long-term preferential financing, loan guarantees, technical support, and import duty reductions on machinery. This along with access to California funded research has helped make the Mexican avocado industry as technically advanced as its U.S. counterpart. The government subsidies and low-wage and overhead costs means Mexican avocados sell for substantially less than U.S. produced avocados.

¹ In 1986, GSP status was denied to Mexico on processed avocado items, including sieved, mashed, canned and frozen avocados and guacamole. The International Trade Commission found the U.S. industry to be import-sensitive. More recently, last year GSP status was denied for frozen avocados requested under the Andean Region GSP review.

Although the U.S. industry's major concern is that infested Mexican product not be allowed to enter U.S. borders, the industry is also concerned that U.S. tariff protection for sensitive items like avocados remain in place for as long a time period as possible. The industry urges that U.S. tariffs on processed avocado items be gradually eliminated over the longest possible time frame to allow the U.S. industry to adjust to expected high-volume increases of imports from Mexico. For fresh avocados, tariff reduction should begin only if and when the phytosanitary ban is lifted with the tariff being eliminated over a ten-year or longer time frame. The current U.S. tariff on fresh avocados (H.S. 0804.40.00) and prepared or preserved avocados (H.S. 2008.99.10) is 13.2¢/kg. U.S. imports of frozen avocados (H.S. 0811.90.60.80) face a U.S. dutiable rate of 17% ad valorem. Maintenance of these duties is essential. A ten-year or longer staged reduction will give U.S. growers time needed to adjust to increased imports of low-priced product from Mexico.

The Mexican market offers little opportunity for U.S. growers largely because of the volume of Mexico's domestic supply and the difference in price. At present, imports of fresh and processed avocados are subject to a Mexican tariff of 20%.

III. CONCLUSION

The U.S. avocado industry is deeply concerned that the long-standing phytosanitary ban on fresh avocados from Mexico will be bargained away in the free trade negotiations for tariff or other concessions. The industry urges Congress and the Administration not to give in to pressures from Mexico to lift the phytosanitary ban unless clear and documented scientific evidence demonstrates that the seedweevil problem is eradicated. As to tariff elimination, the U.S. industry urges U.S. negotiators to take into consideration the potential for increased imports of low-priced Mexican fresh and processed avocados and the import-sensitivity of the U.S. industry. Tariffs on processed avocado items should be eliminated over the longest possible time frame. For fresh avocados tariff reduction should begin only if and when the phytosanitary ban is lifted with tariff elimination occurring over a ten-year or longer time frame.

The California Avocado Commission respectfully requests that the above comments be favorably incorporated into any action taken by congress or the Administration to liberalize agricultural trade with Mexico.

STATEMENT OF THE CALIFORNIA CLING PEACH ADVISORY BOARD

The California Cling Peach Advisory Board (the "Board") submits the following comments in conjunction with the Senate Finance Committee's February 20, 1991 hearing on the proposed negotiation of a free trade agreement with Mexico. The Board respectfully requests that these comments be made a part of the formal written record of the hearing.

The Board is organized under the California Marketing Act of 1937 and operates under the authority of the California State Director of Food and Agriculture. It represents all 750 producers and 9 processors of cling peaches in the state of California. California is responsible for virtually all of the nation's cling peach production. Much of the Board's work is targeted towards promoting the sale of California cling peach products, both at home and abroad. In this capacity, the Board represents the interests of California cling peach growers and processors on issues relating to bilateral and multilateral trade.

U.S. cling peach growers and processors are hopeful that a free trade agreement with Mexico will mean new and expanded opportunities for the U.S. industry. To ensure access for U.S. products and to protect the U.S. domestic market from illegally imported product, a free trade agreement must address Mexico's licensing practices on peaches and other fresh horticultural products, and include narrowly defined country of origin rules and effective border enforcement. The potential benefits of a free trade agreement to the U.S. cling peach industry and the industry's concerns are discussed in detail below.

I. IF PROPERLY STRUCTURED, A FREE TRADE AGREEMENT SHOULD MEAN NEW AND EXPANDED MARKET OPPORTUNITIES FOR BOTH FRESH AND PROCESSED U.S. CLING PEACHES

The California cling peach industry strongly believes that a free trade agreement with Mexico must address and eliminate both tariff and non-tariff barriers on cling peach items. For California cling peach growers and processors, this would mean trading U.S. tariff protection on canned peaches (17%), fruit mixtures (17.5%) and frozen peaches (17%) for an elimination of Mexico's 20 percent tariff on identical

items, permanent elimination of Mexico's licensing practices on fresh peaches, and reform of Mexican laws that prevent open investment in farming and processing facilities. Such a trade-off offers opportunities to expand sales of California cling peaches to Mexico. Any threat of increased U.S. imports of low-priced Mexican fresh or processed peaches as a result of duty-free access will be outpaced by U.S. exports to Mexico.

A. The Mexican Cling Peach Industry Needs Imports to Fully Satisfy Domestic Demand

Although Mexico is a cling peach producing and processing nation, in recent years Mexican peach canners have had to supplement their domestic production by importing both finished and raw product in order to meet domestic demand. In recent years, Mexico has imported some 300,000 to 400,000 cases of finished canned peaches and several thousand metric tons of raw produce per year. Principal suppliers to the Mexican market include Argentina, Spain, Greece and California.

Historically, California exports have accounted for a relatively small portion of Mexico's cling peach imports. During the past marketing year (1989/90) U.S. processors exported 81,000 cases of canned peaches to Mexico, 30,000 cases of fruit cocktail, and between 2,000 to 4,000 metric tons of raw produce for juice and canning purposes. California peach products are sold predominately to large supermarket chains in Mexico City that feature California brands such as Del Monte, S&W and Hunt-Wesson. These brands sell at prices higher than comparable U.S. retail prices, a function in part of the 20% Mexican tariff and 15% value added tax. Tariff elimination would bring the price of U.S. product down helping it compete with subsidized imports from Greece and Spain.

It is unlikely that Mexico will increase its own peach production and processing capabilities thus limiting U.S. opportunities because of restrictions placed on the industry by the Mexican government. Most restrictive, the government regulates the selling prices for Mexican-grown canned peaches. Imported canned fruit is exempt from these price controls and can be sold on the open market at its fair market value. The government enforced price scheme has effectively prevented any new domestic processing entities from entering the peach canning business. Over the last several years, the Mexican canning industry has been limited to one relatively large canner and approximately six smaller canners.

Production of fresh peaches in Mexico is also small. Production is limited primarily by Mexico's lack of irrigation facilities. More than half of the largest peach producing sector, the Zacatecas area, is not under irrigation. Moreover, where irrigation exists, it is insufficient to overcome the regular droughts experienced in the prime peach producing areas. Droughts historically occur about four out of every ten years. Cultural and farming practices (i.e. limited or no thinning of the peach orchards) and Mexican government restrictions on land ownership also restrict production.

Industry sources estimate current Mexican annual peach production at 28,000 to 36,000 tons. By comparison, California annual cling peach production is in excess of 350,000 metric tons, with most of the production going for canning purposes. The bulk of Mexican production comes from the Zacatecas area (15,000 to 20,000 tons) and the Aguascalientes area (10,000 to 12,000 tons) with minimal production in the Chihuahua area (3,000 to 4,000 tons). The majority of canning peaches come from Chihuahua and Aguascalientes. Zacatecas peaches are used primarily for the fresh (large sizes) and the juice and concentrate (small sizes) markets.

B. The U.S. Industry Supports Immediate Elimination of Mexico's Tariffs and Non-Tariff Barriers on Cling Peach Items and the Elimination of Restrictions on Foreign Investment in Mexican Agricultural Land and Processing Plants

The California industry supports immediate elimination of the 20% Mexican tariffs on canned peaches (H.S. 2008.70.00), frozen peaches (H.S. 0811.90.60.80), and canned fruit cocktail and mixtures (H.S. 2008.92.90.20). The faster duty-free access is achieved, the sooner U.S. product can be more competitive price-wise vis-a-vis other foreign suppliers. Liberalization must also include an elimination of Mexican import license restrictions on U.S. exports of fresh peaches, which have been a problem in the past, and reformed Mexican laws that restrict foreign investment in Mexican farm land and processing facilities. Without unrestricted access tariff elimination will have limited impact.

Although fresh peaches are now allowed entry into Mexico, the government has used the licensing requirement in the past to restrict and even prevent access for U.S. fresh cling peaches. The Mexican government's policy of restricting imports through licensing requirements when needed to protect domestic production is unwarranted given the limited peach production in that country.

The U.S. industry is prepared to give up its tariff protection on comparable items on an immediate basis only if tariffs and other access barriers inhibiting U.S. cling peach exports to Mexico are lifted on a reciprocal basis.

II. STRICT COUNTRY OF ORIGIN RULES ARE NEEDED TO PREVENT TRANSHIPMENTS OF PEACH PRODUCTS THROUGH MEXICO TO THE U.S. MARKET FROM RECEIVING TARIFF BENEFITS GRANTED TO MEXICAN EXPORTS

It is expected that duty free access under a free trade agreement will mean some increase in U.S. imports of Mexican canned fruit. However, U.S. peach growers believe that duty-free access to Mexico for U.S. fresh peaches will encourage Mexican processors to supplement their domestic canned peach production from U.S. sources rather than from subsidized foreign production. The more fresh product sourced from the United States, the greater the likelihood that canned peaches from Mexico entering the United States will be produced from either Mexican or U.S. grown peaches.

The one area of concern is the possibility that finished cling peach products shipped to Mexico by foreign suppliers will be transshipped through Mexico to U.S. markets in an effort to avoid the U.S. duty. It is important that strict country of origin provisions be included in the free trade agreement to require Mexican and U.S. Customs personnel to account for and prevent such transshipments.

III. CONCLUSION

The U.S. industry is optimistic that it can develop flexible and innovative ways to sell more fresh and processed cling peaches to Mexico under a free trade agreement. This, however, assumes that a free trade agreement will mean duty-free access to Mexico for fresh and processed peaches, unrestrained access for fresh peaches and opportunities for U.S. growers and processors to invest in Mexican farms and processing facilities. The upcoming agreement must also include narrowly drawn country of origin rules and aggressive enforcement at the border to prevent peach products from other foreign suppliers from being transshipped through Mexico to the United States to avoid the U.S. duty.

The California Cling Peach Advisory Board urges the Senate Finance Committee to give priority to the above addressed concerns in considering actions on a free trade agreement with Mexico.

STATEMENT OF THE CHEMICAL MANUFACTURERS ASSOCIATION

I. INTRODUCTION

The Chemical Manufacturers Association (CMA) is pleased to have this opportunity to present its views on the Mexico-United States Free Trade Agreement (FTA). CMA not only supports negotiation of such an agreement with Mexico, but believes the addition of Canada to the negotiation will help lay the foundation for a true North American Free Trade Agreement (NAFTA).

CMA is a non-profit trade association whose member companies represent 90 percent of the productive capacity for basic industrial chemicals in the United States. The chemical industry is a major contributor to the U.S. economy. In 1990, the industry's trade surplus totaled \$16 billion.

CMA has actively participated in the negotiations on bilateral and multilateral trade agreements, including the U.S.-Canada FTA and the Uruguay Round of Multilateral Trade Negotiations. CMA and its member companies seek to secure the benefits of trade liberalization worldwide, through governmental commitments to assure open markets. We have worked with the trade associations representing the European, Japanese and Canadian chemical manufacturers, to forge consensus views on trade policies that affect the economic health of the global chemical industry, and to assure our customers the highest quality product at the lowest cost.

CMA's objectives in both the Uruguay Round and the U.S.-Canada FTA, and our interests in the Mexico-U.S. FTA, are complementary. The form of the agreement—bilateral, multilateral or regional—should not mask the important benefits to be derived from open trade. In fact, CMA believes that the Mexico-U.S. negotiations offer an excellent opportunity to extend the benefits of free trade on a regional, North American basis.

Mexico is our third-largest trading partner, responsible for 6 percent of the chemical industry's \$37 billion in 1989 exports. In fact, in the past four years, U.S. exports to Mexico have doubled. Meanwhile, Canada received over \$4.2 billion in U.S. chemical exports in 1989, just behind our largest trading partner, Japan. Combined, the

U.S., Mexican and Canadian markets have 360 million consumers and an annual output of \$6 trillion. Free and open trade by producers in all three countries should have significant economic benefits.

The U.S. chemical industry's general objectives in a Free Trade Agreement are to assure market access for U.S. chemical producers in Mexico, secure a right to open investment in Mexico, and to promote a harmonization of U.S. and Mexican trade remedy laws. The specific comments and recommendations which follow constitute a comprehensive guide to the FTA issues of particular concern to the chemical industry.

II. SPECIFIC ISSUES

A. Overall Objectives

CMA is particularly encouraged by recent developments in Mexico, including Mexico's express desire to pursue a bilateral trade agreement. Former President de la Madrid instituted important economic stabilization programs. President Salinas has continued the reforms, liberalizing laws governing technology transfers, investments, and imports. Mexico's participation in the General Agreement on Tariffs and Trade, and its commitment to bind all tariffs at rates far below other developing countries, are indicative of the commitment being made to internationalization of the country's trade policies.

A Mexican-U.S. FTA should be able to address, at least in part, some current practices which distort the U.S. chemical industry's trade with Mexico. Hopefully, the FTA will demonstrate Mexico's commitment to rely on market-based pricing, and to eliminate some existing dual-pricing practices. In the petrochemical area, Mexico has already made considerable efforts to liberalize international investment opportunities. At this point, production of 86 chemicals require some form of governmental participation; only 20 are completely reserved to the Mexican government. Additional opening of petrochemical investments to foreigners should be a goal of the FTA.

In addition, the FTA provides an opportunity to harmonize the trade remedy laws now in effect in Mexico and the United States. At a minimum, the laws of the respective countries should provide for national treatment in the determination of trade remedies, and should guarantee due process for all parties. A bi-national dispute settlement mechanism, perhaps modeled on the mechanism in the U.S.-Canada FTA, should be considered for the Mexican-U.S. Agreement.

B. Market Access

The FTA should provide each country with improved and equivalent access to the other country's markets, including petrochemical markets. This means market access without unreasonable barriers, achieved through the progressive elimination of both tariff and non-tariff measures. All provisions of the FTA should be consistent with GATT principles on national treatment and non-discriminatory impact.

The FTA should reduce and eliminate tariffs in stages over a five to ten year period. Some tariffs could be eliminated immediately through an acceleration process if all the domestic producers of a product agree. A Mexican-U.S. FTA should spell out the procedural requirements of an accelerated tariff reduction system, avoiding the anomalous situation now present in the U.S.-Canada FTA. The process now used under the Canadian agreement enables any producer, regardless of how small an interest, to block a proposed acceleration. A producer should at least be competitive in his own market before being able to block acceleration of a tariff reduction.

As noted earlier, Mexico has already lowered and bound its tariff rates. In some cases, Mexico's effective rates are lower than the bound rate. Any agreement to reduce and eliminate tariffs should use the applied rates as the starting point of negotiation.

Several non-tariff measures should also be addressed in the FTA with Mexico. In particular, a rule of origin that ensures that a majority of the benefits of trade liberalization accrue to nationals of the United States and Mexico should be developed.

The FTA should require an imported good to be substantially transformed before it is considered a good of the importing country. The difficulties now being experienced in application of the U.S.-Canada Rule of Origin should be taken into account as a similar provision is negotiated with Mexico.

Domestic technical product standards may hinder free trade by unfairly excluding the products of foreign countries. To ensure that technical standards do not become a significant barrier to trade, a mechanism should be provided to monitor and harmonize U.S. and Mexican technical standards.

C. Investment

CMA's overriding concern in the investments area is to recognize the rights of establishment, national treatment, and open investment for foreign direct investment.

Mexico's considerable progress on foreign investment requirements has certainly led to increased opportunities for U.S. investors. However, Mexico's continued restrictions on investment in 86 chemical product areas undermines that progress, and suggests that the FTA negotiations should focus on the trade impact of policies which reserve portions of industries to the national government.

D. Protection of Intellectual Property

Although Mexico has improved its laws protecting intellectual property, the protection is neither adequate nor reliable. For example, Mexican law does not extend patent protection to certain products, such as fine chemicals and pharmaceuticals. Adequate intellectual property protection, including trade secret protection, is essential for vigorous future U.S. investment in Mexico.

Perhaps most importantly, adequate intellectual property protection will help promote technology transfer to Mexico. These transfers can be particularly important to the further economic and industrial development of Mexico.

CMA believes that notwithstanding Mexico's commitment to reform its intellectual property laws, the FTA should address the intellectual property issues critical to U.S. and Mexican trade interests.

E. Dispute Resolution

The hallmark of an effective trade agreement is a workable dispute settlement process. The mechanism for dispute resolution must be timely, transparent, and, most importantly, binding. Dispute resolution procedures cannot be subject to undue political influence or lack effective means of enforcement. Also, the entire dispute resolution mechanism will be undermined if parties to the dispute refuse to abide by the results of the dispute settlement.

The Mexico-U.S. FTA should provide for a dispute resolution system which renders a decision in a short enough period of time so as to avoid sizable financial injury or cost to either party to the dispute. The national laws of both countries should require the parties to a free trade dispute to comply with the decision in a disputed case. A forum should also be provided to review anti-dumping and countervailing duty cases for consistency with the FTA, similar to the system in effect under the U.S.-Canada Free Trade Agreement. The dispute resolution should include an opportunity for input by the affected industry. Nationally recognized experts, including industry officials, should serve as the pool from which the dispute panels are drawn.

The dispute mechanism should also include some safeguards to assure compliance. Failure to comply with a decision in a disputed case, for example, should be grounds for reimposition of any import duties.

F. Relationship to Other Bilateral Issues

Considerable attention has been focused recently on the extent to which the Mexican-U.S. FTA must be conditioned by progress in other, non-trade areas. These issues include differences in health, safety and environmental laws in the United States and Mexico. Certain U.S. business interests could be adversely affected if environmental, health and safety standards in Mexico were so less stringent as to impose a competitive disadvantage on U.S. producers.

Some concern has been expressed that U.S. industries may use the Mexico-U.S. FTA to shift production facilities to Mexico, to take advantage of lax enforcement of environmental standards. A number of points must be mentioned in response to these concerns. First, Mexico has already passed strong environmental legislation. The U.S. needs to encourage Mexico to properly enforce those laws, and to provide technical assistance as necessary. Extensive workforce training to deal with cultural differences and the importance of environmental matters may be required. In addition, environmental infrastructures (e.g., water, sewage, waste treatment) needs development assistance.

Second, CMA member companies build and operate their foreign facilities to meet the most stringent applicable environmental standards, consistent with available technology and local laws and regulations. The chemical industry will not be seeking competitive advantage in the regulatory differences between Mexico and the United States. Finally, in a capital intensive industry such as ours, it is unlikely that U.S. jobs will simply move to Mexico. Labor costs are not the major factor affecting chemical production; production will not shift merely on the basis of labor

cost savings. In fact, the duplicative capital investment required would far exceed any lower labor costs achieved.

As a general rule, the FTA negotiations should not be burdened by discussion on wholly non-trade subjects. However, there is clearly room for parallel initiatives in areas such as environmental protection, and protection of health and safety, where those objectives can be advanced in tandem through the negotiation process. An increased presence of U.S. companies in Mexico, encouraged by a FTA, will bring some real improvements in health, safety and environmental conditions in Mexico.

CMA is in the process of considering how best to address the complex inter-relationship between trade and the environment. The Association is certain that a commitment to market-based principles, expressed through an FTA, will result not only in higher standards of living in both Mexico and the U.S., but also greater protection of the natural resources of both countries. CMA looks forward to participating in further discussions on how best to address environmental, health and safety considerations in our bilateral and multilateral trading arrangements.

III. CONCLUSION

CMA supports a Mexico-U.S. Free Trade Agreement. A FTA will advance the economic interests of the United States, and with progress in appropriate areas, will benefit the U.S. chemical industry. Specific attention should be paid in the negotiations to obtaining a commitment to end trade-distorting practices, assure access to the Mexican product and investment market, and provide a mechanism for resolving disputes between the two countries. The negotiations hold great promise for both the U.S. and Mexico, particularly now that the outcome of the GATT negotiations remains in doubt. The FTA should lay the foundation for U.S. international trade policy into the next century; CMA hopes to be a part of the continuing process toward conclusion of an agreement.

STATEMENT OF THE CHOCOLATE MANUFACTURERS ASSOCIATION OF THE U.S.A. (CMA) AND THE NATIONAL CONFECTIONERS ASSOCIATION OF THE UNITED STATES (NCA)

The Chocolate Manufacturers Association of the U.S.A. (CMA) and the National Confectioners Association of the United States (NCA) welcome this opportunity to address the prospect of free-trade negotiations with the Government of Mexico. The CMA and NCA represent confectionery companies with 166 locations in 32 states, comprising about 90% of the chocolate and sugar confectionery produced in this country. We are a \$11-12 billion industry at retail.

A free-trade agreement with Mexico could reap immediate benefits to our members so long as mutual tariff elimination is accomplished immediately or on a very accelerated basis. We also believe these talks represent a unique opportunity to reform hemispheric trade in three of our essential raw materials—sugar, dairy products and peanuts. Finally, any agreement should include international sanitary standards.

1. IMMEDIATE TARIFF ELIMINATION

Most confectionery imports from Mexico enter the United States duty-free under the Generalized System of Preferences (GSP). In contrast, U.S. confectionery exports¹ to Mexico are dutiable at 20%. While Mexico's current tariff of 20% marks progress over previous import bans and tariffs at 45%, the remaining inequity between the U.S. and Mexican tariffs still places our industry at a disadvantage in entering the Mexican market.

Recent statistics for U.S. trade with Mexico in sugar and chocolate confectionery show that our industry would benefit even in the short run from the further reduction of Mexico's trade barriers. Four years ago, Mexico's market was virtually closed to U.S. confectionery products. The U.S. confectionery industry responded vigorously to the opening of the Mexican market in 1988, and in 1990, the U.S. industry enjoyed a trade surplus in chocolate and sugar confectionery.

U.S. trade statistics for 1990 show that U.S. exports of sugar confectionery to Mexico totaled about six million kilograms, at a value of about \$14 million, while imports of sugar confectionery from Mexico totaled about four million kilograms, at

¹ These are classified under HTS item numbers 1806.20 (bulk chocolate); 1806.31 (filled chocolate bars); 1806.32 (unfilled chocolate bars); 1806.90 (other chocolate confectionery, such as boxed chocolates); and 1704.9070 (sugar confectionery, i.e., not containing cocoa); and 1704.9030 (confections/sweetmeats ready for consumption, not containing cocoa).

a value of almost \$8 million. U.S. exports of chocolate confectionery to Mexico totaled over ten million kilograms, at a value of about \$30 million, while imports of Mexican chocolate confectionery totaled over four million kilograms at a value of almost \$7 million.

These figures show that the value per kilogram of U.S. confectionery products is substantially greater than the value per kilogram of the Mexican products. The recent growth in U.S. exports reveals that Mexican consumers value good quality, and U.S. products will benefit immediately from lower Mexican tariffs.

We believe that staged elimination of confectionery tariffs in a U.S.-Mexico Free Trade Agreement would perpetuate this hindrance to U.S. exports. The U.S.-Canada Free Trade Agreement provided for mutual elimination of confectionery tariffs over ten years, and the failure so far of U.S. exporters to increase their market share in Canada may be attributable to this slow phase out. But even if a ten-year phase out was necessary to protect the Canadian confectionery industry, as the Canadians argued, the Mexican confectionery industry does not need such treatment.

The Canadian confectionery industry was, and continues to be, splintered. It includes dozens of small manufacturers, with no single company supplying over 25% of the market. By contrast, decades of absolute protection in Mexico have fostered a very strong Mexican confectionery industry. It is dominated by La Azteca, a Mexican company which possesses about a 40% share of the chocolate market. The Mexican industry is not a "fledgling industry" in need of special advantages, since it already benefits from secure supply sources, longstanding distribution arrangements, brand-name recognition and other advantages which accrue to long-established, protected companies. Moreover, Mexico's 20% tariffs are even higher than the initial Canadian tariffs on confectionery, which were 12.5% and 15.5% in most categories in 1989.

As this Committee has recognized, for the United States, the success of a Free-Trade Agreement with Mexico will very much depend on increased U.S. exports by efficient and capital-intensive industries. The U.S. confectionery manufacturing sector is such an industry, and we hope that, once again, the Administration will not slow down confectionery export growth potential by agreeing to a gradual phase-out of confectionery tariffs, as it did in Canada Free-Trade Agreement. Their elimination should be immediate, and we hope this Committee and others in the Congress will support our position in your consultations with the Administration.

A central question raised at the hearings on the Mexico Agreement was whether plants would relocate to Mexico if there were no duties or other barriers between the United States and Mexico. The answer for the chocolate and sugar confectionery industries: probably not. There might be new plants built in Mexico to accommodate the sales in Mexico, but it would not be at the expense of relocating the plants outside the United States. The chocolate and confectionery industries are highly capital-intensive; automation is the objective of most of the manufacturers, so the differential in labor costs would not be significant enough for a company to relocate based on lower wages in Mexico.

2. NORTH AMERICAN TRADE IN AGRICULTURAL PRODUCTS

Our second concern is with North American trade in three principal raw materials—sugar, dairy products and peanuts. At least one of these products is protected in each of the three countries of North America. All three products are highly protected in the United States, and this leads to trade distortions and high costs which burden our industry. The U.S.-Canada Free Trade Agreement essentially deferred agricultural trade issues to the GATT Uruguay Round agriculture talks, which at the time held some promise that fundamental agriculture reform would occur on a multilateral basis. More recent developments in these talks, however, now suggest that neither the United States nor Canada will offer to reduce protection for its highly supported commodities because the European Community is not prepared to offer "acceptable" concessions in exchange.

Because fundamental global agriculture reform now appears unlikely in the next five years, a North American Free Trade Agreement presents the opportunity to ensure more market-orientation at least on this continent. Rather than wait for global reform in the year 2000 or later, our Government should work with the Mexicans and Canadians to get started in 1992. Not only would this enhance the confectionery industries of all three countries, but the solutions found in that process could provide the necessary blueprint for fundamental global reform in years to come.

3. INTERNATIONAL SANITARY STANDARDS

We also believe any agreement should include the international sanitary standards of the World Health Organization or the Food and Drug Administration sanitary standards. This would assure consumers that products manufactured in Mexico, as well as those in the United States, were manufactured according to the Good Manufacturing Practices and sanitation procedures agreed upon by most countries.

SUMMARY

In sum, the immediate mutual elimination of confectionery tariffs in Mexico Free-Trade Agreement is in the U.S. interest and should be promoted with vigor and commitment in the Mexico free-trade talks. These talks should also embark on the liberalization of North American agriculture trade.

COCA-COLA BOTTLING COMPANY OF THE SOUTHWEST,
San Antonio, TX, February 26, 1991.

Ms. LAURA WILCOX, *Hearing Administrator,*
Senate Finance Committee,
Washington, DC.

Dear Ms. Wilcox: I am requesting that the enclosed Position Papers, being presented in writing and disc form be considered as part of the Congressional Hearings on the Free Trade Agreement. Our committee is representative of the United States Hispanic business community. During our February 15, 1991 meeting in Mexico City with the C.O.E.C.E. group, it was designated as the "U. S. Hispanic Business Bilateral Commission on the Free Trade Agreement." Committee listing is attached.

The C.O.E.C.E. group from Mexico City are representatives from fifteen chamber/business organizations that is coordinating the Free Trade Agreement project from the Mexican business sector.

Since September 1990, this committee has met with the C.O.E.C.E. group in the United States and Mexico. There was a group discussion on the attached Position Papers in Mexico City on February 15-16, 1991 to review this presentation. As part of this committee review process, I am attaching the following copies of presentations as part of our committee review/research and presentations.

- Aspectos Relevantes del Acuerdo de Libre Comercio Mexico-Estados Unidos Presented by C.O.E.C.E. Group
- La Agenda de Mexico—Presented by the Legislative Mexican Delegation during February 7-8, 1991—Texas-Mexico Legislative Conference
- Free Trade Agreement Overview—by Don E. Newquist, United States Commissioner of International Trade Commission to the Texas/Mexico Legislative Conference on February 7, 1991
- Free Trade Agreement Overview—by Roberto Sanchez de la Vara, National President/Canacintra during a February 1, 1991 meeting with the San Antonio Hispanic Chamber of Commerce.

Mr. Mihalski, we appreciate the opportunity to participate on this Free Trade Agreement process. As a committee, we look forward as a program of work that includes a critical review of the pros and cons of this Free Trade Agreement process. We will continue to have communication with the Mexico C.O.E.C.E. group, Hispanic business community and the United States Congressional representation.

Please do not hesitate to contact me should you have any questions at (512) 225-2601 / P.O. Box 58 San Antonio, Texas 78291 / FAX number (512) 229-0437.

Sincerely,

PETE R. MARTINEZ, *Vice President, FTA*
Project Chairman.

STATEMENT OF THE COMMITTEE ON PIPE AND TUBE IMPORTS

This statement is provided for the record before the Senate Finance Committee on February 27, 1991 on the proposed U.S.-Mexico Free Trade Agreement and is submitted on behalf of the Committee on Pipe and Tube Imports (CPTI) The CPTI is a not-for-profit trade association consisting of 25 United States producers of steel pipe and tube products.

As a whole, the CPTI supports the overall objectives of a free trade agreement between the United States and Mexico. However, while we believe that the merits of a free trade agreement are beneficial to our two economies, we believe that there are important components of the proposed agreement which must be looked at in great detail prior to the completion of any final agreement. We would like to address our concerns regarding specific provisions of the proposed agreement.

First, we firmly believe that the goal of the FTA with Mexico should encompass the objective of the immediate elimination of tariffs on all pipe and tube products, rather than adopt a provision which phases out tariffs as was agreed to in the U.S.-Canada Free Trade Agreement. The elimination of tariffs on products between our borders will allow for greater expansion of trade between the two countries and will provide industries with the ability to trade fairly across the border.

Second, with regard to market access, the CPTI strongly believes that any agreement reached by our countries must ensure that restrictive Mexican government procurement laws and practices are eliminated to insure that U.S. goods and services are provided equal access to all Mexican markets, including state-owned companies. Third, the CPTI strongly opposes any proposal which would give preferential treatment to Mexico under the U.S. antidumping and countervailing duty laws.

It is important to provide Congress with a perspective on the trends experienced by the domestic pipe and tube industry on exports to Mexico. Since 1984, U.S. exports of steel to Mexico have steadily increased. In 1989, the U.S. industry had a 33,375 ton surplus in steel trade with Mexico. However, at the same time, U.S. exports of pipe and tube products to Mexico have drastically decreased, while imports of Mexican pipe and tube products into the U.S. have risen continuously. In 1989, the U.S. pipe and tube industry ran a 116,812 ton deficit with Mexico. This compares to an 84,752 ton deficit in 1985, and a 67,352 ton surplus in 1980 (See Attachment).

The decline in U.S. pipe and tube exports to Mexico is not attributable either to better Mexican products or to declining Mexican consumption of such products. Rather, the decrease in U.S. exports of pipe and tube is a function of Mexican law and practice which requires state-owned (or parastatal) companies to favor Mexican products, higher tariff rates and other charges on imported products. The largest purchaser of pipe and tube products in Mexico is the state-owned oil company *Petroleos Mexicanos* ("PEMEX"). United States pipe and tube companies cannot sell their products to PEMEX unless the products are not manufactured in Mexico.

The experience of the U.S. pipe and tube industry in trade with Canada is in sharp contrast to its experience in Mexico. The U.S. has benefited from the level playing field that is being created by the U.S.-Canada FTA. Exports of pipe and tube products to Canada have increased over the last two years as both tariff and non-tariff barriers have decreased. The U.S. industry is interested in competing in Mexico on similar price and quality bases. Therefore, it supports an agreement that would eliminate both tariff and non-tariff barriers alike.

At present, import duties for all seamless and welded non-alloy steel pipes and tubes not exceeding 406.4mm in outside diameter classified in HS (HTSUS) headings 7304 and 7306 are significantly higher in Mexico than in the United States. U.S. tariffs on such products range from .5 to 8 percent. Mexican import duties on the same products are 15 percent on all products classified under 7306, and 10 or 15 percent on all products classified under 7304.

The effective tariff rate on imports to Mexico is higher as a result of two factors: (a) all products imported into Mexico are subject to a variety of additional import charges apart from the basic tariff; (b) Mexico's tariff calculation methodology, by assessing duties on insurance, freight and handling, as well as on the declared value of the product, results in higher actual import duties.

With regard to the additional charges on imports, the Mexican government assesses: a customs service fee of .6 percent (.8 percent on Sundays); an added value tax of 15 percent applied to the normal customs value of the good; a municipal tax of 3 percent of the Federal duties; and an export promotion surcharge of 2.5 percent. These additional surcharges provide a further level of protection to the Mexican economy.

With regard to the tariff calculation methodology used by Mexico to assess duties, the inclusion of insurance, freight and handling charges to the value of the product, which the U.S. excludes in its calculations, results in higher import duties.

Since steel products are fungible and therefore very price sensitive, these differences in import duties render U.S. products noncompetitive. Therefore, an agreement between the U.S. and Mexico should ensure the immediate elimination of all import duties and import-related charges on such products. If an extended phasing-

out of tariffs is adopted, the U.S. industry will continue to be excluded because of the higher prices created by the tariffs.

The Congress should work with the Administration to ensure that U.S. companies are granted the same treatment as Mexican products under a FTA. Mexican companies in which the government is a major shareholder, referred to as "parastatal" companies, are required, by law, to buy locally manufactured products whenever possible.¹ This law has an egregious effect on U.S. pipe and tube manufacturers since the largest company in Mexico, PEMEX, a parastatal entity, is also by far the largest purchaser of pipe and tube products. PEMEX buys Mexican pipe and tube products without obtaining price quotes from U.S. manufacturers.

United States producers who have contacted PEMEX in order to attempt to become suppliers of pipe and tube products have been regularly dismissed. Thus, it appears that PEMEX has gone beyond the basic regulation requiring parastatal companies to prefer Mexican products, and has adopted a policy of buying Mexican products no matter what the price or quality differences.

A similar complaint was brought by Gary D. Nicholson, LTV Energy Products, on behalf of the Petroleum Equipment Suppliers Association at the Commission's hearing in McAllen, Texas on July 16, 1990. Mr. Nicholson testified that Mexican government procurement practices in the energy sector effectively create a non-tariff barrier to entry even though some of the requirements regarding parastatal purchases have been eliminated. He also stated that PEMEX purchasing procedures are unnecessarily "lengthy and complex . . . which makes it very difficult to establish commercial relations."²

We are also aware that the Mexican government has refused to sign the GATT Procurement Code, which would have demonstrated Mexico's commitment to eliminating these discriminatory government purchasing rules.

Finally, the CPTI has expressed the need to preserve and retain our U.S. anti-dumping and countervailing duty laws. We believe that under the FTA, Mexico should not be given any preferential treatment. A Free Trade Agreement should not guarantee Mexican businesses absolute access to the U.S. market. Therefore, we urge Congress to reject any attempt by Mexico to obtain an exemption from the U.S. unfair trade laws, particularly the antidumping and countervailing duty laws. United States trade laws are designed to defeat unfair trade practices that injure American industries. If Mexican firms were not subject to these laws, such practices would only be encouraged. This hurts U.S. industries, but it also would stunt Mexico's economic development program, which is critically important to the future of U.S.-Mexican economic relations.

CPTI also believes that any Free Trade Agreement should be premised on changes in the current Mexican antidumping and countervailing duty laws. These laws, which permit imposition of provisional duties without notice to the affected importer, within five working days following the initiation of a proceeding, are highly unfair.³ In the United States, such laws would be declared unconstitutional since they do not afford due process.

In conclusion, the CPTI supports the successful negotiation of a Free Trade Agreement with Mexico that will ensure immediate elimination of all tariff and non-tariff barriers to trade so that U.S. producers will gain equal access to the Mexican market. Any agreement reached should seek to abolish government procurement practices that discriminate against foreign suppliers. Finally, CPTI is opposed to any agreement that would give Mexican products preferential treatment under U.S. unfair trade laws.

¹ Law on Acquiring, Renting, and Services Rendered Concerning Moveable Property by the Federal Government in Mexico to result in more efficient activity by the Federal administration, published in *Diario Oficial*, February 13, 1990.

² Review of Trade and Investment Liberalization Measures By Mexico and Prospects For Future United States-Mexican Relations, Phase II, USITC Publication 2326, October 1990, at 2-11.

³ See Review of Trade and Investment Liberalization Measures By Mexico and Prospects For Future United States-Mexican Relations, Phase I, USITC Publication 2275, April 1990, at 4-15.

COMPARISON BETWEEN U.S.-MEXICAN TRADE IN TOTAL STEEL MILL PRODUCTS AND PIPE AND TUBE PRODUCTS

(Net tons)

	Total steel mill products			Total pipe and tube products		
	U.S. imports from Mexico	U.S. exports to Mexico	Balance	U.S. imports from Mexico	U.S. exports to Mexico	Balance
1980.....	67,395	1,241,337	1,173,942	39,842	107,194	67,352
1985.....	271,794	151,672	(120,122)	118,336	33,584	(84,752)
1989.....	439,517	472,892	33,375	138,927	22,115	116,812

Source: AISI Annual Statistical Reports, 1980-1989

STATEMENT OF THE CONSORTIUM FOR INTER-AMERICAN TRADE AND DEVELOPMENT

WASHINGTON—United States and Inter-American coordination in promotion of President Bush's initiative to spur improved economic and development competitiveness of the Western hemisphere is progressing unsatisfactorily. A conference sponsored by the Consortium for Inter-American Trade and Development and hosted by the Organization of American States on January 18 came to this conclusion. The conference consisted of invited US and Latin American officials, US state representatives, Washington policy analysis organizations and private sector trade and investment representatives. Congressional staff and committee staff attended the conference and will be reporting the observations and conclusions to the Congress. The Consortium will shortly be drafting a set of conclusions and recommendations for immediate action, which will be widely circulated in Washington and in Latin American capitals.

The conference was organized into a series of panels on specific topics relating to the "Enterprise" and to the need for an integrated hemispheric trade and investment system that could attract the attention and cooperation of the private sectors here and in Latin America and the Caribbean.

Dr. Norman A. Bailey, former chief economist of the National Security council, headed the first panel, which dealt with policy analyses of the Enterprise and development of the prospective hemispheric trade and investments network. Dr. Bailey observed that coalition building is one of the most important elements of carrying out any initiative successfully. It is an element that has been particularly ignored with respect to United States Latin American policy. The president's initiative could put Latin America back in the forefront of US foreign policy, commercial policy and business policy where it needs to be once again. Unfortunately, this renewed attention to traditional American foreign policy has been derailed temporarily by Mr. Saddam Hussein and the developments in the Persian Gulf. In Dr. Bailey's opinion, Gulf events will be seen in the not-too-distant future as a "pimple on the face of history." It is not as really important as it appears at the present time.

With reference to the future of the United States, the president's Enterprise Initiative will be seen to be of much greater potential importance. It will also have been seen to be of much greater importance than the events in Eastern Europe. The building of a coalition to support the president's enlightened plan to strengthen and make more rapid this reversion of American foreign and commerce policy is extremely important to the economic future of the entire hemisphere. One important component that was not specifically identified in the president's introduction of the initiative is the development and use of an effective network for commercial and business communications among all the countries of the Americas. In the emerging modern world of rapid communications, if you don't have information quickly you are likely to be unsuccessful. In the view of the Consortium, many different kinds of organizational actors will have to cooperate in building such a modern, advanced network if the President's initiative is going to be successful. This organizational activity includes political organization as well as organization and rapid dissemination of economic and business intelligence and facilitation of business partnership building.

Mr. Charles A. Ford, the new director of the US Department of Commerce's Office for Latin America confirmed that the Enterprise Initiative is the new "interest of the day," not only in Central America, but also throughout Latin America. This ex-

pressed level of interest contrasts with the low level of awareness or expressed interest in the United States. Other discussants went quite farther in pointing out that top-level Federal coordination of Enterprise Initiative promotion in the United States and lobbying to the Congress has been entirely deficient. The President needs to speak to the nation about the matter now. If he delays longer, he will be defeated by the protectionist interests that are already actively attempting to defeat the Initiative on Capitol Hill. Also, the President's authority to negotiate trade agreements will shortly expire, meaning that any trade agreement, including the US-Mexico free trade agreement is likely to die before it can be moved forward in the Congress.

As concluded in prior conferences on the Enterprise Initiative, the key area is that of trying to build private sector involvement and support of the Initiative, according to Mr. Charles Ford. If the private sector in the United States can see how it can benefit from the Initiative, the coalition building effort can become successful. There are a lot of trade and business information systems that contain useful information for supporting trade and development. But, there needs to be an umbrella integration activity that can make these sources of information accessible and usable to companies. They are not nearly as interested in Latin American debt relief or GATT negotiations as they are in identifying specific, timely business opportunities and in achieving efficient business communications in pursuing these opportunities.

Dr. Ines Bustillo, of the UN Economic Commission for Latin America and the Caribbean, observed that Latin American countries can do a lot themselves to complement and flesh out the President's initiative, which remains largely a framework for action rather than a detailed plan for action. ECLAC itself can provide valuable data to help build an integrated information system that can provide rich information support for trade, development and investment purposes.

In order to complement White House action, initiatives are being taken, particularly on a subregional basis in various subregions of Latin America, Central America and the Caribbean. The Inter-American Development Bank has accepted taking a strong catalytic role in inviting many representatives from the public and private sectors up from Latin America for discussions with the IDB. President Iglesias himself has briefed them as a part of three-day sessions. So, coalitions of various kinds are beginning to be organized in the Latin American private sector, with governmental and multilateral organizations' support. Examples include bilateral discussions between Brazil and Argentina, now including Paraguay and Uruguay. Mexico has also just signed a free trade agreement with all the Central American countries, which may begin to see Mexico as a more important catalytic source than the United States: But, in regard to learning how to do business with Washington, the Latin public and private sectors have much to learn. They need to develop comparable awareness and lobbying skills with such countries as Japan, Israel, and Eastern European countries.

Mr. William L. Perry, former National Security Council Director for Latin America and now president of the Institute for the Study of the Americas, headed a second panel concerned with building an effective constituency for US-Latin American trade and investments cooperation. Inter-American coalition building is seen by Mr. Perry as one of the most important steps the United States can take to improve its competitive position in the future. In view of the emergence of three global trading blocs, a Western hemisphere coalition can be important to create to improve its economic leverage with the European Community and Japan. The best incentive we can provide to the Europeans to become more reasonable in GATT negotiations is to present them with something they would like less than the universal free trade we would like. On the other hand, if they prove to be intransigent, we should just go ahead and form our hemispheric trading bloc. In both cases, we should already be fleshing out and moving along in all the dimensions involved in the Enterprise Initiative. There is a wonderful window of opportunity while Latin America has a current strong incentive for cooperation, now that it is all democratic and while we still have time to avoid being preempted by the European Community and Japan in our own backyard.

Because there is no organized Latin American constituency, it is considered critical to address problems of constituency building on an integrated, hemispheric basis. If the Administration proceeds to put Mexico in front of the rest of Latin America in free trade agreement negotiations, it could be years before progress on the objectives that the President has articulated will be possible. The window of opportunity could be completely lost. If the US Trade Representative's office is too small to negotiate with more than one country at a time, that is simply a management problem that suggests reorganization and expansion of that office. And, if the agreement with Mexico is presented to the Congress during a recession and an elec-

tion year, it is liable to be defeated itself. The president needs to address this matter from his "bully pulpit" or appoint a high-level special assistant at cabinet rank to accelerate progress while time still exists to develop national and congressional support.

Mr. Perry also pointed out that unless a hemisphere trade and investments system is created soon, the United States can be expected to lose whole manufacturing and service sectors, just as has been the case in consumer electronics. The radical labor unions need to understand that this will create US job losses, not protect US jobs. Even when plants are moved to Mexico or Latin America, they will be helped and the money they earn will contribute to improved trade balances with Latin America. The US always used to generate a trade surplus with Latin America and could do so again. This is the best way to reduce the huge US trade deficit—by helping Latin America grow.

Former Latin American director of AID, Amb. Abelardo Valdez observed that this administration, like the former administration, has been more reactive than creative in policy making. It focuses on one crisis at a time, which has led congressional critics to claim that it is only capable of dealing with one issue at a time. It seems to be looking at the present and the recent past, rather than thinking about where the United States should be some 15 to 20 years from now. The President, himself, has shown long-term vision in his Initiative, but somehow has been let down by the Federal bureaucracy, which is not unique in US history. Our system of government mobilizes, of course, only when organized interest groups take action in Washington. Our policy development system was not set up to make intelligent foreign policy. It was set up to process the demands of organized interest groups. Some foreign countries have learned how to participate in that process effectively. Latin America has yet to learn how that is done. If the Administration can not move forward on the Initiative within the timeframe needed, then hemispheric progress in trade and development cooperation may have to be spearheaded by Mexico and particular Latin American countries.

Mr. Peter Field, Chief Policy Advisor for the US International Trade Administration, pointed out that Mexico and Venezuela are currently showing strong new initiatives in this area. He questioned previous speakers' conclusions that the President should have fleshed out detailed plans and programs that are US-inspired, US-oriented and US-dictated. It may be more important to put Latin America to work on the problem and help it to do so.

Field pointed out that we need to discard traditional US paternalism and one-way cash transfers to Latin America. We need to determine in a win-win framework how we can cut deals with Latin America that benefit both sides on a basis of comparative mutual advantage. But, a challenge still exists to determine how we can set up some kind of hemisphere business networking mechanism that will foment this process in meaningful ways and at a substantial scope. Workshops, seminars, trade missions and the like will not be adequate. If an efficient hemispheric communications network can be set up and works, then it deserves support by all parties concerned. Other speakers pointed out that a number of Federal and satellite organizations will have to adapt to the President's concept that inter-American progress depends on trade not aid. They will have to determine how to do something other than obtain budgets and then grant insignificant amounts for insignificant projects with minimal accountability on the part of recipients.

Margarita Roque, Staff Director of the Congressional Hispanic-American Caucus pointed out that there is an extreme time-urgency in organizing support for the president's initiative: The President's authority to enter into trade agreements expires on June 1. The President must come before the Congress and ask for an extension by March 1. That date is not too distant. Even if the President makes this request, the prospects of his getting that extension are not looking very good. This eventuality would eliminate the opportunity to "fast-track" the required trade legislation, which could mean defeat. We might not then see any other trade legislation on the matter for years. Roque suggested that what the Consortium and groups assembled for the conference are trying to do might be the only constructive action that can come to fruition. This suggestion implies that development of the proposed hemispheric trade and investments system should be left uncoupled from the specific Enterprise Initiative and the Mexico agreement, both of which have questionable prospects for Congressional approval.

Roque indicated that while the individual members of the Hispanic-American Caucus have varying constituencies, notably including organized labor, they all have interest in a healthier Mexico. They agree that it is in the economic interest of the US to have Mexico prosper. The same conclusion applies to Latin America as a whole. While the Caucus has traditionally focused primarily on social, labor and

human rights issues, it is now substantially interested in economic and business development matters.

There has not been the debate in Congress about the Enterprise matter that it deserves and this needs to be corrected: Most of the Members of Congress that have taken part in prior debate have come from the Midwest and the Northeast and the debate has reflected a notable lack of knowledge and expertise in foreign policy or economic policy matters. In fact, their comments have sometimes reflected vulnerability to disinformation supplied by special interest groups concerned with the environment, human rights, labor, and other relatively radical groups. But, there are only a matter of days left before the clock runs out on the US-Mexico free trade agreement. What can be organized to present to the Congress in this small amount of time?

Dr. Thomas W. Frazier, CEO of the Consortium for Inter-American Trade and Development and conference organizer, headed a panel on coalition building at the Latin American and US state levels. The Consortium has been exploring coalition building actively in selected US states and other countries. He pointed out that it had been initially apparent that the World Trade Centers in the US and in Latin America could provide a good first step toward building a hemispheric trade and investments network. But, it became apparent early in project preparation that working with World Trade Centers would not be enough. It would also become necessary to establish coalitions in key states and countries that could accept responsibilities and build upon existing initiatives to create state-wide and country-wide networks and the political-economic constituencies that this process would require. It was also clear that the system building efforts involved would absolutely require centrally-determined standardization to ensure that the in-state and in-country systems developed could communicate or interface efficiently with one another. Such a cooperative, standardized approach could reduce duplications of effort and cost in software development, database development and organizational efforts.

The approach taken to catalyzing the state and national coalitions was one of identifying prospective chairmen and co-chairmen from government and private sector quarters. These two individuals could then assist in developing a steering committee for direction of the coalition building effort. Various sources were consulted on steering committee formation, however, both domestic and foreign. This process is in active progress at present, with better results in some jurisdictions than others.

Mr. Franklin D. Koppel, Managing Director of the World Trade Center—Caracas, described his activities in forming a subcommittee from the developing nations committee of the World Trade Centers Association. The purpose of this subcommittee is to create a cooperative mechanism for cooperation with the Consortium for Inter-American Trade and Development and also to provide specific support for the President's Enterprise for the Americas Initiative. The World Trade Center—Caracas was established by US principals to promote trade and investment cooperation between Venezuela and the US. The Subcommittee is composed of World Trade Center directors from Venezuela, Mexico, Peru, Brazil, Panama, Trinidad, Guadeloupe and Curacao. The Subcommittee has targeted a number of US states with which to interact, including California, Texas, Illinois, Minnesota, Florida, New Jersey and New York. It will be developing an information system for this particular sub-network. But, besides the normal problems of database development, South America has the additional problem of poor telecommunications infrastructure. The telecommunications systems that are in place in countries such as Venezuela are both obsolete and also overloaded.

The important objective to the Subcommittee is simply to develop efficient access to useful databases and information services in many different hemispheric locations and from one World Trade Center to another. This involves the matter of getting these systems all hooked up to one another and integrating various database services into a coherent system under one umbrella. This is the key point that Dr. Frazier has been emphasizing—the need for standardization, international and interstate cooperation, and cost spreading through volume of scale advantages and avoidance of duplications. There are a myriad of information systems, but they raise severe compatibility problems when you try to hook up to many of them. An umbrella system could introduce the standardization that will eliminate these problems through adherence to common design standards and conventions. This can be accomplished, however, only if one organization is tasked to ensure that uniformity is introduced and enforced. Otherwise, the individual systems quickly become incompatible. Consequently, the World Trade Center Caracas and the Subcommittee are actively promoting the Consortium in Venezuela.

Mr. Richard Loth, an investments banker, represented the World Trade Center—Miami at the conference. He described the world Trade Center—Miami as a microcosm or miniature example of the hemispheric system that the Consortium for Inter-American Trade and Development is attempting to catalyze around the hemisphere. The Centers' president Charles McKay operates as a kind of trade czar who has developed and maintains cooperation with the Florida State government and a host of organizations involved in international business. The Center has a coalition of 58 organizations in Dade County alone. It has incorporated a total of 82 organizations—into the coalition from the state as a whole. The Center has 27 different working committees, with a membership of over 800 people. The board of 67 members includes virtually every kind of interest group in the state. The State of Florida itself, has recently established an International Affairs Council, composed entirely of the private sector.

The Consortium has had numerous discussions with Mr. McKay, after concluding that he would be a top candidate for chairing the proposed Florida Coalition for Trade and Investment Promotion. Other steering committee candidates include the state's director of international trade, who has also written us expressing the state's interest in participation. Another steering committee candidate is the new director of the state's agriculture department. The Consortium has developed other candidates for the coalition's steering committee, but considers that decisions concerning selection of steering committee members should be made by the state and the World Trade Center—Miami.

Mr. Joseph E. Krier, President and CEO of the Greater San Antonio Chamber of Commerce described why his organization of more than 3000 members is interested in the Enterprise Initiative, free trade with Mexico, and free trade in general. It is not interested in the concept of a new world order, of greater cultural understanding, good will, or friendship. These businesses are interested in free trade because they believe it means more business, more profits, more jobs for Texans and the ancillary benefits these create for Texas communities. When local interests mesh with the national good, then a viable basis exists for true cooperation. US total exports to Mexico were in excess of \$25 billion in 1989 dollars. The Texas share was more than one-third of the total amount. This \$9.7 billion share amounts to more than one-third the dollar value of what Texas exports to the entire world. Mexico is, therefore, extremely important to Texas. To the extent that free trade produces more trade with Mexico, Mr. Krier's 3000 members benefit.

In San Antonio, there is a very active Mexican-American chamber of commerce, which is uniformly committed to the president's Enterprise Initiative. This appears to be true for the Hispanic-American community throughout Texas. A number of organizational activities bearing on trade are being undertaken in Texas. First, there is an organization of border cities that has been extended from Brownsville all the way over and up to San Diego, California. This group meets regularly in support of the free trade agreement with Mexico. Second, a group of 20 companies are meeting in San Antonio to discuss strategic planning in support of the free trade agreement with Mexico. Finally, a meeting is being set up with a group of congressmen from different states, including Texas, to communicate to them the dollars and cents benefits to the United States of America that will be created by the US-Mexico free trade agreement. Texas would be prepared to coin with other interested states in development of a hemispheric trade and investments system and call upon its Department of Commerce to see if it will take the lead in the coalition building effort in Texas. But, Texas will emphasize the US-Mexico free trade agreement, which is in imminent danger of being derailed. That historic opportunity should not be let to slip behind us.

Prior to the conference, Dr. Hans Mark, Chancellor of the University of Texas system made various suggestions concerning creating a Texas steering committee for the Texas coalition. Along with Mr. Krier, these suggestions included: Gary Jacobs, President of Laredo National Bank; Jonathan Rogers, Bank of the West; Sidney Weintraub, LBJ School of Public Affairs; to which we have added: Rodolfo Vicallobos from El Paso and Jorge Haynes, International Bank of Commerce of Laredo. Kathy Bonner, the next Texas Commerce Department head would be a good choice for chairman or cochairman of the Texas coalition. Again, the Consortium has concluded that this group should determine the steering committee membership on its own. Consortium communications with these individuals leave little doubt, however, about the positive prospects of eliciting good Texas cooperation.

Mr. John Nakamura, California governor's representative, and Mr. Jack Messer of the Charlotte, NC Chamber of Commerce were planning to participate in the conference, but then became unable to attend the conference. In prior meetings or conversations, both have expressed a conviction that coalitions can be developed in

their respective state. In California, progress may have to await the appointment of a number of new state officials with the new administration.

Mr. Mario Hermann, chairman of the Ibero American Chamber of Commerce, expressed the hope that the Federal Government and individual states can overcome traditional parochial orientations toward "turf" protection and interstate competitiveness. They need to adopt regional or subregional perspectives and examine areas of comparative mutual advantage in common production and marketing. Dr. Frazier concurred, indicating that such cooperation among exporting states in such areas as data-sharing and cost-spreading has been slim.

Mr. Alfred Brown, Jr. outlined some design considerations for building a high-capacity computer system that could be installed as the primary nodes in cooperating states and Latin American countries. There is no need or justification for purchasing large mainframe computers, which are extremely expensive. Low cost small multiprocessor systems can substitute and provide almost equivalent capabilities for the applications contemplated. Mr. Brown and Dr. Frazier have designed and constructed such systems in the past for NASA and can document their particular advantages. The key consideration is minimizing the cost that a subscriber or end-user will incur. The subscriber should be able to use a common personal computer for full access to and use of centrally stored information and hemispheric networking communications.

As for project costs for the two-year development/demonstration project on initial network development, Dr. Frazier projected the costs for each state coalition of around \$500 thousand for organizational, conferencing, training, travel and staffing. An additional approximate \$15 million would be needed for producing a continuous network operations' capability, including costs of database development, computer hardware, communications costs and staffing. Beyond those costs, the Consortium would need a minimum of \$3 million for software and systems' development and for accomplishing its organizational tasks in selected states and countries. After the network had been made operational over the two year period, an additional \$40 million would be required to expand the network throughout the hemisphere, with electronic links to major world markets.

More dialogue about coalition building is needed in regard to Chilean and Costa Rican coalition formation. The Consortium recently has been contacted by additional US states and several additional Latin American countries about considering their participation in the initial two-year development/demonstration effort. It may modify its planning to some extent, but remains concerned about avoiding undertaking too large an initial effort, which could actually impair success because of the complexities involved in dealing with so many organizations and people initially.

The Consortium considers that the conference was a very significant meeting, particularly if follow-up is accomplished through drafting a set of conclusions and recommendations for action in regard to the free trade agreement with Mexico and the acceleration of action in support of the Enterprise Initiative. This set of conclusions and recommendations will be circulated for comment in draft form to significant organizations. A final draft will then be prepared and presented to the White House, the Congress, key states and countries, and to key policy organizations.

STATEMENT OF BOB CRAWFORD

Mr. Chairman, I am Bob Crawford, Commissioner of Agriculture for the State of Florida and I thank you for the opportunity to appear before you today to discuss a subject of potentially great adverse impact upon Florida agriculture and the domestic production of fruits and vegetables so essential to our nation's health and welfare. I also thank you for your leadership in chairing and holding these hearings on such an important topic to Florida agriculture. The proposed Mexican Free Trade Agreement, if enacted, will adversely affect Florida's \$6.2 billion agriculture industry.

Florida, because of our geographical location and climate, will be the U.S. region most affected by any proposed free trade agreement with Mexico. Our winter grown agricultural commodities and their products will be in direct competition with Mexico and we will be unable to compete if current government-mandated production and marketing costs are not considered in negotiations. Any agreement is less likely to impact traditionally subsidized U.S. commodities and much more likely to affect nonsubsidized, market driven, labor intensive industries like fruits and vegetables, flowers and livestock.

While we do not oppose free trade in commodities, we cannot have conditions for free trade unless we harmonize government controls and unless we confirm on site

that regulations relating to food safety, pesticides, sanitation, labor, farmworker safety, minimum wage, child labor restrictions, workman's compensation, social security and environmental protection, are similar and are being enforced between the U.S. and Mexico. Both countries need a domestically produced food supply available to supply essential nutrients and health.

Florida agriculture, once lost, will not be regained. Likewise, if small family Mexican farms are lost, they will also be difficult to regain. There are also many social implications to both countries for the vast thousands of agriculture workers affected.

These comments as well as specific statistics and citations were filed with the International Trade Commission for their examination of the potential impact of such a free trade agreement. I have attached a copy of our document for your record and you likewise have before you a jointly sponsored statement specific to citrus. In the final ITC report which you have just received, we were pleased to note their recognition that "An FTA is expected to affect significantly the level of U.S. trade with Mexico in agricultural products."

Today I wish to request your consideration of the effects of such an FTA on our state and our nation's *food systems, food safety and food security*.

The *food system* of production, processing, transportation and delivery currently in place differs greatly between the two countries and does not permit a "free" trade situation. Wage differentials, child labor restrictions, and the complex myriad of laws which we support and actively enforce regarding environmental protection, pesticide regulatory controls, farmworker safety, field sanitation, immigration, phytosanitary requirements, minimum wage and plant protection place the U.S. horticultural industry, and particularly Florida agriculture, in a distinct disadvantage economically and regionally. The fast track process will not allow amendments to consider these factors.

We must have comparable *food safety* regulatory controls in both countries. In the U.S., and in Florida, we are at an increasing disadvantage as we struggle to produce fruits and vegetables in a nonprice supported, nonsubsidized arena. In pest and disease control, the U.S. Environmental Protection Agency classifies our essential fruits and vegetables as "minor crops" under the law. We are increasing our scrutiny to assure that no pesticide residues are present in our foods yet we also have fewer and fewer chemicals to use to produce food and tighter controls on those allowed. Similar food regulatory assurances must be in place in Mexican agriculture before "free" trade can be achieved. On site verification that regulatory programs for *food safety* are operable and routinely utilized must be required and accomplished. Pesticide controls and residue prevention must be comparable and equally enforced in both countries.

My *food safety* concerns involve much more than pesticide usage, we must also be concerned with microorganisms and nutrients in food. Major *food safety* hazards involve microbial food borne illness from Salmonella, Shigella and other food poisoning bacteria. Unless similar programs to insure field sanitation, washing of commodities, and hygienic requirements for farmworkers are equal and strictly observed then microbial food borne disease is a risk.

A second major *food safety* hazard today that we often forget is the nutritional content of the foods we eat. At the very time in our nation's history when eminent authorities from our Surgeon General to our National Academy of Sciences are imploring the American public to increase their consumption of fruits and vegetables to elevate their overall health and quality of life and to decrease their risk of cancer and chronic disease, it seems illogical that we would risk the agricultural production of the very foods so essential to the maintenance of our nation's health.

Our concerns on the proposed agreement must also address the matter of *food security*. The 1990 Farm Bill recognized the critical role of fruits and vegetables in our nation's health and economy. We must retain a minimal domestic production of fruits and vegetables and other foods to remain strong and viable as a nation. As we fearfully watch the conflict in Iraq and feel our nation's vulnerability with dependence upon foreign oil, I think we should each pause to contemplate the vulnerability of our nation if we become totally dependent upon a foreign supply of essential items in the American diet. At this very moment, Florida is the sole domestic producer of many fruits and vegetables in the American marketplace during these winter months. This *food security* must not be traded away.

Therefore, we request that Congress consider the following areas in negotiation of any free trade agreement:

1. Include labor issues as an essential item in any negotiations including costs and regulatory constraints.

2. Eliminate the fast track process to allow appropriate address to the issues of unequal labor costs, regulatory and environmental constraints, and food safety and health considerations.
3. Require similar food safety and pesticide laws and regulations, harmonize existing pesticide registration and residue regulations, and maintain specific on-site verification and testing of agricultural products.
4. Negotiate reciprocal agreements between the two governments on food safety compliance before negotiations proceed.
5. Identify all policies affecting traded agricultural commodities and the impacts of these policies on the availability and price of such commodities.
6. Exempt from the Mexican Free Trade Agreement all winter-produced agricultural commodities and products made from them—either indefinitely or at least until the concerns I have outlined today are sufficiently addressed.

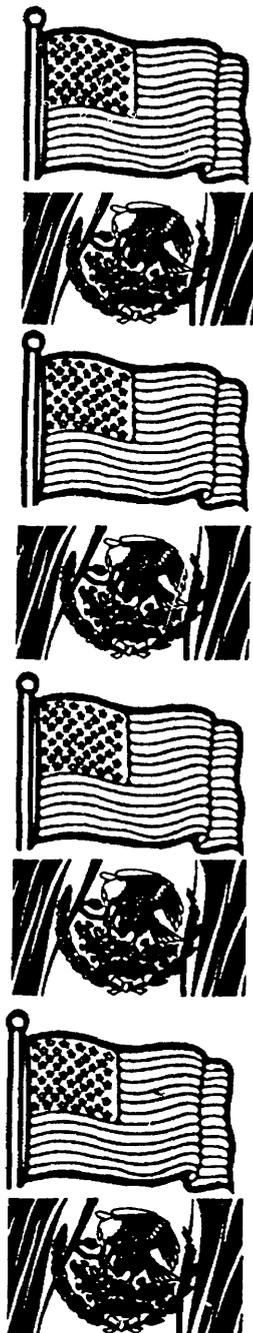
Of the total U.S. exports to Mexico, fruits and vegetables only constitute \$36 million of a \$1.8 billion estimated total export. Of the \$19.2 billion imports especially in the competitive arena of fruits and vegetables, imports of these commodities only accounted for 1.1% or \$212,400,000 of the \$19.2 billion total. So, fruits and vegetables if currently exempted from this negotiation process would not significantly impact the end agreement.

We believe that a similar position has been recognized in the verbal comments of our U.S. Trade Representative Carla Hill. Also, the International Trade Commission report to Congress likewise concluded that "Concerns of U.S. agriculture such as those over wage differentials between United States and Mexican farmers and fair and equal health and food safety standards are national issues and not limited to border agricultural producers."

Florida has seen many examples of what can happen with uncontrolled foreign competition in labor intensive industries. Our cut flower industry from a high of over 70 producers dropped to 41 in 1973 and today only 9 producers remain. Our fruit and vegetable industry must not follow this example.

Mr. Chairman, I request you to consider these issues involving *food systems*, *food safety* and *food security* in your deliberations and negotiations on the question of a U.S.-Mexican Free Trade Agreement. We urge you to act cautiously, and not in haste, for great losses in Florida agricultural production will affect the health and welfare of the entire nation, not just Florida. Thank you for the opportunity to make known the unified position and concerns of Florida agriculture.

Attachment.



Statement by the
Florida Department of Agriculture &
Consumer Services
on the

Proposed U.S. - Mexican Free-Trade Agreement

The Honorable Bob Crawford
Commissioner of Agriculture
State of Florida

and the

Florida Cattlemen's Association
Florida Citrus Mutual
Florida Citrus Packers
Florida Citrus Processors Association
Florida Department of Citrus
Florida Farm Bureau Federation
Florida Foliage Association
Florida Fruit and Vegetable Association
Florida International Agricultural Trade Council
Florida Lime and Avocado Administrative Committees
Florida Nurserymen and Growers Association
Florida Ornamental Growers Association
Florida Tropical Fruit Growers Association
Florida Strawberry Growers Association
Florida Tomato Committee
Indian River Citrus League
Gulf Citrus Growers Association

OVERVIEW

The proposed Mexican Free-Trade Agreement, if enacted, will adversely affect Florida's \$6.2 billion agriculture industry. Florida, because of geographical location and climate, will be the U.S. region most affected by any proposed free-trade agreement with Mexico and will be unable to compete if current government-mandated production and marketing costs are not considered.

Florida, like other industrialized nations, is handicapped in competing in production costs with nonindustrialized nations not simply because of wage differentials between U.S. and foreign producers, but also because Florida and U.S. farmers must comply with a myriad of laws, rules and regulations concerning immigration, environmental protection, pesticide residues and the work force. For most of our agricultural commodities, these regulations place us at a distinct disadvantage in world markets. We do not dispute the necessity nor the requirements for providing a safe and healthy workplace for Florida agricultural production workers. We are in total agreement with the need to control the use of chemicals and fertilizers to ensure the land and environment are safe for current and future generations. Finally and most importantly, we are committed to providing a safe and wholesome food product to the American public at a reasonable price.

On behalf of Florida, we urge you to conduct exhaustive studies to determine the exact liabilities of any Mexican Free-Trade Agreement as well as any benefits to our country as a whole. Any agreement is much less likely to impact traditionally subsidized U.S. commodities, and much more likely to affect non-subsidized, market driven industries like fruits and vegetables.

An extensive review of Mexican shipments of agricultural products into Florida, specifically, and the United States in general, will reveal a dramatic negative impact on agribusiness with the current level of tariffs in place. Any removal of tariffs and easing of regulatory controls would enable Mexican agricultural imports to increase markedly, thus intensifying pressures on Florida's agricultural products.

Regrettably, accurate information regarding Mexican fruit and vegetable production, acreage, costs, traded commodity statistics, regulatory program inspections and testing, and animal and plant pest and disease incidents have not been available.

This statement presents the views of the Florida Department of Agriculture and Consumer Services on the proposed U.S.- Mexican Free-Trade Agreement (FTA) and the elimination or modification of U.S. tariff treatment on products imported from Mexico, including fresh fruits and vegetables, as well as orange juice, and other citrus and horticultural products. Additional concerns have been expressed about animal and plant pest and disease incidence and regulations in Mexico. While many industry segments and associations have separately offered their individual views, this document represents a compilation of the views of the Florida Department of Agriculture and Consumer Services, Florida Department of Citrus, Florida Citrus Mutual, the Florida Citrus Packers, the Florida Farm Bureau Federation, the Indian River Citrus League, Gulf Citrus Growers Association, Florida Strawberry Growers Association, the Florida Fruit and Vegetable Association, Florida Tomato Committee,

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Florida Cattlemen's Association, Florida International Agricultural Trade Council, the Florida Nurserymen and Growers Association, Florida Lime and Avocado Administrative Committees, Florida Tropical Fruit Growers Association, Florida Foliage Association, Florida Citrus Processors Association and the Florida Ornamental Growers Association.

Florida has many major fruit and vegetable commodities, including citrus, tomatoes, peppers, tropical fruits and others, which will be greatly affected by this proposed agreement. Two of these commodities, oranges and tomatoes, account for 32% of Florida's cash receipts from agriculture, or over \$2 billion. According to the Agribusiness Institute of Florida, agriculture accounts for approximately 22 percent of civilian jobs in Florida. In 1989, agricultural contract and hired labor totaled \$814 million. The asset value of the 41,000 farms in Florida totaled \$24 billion and contributed \$106 million in property taxes.

While we do not oppose free trade in commodities, we cannot have conditions for free trade without harmonization and confirmation of regulations relating to food safety and pesticide, sanitation, labor, farm worker safety, minimum wage, child labor restrictions, workman's compensation, Social Security and environmental protection.

SITUATION OF THE FLORIDA FRUIT AND VEGETABLE INDUSTRY

The \$1.5 billion Florida vegetable industry (nearly half of which is tomatoes) suffered increased competition from Mexico for the winter vegetable market during the 1980s. The increase in the importation of produce from Mexico and other countries was due to a number of factors. The May 1988 GAO Report, Agricultural Trade: Causes and Impacts of Increased Fruit and Vegetable Imports, documents the economic and demographic developments in the 1980-86 period that brought about the rise in U.S. fruit and vegetable imports. According to the GAO report, the following six factors help explain the increase:

- 1) lower production costs abroad;
- 2) rise in the dollar's exchange rate against the currencies of countries that export fruits and vegetables to the U.S.;
- 3) actions by foreign governments, such as subsidizing production costs;
- 4) bad weather and crop disease that resulted in reduced supplies of domestic commodities;
- 5) increasing globalization of agriculture, with expanded flows of commodities and capital across national borders and increased agricultural production worldwide; and
- 6) demographic and lifestyle changes in the United States that resulted in increased consumer demand for fruits and vegetables.

Nowhere in this report is the increase in imports of fruits and vegetables into the U.S. attributed to inefficiencies or an inability to compete on the part of the domestic industry. In reality, the fruit and vegetable industries in the U.S. are extremely competitive, with U.S. producers subject to the

extremes of a free market and global competition. Florida agriculture believes that it can compete with Mexico, using U.S. wages, if free trade in labor is allowed. Issues concerning immigration and labor, unfortunately, have already been deleted from the agenda by Mexico. It is critical that labor issues, such as wages, safety and child labor restrictions, be added back to the agenda before any further talks proceed.

A working paper, "The Potential Effects of Labor-Intensive Agriculture in Mexico and United States-Mexico Migration," (by Gary Thompson and Phillip Martin) for the Commission for the Study of International Migration and Cooperative Economic Development outlines, some of the competitive forces facing the Florida tomato industry and how the industry has adapted:

- 1) Devaluation of the peso since 1975 has held wages for Sinaloa, Mexico tomato workers constant in dollar terms, whereas Florida real wages have increased steadily over the same period.
- 2) Use of superior technology and management by Florida growers means only 11 minutes of labor is required to pack a 25-pound carton of tomatoes in Florida as opposed to 23 minutes of labor in Sinaloa, Mexico.

Furthermore, the authors of this study believe that if the tariff on the importation of Mexican tomatoes was removed, 20% of the Florida tomato industry would be lost immediately. This translates into a loss of 8,700 jobs and \$120 million.

Florida agriculture, once lost, will not be regained.

SITUATION OF THE FLORIDA CITRUS INDUSTRY

The Florida citrus industry is expected to face difficult times in the years ahead. The proposed FTA comes at a time when world citrus production is expected to expand rapidly, leading to much lower prices than have prevailed in the 1980s. Of particular concern to Florida is the forecasted growth in Mexican orange production, which is expected to increase by more than 60% by the year 2000. A significant portion of the growth is expected to be orange juice for export. Given these market expectations Florida citrus producers are expected to barely cover costs of production for the foreseeable future.

A reduction in the U.S. citrus tariff structure would exacerbate the expected impact of growing world supplies on the profitability of the U.S. citrus industry. Mexico will become an even larger supplier of orange juice to the U.S. market because of the economic incentive Mexico will realize from a tariff reduction. Mexico is already the second largest foreign supplier of orange juice to the U.S. From 1985 to 1989, U.S. imports of orange juice from Mexico increased nearly fivefold. Orange production has been growing in Mexico at an enormous rate. More than 40% of the total planted acreage has not reached bearing age, so the outlook for increased production in that country is threatening Florida products. Moreover, Mexico's juice processing capacity is also on the increase.

The proposed U.S.-Mexican Free-Trade Agreement presents a real and

CONCLUSION

unambiguous threat to the Florida citrus industry. A joint statement regarding the specifics of the adverse effect upon the citrus industry was filed on November 26, 1990 with the U.S. International Trade Commission. Florida citrus industry leaders strongly believe that its \$8 billion investment in groves, not to mention the large value of juice extraction and evaporation assets, would be placed in dire straits, with catastrophic consequences, if the tariff on citrus products was removed. The removal of tariffs would have an immediate effect on prices in the short term, as well as profitability and viability in the long term.

In conclusion, the Florida Department of Agriculture and Consumer Services requests that resources be dedicated immediately to investigating and resolving the issues addressed herein. Any report to Congress on the proposed U.S. and Mexican Free-Trade Agreement must focus on the items enumerated below.

1) National Health and Security

Our nation's health and security is dependent upon the availability of a safe and economical food supply. It is important to our nation's defense that we have a minimum domestic production of the fruits and vegetables essential to our health and safety. Current events in Iraq and Kuwait illustrate the vulnerability that can result from dependence upon a foreign source of an essential commodity. At certain times of the year, Florida provides 100% of the domestic production of tomatoes, beans, sweet corn, eggplant, bell peppers and watermelons.

2) Multiple Areas of Production

The availability of multiple sources of fruits and vegetables is of critical importance to the U.S. consuming public. A good example of the problems of single sourcing of produce occurred in December 1989, when an unusually severe freeze almost completely destroyed Florida's winter fruit and vegetable production. A carton of tomatoes that sold for \$10 before the freeze sold for \$26.50 after two weeks, \$32 after four weeks, and reached a maximum of \$50 per carton.

3) Food Safety and Pesticide Regulation

We must identify and correct problems with pesticide residues and other food safety concerns, such as microorganisms, at the point of origin in Mexico rather than in the U.S. Pesticides illegally used can often not be detected by sensitive analytical tests if several days have elapsed after harvesting. On-site pesticide, chemical and field sanitation regulations must be rigorous and equal for both countries. Field regulations of pesticide applications and farm worker safety must be equally guaranteed. Harmonization of chemical registration and maximum permitted chemical residue levels, as well as worker safety and exposure provisions between the U.S. and Mexico, must be achieved.

4) Grain Export Impact

The indirect, and negative, effect that U.S. subsidies of grain exports to Mexico has on the U.S. producers of winter fruits and vegetables must be considered. These subsidies provide incentives for the Mexican agricultural industry to divert resources from production of grain (which can be bought at a subsidized rate) to fruit and vegetable

production (which then generates a full return in foreign exchange).

5) Labor Cost Impact

The concerns of our society for the workforce in the United States are reflected in government mandates associated with the minimum wage, workman's compensation, worker safety, child labor, unemployment compensation, and Social Security. Both direct and indirect government-mandated labor costs must be considered. It is critical that labor issues, such as wages, safety and child labor restrictions, be added back to the agenda before any further talks proceed.

6) Environmental Concerns

Our society, through our government, has also promulgated stringent regulations toward the twin objectives of protecting our environment and our food supply from harmful chemicals and pesticides. Environmental protection must be considered equally by both countries.

7) Agriculture Policy Effects

The identification of all policies affecting traded commodities and their impact on the availability and price of such commodities must be examined. Compliance with these objectives entails additional production costs for our domestic producers. Although these costs have not been measured to date through an objective study, current producers in the industry believe them to be significant. The Florida fruit and vegetable industry receives no government subsidy or direct payment to compensate them for these government-mandated additions to the cost of production. The only assistance they receive is in the tariff schedules, which provide some protection from foreign producers who are not subject to these compliance costs of production.

Reciprocal agreements between the two governments must be negotiated regarding these aforementioned items before a non-restrictive trade agreement can be resolved.

8) Exemption Request

We respectfully request that winter-produced perishable agricultural commodities, and products made from them, be exempt from a FTA until such time as the concerns addressed in this document are resolved.

We appreciate the opportunity to submit these views and respectfully request your consideration of this document.

STATEMENT OF THE FLORIDA CITRUS INDUSTRY

I. INTRODUCTION

This statement is submitted on behalf of the Florida Department of Citrus, Florida Department of Agriculture and Consumer Services, Florida Citrus Mutual, Florida Citrus Processors Association, Florida Citrus Packers, Indian River Citrus League, Gulf Citrus Growers Association, Inc., and Citrus Grower Associates, Inc. in response to Chairman Bentsen's invitation to submit statements in conjunction with Finance Committee hearings on the economic effect of a U.S.-Mexico free trade agreement.

As representatives of Florida's citrus industry, we appreciate the opportunity to file this statement with the Committee. We believe that future trade and economic relations between the U.S. and Mexico could have a substantial and direct impact on our industry.

The Florida citrus industry embraces the spirit underlying the proposed free trade agreement between the U.S. and Mexico. We recognize that there are many mutual advantages for both Mexico and the U.S. within the scope of a free trade agreement.

However, with respect to certain vital interests, we believe that free trade agreements often help lesser developed countries such as Mexico far more than developed countries such as the U.S. Also, free trade agreements with respect to certain interests can pose significant adverse effects on the economies of either trading partner.

We submit that it is not necessary for the U.S., in entering a new trade agreement with Mexico, to offer "free trade" in every single sector. Each sector should be considered separately. Even though free trade has been accomplished between the U.S. and Israel, and the U.S. and Canada in previous agreements, it should be determined whether that course is the most logical and best for the U.S. and Mexico to follow.

In our opinion, it is foolish for the U.S. to needlessly weaken certain U.S. industries in the misguided hope that we can enhance the economic positions of trading partners such as Mexico. There will be exceptions to the trade agreement. Mexico has already stated on several occasions that it will not permit its exported oil and gas to be the subject of free trade negotiations with the U.S. It makes more sense to help Mexico in sectors which will not devastate our own industries.

Without exceptions to a U.S.-Mexico FTA, some segments of U.S. agriculture will be devastated. In its report this month to the Committee, the International Trade Commission (Investigation No. 332-297) made the point repeatedly that horticultural products, such as citrus, would be disproportionately affected. There is no better example of an industry that can be devastated by an PTA with Mexico than the U.S. citrus industry, and Florida's citrus industry in particular. The following is a brief review of the U.S. and Mexican citrus industries and a summary of the estimated impact of an FTA on the U.S. citrus industry.

II. U.S. AND MEXICAN CITRUS INDUSTRIES

The U.S. is one of the world's major citrus producers, accounting for 17.3% of the world's citrus production in 1988-89. The world's largest producer is Brazil, followed by the U.S., Spain, China and Mexico in order of importance. Oranges are the most important citrus variety grown in the U.S., accounting for about 70% of production. In the U.S., citrus is grown commercially in Florida, California, Texas and Arizona.

In 1988-89, Florida accounted for 72% of total U.S. citrus production. Florida's growing conditions allow production of citrus particularly suited for processing into juice. Consequently, Florida orange production accounts for nearly 90% of the processed orange volume in the U.S. Vital to Florida's economy, the citrus industry accounted for almost 32% of the \$5.8 billion farm-gate receipts of the state in 1988. Also, almost one-half of the state's agricultural employment can be attributed to the citrus industry.

Mexico's citrus industry is substantial and growing. In 1989-90, Mexico produced 3.2 million metric tons of citrus, including 2.2 million metric tons of oranges. The 1989-90 orange production level is 67.4% above Mexico's average production level of the 1970's. USDA estimates that Mexico has over 640,000 acres devoted to orange production, more than 80% above the level ten years ago, and greater than Florida's orange acreage which is 564,809 acres.

In recent years, around 80% of Mexico's orange crop has been utilized to satisfy its domestic fresh market. However, processing utilization has doubled in the last 10 years because of generally higher world orange juice prices. Today, Mexico ranks as the world's third leading producer of processed oranges.

Mexico's citrus processing-capacity has expanded to facilitate the increased interest in processing citrus, although only about half of its processing capacity is now being utilized. Today, there are 23 processing plants with a capacity of 34.7 million boxes, compared to nine processing plants with a capacity of 11.1 million boxes ten years ago.

Virtually all of Mexico's orange juice production is exported; exports have averaged almost 35,000 metric tons (65° Brix) per year over the last five years. The most important export market is the U.S., accounting for more than 90% of Mexico's orange juice exports.

The U.S. imports and exports both citrus and citrus products from and to Mexico, but the value of imports far exceeds the value of U.S. exports. In 1989, the U.S. imported \$66.5 million worth of citrus and citrus products from Mexico, accounting for about 13% of all such imports. In contrast, U.S. exports of citrus and citrus products totaled only \$1.5 million in 1989, accounting for only .2% of U.S. citrus and citrus product exports.

Orange juice, primarily frozen concentrated orange juice (FCOJ), accounts for virtually all of the U.S. imports of citrus juices from Mexico. In 1989, FCOJ imports totaled 36.2 million SSE gallons, representing 80.0% of U.S. orange juice imports from Mexico. In recent years, imports of single-strength orange juice from Mexico have increased dramatically. In 1989, U.S. single-strength orange juice imports from Mexico totaled 7.5 million SSE gallons, almost double the previous year's level, and up almost sixfold from 1987.

ECONOMIC IMPACT OF A U.S.-MEXICO FTA ON U.S. CITRUS INDUSTRY

The proposed FTA agreement would have different impacts on the citrus industries in both Mexico and the U.S. The Mexican industry would benefit and the U.S. industry would lose.

Removal of tariffs on U.S. citrus imports into Mexico will not result in increased U.S. exports to that country since Mexico produces the same or similar citrus products in quantities sufficient for domestic market needs. Moreover, Mexico's production cost advantage, even with trade barriers removed, would clearly undercut U.S. products from successful competition in the Mexican market.

The U.S. citrus market, on the other hand, is open for Mexican imports and is, in fact, Mexico's major export market. There are no quotas, licenses or agreements restricting Mexican citrus imports. U.S. tariffs on citrus and processed citrus products have not blocked imports from Mexico, but have in fact worked to offset the subsidies and lower wage rates available to the Mexican citrus industry. A trade agreement reducing or eliminating existing U.S. tariffs would devastate U.S. citrus producers, particularly growers of oranges for processing in Florida. Tariff reductions or eliminations would allow Mexican citrus products to be imported at prices which would undermine the profitability of the U.S. citrus industry.

As the Committee knows, Mexican wage rates are substantially less than those in the U.S. The U.S. hourly wage rate for agricultural labor is roughly equivalent to the daily wage rate in Mexico. Mexico has no national minimum wage law. Health and safety programs and non-wage benefits such as health insurance, workmen's compensation, social security and unemployment insurance, mandatory in the U.S., are neither required nor offered to the same extent in Mexico.

Beyond labor cost advantages, the Mexican industry benefits from significant government subsidies. Complete information on government support to the Mexican agricultural industry is difficult to obtain, but one of the most significant subsidies given to the Mexican citrus producers is through the land tenure arrangement in Mexico. Many Mexican citrus producers are "ejiditarios," members of rural communities called ejidos, who have the right to use state-owned land. In fact, three-quarters of Mexico's citrus producers do not pay for the use of land. In effect, ejiditarios receive a government subsidy in the form of free rent.

U.S. citrus producers receive no state or Federal subsidies and are, in fact, facing increasing land tenure costs in Florida. According to a recent University of Florida study, land values for Florida's raw citrus acreage averaged \$2,774 in 1987-88, 38% above comparable 1979-80 levels. Moreover, increasingly restrictive land-use laws limit the acreage that can actually be farmed. Producers in many citrus-producing areas in Florida now must set aside as much as 30% of purchased acreage for wetlands preservation, water retention purposes, wildlife preservation purposes, etc. These set-asides exacerbate the cost disadvantages Florida citrus producers face. As new environmental regulations are implemented in Florida, the cost differential between the U.S. and other producers will become even more significant.

Because of the labor cost advantage and the subsidies, Mexico's citrus production and harvesting costs are less than half the costs in Florida. The Agricultural Atta-

che of the U.S. Embassy in Mexico reports that the combined costs of grove care and harvesting in Mexico were \$1.67 per box in 1988-89 compared with costs in Florida of \$3.91. The relative cost advantage explains the rapid expansion of the Mexican industry in recent years. More importantly, the production and harvesting cost advantage is expected to increase in the years ahead, giving Mexico even more opportunity to expand orange production. Clearly, orange production can be expected to continue to increase for at least the next five to ten years, as 45% of the total acreage in Mexico is now non-bearing. In fact, the Food and Agriculture Organization (FAO) suggests Mexican orange production will reach 2.6 million metric tons by the year 2000, some 111.8% above the annual average of the 1984-86 period. Industry observers suggest that a disproportionate share of this expected growth will likely be in processed product, because the domestic fresh market needs are largely fulfilled. More of the Mexican orange crop will be processed in future years, with almost all the additional volume being shipped into export markets.

The proposed FTA comes at a time when world orange and orange juice production is expected to expand. The FAO projects orange production to be 62.4% greater in the year 2000 than production in the mid-1980's. A significant portion of the increased volume is expected to be exported as orange juice.

The increase in world orange juice production is expected to lead to prices much lower than have prevailed in the 1980's. Given the current market expectations, Florida citrus producers are barely expected to cover costs of production for the foreseeable future.

A reduction in the U.S. citrus tariff structure would exacerbate the expected impact of growing world supplies on the profitability of the U.S. citrus industry. Mexico will become an even larger supplier of orange juice to the U.S. market, because of the economic incentive Mexico would realize from a tariff reduction. Mexico will have to lower its U.S. export price for orange juice below levels currently anticipated as a result of its increased supplies, forcing Florida to lower its orange juice prices because of the competitive nature of the U.S. and world orange juice markets. At these lower prices, Florida citrus producers will not be able to recover production costs and will in the long term be forced out of business.

The U.S. citrus industry competes in an unfair market situation because of the oligopolistic organization of the Brazilian citrus industry in combination with the government subsidies. Duty reductions on imported citrus products from Mexico would compound the problem the U.S. industry faces.

VII. CONCLUSION

Including citrus in a U.S.-Mexico FTA will offer significant long-range benefits to Mexico's citrus industry, creating severe adverse consequences for the U.S. citrus industry, and the Florida citrus industry in particular. This conclusion is consistent with the International Trade Commission's findings recently presented to the Committee. The proposed U.S.-Mexico FTA creates no export opportunities for U.S. citrus and citrus products, but it provides substantial growth opportunity for Mexican citrus juice exports. Moreover, a U.S.-Mexico FTA will mean higher returns for Mexican citrus producers, and significantly lower returns for U.S. citrus producers. With respect to citrus and citrus products, the proposed U.S.-Mexico FTA is a one-sided deal which will likely devastate the Florida citrus industry.

While the Florida citrus industry agrees that the U.S. should have an embracing trade enhancement treaty with Mexico, we strongly encourage that the agreement acknowledge inherent differences among the various industries affected by such an agreement. Although many industries will benefit from this agreement, others noted will be damaged. Some industries are critical to regional and national economies and some are not. Given these types of fundamental differences, it is difficult to see why each industry must be treated the same way.

For the foregoing reasons, we strongly urge that any free trade agreement with Mexico exclude citrus and citrus products. We would also urge that, before any agreement is negotiated, an assessment be made that would take into account U.S. labor, environmental, health and safety costs; Mexican subsidies; and third-party implications.

We thank the Committee for considering our views. We are available at the Committee's convenience to answer any questions or provide additional information on this subject.

STATEMENT OF THE FLORIDA CITRUS MUTUAL

This statement presents the views of Florida Citrus Mutual (FCM) in opposition to modifications to U.S. tariff treatment of citrus juices, fruit and other citrus products under a U.S.-Mexico Free Trade Agreement (MFTA). Most of the duties on these products are specific rates, therefore the incidence of tariff duties falls when import prices increase; conversely the incidence of tariff duties increases in response to an onslaught of low, unfairly priced merchandise from abroad. The present duties thus serve both U.S. producers and consumers well.

The position of FCM, and the views set forth below, are supported by a majority of the citrus growers, packers and processors of the United States. In addition to the members of Florida Citrus Mutual, this position represents the views of 7 other major farm and processor groups: California Citrus Mutual, the Gulf Citrus Growers Association, Citrus Grower Associates, the Florida Citrus Packers, the Florida Farm Bureau Federation, the Indian River Citrus League, and the Florida Department of Agriculture and Consumer Services.

In all, there are approximately 14,000 citrus growers in the State of Florida, and about 22,000 growers across the United States. The parties on whose behalf this statement is made represent virtually all U.S. growers of oranges for processing into frozen concentrated orange juice (FCOJ)—as well as the industry that grows and processes other fresh citrus and citrus products.

In this regard, we would note that in its report to the President's Special Trade Representative on the "Likely Impact on the United States of a Free Trade Agreement with Mexico," Investigation No. 332-297 (USITC Pub. 2353), the United States International Trade Commission indicated that for many fresh and processed fruits and vegetables—*particularly citrus crops and winter vegetables*—"U. S. growers . . . are expected to experience losses in production, particularly growers in Florida, California, and other warm-climate States who compete *directly*. Processors of these crops are also expected to experience production losses" (USITC Pub. 2353, Executive Summary, at xiii).

In addition to some 22,000 growers, a large United States workforce will also be vitally and adversely impacted if citrus is included in the proposed MFTA. Approximately a quarter of a million people are directly employed in the citrus industry in the United States; many more are indirectly employed in related activities. In Florida alone, 70,000 persons are directly employed in production. About 74,000 persons are indirectly employed, therefore, the livelihood of some 144,000 persons in Florida is at stake. For many, there are few employment alternatives.

The thrust of the consideration in this initiative is the question of interrelationship between the United States and Mexico. It is the strongly held view of this industry, however, that it would be misleading in the extreme not to take account of the serious situation in our U.S. citrus industries as a result of recent world wide developments in this sector and the implications of these developments for the proposed agreement with Mexico.

RECENT FOREIGN PRODUCTION INCREASES, INCLUDING THOSE IN MEXICO, HAVE BEEN
MASSIVE AND ARE DESTABILIZING THE U.S. INDUSTRY

First, it should be recognized that Mexico is a part of the massive growth in the *foreign* production of citrus and citrus products (particularly of oranges and orange juice) in the past decade. There have been enormous increases in production in Central and South America (including Mexico), in the Mediterranean basin countries, in the Near and Far East, and in South Africa. Such increases are occurring in virtually every foreign area with suitable climactic and soil conditions for the growing of citrus and the production of citrus products.

Second, in nearly every significant growing sector outside the United States, this enormous growth is resulting in surpluses which greatly exceed indigenous home market demand. Consequently, these surpluses are being exported as fruit or juice, with adverse impacts on the U.S. industries. U.S. exports are being lost, long term, and U.S. imports have been increasing sharply—absolutely and relative to U.S. output. Since the early 1980's the once favorable balance of U.S. trade in citrus has evaporated, and the U.S. trade deficit in these products has been increasing.

Third, nearly every foreign country with growing surpluses of fruit has been employing a wide range of complex promotional devices—difficult to identify or quantify in their entirety—to encourage exports and to discourage imports. The net result is to make the large U.S. market for citrus, which is without artificial trade barriers or export incentives, a natural target for growing foreign surpluses. These developments are already causing havoc in the United States citrus industries; the inclusion of citrus in the MFTA would acerbate the situation.

Recent changes in the relative position of the United States and of foreign countries in the production and processing of oranges—by far the most important citrus crop—are illustrated in the tabulation below. While comprehensive data are not readily available for other citrus products, similar developments are known to be occurring for them.

ORANGES: CHANGES IN PRODUCTION OF FRUIT AND FRUIT PROCESSING IN THE UNITED STATES AND FOREIGN COUNTRIES, FROM 1982/83 THROUGH 1988/89

(1,000 Metric Tons)

Orange production:		
United States.....	- 636	- 7%
Other countries.....	+ 5,041	+ 26%
Fruit processing:		
United States.....	- 156	- 2%
Other countries.....	+ 3,644	+ 49%

Source: Compiled by the Citrus Administration Committee, Lakeland, Florida, from various sources

As the tabulation shows, during just the last five crop years, total production of oranges outside the United States rose by 26 percent. Production in the United States fell 7 percent in the same period. This decline is directly related to the impact of increasing United States imports of orange juice from a large number of countries, including Mexico, and from the loss of United States exports.

RECENT DEVELOPMENTS IN MEXICO CLEARLY DEMONSTRATE THAT THE INCLUSION OF CITRUS IN THE MFTA WILL RESULT IN A DEVASTATING FLOOD OF IMPORTS FROM MEXICO AND CAUSE SERIOUS INJURY TO THE U.S. CITRUS INDUSTRIES OF THE UNITED STATES

Dynamic changes are also occurring in citrus in Mexico and contributing to the further growth in world surpluses. Its exports are increasing sharply—particularly to the United States. It is beyond question that the arrangement will contribute further to the growth in Mexico's exports and result in substantial, and damaging increases in U.S. imports from that country.

CITRUS ACREAGE AND CITRUS TREES IN MEXICO ARE INCREASING SHARPLY

Estimates indicate that currently a total of 707,000 acres in Mexico is devoted to citrus. Over 90 percent of that is in oranges. Highlights of orange operations of Mexico are shown in the tabulation below. Based on preliminary crop forecasts for 1990, the U.S. Department of Agriculture indicates that the planted orange acreage in Mexico will have increased by 33 percent in the last two years. In 1990, the total harvested orange crop in that country (363,000 acres) approximated, for the first time, the total number of bearing acres for oranges in Florida (389,000)—the lifeblood of the Florida citrus industry.

ORANGE HIGHLIGHTS FOR MEXICO

	1988	1989	1990	Percent change
Acreage ¹				
Total Acres.....	481,845	558,446	642,460	33
Ha. vested.....	276,752	313,817	363,237	31
Number of Trees				
Total trees.....	48,790,000	52,800,000	64,000,000	31
Non-bearing.....	23,240,000	22,800,000	30,000,000	29
Percent of total.....	48	43	47	
Fruit processed (Met.Tons).....	344,000	482,000	500,000	45
Juice (Metric tons)				
Production.....	33,712	46,992	48,000	42
Exports.....	32,740	45,492	45,800	40

¹ Data for 1990 are based on USDA forecasts.
Source: U.S. Department of Agriculture.

As the tabulation indicates, the harvested orange acreage in Mexico has increased by approximately 31 percent since 1988. It is noteworthy that the planted orange acreage in that country now is *beginning to approach that of the United States* although Mexico's population and demand for these products is far lower than in this country.

While there are many small growers, many of whom operate on state-owned land, essentially rent free, the trend in Mexico clearly is toward large, efficient, and privately owned commercial operations. Trade reports indicate foreign investment interest.

In Mexico, the total number of trees has likewise increased sharply—over 30 percent—since 1988. While the Government has announced that it intends to eliminate most subsidies to agriculture, the past actions to encourage the growth of citrus and citrus products in that country will continue to impact U.S. trade for years to come.

Over half the trees there are still young and non-bearing. Once they begin producing fruit—in three to four years—they can be expected to have a useful life of some twenty to twenty five years, therefore, for nearly a quarter of a century, the United States industry—with or without duty reductions—will continue to be confronted by the effects of past subsidies that in effect continue to provide an artificial stimulus to Mexico's production and exports and to disadvantage the U.S. industries concerned. Even in the unlikely event that there are no improvements in Mexican crop yields, these data indicate that the amount of fruit from the non-bearing trees could virtually double Mexico's fruit output within the next few years. Based solely on the foregoing information on the number of non-bearing trees, substantially increased imports from that country in the near future are a certainty.

Citrus acreage in Mexico is widespread so that a short crop in one area tends to be made up, or offset, in other areas. Many farm operators are reportedly shifting to citrus from coffee plantings in low yield areas and from grains and oilseeds and other low valued crops to higher valued export-oriented fruits and vegetables. According to the Department of Agriculture, Mexico currently has 6 million hectares (15 million acres) of irrigated farmland—equivalent, according to the Department, to only 40 percent of the potential of 15 million hectares (37 million acres). Currently, growers are said to pay only 30 percent of the real water cost, and it would appear that some of this acreage could be converted to irrigated citrus operations where necessary.

Growers reportedly have access to credit facilities on favorable terms, and the National Institute for Agriculture Research (INIA) has developed a program for yield and quality improvement. CONAFRUT, the public organization dealing with production and marketing of major fruits, also furnishes technical assistance for the improvement of cultivation.

A DRAMATIC GROWTH IN PROCESSING OPERATIONS IN MEXICO ALSO INDICATES PROBABLE SUBSTANTIAL INCREASES IN IMPORTS OF PROCESSED PRODUCTS FROM THAT COUNTRY

A growing share of the fresh oranges harvested in Mexico is being devoted to fruit for processing, and subsequently for export. As shown in the foregoing tabulation, the amount of Mexican fruit that is devoted to processing has been increasing markedly (about 45 percent since 1988). Virtually all juice is exported—mainly to the United States.

Just since 1988, juice production and juice exports rose 42% and 40 percent, respectively. They have tended to establish new records each successive year since 1985.

Recent reports of the U.S. Foreign Agricultural Service indicate that Mexico has substantial, recently-increased, but underutilized processing capacity—established in anticipation of the growth in fruit production and in the market for processed products (particularly exports). Some old plants have been rehabilitated. Processors have made large investments in new state-of-the orange juice plants during the past few years so that as fruit output grows, "larger amounts of oranges will be devoted to juice production."

There are reportedly now 22 major juice factories in Mexico with a total evaporating capacity of about 578,000 pounds of water per hour—or over 870,000 metric tons of fresh fruit per season. These plants are believed to be modern and efficient and able to handle anticipated fruit increases for processing and for increased exports of the processed product. In addition, there are 7 additional plants of lesser size, which probably could be expanded if conditions warrant.

Indications from the trade are that underutilization of processing capacity in Mexico has been attributable in part to past cartel-like arrangements under which

capacity has been expanded in anticipation of future increases in the demand for juice—particularly for export. It is expected that *increasing quantities of fruit will be utilized for processing—particularly for the growing exports to the United States. Duty free treatment for imports from Mexico would hasten this process.*

MEXICAN EXPORTS HAVE BEEN INCREASING DRAMATICALLY AND WOULD BE ACCELERATED IF CITRUS WERE INCLUDED IN THE FREE-TRADE AGREEMENT

Mexico is the world's third largest foreign producer of oranges and clearly has substantial existing growing and processing capacity, and growth potential, to export increasing quantities of both fresh and processed citrus to the United States. There is no question but that it will exploit that potential to the fullest if citrus is included in the arrangement. With but limited domestic, or home market demand, Mexico's increasing output is obviously geared to export. The MFTA proposal has the potential for an enormously destructive impact on the citrus industries of the United States.

The impact of Mexico's export trade on U.S. producers would undeniably be significantly greater than a static evaluation of the numbers alone would indicate. Where the products of Mexico compete directly with U.S. exports, its growing surplus will *displace U.S. products directly*. Mexico has developed significant citrus outlets in the United States, Canada, France, and Germany. Mexican exporters, with the assistance of the Government, are also targeting trade potentials in Asian markets, such as Hong Kong and Japan. Mexico's Pacific ports have lowered transport costs sufficiently to allow them to be competitive in Asian markets with oranges from the United States.

In addition, there is a *high probability of a diversion of exports from other countries through Mexico if citrus is included in the duty-free arrangement*. The country of origin of orange juice is difficult to establish. Cross-country transshipments are common, and growing; the Department of Commerce indicates that 'scarcely a day goes by' without questions rising respecting certificates of origin. Duty-free treatment for Mexico would encourage such shipments and inevitably aggregate the certain increase in imports from that country—and would worsen the price effect in the United States—both directly and indirectly.

Such trade would only be attracted by the lower prices that the arrangement would inevitably induce. The increased imports of juice alone would significantly limit the demand for U.S. fruit for domestic processing and depress fresh market prices in turn.

Recent trends in the imports from Mexico confirm the judgment that imports will increase sharply. Mexican shipments to the United States have risen virtually without interruption from 9 million gallons in 1985 to 45 million gallons (single strength basis) in 1989—a five-fold increase. In the first 10 months of 1990, imports of 70,393,000 gallons were almost double the level of the same period of 1989, and may reach a new record of 84,000,000 gallons for all of 1990.

Mexico already provides about 12 percent of total U.S. imports of orange juice. To a large extent the 9-fold increase in imports since 1985 has been price based. In the first 10 months of 1990, for example, the average unit foreign value of imports of orange juice from that country was *69 cents per gallon (single strength equivalent) compared with \$1.53 per gallon in the same period of 1989*. Brazil is by far the leading U.S. supplier and its export prices also declined precipitously in this period.

Massive value decreases of this magnitude obviously have had a devastating effect on U.S. market prices—which also declined as a result of this competition. They have reached break-even levels, or less, for many U.S. growers because of the large volume of low-valued imports.

There can be no compensating increase for U.S. exports. No export markets for citrus of significance for the United States would materialize from the arrangement—either in Mexico, or elsewhere. Mexico can be expected to receive modest amounts of fruit from the United States—consisting principally of contiguous border trade for fresh use and/or processing in years when regional crops are down in that country because of the weather—but it is undeniable that the benefits will all flow (for Mexico) in one direction both because of that country's growing surplus and its low operating costs.

Overall, the United States has a negative trade balance with Mexico in citrus. U.S. exports to that country are negligible. *In recent years citrus imports from Mexico have exceeded U.S. exports to Mexico by a ratio of over 40 to 1.* The U.S. trade deficit will only increase if citrus is included in the MFTA.

**THE IMPACT OF THE PROPOSAL ON THE DOMESTIC CITRUS INDUSTRIES WILL BE
EXCEPTIONALLY SEVERE**

For all the foregoing reasons, it is fair to say that the conclusion of the U.S. International Trade Commission respecting the adverse impact of this proposal for citrus is fully justified. We believe that it would be manifestly unwise to include citrus and citrus products in the MFTA.

In this regard, it bears repeating that we believe, strongly, that it would be ill-advised to ignore the world environment in citrus in considering this proposal. The Food and Agriculture Organization of the United States, in its studies of this agricultural sector, concludes that foreign surpluses of oranges over home market demand will double in the next 10 years. These surpluses will seek export outlets either as fruit and/or juice, and, as a result, the organization predicts a massive decline in prices of citrus and citrus products within the relatively near future. The price data cited above indicates that this decline has already begun.

The huge increases in production that have occurred in practically every foreign country with a suitable environment for citrus—significantly stimulated or encouraged by governmental programs, at both national and local levels—increases the likelihood of further world price depression and of increased exports by countries with huge surpluses in excess of home demand.

As a corollary, many of these countries are taking measures to insulate their local industries from outside imports. EC growers, for example are tireless in their efforts to countervail, or otherwise restrain, imports of concentrated juice from lower-cost producers abroad. At the same time, they reportedly seek a reduction, or elimination, of the rate preferences applicable to the imports from countries with which the Community has signed preferential agreements (such as Israel and Morocco). U.S. exports are disadvantaged by such measures.

Trade disruptions of this nature cause exporters to seek alternative outlets. The large U.S. market, without artificial trade restraints, is clearly a logical alternative. The United States already receives imports from over 30 countries—and it is worth noting that some of this trade represents transshipments from a number of suppliers without indigenous fruit.

Particularly in the case of large U.S. foreign suppliers, such as Brazil, those countries will defend their U.S. market position with price reductions against the Mexican imports with further disastrous results for U.S. growers and processors.

Many of the important foreign producing countries employ a wide range of techniques to assist their industries and the exports of citrus. Such measures include production and export subsidies, assistance in industry restructuring and crop improvement, tax rebates, marketing programs, exchange and price manipulation, unfair pricing, and the like. Brazil, for example, which is the world's largest producer and exporter has twice been found to have caused injury to the U.S. industry by dumping and by the unfair subsidization of its exports.

While many of these activities have unfair trade implications, the practices are difficult, costly, and time consuming to identify and pursue. For perishable agricultural products, which generically are subject to quick, and wide, supply and price swings during a single crop year because of weather or other natural factors, the unfair trade statutes tend to be inadequate. Final decisions under these measures often come too late for effective remedial action against severe damage already, and quickly, sustained in the case of crops that are subject to spoilage and that must be marketed and/or processed almost immediately after harvest. Moreover, it should be noted that U.S. growers do not have access to Section 22 of the Agricultural Adjustment Act, as amended, because there are no agricultural support programs for citrus.

Under present world conditions, substantial dislocations within the U.S. industry have already occurred as a result of losses of export markets, from direct imports and transshipments of products of foreign origin, and from unfair pricing and other non-competitive practices. *Each of the major U.S. growing areas* have lost substantial acreage because of the loss of export markets and increased imports. While a significant part of this loss in acreage has been offset by increased efficiencies and improved crop yields in the United States, this ongoing improvement process is costly and there are to be limits, at least near-term. Meantime, foreign efficiencies and yields are being improved also, with strong Government, and local, support.

None of the U.S. growing areas of the United States is in a position to sustain a profitable operation in the light of the import onslaught that would occur if citrus were included in the MFTA. Many U.S. growers and processors are already down to break-even levels, or less, because of increasing, low-priced imports of citrus and citrus products.

The impact upon Florida would be especially severe. In the recent past, the industry has made substantial new investments in new groves in freeze-free zones. These groves must be carried out-of-pocket, at substantial cost, for three to four years until the harvest of first fruit. At the time this fruit comes on the market, the impact of the imports entering as a result of the trade initiatives under consideration would begin to have its greatest impact.

There would be little increase in the aggregate demand for citrus as a result of lower-priced imports from Mexico. Most households already are significant consumers of citrus so that the price elasticity of demand at the consumer level tends to be low. On the other hand, because the cross-price elasticity of demand for domestic and imported orange juice at the wholesale level is high, increased imports at reduced prices will cause substantial further displacement of U.S. output at this, the first-trade, level. Markets will be lost. Producer prices will be further depressed or suppressed. Profit margins will decrease or evaporate because of lower U.S. output, lower revenues, and higher costs per unit of output.

In Florida, there already have been significant grower exits as a result of increasing costs, import competition, price suppression and/or depression relative to costs, and difficulties attendant to farming. If U.S. import duties are included in the arrangement, there can be no question but that many additional growers would discontinue operations.

The honest concern in Florida is that the *survival of the industry is at stake* in this measure. Given the situation abroad, the growing level of imports (absolute and relative), and increasing domestic costs, it is probable that the orange juice industry would be seriously, probably mortally, injured.

As we have indicated, Florida Citrus provides a livelihood to 144,000 persons for whom there are few meaningful employment alternatives. At the grove level, total capital investment in Florida is conservatively estimated at about \$8 billion. These figures for Florida alone would be magnified many times if the impact of the MFTA proposals upon growers in Texas, Arizona, and California are added. Prospective losses to the respective economies, and to the tax bases of the communities and states in question, will also be enormous and cannot be logically discounted.

CONCLUSION

For the foregoing reasons Florida Citrus Mutual and others in support of this position submit that a free trade agreement with Mexico that includes citrus will have a severe adverse impact on the United States citrus and citrus product industries and threaten their viability and continued existence. We urge that citrus juices, frozen concentrates, and all fresh and processed citrus products be excluded from any duty-free arrangement with Mexico.



Footwear Distributors and Retailers of America
 1319 F Street N.W. Washington, D.C. 20004
 Peter T. Mangione, President

(202) 737-5660
 FAX: (202) 638-2615

U.S.-MEXICO FREE TRADE AGREEMENT (FTA)

In the footwear area, the principal effect of a U.S.-Mexico FTA would be the elimination of duties on shoes imported from Mexico. This duty reduction would offer U.S. consumers substantial savings, particularly in the rubber/fabric area where duties on shoes are in the 48-67% range. As is explained below, the duty advantage would have minimal effect on U.S. shoe production and would help Mexico capture some of the import market that is presently dominated by China.

The Footwear Distributors and Retailers of America represents the nation's chain shoe stores and the resources that supply them. Its members operate some 20,000 retail units, selling half of the footwear purchased annually in the United States. We support a U.S.-Mexico FTA for the following reasons:

- o The duty advantage on shoes produced in Mexico could result in the shift of low cost imports from Asian producers (principally China) to Mexico.
- o Since low cost products are nearly all imported today, the shift to Mexico of these products would not result in an increase in imports.
- o Since U.S. shoe production is concentrated in higher priced, niche marketed goods, which presently compete successfully against lower priced imports, the FTA should not shift production from the U.S. to Mexico.
- o Such duty elimination could help Mexico become a major supplier of footwear to the U.S., a role it does not presently have. Today, Mexico accounts for about 2.3% of total U.S. shoe imports. By contrast, suppliers in the Orient furnish more than 80% of U.S. shoe imports.

LEATHER AND PLASTIC FOOTWEAR

The phased elimination of duties on shoes produced in Mexico would have minimal impact on U.S. production of this type of footwear which, on a dollar basis, accounted for more than 90% of total U.S.-produced shoe sales in 1990 and nearly 90% of all U.S. shoe manufacturing employment:

- o Current duties on these products are so low, ranging from 6% to 10% that their elimination would have no impact on the competitive relationship between U.S.-produced and Mexican-produced footwear.
- o The vast difference in the average wholesale price of this footwear produced in the U.S., \$20.35 per pair, compared to that produced in Mexico, \$9.50 per pair, dwarfs the impact of duty elimination (Table I). At an average duty of 8%, duty amounts to a mere \$.76 on an average shoe from Mexico.
- o Despite lower priced imports (even with tariffs) sales by U.S. producers have increased in recent years because their products have been concentrated in market niches -- brands, servicing, sizes and widths -- where low cost is less important to consumers. Elimination of modest duties would not impact this success (Table II).

RUBBER/FABRIC FOOTWEAR

Duty reduction would stimulate a possible shift in production of this footwear from the Far East to Mexico with little impact on U.S. production. Duties range from 48% on this footwear under \$3.00 per pair to 67% on footwear between \$3.00 and \$6.50 and about 37.5% on higher priced footwear.

As noted, this sector accounts for only about 10% of U.S.-produced shoe sales and manufacturing jobs.

Significantly, the U.S. industry does not compete at the lowest price ranges in this market, which is dominated by footwear from China. China accounted for 58% of U.S. imports of this product in 1990. Nevertheless, U.S. producers have developed successful market niches that are well positioned to remain competitive if a U.S.-Mexico FTA were adopted.

Injection Molded/Machine Made Shoes. About three quarters of U.S. production of this product is made by injection molding -- a low labor, capital intensive process. Since the only advantage of Mexican production would be low labor costs, the FTA creates little incentive for U.S. producers to shift low labor, machine operations to that country. The labor intensive component of a shoe, the upper, is already made in large quantities outside the U.S. -- in the Caribbean or the Orient -- and would not be affected by the FTA.

Vulcanized/Handmade Shoes. The duty elimination for Mexico under the FTA could be a powerful incentive to move highly labor intensive, low priced footwear presently produced in Asia (principally in China) to Mexico. There is presently no U.S. production of this product.

The small amount of higher priced, labor intensive rubber canvas footwear produced in the United States, sells on brand names, such as Converse's Chuck Taylor All-Star, and is not competing on cost. U.S. production of this footwear would not be affected by a U.S.-Mexico FTA. This is clear because foreign production of the same product is today vastly cheaper than the U.S.-made product (even with the duties of up to 67% included) and production has not moved.

Leather & Plastic Footwear Average Factory Prices--U.S. vs. Imports

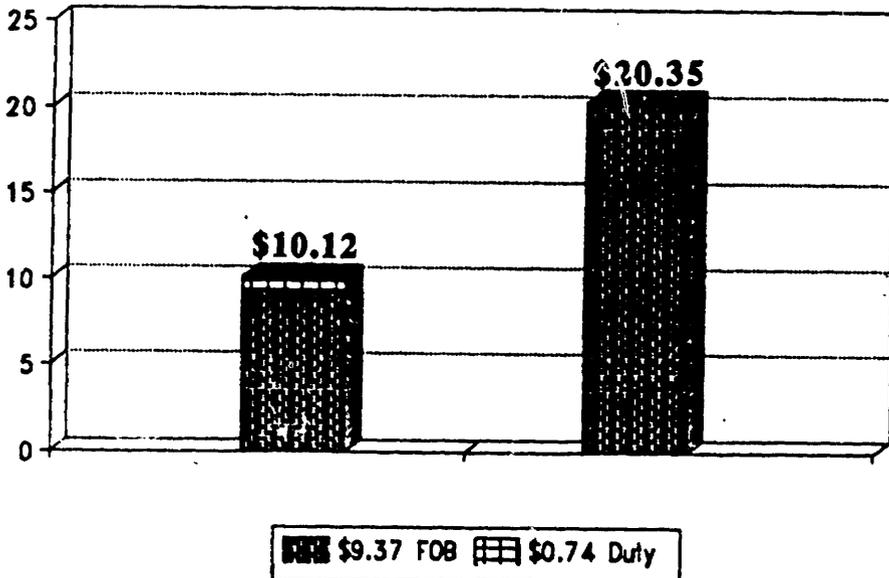


TABLE I

U.S. Produced Non-Rubber Footwear
Dollar Sales 1987-1990

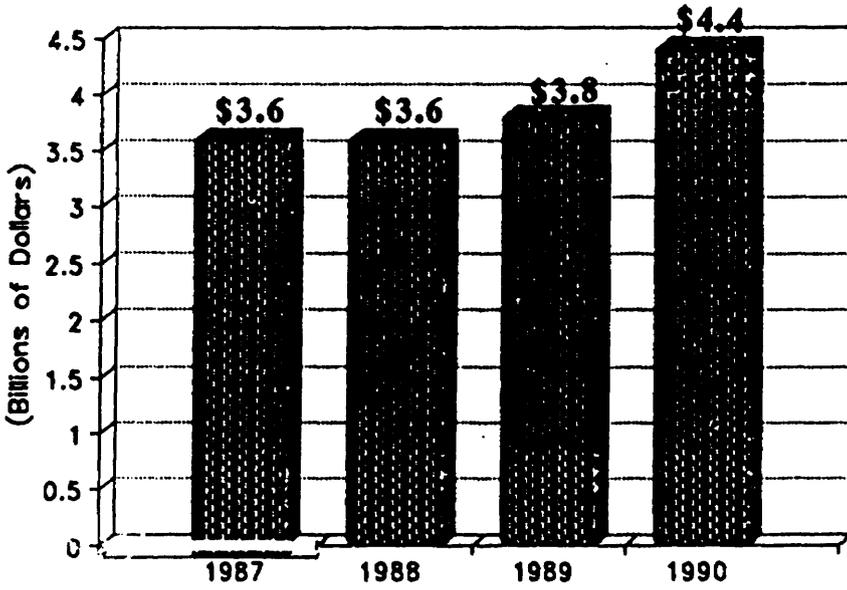


TABLE II

FDA member companies operate, under the following names, some 20,000 retail and departments nationwide, accounting for about half the nation's shoe sales annually:

MORSE SHOE INCORPORATED

Fayva Shoe Stores
 *Bradlees
 *Hills
 *Shopko
 *Allied
 *Biggs
 *Twin Value

THE BUTLER GROUP, INC.

Dolcis

JC PENNEY COMPANY, INC.SEARS ROEBUCK & COMPANYFISHER CAMUTO CORPORATION

9 West

WAL-MART QUALITY SHOES

Wal-Mart Stores

GENESCO, INC.

Johnston & Murphy
 Jarman
 Hardy
 Journeys
 Factory-To-You
 Flagg
 *Mercantile Stores

SHOMAC CORPORATION

Crown Shoes
 *Schottensteins Stores
 *Value City Dept. Stores
 *Harts Discount Stores
 *Glosser Bros. Stores
 *Levines Stores
 *Valley Fair Stores

STANDARD SHOE COMPANY

*Leased Departments

MELDISCO

*K-Mart
 *Payless Drugs
 *American Fare
 *Makro

THE KOBACKER CO.

Picway Shoes
 The Shoe Works
 Gussini
 Patrini
 Kathe K

C&J CLARK AMERICA

Hanover
 Bostonian
 Big Sky

J. BAKER, INC.

*Ames/Zayre
 *Fishers Big Wheel
 Parade of Shoes
 *Jamesway
 *Stuarts
 *Caldors

SHOE CITY, INC.

Shoe City Stores

THOM MCAN SHOE CO.

Thom McAn
 B.O.Q.
 Fan Club

WEINER ENTERPRISES

Shoe-Town

KINNEY SHOE CORP.

Kinney Shoes
 Foot Looker
 Lady Foot Locker
 Kids Foot Locker
 Athletic X-Press
 Champs
 Footquarters
 Fredelle

SHOE-TOWN, INC.

Shoe-Town
 Jordache Outlet
 *NBO

J.S. RAUB SHOE CORPORATION

J.S. Raub Shoes
 Shoe Spot

EDISON BROTHERS STORES

Chandlers	Bakers
Leeds	Burts
Sacha of London	
Wild Pair	

PIC 'N PAY STORES

Pic 'n Pay
 Barrett's
 Shoe Faktory
 Shoe World

ENDICOTT JOHNSON

Father & Son
 Endicott Johnson

VOLUME SHOE CORP.

Payless Shoe Source
 Volume Shoe Source

FDRA FOOTWEAR MARKETING FIRMS AND THEIR PRINCIPAL BRAND NAMES:**SANSHOE WORLDWIDE CORP.**

Spalding
 McGregor
 Dr. Scholl's
 Faberge'
 U.S.A. Olympic
 Thermo-Kid

B. LEVY & SON

Pazzo
 Positively Peppers
 D. Evans
 English Walkers
 Hampton Park
 Jaguars
 Soft Ease
 Patrick Ewing Sneakers

E.S. ORIGINALS, INC.

Voit
 Sergio Valente
 Flintstones
 Coopertone
 Gloria Vanderbilt
 Safety Lights
 I Love Comfort
 New York Street Action
 Sasson
 Regent
 Europrep
 Easy Going

PAGODA TRADING

Jordache
 Brittanian
 Barbie

MERCURY INTERNATIONAL

Jordache Ath. Footwear
 Franklin Sports
 Chite
 Snoopy

ELAN-POLO, INC.

Hoops
 Finesse
 Sweetheart
 Playground

LAIRD, LTD.**DYNASTY FOOTWEAR****FOOTWEAR EXPRESS****LEIF J. OSTBERG, INC.**

Mitre
 Hat Trick
 Vision
 Huff

INTER PACIFIC

Laguna

GRAND IMPORTS

Jordache
 Larado
 Durango

MARQUESA

Beija - Flor
 Silvana

MSF CORPORATION

Excel
 Northern Trail's
 Kickerino's
 Biarritz

CELS ENTERPRISES

Prima
 Chinese Laundry
 Cels
 Barbaro
 Ammano

C.O. LYNCH

Panda
 Pax
 Rod & Gun

ANGEL-BITS OF CALIFORNIA

Teenage Mutant Ninja
 Turtles
 Cabbage Patch Kids
 Countess

L.A. GEAR**DESA SHOE, INC.****REEBOK INTERNATIONAL****CYPRESS ENTERPRISES****JIMLAR CORPORATION****GREEN MARKET SERVICES****INT'L. SEAWAY**

Lydico
 Intrigue
 DP, Fit for Life

OLEM SHOE CORP.

Aldo Rossi
 Mauro Pisani

TOPLINE IMPORTS

Wildrice
 Pillows
 Global Exchange

CIRCLE S. BOOT

Paolo Fellicice
 Raphael Vittorio

PALLMARC/CHEROKEE

Cherokee
 GI Joe
 My Little Pony
 No Frills

INTERSHOE, INC.

Nickels
 Jazz
 Paloma
 Via Spiga
 Glace'e

MILLFELD TRADING

No Excuses
 Chaus
 Marc Albert

BBC INTERNATIONAL

Bonjour
 OshKosh
 Playschool

TRADE WINDS

Nicole

K-SWISS, INC.**BENNETT IMPORTING****SEBASTIAN IMPORTS****DAYTONA, INC.****LEE INTERNATIONAL**

STATEMENT OF FOOTWEAR INDUSTRIES OF AMERICA, INC.

I. INTRODUCTION

This statement is presented on behalf of Footwear Industries of America, Inc. (FIA), a trade association that represents U.S. manufacturers and distributors of nonrubber footwear and a substantial portion of their suppliers. The domestic non-rubber footwear industry is located in 38 states where it operates in over 450 footwear manufacturing establishments.

FIA opposes an FTA with Mexico because it will result in a flood of new footwear imports to the U.S. market. Mexico's footwear and shoe-supplying industries are well-developed and have the capacity to compete in a broad-range of footwear categories. The U.S. already is the leading market for shoes from Mexico. Mexico will become a major supplier of footwear to the U.S. market if an FTA is effected between our two countries. These imports will be *in addition to*, not a replacement for, imports from China and other Far Eastern countries.

The Bush Administration is clearly unaware or unconcerned about the consequences of an FTA with Mexico on a large segment of U.S. manufacturing, particularly labor-intensive industries. Nor have the economic effects of such an agreement been weighed with other Bush trade initiatives that will likewise take their toll on our industry and others, such as the Uruguay Trade Round, the Enterprise for the Americas Initiative, the Andean Initiative, and the liberalization of trade from Eastern Europe. The U.S. Government is rushing into these various initiatives in a pell mell fashion with frightening speed, and, apparently, with little regard for those segments of the U.S. economy that will shoulder most of the burden.

Mexico's efforts to open its markets in the past few years are admirable. President Salinas has pledged that he will further these goals; however, what guarantees do we have that Mexico's new experiment with free-market economics will last? Mexico is, after all, still very much a developing country, and a new Mexican president could reverse the Salinas reforms.

II. THE DOMESTIC FOOTWEAR INDUSTRY HAS DONE ITS PART TO ASSIST THE DEVELOPMENT OF THE POORER COUNTRIES

In 1989, 860.4 million pairs of nonrubber footwear were exported to the U.S. at a value of \$7.4 billion. In 1990, domestic production fell another 11 percent while imports grew to 900 million; import penetration was 83 percent. The overwhelming majority of these imports are from developing countries, such as China and Mexico, and the newly industrialized countries, such as Korea and Taiwan.

The Congress is well familiar with the havoc that imports have wreaked on the domestic nonrubber footwear industry. There is also an awareness that our industry has done more than its part in contributing to the development of nations throughout the world. With so very little of our market left, we must strongly oppose an FTA with Mexico, which would lead to a further erosion of our market.

III. MEXICO'S FOOTWEAR INDUSTRY IS WELL-DEVELOPED AND WELL-POSITIONED TO EXPORT TO THE U.S. MARKET

Mexico's footwear producers boast that they are ready to conquer the international footwear market, and that they have sharpened their skills for quality production and prompt delivery.

According to an article in the May 1990 *American Shoemaking*:¹

The country has a large labor pool which is relatively skilled in the intricacies of high and medium quality leather footwear. It also has a strong components industry; the industry is 80% self-sufficient as far as components.

The article goes on to state that Mexico is expected to increase its exports by 15 percent next year, and that Mexico's proximity to the U.S. makes it a "natural target for increased exports of shoes and shoe components."

¹ *American Shoemaking*, "Mexico A Market, A Source," May 1990, pp. 33-38.

Another recent article in a footwear trade publication² makes the point that Mexico has an advantage in the North American and South American markets because of its "proximity, and because of their wage rates, which are lower than many in the Orient, especially Taiwan, Korea and Hong Kong." The article also points out that:

Mexico is on the verge of becoming a major footwear exporter. It has upgraded its quality and it is improving its technology. Its wage levels are competitive, and it is actively seeking a share of the international market.³

Mexico claims to have 4,653 footwear manufacturers with some 500,000 workers involved in the footwear, tanning, and supply industry. Of these workers, more than 230,000 are in shoe factories and another 100,000 in supplying industries. Apparently these numbers do not take into account the people who take uppers home with them at night to stitch and return them to the factory the next day.⁴

Of the 245 million pairs of shoes produced in Mexico in 1988, 85.9 million were men's, 83.8 million were women's, and 66.3 million were children's.⁵

IV. REASONS WHY THE U.S. NONRUBBER FOOTWEAR INDUSTRY OPPOSES AN FTA WITH MEXICO

As established in the sections above, the domestic nonrubber footwear industry has already been seriously harmed by developing country imports and under an FTA, Mexico has the capacity to further erode what is left of our domestic industry. These are sufficient reasons for domestic footwear producers to oppose any such agreement; however, we also have additional concerns. FIA believes that:

A. *Free Trade Agreements Do Not Work When Economies Are On Such Different Developmental Scales.* Even though Mexico has taken steps to open its market, it still maintains a large number of import policies that are characteristic of a developing country and that are not compatible with an FTA. These include an import licensing scheme covering 250 items, which according to the 1990 *National Trade Estimates Report on Foreign Trade Barriers*, are administered in a nontransparent manner and many times function as complete import bans. The same could be said for the way Mexico administers standards, regulations and testing, and certification. Mexico was also placed on the "priority watch list" under the "special 301" provision of the 1988 Trade Act in May 1989 because of lack of intellectual property protection. Mexico has since been removed from the "watch list," but largely on the basis that it has committed to make improvements. There are still restrictions on investments and in other areas as well.

Moreover, the higher wages, environmental, other regulatory and social costs borne by U.S. producers will put them at a severe disadvantage once the border restrictions are eliminated to create a so-called "free trade area."

B. *Transshipment Will Be a Problem.* An FTA will foster transshipment of Asian footwear through Mexico. It will also result in Asian-financed shoe factories south of the border to take advantage of the preferential duty rates. Such imports will be in addition to, not a replacement for, current imports from these countries.

C. *The U.S. Has Been Reluctant to Act Against FTA Violations.* In 1985, the U.S. signed a trade pact with Israel. Israel has not lived up to a number of its commitments under the FTA, and, in fact, has all but negated the duty benefits which were to be afforded to U.S. exporters. So far the U.S. has failed to act. Can we expect to see the same lack of enforcement with Mexico?

D. *Relaxation of U.S. Trade Laws Will Be a Feature of the FTA.* The U.S. has relaxed U.S. trade laws under its FTAs with Israel and Canada, which has the result of stripping U.S. industries of many protections provided in U.S. trade laws from unfairly or injuriously traded imports. There can be little doubt that Mexico will demand the same exemptions. In the case of Mexico, however, loss of these protections would present major problems for many U.S. industries.

² World Footwear, "Country Survey: Mexico," March/April 1989, p. 29.

³ Ibid., p. 30.

⁴ Ibid. p. 29.

⁵ Ibid.

E. Discussion of an FTA with Mexico Should be Postponed. The results of the Uruguay Trade Round and its impact on U.S. manufacturing are not a known quantity. Until the results of the Round are evident, the U.S. should hold off on the many other trade initiatives that have been spilling forth in recent months, such as a U.S.-Mexico FTA. It is particularly foolhardy to press forward with the FTA when the results of the Round are unknown and the U.S. is in a major recession.

V. CONCLUSION

FIA opposes an FTA with Mexico for the reasons stated above. We are also concerned about a U.S. policy that would force many domestic footwear producers to shift production to Mexico or close up their operations altogether. There will clearly be winners and losers if an FTA with Mexico is agreed to. Much of U.S. manufacturing will fall in the "loser" category. This will be particularly the case for the domestic nonrubber footwear industry.

STATEMENT OF THE GOVERNMENT OF THE COMMONWEALTH OF PUERTO RICO

I. INTRODUCTION

Mr. Chairman and Members of the Committee, it is my pleasure to present this statement on behalf of the Government of the Commonwealth of Puerto Rico to the Committee regarding the proposed free trade agreement between Mexico and the United States. This statement will discuss the economic impact of the proposed free trade agreement on the rum industry of Puerto Rico and on the economy of Puerto Rico in general. Specifically, the proposed agreement would place the rum industry of Puerto Rico at a tremendous competitive disadvantage, with serious economic consequences to the Commonwealth of Puerto Rico.

Puerto Rico is cognizant of the important economic and political implications of the proposed agreement between Mexico and the United States. However, Mexico is a nation rich in natural resources, with vast territorial expanses and an advantageous geographical location, affording its products direct land access to the rich consumer markets of the United States. Extending to Mexico the benefit of duty-free treatment for its rum products (and other distilled spirits) would place Mexico at a considerable competitive advantage over rum produced in Puerto Rico.

II. THE IMPORTANCE OF THE RUM INDUSTRY TO PUERTO RICO

The Puerto Rican rum industry is a major contributor to the economy of Puerto Rico. The industry employed about 780 workers directly in 1988 and produced an additional 1.53 jobs in supplier industries. When the multiplier effects of these well-paid workers' consumption spending are also taken into account, an additional 4.05 jobs are created for each direct job in the industry.¹ Thus, it is estimated that in 1988 the industry was responsible for over 3,900 jobs on the island. For a densely populated island of 3.3 million U.S. citizens, with few natural resources, an unemployment rate of about 14 percent and a per capita income of less than one-third of the overall U.S. average, the continued operation of this industry is of great importance.

As shown in the table below, sales of Puerto Rican rum in the U.S. market have declined in recent years so that in 1989 they represented only about 80 percent of total rum sales in the United States.

¹ Puerto Rico Planning Board, *Multiplicadores de Empleo, Tipo I Y II*, Puerto Rico 1981-82 San Juan: 1990. (For sector 20820 Alcoholic Beverages and Malt.)

RUM CONSUMPTION IN THE UNITED STATES²

	<u>1987</u>	<u>1988</u>	<u>1989</u>
Sales (9 liter cases, in thousands)	13,451	13,335	13,138
Sales in proof gallons ³ (1.9 PG/case)	25,557	25,337	24,962
Proof gallons imported from P.R	21,824	20,951	20,193
Puerto Rican rum share of market	85.4%	82.7%	80.9%

In a period in which total rum sales are declining, Puerto Rico's share of that increasingly smaller market is also declining. In addition, other pressures are threatening continued volume shrinkage, including an increase in the Federal excise tax on distilled spirits, negotiations on General Agreement on Tariffs for proposed reduction on import duties, and the proposed Andean Trade Preference Act which would allow duty-free imports of rum from Bolivia, Colombia, Ecuador, and Peru.

III. MEXICO'S LIQUOR INDUSTRY

The Economic Development Administration ("Fomento") has attempted to obtain information regarding the size and capacity of the Mexican liquor industry. Unfortunately, the Mexican trade representatives in the U.S. have not provided any information. The International Trade Commission ("ITC") is working on a report on the Mexican rum industry which is expected to be available shortly. The only published statistics available on the industry date back to 1981 when Mexico reported that its annual production of distilled spirits amounted to 136,160,000 liters.⁴

While this information is outdated and certainly understates the present capacity of Mexico's distilleries, it does provide a sense of the size of the Mexican liquor industry. The 1981 annual production figure, converted into gallons, is equivalent to 36,000,000 wine gallons. Therefore, assuming an average distilled spirits production of 190 proof gallons per wine gallon distilled, Mexico's 1981 production capacity was 68,400,000 proof gallons per year.⁵ In contrast, the 1990 production capacity of Puerto Rico distilleries is estimated at 21,000,000 proof gallons per year.⁶ Consequently, even in 1981 figures the Mexican production capacity was almost four times Puerto Rico's current capacity. The huge Mexican advantage in production capacity would likely be much greater if actual 1990 production figures were available.

Furthermore, the Mexican liquor industry is more broad based than the Puerto Rican industry. While liquor production in Puerto Rico is limited only to rum, the liquor industry in Mexico includes the production of rum, brandy, and tequila. Although actual production statistics by category are not available, the

² Jobson's Liquor Handbook, 1990 Edition, pp. 105-109.

³ A proof gallon is a standard wine gallon multiplied by its alcoholic proof.

⁴ Un Industrial Stats. Yearbook, 1987, vol. II.

⁵ Assuming an average of 1.9 proof gallons per case, the 1981 production capacity of Mexico is equivalent to 36,000,000 cases per year.

⁶ Assuming an average of 1.9 proof gallons per case, the 1990 production capacity of Puerto Rico is equivalent to 11,000,000 cases per year.

table below indicates what industry sources approximate as Mexico's annual production:⁷

Brandy	10,000,000 cases
Rum ⁸	7,000,000 cases
Tequila ⁹	3,000,000 cases

The table below presents the U.S. market for these products (in thousands):

	Rum	Brandy	Tequila
<u>Total market</u> ¹⁰	13,138	7,387	4,048
Volume change vs. prior year	(1.5%)	(1.0%)	3.5%
<u>Produced in:</u>			
<u>Puerto Rico</u>	81%	--	--
<u>United States</u>	--	60%	--
<u>Mexico</u>	--	4%	100%
<u>Others</u> ¹¹	19%	36%	--

While rum and brandy suffered volume declines in 1989, tequila, which by legal definition can only be produced in Mexico, experienced "the greatest consumption increase in the distilled spirits business."¹² Thus, Mexico is protected by law in being the exclusive producer of tequila, and now because of the proposed duty-free treatment of spirits, it would also be in a position to overwhelm the U.S. market with inexpensive rum¹³ and brandy by using its vast production capability. In fact, this advantage would be magnified when consideration is given to the other competitive advantages which Mexico enjoys, as discussed below. Furthermore, duty free treatment of tequila will provide Mexico with additional profits, allowing its industry to better compete in the U.S. liquor market. This, in turn, provides additional pressure on the already shrinking U.S. liquor market, particularly for U.S. and Puerto Rico produced spirits.

⁷ Refers to production for local consumption only.

⁸ Of this volume, Bacardi Rum produced in Mexico accounts for nearly 90% of total.

⁹ Represents tax paid production of tequila. Bootleg production is suspected to be much higher.

¹⁰ Volume in 9 liter cases. Source: Jobson's Liquor Handbook, 1990 Edition.

¹¹ Included in "Others" is the production of the U.S. Virgin Islands which accounts for almost 10 percent of the total rum market.

¹² Jobson's Liquor Handbook, 1990 Edition, pp. 114-117.

¹³ Bacardi, which accounts for almost 80 percent of all rum from Puerto Rico sold in the United States, is also the largest rum manufacturer in Mexico.

IV. MEXICO'S COMPETITIVE ADVANTAGE OVER PUERTO RICO

In addition to superior production capacity, the spirits industry of Mexico enjoys several advantages primarily due to the inapplicability of a number of U.S. statutory requirements.

A. Transportation Costs

Mexico's favorable geographic location affords its products direct land access to key consumer markets in the southern and western portions of the United States. In addition, Mexico has easy land or rail access to the remaining U.S. markets. Puerto Rico, however, must first ship its products to the United States, with the remaining transportation to consumer markets being done by land or rail. This disadvantage is amplified by the fact that all shipments to the United States are required by law to be in U.S. bottoms, which are much more expensive than foreign ships. Puerto Rico rum producers estimate that ocean transportation adds, depending on the port of entry, between \$1.00 and \$1.25 per case of spirits.

B. Environmental Compliance

The cost of complying with U.S. environmental laws is so great that in 1985 the second largest rum producer in Puerto Rico chose to discontinue operations rather than make the considerable investment in waste treatment facilities which was required. The closing of this distiller and bottler resulted in the loss of over 300 jobs in Puerto Rico.

C. Minimum Wage

The hourly wages in Mexico are considerably below the U.S. federal minimum wage which applies to Puerto Rico, as well as the fifty states. The rum industry has long been established in Puerto Rico and its wages were actually \$6.54 per hour in 1988, well above the federal minimum.¹⁴

D. Mandatory Payroll Taxes

Federal and Puerto Rico laws also add additional labor costs through mandated payroll taxes such as social security, disability, unemployment, etc.

E. Other Statutory Obligations

In addition to the above, distillers doing business in Puerto Rico are also subject to a number of other costly compliance requirements such as OSHA, mandatory overtime wages, vacation and sick leave, equal employment opportunities, health insurance, etc. Those provisions are not known to be common provisions in the Mexican industry.

F. Available Natural Resources

In addition to the above list of statutory cost advantages, the liquor industry in Mexico has a significant advantage over rum producers in Puerto Rico in terms of their source of raw materials. The rum industry in Puerto Rico must import well over 90 percent of the molasses and 100 percent of petroleum needed to produce rum.

The sugar industry in Puerto Rico is no longer viable given the cost of labor and other aspects of the local market. Thus, molasses are imported from several countries including

¹⁴ Puerto Rico Dept. of Labor and Human Resources, Census of Manufacturing Industries, 1988, SIC 2085: "Distilled liquor, except brandy."

Mexico. Puerto Rico rum producers estimate that the import cost of a gallon of molasses adds an additional 33 to 50 percent to the cost of a gallon of molasses.

Puerto Rico has no petroleum production at all. Thus, the cost of petroleum is much higher in Puerto Rico. This is true not only because it is imported, but because it must be of low sulphur content, as required by environmental laws.

Thus, any liberalization of import duties on Mexican rum, coupled with Mexico's already considerable competitive advantages, would likely result in a serious decrease in sales of Puerto Rico rum in the United States. The ultimate effects would be the loss of revenues to the Treasury of Puerto Rico and the loss of jobs for U.S. citizens in Puerto Rico.

V. CONCLUSION

The proposed U.S.-Mexico free trade agreement would, if approved, provide a tremendous advantage to the Mexican liquor industry. Such benefits would be extended without consideration for the negative economic impact of the proposed agreement on the less developed economy of Puerto Rico. Such an agreement would result in irreparable harm to the rum industry of Puerto Rico and to U.S. citizens residing in Puerto Rico.

STATEMENT OF GRUPO GAMESA

This statement is submitted on behalf of Grupo GAMESA of Garza Garcia, Mexico, Mexican manufacturers and exporters of a large variety of food products including cookies, crackers, wheat pastas, flour, cooking oils, baby food and candies, we hereby submit our comments in support of the negotiation, under expedited procedures, of a Free Trade Agreement with Mexico. Our clients believe that a Free Trade Agreement between Mexico and the United States would be beneficial to the economies of both countries, and to the processed food industries of both, and would not have an overall adverse impact in either country.

As Mexico's primary export market and largest supplier of imports, the United States is Mexico's most important trading partner. U.S. exporters currently enjoy a share of approximately 68 percent of the Mexican import market. Moreover, the physical proximity of the two countries makes it impossible for the two to act in isolation from one another. Given this background, it is in the interest of both countries to conclude a Free Trade Agreement which will strengthen the economies of both the United States and Mexico, and which will encourage the development of stronger economic, political and social ties between the two countries.

Recent reforms undertaken in Mexico demonstrate the country's commitment to opening its markets and to becoming a competitive member of the international trading community. A Free Trade Agreement will further open Mexico's markets, and will help Mexico to develop to its full productive potential. Already, trade between Mexico and the United States has increased by 75 percent since 1986. Trade between the two countries amounted to nearly \$52 billion in 1989, an 18 percent increase over 1988. U.S. exports to Mexico increased by 21 percent between 1988 and 1989, while imports from Mexico grew by 17 percent. Overall, U.S. exports to Mexico have increased by 108 percent since 1986. U.S. foreign investment in Mexico now amounts to \$12 billion, representing 60 percent of the value of total foreign investment. The tremendous expansion of trade between the United States and Mexico in the few short years in which Mexico has sought to reform its trade policies indicates that very significant potential for further growth exists. The elimination of the remaining barriers to trade between the two countries through a Free Trade Agreement is the best means by which to further expand the opportunities for each.

In considering the value of a Free Trade Agreement between the United States and Mexico, it is important to remember that such an agreement would present significant opportunities for creative businessmen on *both* sides of the border. Clearly,

the elimination of barriers to trade would open markets not only for Mexican exporters, but would also provide an important opportunity for U.S. businesses to expand their own markets.

A Free Trade Agreement between the United States and Mexico will greatly enhance the investment opportunities in Mexico. In the past, Mexico was largely closed to foreign investors—businessmen seeking to invest were forced to go through lengthy approval procedures and were greatly limited in terms of the amount of their investment. Mexico has now recognized that such an approach was shortsighted, and ultimately would only thwart Mexico's continued development. Mexico has consequently made very significant changes in its foreign investment laws, which now allow foreign investors to own up to 100 percent of a concern, and which provide for automatic approval of investments of up to \$100 million.

A Free Trade Agreement will, of course, open the Mexican market to even greater investment from abroad. Due to the complementary nature of the economies of the United States and Mexico, U.S. businesses are in a unique position to take advantage of the opportunities which will arise as Mexico's economy continues to grow. Mexico is in great need of new technology, financing and management assistance which will allow Mexico to fully develop a modern industrial base. Much of this will be imported from the United States, the country's largest trading partner. As development progresses, trade in services will also play a crucial role. Expansion of trade in services is a key area in which a Free Trade Agreement could provide substantial benefits to U.S. companies. In particular, service sectors such as trucking, insurance, banking and securities may gain entrance into the Mexican market, which is currently closed to them. As Mexico seeks to become a more active participant in global policymaking and continues to expand and modernize its industrial base, the U.S. service economy will recognize significant gains as well.

An improved industrial infrastructure will, over time, bring greater prosperity to Mexico and to the Mexican people. The population of Mexico is expected to grow to 100 million by the year 2000. The more prosperous this population is, the greater the demand for consumer goods, and for U.S. imports in particular, will be. Mexico will not become a significant consumer of imports until its overall economic condition improves, and it is therefore a mutually-advantageous proposition to assist in Mexico's development.

The proximity between the United States and Mexico make it natural that there should be a trade alliance between the two countries. Mexican consumers are already quite familiar with U.S. goods, and, as their purchasing power increases to point where they are able to purchase more imported goods, they will turn first to American products. U.S. companies therefore have an advantage in terms of recognition. They also enjoy an advantage over other industrialized nations in trading with Mexico in terms of their transportation costs, which permit more rapid and less costly delivery. Mexico therefore presents an ideal market for U.S. companies seeking to expand their markets outside the United States.

While Mexico's easing of import restrictions and tariff barriers has certainly made exporting to that country easier, as evidenced by the tremendous growth in U.S. exports to Mexico since 1986, a Free Trade Agreement which creates export and investment opportunities for both countries is essential if both are to reap the maximum benefits from their trade relationship. Mexico represents a tremendous opportunity, but it is one which must be developed. A Free Trade Agreement presents the best means by which to encourage the development of the Mexican economy and marketplace, which will also benefit the U.S. economy.

The Mexican economy is still in the process of recovering from years of financial difficulty. Until very recently, the country was plagued by extremely high inflation and unemployment. Unemployment remains at 18 percent even today, and Mexico's debt level is the second highest in the developing world. Although Mexico is further advanced than many other developing countries, it is nonetheless still in the process of developing an infrastructure which will support significant expansion. Mexico continues to require significant capital inflow to increase the standard of living of its citizens. It is in the best interest of the United States to ensure that the welfare of the Mexican consumer continues to improve, for it is in that improvement that the benefit to the United States of a Free Trade Agreement with Mexico lies.

Increased prosperity in Mexico should also benefit the United States by alleviating the problem of illegal immigration. Per capita gross domestic product in the United States is about \$20,000, while per capita GDP in Mexico is only about \$2,000. Many Mexicans have, in the past, left the country due to the shortage of adequately-compensated jobs at home. This exodus of productive labor will continue unless jobs are created within Mexico and the gap between the two countries in per capita GDP is closed. President Salinas has stated that Mexico seeks to export goods, not

people, and it is in fact in the best interest of both countries that more jobs be created within Mexico. A Free Trade Agreement would increase export opportunities in Mexico, which would in turn create more jobs in Mexico, and would eventually lead to higher wages in Mexico. Higher employment, higher wages, as well as the increase in foreign exchange resulting from exports will, as noted previously, give Mexican consumers more disposable income with which they can purchase U.S. goods exported to Mexico.

It is crucial to remember that Mexico is seeking to become a fully industrialized country and to give its people a better standard of living. Mexico is not seeking to increase exports as an end in itself—if Mexico were to increase exports while keeping wages low, the country would remain underdeveloped. It is essential that Mexico increase productivity in order to enable the country to compete not only in the United States, but also with the rest of the developed world, while improving employment opportunities and living standards at home. Mexico's encouragement of foreign investment in advanced technology and improvements in infrastructure reflect its desire to improve the productivity of its work force, which will allow wages to rise without increasing inflation. The United States should not, therefore, be deterred from entering into a Free Trade Agreement with Mexico based on the current disparity in wage rates.

For the foregoing reasons, Grupo GAMESA urges the Senate Finance Committee to support the negotiation of a Free Trade Agreement between the United States and Mexico and to support the use of expedited procedures for its negotiation and enactment.

STATEMENT OF CHARLES R. HARRIS

I, Charles R. Harris, salute the gentlemen of the Congress of the United States and, as a sovereign citizen of our nation, offer the following testimony to beseech the Congress NOT to authorize any free trade agreement with the United Mexican States unless and until it first assures that:

1. U.S. citizens will be protected from the existing condition in Mexico which will force them to support corruption of justice, or lose their investments.

2. The President of Mexico has demonstrated definite evidence of fulfilling his own promise to investigate and eliminate corruption of justice in his country, specifically by satisfactorily resolving all existing complaints of injustice from U.S. citizens.

To prove the critical need for the above protection, and to verify the existence of the corruption, by my own free will I hereby place myself under oath to tell the truth under penalty of perjury and do now testify as follows:

My nine-year nightmare began shortly after I went to Morelia, Michoacan, Mexico to learn Spanish at a school recommended by American universities, prior to investing.

I was persuaded to loan the equivalent of 105,000 dollars to the Mexican school, whose director was a U.S. citizen, and whose president was the wife of the Chief Justice of the State Supreme Court. I trusted them because the chief justice himself assured me everything was correct and legal, and I believed a chief justice and American universities would not support swindlers.

I was wrong. I spent the next nine years trying to get my money back through the Mexican "judicial" system—in spite of threats, blackmail and an attack by unknown men who told me to get out of the country. Please see the following enclosures, which along with all other enclosures are incorporated into this testimony by reference:

A. Verified list of court cases in Mexico, from Associated Lawyers (Abogados Asociados).

B. Summary of Events, Lawsuits and Complaints of Mexican Injustice

Three Mexican lawyers betrayed me, and every—repeat EVERY—lawyer I consulted in Mexico informed me in his own way that I could not hope to win unless I bribed the officials and the judges, that is, unless I "interested them in my case." Please see enclosure:

C. Political cartoon from *La Voz de Michoacan* regarding Mexican justice.

I was trapped in a corner with only two options: bribe the judges—support the corruption—or lose my life savings.

To lose everything I'd invested and saved for twenty years in the military was unthinkable. I let myself be persuaded to follow the accepted custom, even though I knew the other party could always defeat me by paying the judge more.

But fellow victims in Mexico gradually persuaded me I should not have abandoned my principles: I was supporting the tyranny of injustice against the Mexican people. See enclosure:

D. Summary of experiences exchanged with the Mexican people.

From then on I wanted no part of the corruption. It was wrong to pay a judge for justice: it denies justice to all who cannot pay.

It was even worse to do nothing: "The only thing needed for justice to die is that just men do nothing."

I searched for a third option. My Mexican friends begged me not to fight it. They warned me of the methods usually used and readily available to discourage me and, if necessary, make me have an "accident" or disappear. One even put it in writing. See enclosure:

E. Personal letter from a Mexican friend.

Determined to fight, I needed to protect myself from further attacks or kidnappings. I decided to put myself in the spotlight, where it would be harder to make me disappear. Fellow writers and friends in the press came to my aid. Please see enclosure:

F. Article published in the national newspaper, *Ovaciones* (with translation).

The publicity got favorable action until Carlos Salinas de Gortari was elected President of Mexico and events turned unfavorable again. This time, instead of paying judges I paid newspapers. I bought ads and published the names of officials who were not doing their jobs for lack of "interest." I even appealed to Presidents Bush and Salinas. Please see enclosures:

G. Paid announcement requesting justice from Governor of Michoacan (with translation).

H. Paid announcement requesting investigations of ethics and injustice from Presidents Bush and Salinas (with translation).

I. Paid announcement declaring I will pay no official for justice because it denies justice to all who cannot pay (with translation).

The Presidency of Mexico responded to my public request (enclosure 'H') by requesting that the Secretary of State investigate the injustice and report. See enclosure:

J. Letter from the Presidency of Mexico, "Oficio 15363."

Two full years later, no investigation has been made and all my registered requests for a copy of the report or any response from the Presidency, the Department of State, or the Mexican Ambassador remain unanswered and unacknowledged. I believe I have been abandoned. Not even the American Embassy in Mexico City has indicated any response whatsoever.

For nine years, through more than a dozen civil court cases and fraud investigations, I received decisions and sentences which are unbelievable and laughable, except for their tragic consequences. Please see enclosure:

K. Letter published in *The News de Mexico*.

The Supreme Court of Michoacan—after reviewing the testimony of all witnesses verifying that everything had happened in Mexico, and knowing the U.S. had already declined jurisdiction—declared jurisdiction to be in the United States. Now jurisdiction and justice exist nowhere.

I believe I am being punished for challenging the Mexican system of bribing judges for justice. I believe that any future American investors—attracted by a free trade agreement or misled by articles like "Mexico's New Revolution"—will also be punished, if they do not support the corruption. See enclosure:

L. Letter to *The Reader's Digest* protesting the omissions in its article: "Mexico's New Revolution."

My nightmare is only one of many. Businessman Richard Flynn spent over three years in a Mexican jail for voluntarily going to Mexico to correct a problem between his company and a Mexican company. He suffered numerous heart attacks in that jail and threatened to sue the U.S. State Department when it did nothing to help him. To save his life he succumbed to supporting the corruption, and the Mexican Supreme Court released him. Mr. Flynn personally advised me: "If you don't pay the money, you're screwed." See enclosure:

M. Newspaper clipping about Richard Flynn.

Dr. V.H. Vedda, President of Petroco Incorporated, also advised me to forget about help from the U.S. Embassy and forget about doing business in Mexico: "it's too corrupt." See enclosure:

N. Letter from Dr. Vedda published in *The News de Mexico*.

To lure Americans into an immoral trap with an inadequate trade agreement would in itself be immoral and unethical.

Considering all the above, I beseech the Congress once again to NOT authorize a free trade agreement with Mexico until it can assure that U.S. investors will not be trapped into only two options: support corruption or lose your investment. No third option now exists. (Even a letter from the Presidency did me no good. Even petitions from the Alliance For The Defense Of Human Rights, of the United Nations, were ignored.)

To this end, as a precondition to a free trade agreement, I specifically beseech the Congress to require a show of good faith from the President of Mexico: proof he is keeping his promise to correct the corruption by satisfactorily resolving all existing complaints of injustice from U.S. citizens.

I certify all the above, including all referenced enclosures, to be true to the best of my knowledge, and I stand ready to cooperate fully with the Congress to protect my fellow Americans.



Lic. Francisco Ambríz Barcenás
5 de Febrero Núm. 667
Tel: 3-32-27
Morelia, Micho.

FRANCISCO AMBRIZ BARCENAS
A B O G A D O

Morelia, Michoacan, Mexico, 7 February 1991

TO WHOM IT MAY CONCERN:

I hereby certify that this law office, Associated Lawyers, is counseling and litigating for Mr. CHARLES RICHARD HARRIS in the following lawsuits:

680/83 "Ejecutivo Mercantil": involving a fictitious promissory note invented by adversaries of Mr. Harris and his former lawyer and presented in the name of his Mexican godson and his mother against his interests. No sentence was given in this case because we desisted from the action in front of the First Civil Judge.

558/86 "Averiguacion Previa Penal": Mr. Harris charged Mr. Padelford with the crime of fraud. The State Attorney General of Michoacan closed the investigation saying it found no fraud. We appealed this decision and the Attorney General changed his opinion but closed the investigation again saying jurisdiction was in the United States. It was done by the Second Agency of The Public Ministry, Mesa No. Nine.

1205/87 "Diligencias de Jurisdiccion Voluntaria": Mr. Padelford consigned seven million pesos as full payment of the debt to Mr. Harris of over 700 million pesos. A former lawyer of Mr. Harris collected the money without power of attorney as payment in full. All this was done without the knowledge of Mr. Harris in front of the Fourth Civil Judge.

226/88 "Medios Preparatorios de Juicio": Harris demanded information from the former lawyer, Lic. Benito Andrade, to prepare to make formal charges against him for Abuse of Confidence. He also demanded that Andrade return the money he illegally collected to the judge, which Andrade did not do. In front of the Second Civil Judge.

99/88 "Averiguacion Previa Penal": Harris charged Andrade with the crime of Abuse Of Confidence. The investigation was closed by the Attorney General of the State saying no crime was committed. An appeal produced the same decision by the Second Agency of the Public Ministry, Mesa No. Nine.

467/88 "Pago de Honorarios": Attorney Andrade demanded that Harris pay him honorariums for the money he had illegally collected. The First Civil Judge declared that Harris confessed to owing the money because he did not arrive from the U.S. in time to personally deny the false charges.

I-46/89 "Apelacion": Harris appealed to the Supreme Court against the decision of the First Civil Judge in the above case 467/88. The Fifth Civil Sala denied the appeal and confirmed the sentence.



Lic. Francisco Ambríz Bárcena
 5 de Febrero Núm. 667
 Tels: 3-32-27
 Morelia, Mich.

FRANCISCO AMBRIZ BARCENAS
 abogado

Page two: Morelia, Michoacan, Mexico, 7 February 1991

1070/89 "Ordinario Civil": Harris demanded an accounting from Attorney Andrade concerning his mandate and his actions. Andrade scheduled a hearing while Harris was in Spain delivering a letter from President George Bush to the Marines dedicating a building in honor of a Marine Medal Of Honor Winner. Harris asked that the hearing be postponed because of his Just Cause for being absent. The Third Civil Judge denied his Just Cause and declared that Harris had confessed for not being present.

1117/89 "Ordinario Civil": Harris demanded payment of Padelford for the debt incurred by him, his wife, and his school. The Third Civil Judge declared that jurisdiction was not in Mexico but in the United States, though nothing occurred in the U.S.

III-8/89 "Personaria de Abogados": Padelford demanded that the court declare that our firm did not have power of attorney and that Harris was in Mexico without authority to make lawsuits. The Eighth Civil Sala of the Supreme Court denied both charges in our favor.

I-31/90 "Apelacion": Harris appealed to the Supreme Court against the decision of the Third Civil Judge that he did not have a Just Cause for postponing the hearing. The Eighth Civil Sala supported the decision against us.

I-92/90 "Apelacion": Harris appealed the sentence of the Third Civil Judge in case 1117/89 above saying that jurisdiction was not in the U.S. because everything happened in Mexico and asking that the sentence be reversed and the case be tried in Mexico where everything had transpired. The Seventh Civil Sala of the Supreme Court upheld the sentence that jurisdiction was in the U.S.

32/90 "Exitativa de Justicia": Harris complained formally to the Supreme Court for excessive delay of justice, demanding that the Third Judge Civil reach a decision in the 10 days prescribed by law, since nine months had already passed. The Chief Justice issued Oficio # 2552 on 13 December 1990 ordering the judge to reach a decision.

(number pending): Harris appealed to the Eleventh Federal District Court asking that the sentence in case 1117/89 above be reversed because jurisdiction existed nowhere, not in Mexico and not the United States, and therefore justice was being denied to him.

I am extending this document at the request of Mr. Harris and for whatever purposes he may deem necessary.

Sincerely,


 Attorney Francisco Ambríz Bárcena
 Abogados Asociados, 5 de Febrero # 667,
 Morelia, Michoacan, Mexico (3-32-27)

For the investigation by the Secretary of State of Mexico, requested by "Oficio 15363" from the Presidency of Mexico, and for testimony to the United States Congress:

**SUMMARY OF EVENTS, LAWSUITS
AND COMPLAINTS OF MEXICAN INJUSTICE
AGAINST U.S. CITIZEN
CHARLES RICHARD HARRIS**

The summer of 1981: To prepare himself to invest in Mexico, Harris went to Morelia, Michoacan, Mexico to study Spanish in a Mexican school named CECEMMAC, recommended by American universities and directed by a U.S. citizen, Victor W. Padelford.

On the First of September 1982 the life savings of Harris were converted from 105,000 dollars to roughly 7 million pesos by the nationalization of the Mexican banks. Padelford offered him a way to recuperate his dollars: he would repay Harris in dollars, if Harris would loan his pesos to the school. Harris trusted him because the president of the school was the wife of the Chief Justice of the Supreme Court of Michoacan.

The chief justice himself assured Harris everything was completely legal, and Harris believed a chief justice and American universities would not support a swindler.

In the Morelia school building on 29 September 1982, Padelford gave Harris a promissory note (purporting to be written in the U.S.) and three postdated checks to cover the full amount of the two-part loan. The checks were written against the U.S. bank account of the Mexican school, and payment was to be made at its U.S. office in Lynnwood, Washington.

When the first two checks came due the bank informed Harris by phone that there were insufficient funds to cover either check. Padelford asked Harris to hold the checks and return to Mexico to renegotiate payment.

Civil Case 680/83 "Ejecutivo Mercantil": In Mexico the first lawyer to betray Harris filed a lawsuit against the third and latest Mrs. Padelford, a Mexican citizen. This lawsuit was false, and completely against Harris' interests. It involved a fictitious Mexican note invented by Padelford and the lawyer. The phony lien did not involve Harris, but it incriminated his friends: his Mexican godson and his "comadre", the mother of his godson. The two were told it was "extra collateral for Harris" and deceived into cooperating. The lawyer then told Harris that his friends would go to jail, if he told the truth.

This phony lawsuit was not only used to gag Harris and threaten his friends, it was also used as an excuse to cancel the two past-due checks; attempt to nullify the final check; and to discredit Harris by claiming he was trying to collect twice.

His hands tied, Harris offered generous terms to escape the trap: extending payment for ten years, and canceling all interest. Padelford rejected it. The lawyer also refused to desist from the phony lawsuit -- saying that Harris' friends must pay for losing, and neither they nor Harris had enough money.

Padelford insisted that Harris sign a new agreement -- which would effectively cancel the debt -- or the school would disappear.

Harris returned to Mexico to get a restraining order to keep the school from disappearing without paying him. The day before this action, he was attacked and kidnapped by unknown men, advised to get out of Mexico, and reminded that his godson and comadre would still be in Mexico.

Fleeing Michoacan, Harris wired confidential telegrams asking for protection and help from the U.S. Embassy and the Governor of Michoacan, Cuauhtemoc Cardenas.

A few days later the school disappeared and reorganized under Padelford and new shareholders as "Epicentro / Centro Mexicano de Idiomas". (It has since changed again to "Centro Mexicano Internacional".) A few weeks later the chief justice mysteriously resigned. Nothing was ever heard from the U.S. Embassy.

Litigation in the United States was impossible. The proper Washington Prosecuting Attorney wrote that Padelford had not defrauded Harris in that state; everything had occurred in Mexico. Lawyers also turned him down. There was no one to sue. Padelford had nothing in his name. The school was Mexican; its Washington bank account was canceled; the Washington office still called itself CECEMMAC but did not represent the defunct school (it also has since disappeared). [Certified documents supporting the above are available in the file of the Appeal against I-92/90 in the Federal District Court in Morelia.]

Harris' comadre begged him by mail and telephone to return to Mexico and help them get the phony note back, to free them from Padelford's threats. Harris appealed to the universities for help. They refused to answer him and sent more students than ever to Padelford's new school. Appeals to the government and the church were equally unsuccessful.

Because all his beliefs in government, universities, the church and justice were destroyed, Harris felt suicidal and returned to Mexico. Afraid to go to Morelia, he went to Mexico City and requested help from the Attorney General. This failed because Harris could not tell the whole truth for fear of incriminating his comadre and godson. For lack of money (Padelford had everything but Harris' military pension) and lack of any contingency to offer for surrendering, no Mexico City lawyer would help him.

At a dead end, he returned to the U.S. to appeal once more to the universities, hoping they would pressure Padelford to behave morally and ethically. While he was gone, on 19 September 1985, an earthquake hit Mexico City and Harris' hotel was destroyed.

Investigations in the State of Washington uncovered more victims. Professors from Shoreline Community College and others had lost investments when Padelford's previous school in Mexico (Instituto Cultural Tenochtitlan) mysteriously disappeared, and Padelford took the money and started CECEMMAC. Other victims revealed that another school of Padelford (Instituto Cultural Guadalajara) had also disappeared under mysterious circumstances. Civil judgments already existing against Padelford were uncollectible since he has nothing in his name in Washington or Mexico.

Further investigation revealed two prior marriages, charges of non-payment of child support, and an outstanding warrant for Padelford's arrest: Washington State vs Padelford # 81-1-03665-8 for illegal imprisonment. [Certified copies of the judgments and the warrant are on file in "Averiguacion Previa Penal # 558/86".]

In October 1985 Harris slipped back into Morelia feeling like a coward for not being able to free his godson and comadre. With the help of friends he finally located a lawyer who agreed to desist from the phony lawsuit. Harris borrowed money and endorsed travelers checks for 1,000 dollars as a guarantee of payment to Padelford's lawyer for winning. Harris' new lawyer gave him a note agreeing that the checks were endorsed to his godson only and would not be cashed without his consent.

He became the **second lawyer to betray Harris**. When Padelford's lawyer declined his honorarium because he'd since become a judge, Harris' lawyer cashed the travelers checks into his own bank account, without the godson's knowledge; asked the judge to give the phony note back to Padelford instead of to the comadre and godson; and advised Harris not to take any action against Padelford. To get his evidence back, Harris had to accept the lawyer's false claim of 1,000 dollars in nonexistent expenses. (The lawyer turned out to be a relative of a Padelford employee.)

When Harris discovered the second betrayal, Padelford charged him with defamation in Mexico because he'd informed American universities of his history and the warrant for his arrest. Harris received a summons and his first ex-lawyer contacted him, warning him to flee the country because defamation is a criminal offense in Mexico. Frightened, Harris rapidly looked for a new lawyer.

Unknown to Harris, his third lawyer was recommended by a covert friend of Padelford. In spite of his reputation for being a mafia lawyer, Benito Andrade gained Harris' confidence by tricking the judge into giving the phony note to him instead of to Padelford. He increased Harris' confidence by telling him his comadre and godson were now completely out of danger, truth was not defamation in Mexico, and he was free at last to fight.

558/86 "Averiguacion Previa Penal": Attorney Andrade helped Harris present charges to the state attorney general against Padelford for fraud. He told Harris he must pay the officials or they would not investigate. Nearly a year later, while Padelford did business as usual, not in the least worried about going to jail, Harris got suspicious. When Andrade said the attorney general was going to prosecute and demanded more money to bribe the judge, Harris investigated. He found the fraud file, under dust, right where he'd presented it nearly a year before.

Harris revoked Andrade's power-of-attorney and gave power to Associated Lawyers, recommended by the father of his godson, his "compadre".

His new, and present, lawyers presented an amplification to change the fraud charges presented by Andrade, saying they'd been written in favor of Padelford not Harris. They also prodded the attorney general's office to investigate and call in witnesses.

Even though all Mexican lawyers Harris had consulted had informed him that any lawyer who does not bribe officials and judges can not function in the Mexican system, Harris insisted he would pay no judge for "justice". He believes it denies justice to all who cannot pay.

Instead, Harris bought space in newspapers and named officials who didn't do their jobs. His new lawyers agreed to respect his wishes, but warned he would probably lose.

Allowed to see the complete fraud file for the first time, Harris finally discovered how Padelford had managed to discredit him. In his defense Padelford had presented depositions and letters, written by him and an American friend, a lawyer, claiming that Harris was extorting Padelford with a phony Mexican note, and trying to blackmail him into an illegal peso-dollar scheme. Harris now had grounds for defamation against Padelford, but was advised to postpone action.

1205/87 "Diligencias de Jurisdiccion Voluntaria": When Padelford learned witnesses were being called in to testify, he secretly consigned 7 million pesos to a civil judge as full payment of the debt. This was a breach of the agreement to pay Harris in dollars. It was also a ripoff, since inflation had raised the peso amount of the debt with interest to nearly 700 million pesos. Padelford asked the judge to notify Attorney Andrade to accept the money for Harris. Andrade, with a revoked power-of-attorney, immediately accepted the 7 million pesos as full payment of the nearly 700-million-peso debt. Andrade put the money in his own bank account and never notified Harris.

Harris and his new lawyers did not find out until they were told the fraud investigation had been closed because the debt had been paid: "the elements of fraud were not present".

Associated lawyers helped Harris reject the unauthorized acceptance and had the judge order Andrade to return the money. Andrade returned all but 20 per cent to the judge, claiming it was his honorarium.

226/88 "Medios Preparatorios de Juicio": Associated Lawyers then helped Harris present a "demanda" to the court to obtain information needed to prepare criminal charges against Andrade.

99/88 "Averiguacion Previa Penal": Harris presented charges to the attorney general of the state against Andrade for the crime of Abuse of Confidence.

467/88 "Pago de Honorarios": To counter Harris' criminal charges against him, Andrade made a civil "demanda" against Harris to pay him an honorarium of 20% for collecting the debt — money which Andrade already had, since he'd refused to return it to the judge. Andrade then had the judge give Harris three days to personally appear to contest his allegations. Harris, in Arizona, was not notified in time, and the judge declared he had confessed by his absence, and awarded the decision to Andrade.

1-46/83 "Apelacion": Harris appealed the above decision in the supreme court because the physical evidence outweighed his "absent confession", but the sentence was upheld against him.

The attorney general then closed the criminal investigation against Andrade saying he had every right to collect the money, since he had never been notified personally by the Notary Public about his power being revoked. Harris learned for the first time that Public Notary 13 — also the owner of the building Padelford rents for his new school — had indeed failed to notify Andrade personally, as he'd been paid to do.

Harris appealed and asked that the investigation be reopened because the attorney general himself had been notified officially in writing that Andrade's power had been revoked and -- in the same document -- he'd been instructed to restrain Andrade from any further action on Harris' behalf.

Harris also protested the closing of the investigation on the grounds that none of the other charges had been addressed: Andrade's disobeying a judge; collecting pesos instead of dollars; and never notifying Harris of any collection.

Also, because the attorney general had stated there was no evidence in the file that Andrade's power had been revoked, Harris requested he be allowed to inspect the file to see if the official notification had been "lost".

The investigation was not reopened, the other charges were ignored, and permission was never given to inspect the file.

About the same time Harris had appealed to the attorney general to reopen the investigation of Padelford for fraud. He also appealed to the new governor, with the help of the national newspaper *Ovaciones*, to review the file. Governor Villicana sent the file to the new chief justice for a second opinion. The chief justice differed with the attorney general.

Before the attorney general reacted, Carlos Salinas de Gortari was elected President of Mexico and appointed Governor Villicana to his cabinet, replacing him with Lieutenant Governor Figueroa.

Under Governor Figueroa (whom Padelford claims as a friend) everything changed. This time the attorney general -- though he'd closed the investigation the first time for not containing "the elements of fraud" -- closed it the second and final time for lack of jurisdiction. He decreed the case belonged to the United States because Padelford had agreed to pay there. Harris objected because the place of payment was part of the fraud: neither it nor the bank account existed. But the attorney general was the final authority and all legal appeals had been exhausted.

Harris appealed to the President of Mexico, Carlos Salinas de Gortari, which resulted in Oficio # 15363 from the presidency, asking that the Secretary of State investigate the injustice and furnish a report. (Two years later there is still no report and the Presidency has answered none of Harris' registered letters of inquiry.)

1070/89 "Ordinario Civil": At the same time Harris demanded a formal accounting from ex-attorney Andrade, to explain why he had accepted 7 million pesos as payment in full for checks in U.S. dollars equivalent to nearly 700 million pesos. Andrade tried the same trick of scheduling a personal appearance for Harris when he knew Harris would be in Spain delivering a letter from President Bush honoring Medal-Of-Honor winner Jose Francisco Jimenez, and then would be attending the plenary session of the Arizona-Mexico Commission with the governors of Arizona and Sonora before his return.

Harris asked for a postponement of the personal hearing for "just cause" until his return. Though Harris later presented his passport stamped by the Spanish government, a copy of the letter from President Bush, and the formal invitation to the plenary session from the Governor of Sonora; the judge decided Harris did not have a just cause for postponing the

hearing, and declared Harris had confessed — by his absence — to not giving Andrade any checks to collect in dollars.

1-31/90 "Apelacion": Harris appealed to the state supreme court to have the decision reversed on the basis that he had indeed presented evidence of a just cause for postponing the hearing, but the court upheld the civil judge against Harris.

32/90 "Exhitativa de Justicia": Harris complained formally to the supreme court for excessive delay of justice in case 1070/89. Allowed 10 working days to reach a decision, the judge had already delayed nine months. Harris is still waiting [as of March First 1991] to see if his "absent confession that the checks do not exist" outweighs the physical evidence of the checks themselves, and if Andrade must account for his actions.

1117/89 "Ordinario Civil": Harris demanded payment by Padelford for the debt incurred by him, his wife, and his school.

III-8/89 "Personaria de Abogados": During case 1117/89 above, Padelford tried to have Harris' lawyers disqualified, then have the case thrown out because Harris was not authorized to file lawsuits in Mexico as a tourist. Harris appealed to the American Embassy which could not answer the question. He researched the problem through various agencies of the Mexican government in Mexico City and learned that Padelford himself was probably in Mexico illegally, protected by Mexican officials.

19/DIM/90 "Denuncia Migratoria": Harris presented a "denuncia" against Padelford to Mexican Immigration charging he had applied for residency in Mexico with a false petition, by failing to declare the judgments against him and the order for his arrest. [Over a year later there is still no report of any investigation, and the Presidency has answered none of Harris' inquiries.]

In case III-8/89, the supreme court declared that Harris' lawyers did have legal power of attorney and that Harris had the right to litigate in Mexico. This is the only action Harris ever won.

In case 1117/89, the judge, after reviewing the testimony of all witnesses verifying that everything had happened in Mexico — and aware that the U.S. had already declined jurisdiction — declared that jurisdiction was in the United States. He also absolved Padelford of the debt in Mexico.

1-92/90 "Apelacion": Harris appealed the above decision to the state supreme court on the grounds that everything had happened in Mexico, and asked that the sentence be reversed. But the court upheld the decision against Harris.

(Number pending) "Apelacion": Harris appealed to the Eleventh Federal District Court asking that the sentence in case 1117/89 be reversed, because now jurisdiction exists nowhere. Jurisdiction and justice have been denied him.

Harris believes he is being punished for challenging the system of bribing judges for justice. He further believes future American investors will also be punished, if they do not support the corruption. For Congress to lure Americans into such a position, through a free trade pact, would be immoral and unethical.

Los Vericuetos del Caso Braun

salvo MARTRE
El Universal

...o que se respete, publica
lectores envían como res-
ta a sus conceptos supues-
veridos en reportajes.
los de fondo. En apego a
versal publicó una carta
le. Enrique Fuentes León
mi artículo del 27 de di-
en el cual yo le exhibía
le de los cohechos a dos
cuito y a uno de la Su-
icha carta del sábado 7 de
ster en cuestión lo que
era columnador publicó
azandome con un juicio
ón, ya que su buen nom-
publica quedaba en

el arrastrado tono de la
loda que el abogaster
anda a primera hora del

serencia respuesta inme-
ponque prefería esperar
ontestar en estas páginas
sterno Público que se en-
riguación, «Oportunidad
verle tragar sus palabras
la! Por otra parte, el caso
tuno público, iba adqui-
sionales. Más valía espe-
los acontecimientos me-
ción hoy, ya se verá por

o asunto de la concesión
que obtuvo su libertad el
Braun Díaz no es sino
as de la corrupción que
que pone de manifiesto
ores de la misma
de Fuentes León como
le la corrupción que co-
sana haría suponer que
l largo reparto. Pero no
a doce años de represen-
tos foros legales, pero es
le da el crédito que me-
la familia de la niña
abogados, por numero-
por todo el mundo, que
entes León intervino dis-
compra del amparo, se
de la administración de
ntes León contando con
presidentes del Tribunal
cia del D.F., Salvador
Jernentina Gil de Lester,
sca. Así lo hue saber por
artículo ya citado. Sa-
león del comodoro mecon
de movió los hijos de la
staxa y poniéndolo en el



escaparate nacional. Por estos días, el cono-
cado prestanombre, Sergio Bolaños está en
chirona acusado de evasión de impuestos.
Restatira Fuentes León una auditora fis-
cal de la SHCIP. El caso la exige a gritos!

La culpa de origen es la pignoración de
la justicia como resultado de venir nom-
brando como ministros de la Suprema
Corte a la chatarra política, premiando la
ineptitud, la corrupción y el fracaso, los as-

nombrados hacen lo mismo, desajustados y jueces a sus incondicio-
más méritos que la influencia o e
oprobio, ascendiendo a los pillo
dolos sin vigilancia, queriendo ig-
compromisos y su tren de vida inco-
con los ingresos licitos, tolerando li-
mes de abogasteros como Fuent
basadas en tráfico de influencias o
venta en dólares.

La impunidad aunada a su con-
gencia, creó proclividad al exhibi-
en Fuentes León, sus estancias en
Excelsior de Roma, las ostentosa-
la oficina de los magistrados, su
Chilpancingo, sobre todo aquel di-
era de sesión pero que el mando
extraordinaria para que el secreta-
lara a Braun, cuando la sentencia
no terminada ni firmada.

De investigar todo esto se enc-
Procuraduría General de la Repu-
lo pronto, los magistrados del Tribu-
gado del vigésimo primer circuito
Arredondo y Eufemio Zamudio, y
sados, no son la notable y sospech-
lancia del recién ratificado presi-
Suprema Corte, Carlos del Río,
que también fueron aprehendidos-
investigados por la PGR, según la
ción previa 10 / 89, tampoco ha-
la licencia concedida al minist-
SCJN Ernesto Díaz Infante, re-
de la aprobación del amparo ge-
por Fuentes León ante los citados
dos Arredondo y Zamudio en fav-
generado Braun. Por lo pronto, ta-
puesto pes en pohorosa el aboga-
lujosísimo despacho en Polanco
rrado y la demanda con que me-
nuncia fue presentada, qué listir

De este modo, los hechos n-
razón, todos los calificativos adju-
Le. Enrique Fuentes León y so-
plenamente justificados, en mi a-
27 de diciembre no hay columnis-
odio, ni inquina, sólo el desmeda-
poner en evidencia los términos
socio corruptor para coadyuvar
dida de mis modestas posibilida-
municador público, a que la impu-
la justicia no sea vulgar (inquiete
en el que gana quien más dinero t
un proceso limpio, transparente,
imparcial y gratuito.

Si a las primeras de cambio
gangsters como Fuentes León se li-
de la barra de abogados, se les ca-
patente de corso, no se darían tar-
chormosos casos de corrupción d
cua. Menos mal que con este asu-
dan los primeros pasos en ese sen-
dondo Zamudio y Díaz Infante n
carcel. Si. Pero también Fuentes
„por qué no“, también sus altos pr

BEST AVAILABLE COPY

SUMMARY OF EXPERIENCES
EXCHANGED WITH THE MEXICAN PEOPLE

As a fellow victim, Mexicans have been trusting and confiding in me for the last nine years. In all 31 states of Mexico, in restaurants, homes and the halls of "justice" we've been swapping experiences.

I told them how the Mexican judicial system has treated me, and they told me how it has treated them.

In the process they explained why they are not impressed by our preaching about freedom, democracy, prosperity and peace. "Without justice," they summarized, "none of these things are possible. Without justice, nothing is possible ... except corruption."

To prove it they told me how false charges are filed against them and judges are paid to put them in jail -- stealing their freedom. How false liens are put on their farms or homes and judges are paid to take their property. How they vote in a democratic way and their votes are lost or stolen. How peace is impossible because victims must fight to protect themselves. How prosperity is impossible, except for the rich and powerful.

They were discouraged and complained that they are doomed to lives of the rich getting richer and the poor getting poorer, because "justice" exists only for the rich.

They were not enthused by the proposed free trade agreement. "It will be," they said, "the same as our oil bonanza. Only the rich will get rich again."

They were worried that justice will be pushed even further from their grasp, if America and its investors support the corruption.



Mr. Charles R Harris

Hi Chuck! How are you? I hope all is well with you.

I received your letter yesterday. It was a real shock to see the ad you put in 'L'AVE'. You know, I think you have to be doubly careful now. Benito Andrade is the kind of guy who doesn't stop for anything and is a firm believer in the saying: 'the end justifies the means'. On the other hand, I don't think either Susana Palafox's husband (I don't remember his name) or Padelford are going to be totally passive about the measures you've been taking. I think it'd be a good idea if you could be inconspicuous most of the time. The problem is that you are way too obvious in Mexico.

Before I forget let me give you my address (which is the old one) and my phone number

Ave. Apt. #5
-29.

Ph # (:

I'm :

just :

Well, :

for :

take up to 4 m.

Ed. Juarez to do the work.

PERSONAL

THE FINAL PARAGRAPH

number in my

we have to visit
ew. That may
are to go to
the mountain

Things go. Take good care of yourself. Give your family my best regards.
Alrighty, I think I'll let you go. Sharna says hello.

Remember,

This class is making me fully understand why Americans complain so much about the IRS. Are they ever tough! (I) my class is on Tuesdays and Th 9 to 12. I confess I like It's really challenging.

PERSONAL

This week she had her a appointment with a 14th of this month. six's had this allergy to it's worsened. Even tho' seen here for over a year I still don't say I will. I stay here long enough. I hope that won't happen.

Going back to the ad situation. It really freaked me out, Chuck. You're playing with fire and you should treat it as such. I don't know, but I think your life is at stake and I frankly don't like it one bit. It would really upset me if anything happened to you. You're my friend and you worry me, you know? So be very very careful. And if anything, think how much it's really worth it at the end. It's your life that's in danger. I really hope things work out fine for you and mostly that nothing happens to you. Remember what the Jewish father told his son: Don't trust anybody - Not even your father. Apply this in Mexico. It was nice to hear from you. Let me know how

mero
ánchez Tello
las
icipales

del Estado de México la des- titución del primer comandante de la policía municipal debido a los múltiples atracos, extor- siones y forajidos que cometen los elementos a su cargo. Aplican la ley sup. a los de- lincuentes hay 18 detenidos que lograron huir.

José y Paz Jiménez, comandante de la policía municipal, a este lugar fue señalado como responsable de los cotidianos actos de abusos de autoridad desde el di- rectivo de enero que fue nombrado por el exgobernador Francisco Rosas.

Los vecinos inconformes encabezados por Sergio Acosta comentaron que sus demandas hechas ante el presidente municipal Francisco Rosas no tienen eco, pues no ha hecho nada por solucionar el problema de la seguridad pública en la localidad y a ello, dijeron, se deben los constantes asaltos a tiendas, casas habitación y comercios.

De los atropellos cometidos por la policía urbana municipal destaca la ley que se aplicó a los detenidos en los últimos dos meses han sido baleados por los uniformados un total de 30 ciudadanos de los cuales 18 se encuentran lesionados, el resto de ellos lograron salvar la vida por milagro o tal vez por la mala puntería de los penitenciers, señalaron los vecinos afectados por contar con malos servidores públicos. Por esta causa solicitaron al coronel Héctor Hernández Tello su intervención.

Michoacán
Millonaria
inversión para
combatir el
analfabetismo

Por Jorge HIDALGO LUGO

MORELIA, Mich. — Un presupuesto superior a los 3 mil millones de pesos se invertirá este año en los programas que llevará a cabo el INSA con lo que se espera alfabetizar a 186 mil adultos mayores de 15 años en Michoacán.

Mediante un convenio que fue firmado por el gobernador Martínez Villacorta, el director nacional del INEA, Fernando Zaruche Muñoz, se establecieron las metas antes señaladas para así reducir el índice de analfabetismo en la entidad de un 8 a 3 por ciento, nivel marcado por la UNESCO como el permisible.

ovaciones
Sección a cargo de LILIA ARELLANO

En Michoacán

12 MAY 88

Inversionista norteamericano
defraudado por "tarascos"

MORELIA, Mich. — El gobernador de Michoacán tiene en sus manos el destino de todos los ahorros — casi 300 millones — de un estadounidense que quiso de buena fe invertir en México y que fue engañado hace ya seis años.

La historia del caso está tan plagada de malas maniobras legales, "bogados, coyotes y funcionarios coludidos, que la supuesta víctima, Charles R. Harris incluso ha escrito un libro donde narra sus penurias, infructuosas dentro del complejo sistema legal mexicano.

"Vine a Morelia para aprender español, pero todo acabó en una pesadilla

cuando el director de una escuela de idiomas para extranjeros me robó todos los ahorros de mi vida", explicó Harris en su español entrecortado.

Se luchado durante seis años pero ellos tienen todas las ventajas a su favor. Habían español y tienen mucho dinero incluyendo el mío", afirmó Harris. "Ahora lo único que me queda es mi pequeña pensión como veterano del Servicio de Guardacostas norteamericano".

A menos que el gobernador Martínez Villacorta le tienda una mano a Harris seis años de viajes en autobuses de segunda, de aprender español, de oficinas de funcionarios de

segunda y gestiones ante las autoridades mexicanas y norteamericanas están por concluir en su contra, ya que en lugar de que le paguen los 117,972 dólares que se le defraudaron, quieren forzarlo a que acepte cuatro mil dólares y que olvide el asunto.

El largo peregrinar del norteamericano de 48 años de edad se inició en septiembre de 1982 cuando el dueño de la escuela de idiomas para extranjeros CECEMMAC, Victor W. Padeford, Wayne — también norteamericano — le convenció de que le prestara los 105,000 dólares para pagar unas deudas y remodelar la escuela — un edificio colonial en el centro de

Harris no dudó en entregar el dinero después de saber que la presidenta de la escuela Susana Gómez Pateford, era la esposa del presidente del Tribunal Supremo de Justicia de Michoacán, Eduardo González Vázquez.

A cambio del préstamo — la totalidad de los ahorros de Harris — recibió dos pagarrés y tres cheques que nunca pudo cobrar. Durante casi cuatro años Harris no hizo nada para recuperar el dinero porque él asegura que el dueño de la escuela, Padeford había amenazado en forma indirecta con encarcelar a dos amistades del veterano guardacostas por supuestamente haber fungido como "prestamombres" para una letra de cambio ficticia que había logrado hacerlas firmar.

Harris eventualmente acudió a las autoridades norteamericanas quienes le informaron que no podrían hacer nada para ayudarle ya que su caso era sólo jurisdicción de las autoridades mexicanas, aunque después de largas negociaciones logró enterarse que de hecho Padeford era buscado también en Estados Unidos, donde se le acusaba de un secuestro y unas sentencias sumarias por no haber pagado otros préstamos hechos por (Pasa a la Página 8)



Charles Harris examina los pagarrés y cuatro cheques sin fondos que no puede presentar a su juez penal porque su demanda contra una escuela de idiomas, por fraude fue archivada. En las páginas tiene un libro de copias de documentos que implicaron al ex presidente del Supremo Tribunal de Michoacán y su esposa y que también incluye las sentencias de una corte superior contra el vicepresidente de la escuela, con una orden para su aprehensión en E.E.U.U.

manamente enferma de corrupción, precisamente con la misma promesa de delitos mayor botín.

La dolorosa realidad de nuestro país — todo el mundo lo sabe, que practicar delito que el dinero no pueda excusar a agentes de Ministerio Público y jueces, es la que da origen a la cuestión, puesto a delinquir y obtener la exención de mediante el soborno. Así, de nada sirve cuando su interpretación queda a criterio que aprovechan su cargo personal.

Eso mismo lo saben y bien quienes delito su modus vivendi, simplemente son delincuentes, y otra vez a los delincuentes que de nada sirve muchas veces que groseros de la ley sean procesados, si, meses, sin importar la magnitud de su libertad. Pesos más, pesos menos. E mientras se haga uno indebido de la acción penal, la población continuará hambrienta.

Efectivamente el día en que se a delincuentes interesados y se sancione haciendo purgar las penas merecidas, tortos se aborrecerán de cometer delitos, en la medida que se establezcan en Mi populares y sea realmente efectivo el Código de Procedimientos Penales y defensas. Esto es, quien defendiendo a familia o su patrimonio lesione o ultime no podrá ser privado de su libertad. Por caso, hay quienes después de incurrir en esa naturaliza han tenido que sufragar para obtener el cumplimiento de respo trinando lo expresado por la ley.

En consecuencia, será propiamente cuando sea posible ver disminuí la eno que hoy nos agobia. Sólo que, eso difícil, pues implicaría matar la gallina de oro... Y eso es mucho pedir.

SERA VERDAD

¿Qué el pagado nro de los victimas FLORES MUÑOZ y esposa, está a punto liberar, pese a que actuó con premeditación? ¿Habrá recordado ya su salubridad de la defensa?

PROPAGANDA EXTRAVIADA

El lunes de la semana anterior se reunieron en la sala de juntas del PRI, Reyes Heróles, donde asistieron los 40 diputados y los 40 asambleístas divididos en zonas del D. F., presida por el com encabeza GUILLERMO JIMÉNEZ MC para sorpresa de todos hubo un tema generalizado de falta de propaganda candidato.

Al revisar las listas de la propaga, constaba había sido entregada como viseras, posters, pasacalles, adhesivos, etcétera, se descubrió que gran parte, aparecía por ningún lado, despertando los sospechas de una fuga con destino a

Hechas las averiguaciones del caso, que buena parte de la propaganda s entregado a personas apócrifas supuestas por los candidatos en una bodega del Metro Observatorio controla secretaria de Propaganda a cuyo jefe FERNANDO NUÑEZ. Asimismo, se presentas informaron que habían recibido agencias de varias agencias privadas ofreciéndoles en venta artículos de candidato presidencial, así como sus diseñarles y elaborarlos con su nombre pedían 3 millones de pesos) aduce enviados por el arquitecto MERCADO coordinador nacional de Propaganda, Subsecretaría. Además lo cinco del mismo agentes les entregaban listados de propaganda del candidato presidencial pedales" y de entrega inmediata, ha pregunta entre los asistentes a la reunión propaga que hace falta", porque pa (Pa

BEST AVAILABLE COPY

madera en 2,800 hectáreas, principalmente en Sierra de Mazatlán, Cerro de Tecuila en los municipios de Villa Guerrero y Colotlán, entre otros.

El ingeniero Julio de la Mora Rázura, subdelegado

fue el que usó una superficie de 110 mil hectáreas principalmente de pastos, arbustos y sólo un 20 por ciento de árboles adultos, durante los cerca de 3 mil incendios registrados en el país.

Inversionista...

(Viene de la Página 7)

norteamericanos que invirtieron en otra escuela de idiomas que estableció en Mazatlán y que poco después cerró misteriosamente. El director de dicha escuela también acusó a Padefford de quitar fondos indebidamente de la segunda escuela, para esconderlos en la tercera escuela: CECEMMAC.

Padefford poco después volvió a repetir el esquema según Harris. Abrió la escuela en Morelia, CECEMMAC, recibió el préstamo de Harris y al poco tiempo lo cerró, abriendo otra escuela con otro nombre para evitar que le cobraran el dinero.

Para hacer las cosas más contundentes, cuando Harris trató de bloquear esta acción, un grupo de golpeadores desconocidos lo asaltaron el 19 de agosto de 1984, lo llevaron tirado en la calle con una contusión cerebral. CECEMMAC cambió de nombre. Epicentro: Centro Mexicano de Idiomas.

Pero Harris insistió. Acudió al entonces gobernador Cuauhtémoc Cárdenas quien le pidió al presidente del Tribunal Supremo que resolviera el caso, acción que resultaba irónica ya que el Juez González Vázquez, tesorero de CECEMMAC, era el esposo de la presidenta de CECEMMAC, una asociada del propio acusado.

La última decisión legal deja muchas dudas sin aclarar. Para cerrar el expediente de Harris (Averiguación Previa Penal 48/8986) Padefford convenció al abogado de la

parte acusadora, Benito Andrade, para que aceptara un pago de 7 millones de pesos con los cuales supuestamente quedaba cubierto el adeudo de casi 300 millones de pesos. El arreglo curiosamente se realizó en diciembre pasado, casi siete meses después de que el propio Harris había revocado el poder legal del abogado Andrade sospechando que le podría hacer perder el caso.

Ahora le informa la procuraduría del estado que su expediente está cerrado y por eso Harris intenta hacer que el gobernador, por lo menos revise su caso y su expediente, ya que está seguro que con elio Martínez Vilcaña se convencería de la justa demanda del norteamericano.

"Espero que no haya trabajado toda mi vida para nada. Vine con el deseo de invertir mis ahorros en México en algo que fuera de provecho y continué pese a todo queriendo a este país, espero que se me haga justicia", aseguró Harris mostrando su largo expediente, sus cheques de hule y las decenas de decenas de testimonios que ha recogido en su largo peregrinar.

"Mi última esperanza es ahora el gobernador ya que nadie más quiere escucharme", aseguró Harris agregando que a últimas fechas su lucha se ha complicado porque Padefford ha logrado aparentar con éxito en Morelia que es una especie de consul honorario del gobierno norteamericano, cosa que el consul general de Estados Unidos ha negado vigorosamente.

Interés de parlamentarios...

(Viene de la Página 2)

beneficiar a por lo menos 52 mil cañeros de la República Mexicana.

Incluso reveló que recientemente estuvo en Hungría, país donde firmó el mencionado documento de acusación.

Aseguró González Gortázar, quien también es diputado, que este último

especialista húngaro para elaborar los estudios de factibilidad, uno para zonas tropicales en la Cuenca del Papásoopen y otro en la región subtropical del ingeniero ubicado en Tala, Jalisco.

Finalmente, González Gortázar informó que durante una reunión celebrada recientemente en Filipinas acordó la

Estados de los estados

(Viene de la Página 7)

que una empresa arriesgue su inversión fabricando material propagandístico sin tener la certeza de ser vendido.

Descubierta la irregularidad posteriormente se supo que son 5 las agencias publicitarias autorizadas por NUNEZ para venderles a los candidatos con su correspondiente 15 por ciento de comisión...

CUANDO HAY MODA

A manera de ilustrar mejor cómo opera dicha Subsecretaría, obtuvimos la siguiente información.

Consta de 5 coordinaciones bajo la responsabilidad del citado Arq. MERCADO, de un licenciado NIETO (administrativa); la de Producción a cargo de JOSÉ MANUEL MURILLO, la de Análisis y la de Medios a cuyo frente está DALINDA FLORES... Las oficinas se encuentran en la calle de Arizona en la colonia Nápoles, donde laboran más de 50 empleados (muchos de ellos egresados de la IBERO), la mayoría percibe sueldos superiores al millón y medio de pesos mensuales. Cuentan con 2 computadoras IBM, además de una docena de vehículos...

Entre las anomalías detectadas están un desperdicio cuantioso en originales desechados; producción parada y presupuesto sobregado. Amén del retraso en los pagos a proveedores, así como el pago de un servicio de monitoreo nacional de radio y T. V. a una empresa privada a un costo tan exorbitante como inútil...

Encontrándose además que tanto las instalaciones como el personal del diseño gráfico están dedicados al diseño de propaganda para candidatos a diputados y senadores sin ser esa su función. Lo que lleva a suponer arreglos particulares.

LO NEGRO DE LA POLÍTICA

Dicen dos conocidos refranes populares: "De todo hay en la vida del señor" y "En todas partes se tuéstan habes", ambos forman parte de un todo que nos puede aplicarse a cuanto sucede alrededor de los humanos...

El primero supone una fuente inagotable de sucesos, el segundo expresa su generalidad. Por así decirlo son complementarios...

Algunos casos como los que se dan con cierta frecuencia en esta bella Júpiter, ya sea por las plagas que inclusive han acabado con la capacidad de sembrar que aún quedaba... Obviamente nos referimos a aquellos hechos que no debían formar parte del modus vivendi, y aún de la idiosincrasia de sus nativos... Sino de la picaresca mexicana...

En fin, a continuación, proseguiremos con varios temas que tienen un denominador común: este es el Impudor con que actúan algunos mal llamados "servidores públicos" cuyos actos y decisiones muestran en todo su esplendor el primitivismo e impunidad que prevalece en nuestro suelo patrio hoy en día...

SIGUEN BASTOS

Mas para el oriente del país concretamente en Nuevo León esta semana se dio a conocer otro sonado caso, en esta ocasión se trata de un abuelo primo del gobernador cuyo nombre es JOSÉ TREVINO CANAMAR, especialista en hacer obras inestables por las que cobra cientos de millones de pesos dedicados, según se recalca, por quienes se imaginan... El cochupito hubiera pasado inadvertido como tantos otros negocios que hacen, si no fuera por el pleito que agarraron el ex director del resto de Guadalupe JOSÉ R. GARZA con su victimario el municipio ADÁN LOPEZ y ya saben, surge la confirmación de otro dicho que dice "peleasen las cosas y díganse sus verdades"...

Total que, por enésima vez se cometa un ilícito de esta naturaleza, todo gracias a don JORGE TREVINO que cobra como gobernador, se ocupa más de practicar su francés con sus colaboradores directos, que en atender esas minucias... ¿Quién lo creyera?...

DEL CENTRO

comenzar a trabajar en Salinas de Norte, municipio de Lugo Guerrero que de primera visualización se había sido y que académico mudo de alumnos de docente.

A fin de donde se los Remec Canal del Golfo fue aborreporteros señaló que hacer periodista sidades.

Nuestro casa de para que s tara e enseñanza y en materias o mandadas: vez sean m las gene egressen universidad.

Recalca: las univers pueblo y c profesio: quiere e necesita l su desarro.

A ot concreta, hidalgues ganará el umas, por siempre l mejores l cargo popular.

Positi

(Viene de la general, barra, se delcomae: positaron: pesos, dine fundación dind") el ins En un a: destruyó taliciones Guillermo II a su inform y en éste cuenta con de mil milic lce cuales 300 millone Luis especificó invertidos de pesos c que se u: tiones de l instituto m: Aclaró c to se para: con él se cosas de.

Translation of article appearing in Mexico's largest-circulation daily newspaper, OVACIONES, on Thursday 12 May 1988.

In Michoacan

AMERICAN INVESTOR DEFRAUDED BY "TARASCOS" *

FOTO CAPTION:

Charles Harris examines the promissory notes and four checks without funds which he cannot present to a penal judge because his complaint against a language school for fraud was closed. On his lap he has a book of document copies that implicate the ex Chief Justice of the Supreme Court of Michoacan and his wife, and which also includes Superior Court Sentences [King County, Washington] against the vice president of the school, with an order for his arrest in the U.S.

* "Tarascos" are citizens of the Mexican state of Michoacan.

Translation of article in OVACIONES (Mexico's largest-circulation newspaper)
published Thursday 12 May 1988.

In Michoacan

AMERICAN INVESTOR DEFRAUDED BY "TARASCOS"

MORELIA, Michoacan. -- The Governor of Michoacan has in his hands the destiny of all the savings --almost 300 million [pesos]--of an American who came in good faith to invest in Mexico but was deceived for over six years.

The story of the case is so plagued with dirty legal tricks, lawyers, coyotes and officials in collusion that the supposed victim, Charles R. Harris has even written a book where he narrates his precarious and unfruitful journey through the complex Mexican legal system.

"I came to Morelia to learn Spanish, but everything ended up in a nightmare when the director of a language school for foreigners robbed me of my life's savings," Harris explained in his hesitant Spanish.

"I fought for six years but they have everything to their advantage. They speak Spanish and they have a lot of money, including mine," Harris affirmed. "Now the only thing I have left is my small pension from the American Coast Guard."

Unless Governor Martinez Villicana gives Harris a hand, six years of traveling in second-class buses, dozens of waiting rooms of lower level bureaucrats and petitions to Mexican and American authorities are about to end against him, because now instead of paying him the \$117,972 dollars that they defrauded from him, they want to force him to accept \$4,000 dollars to forget the whole thing.

The long journey of the 58 year old American began in September of 1982 when the owner of the language school for foreigners CECENMAC, Victor W. Padelford [Wayne]--also American--convinced Harris to loan his \$105,000 dollars to

help pay some debts and remodel the school--a colonial building in downtown Morelia.

Harris had no suspicions about loaning the money after knowing that the president of the school, Susana Gomez Palafox was the wife of the Chief Justice of the Supreme Court of Michoacan, Eduardo [Eudoro] Gonzalez Vasquez.

In exchange for the loan--the complete life's savings of Harris--he received two promissory notes and three checks which he has never been able to collect. For almost four years Harris did nothing to recouperate his money because he was convinced the owner of the school, Padelford, had indirectly threatened to jail two friends of the Coast Guard Veteran for supposedly being "name-loaners" because of a fictitious promissory note which they had been talked into signing.

Harris eventually went to American authorities who informed him they could not help because the case was in the jurisdiction of the Mexican authorities, even though after a long investigation it was learned that Padelford was also wanted in the U.S., where he is accused of kidnapping and ^{RECEIVED} some summary sentences for not having paid other loans made by (Turn to page 8)

INVESTOR. . .

(Continued from page 7)

Americans who had invested in another school of languages that he had established in Mazatlan [Mexico] and which later closed mysteriously. The director of the school also accused Padelford of illegally removing funds from this second school and hiding them in his third school: CECEMMAC.

Later Padelford tried to repeat the scheme according to Harris. He opened the school in Morelia, CECEMMAC, received the loan from Harris and later closed it opening another school with another name to avoid paying the debt.

TRANSLATION page 3

To make things even more complicated, when Harris tried to block this action, a group of unknown thugs assaulted him the 19th of August 1984 and left him in the street with a concussion. CECEMMAC changed its name: Epicentro/ Centro Mexicano de Idiomas.

But Harris insisted. He went to the then-governor Cuauhtemoc Cardenas who asked the Chief Justice of the Supreme Court to resolve the case, an ironic action since Judge Gonzalez Vasquez, Treasurer of CECEMMAC, was the husband of the President of CECEMMAC, an associate of the accused. ★

The latest legal decision is almost incredible without explanation. To close Harris' complaint file (Preliminary Penal Investigation 558/986), Padelford convinced the ex-lawyer of Harris, Benito Andrade, to accept a payment of 7 million pesos which supposedly would be full payment of the 300 million pesos. This the lawyer did last December, almost seven months after Harris had revoked his power-of-attorney, suspecting he was trying to lose the case.

Now the Attorney General of the state has informed Harris that the case is closed, and for that reason Harris petitioned the governor to at least review his file, being sure that it will convince [Governor] Martínez Villicana that his claim is just.

"I hope I haven't worked all my life for nothing. I came with the desire to invest my savings in a non-profit fund, and I continue to love this country in spite of everything; I hope it gives me justice," Harris said showing his huge file, his rubber checks and his dozens of dozens of documents that he's collected during his long journey.

"My ultimate hope is that now the governor will hear me," Harris said adding that lately his fight has been complicated because Padelford has claimed with some success in Morelia that he is some sort of honorary American Consul, which the Consul General of the United States denies vigorously.

(End)

★ LESS THAN TWO MONTHS AFTER THE ASSAULT, THE CHIEF JUSTICE 'RESIGNED'.

**NOTICE TO THE PEOPLE OF MICHOACAN
REPRESENTED BY THEIR GOVERNOR,
DR. JAIME GENOVEVO FIGUEROA ZAMUDIO**

I solicited the services of Attorney Benito Andrade Guzman to recuperate some money owed to me; and it was in my interest to revoke this power-of-attorney on 13 May 1987.

In spite of this, said lawyer withdrew from the Fourth Civil Court, File No. 1205/987 an amount of money consigned to me, and never notified me; I moved against him judicially to return the money in the Second Civil Court, File 226/987, in which the lawyer returned only part of the money, arbitrarily retaining the rest, which motivated me to present penal charges No. 99/88 for the crime of Abuse Of Confidence against him, submitting all the necessary proof.

IS IT NOT A CRIME for a lawyer to disobey the order of a judge?

IS IT NOT A CRIME for a lawyer to deposit collections, property of a client, in the lawyer's personal bank account, and never notify the client?

IS IT NOT A CRIME for a lawyer to settle a case against the desires of his client?

APPARENTLY NONE OF THESE ARE A CRIME.

This was the decisions of the Assistant Attorney General of Justice for the State of Michoacan, Attorney Eduardo Estrada Perez, on 28 October 1988, official number 2687, of which I was not notified until the 20th of this month.

MR. GOVERNOR: DO YOU AGREE WITH THIS?

I ASK FOR JUSTICE.

CHARLES RICHARD HARRIS
TOURIST

5 de febrero Street No. 687 (Tel: 3-32-27)
Morelia, Mich. 23 January 1989

AVISO AL PUEBLO MICHOACANO
Representado por su Gobernador, el
Dr. Jaime Genovevo Figueroa Zamudio

Solicité los servicios del Lic. Benito Andrade Guzmán para recuperar un crédito que se me adeudaba; y por convenir a mis intereses le revocé el mandato el día 13 de mayo 1987. No obstante la anterior, dicho abogado retiró en el Juzgado Cuatro de lo Civil dentro del expediente No. 1205 / 987 una cantidad consignada a mi favor, lo que nunca me notificó; al enterarme promoví judicialmente la devolución de ese dinero ante el Juez Segundo de lo Civil en el expediente 226 / 988, en donde consignó después de varios requerimientos sólo una parte, reteniendo el resto en forma arbitraria, lo que motivó que le presentara denuncia penal No. 99 / 88 por el delito de Abuso de Confianza con toda las pruebas necesarias.

¿NO ES DELITO que un abogado desobedezca la orden de un juez?

¿NO ES DELITO que un abogado deposite las cobranzas propiedad de un cliente en su propia cuenta bancaria sin notificar a su cliente?

¿NO ES DELITO que un abogado solucione un asunto al contrario de los deseos de su cliente?

AL PARECER NO ES DELITO LO ANTERIOR.

Esta fue la decisión de la Sub-Procuraduría General de Justicia del Estado de Michoacán, Lic. Eduardo Estrada Pérez, el día 28 de octubre de 1988, número de oficio 2687 que me notificaron hasta el viernes 20 de este mes.

SEÑOR GOBERNADOR: ¿ESTA USTED DE ACUERDO?
PIDO QUE SE HAGA JUSTICIA.

CHARLES RICHARD HARRIS
TURISTA

5 de Febrero No. 667 (Tel. 3-32-27).
 Morelia, Mich., 23 Enero 1989.

**FOR PRESIDENTS GEORGE BUSH
AND CARLOS SALINAS DE GORTARI**

I have a right to criticize my government. As a sovereign citizen of the United States the Constitution guarantees me this. Mexicans also can criticize the government of the United States, without fear, with the protection of the same Constitution.

FOR THE PRESIDENT OF THE UNITED STATES OF AMERICA

I protest the deterioration of ethics in the United States. I support your promise to guide us once again to morality.

I ask that you begin with our embassies. Please require that they check the backgrounds of expatriates so they do not support fugitives from justice. Please do not let fugitives represent themselves as honorary consuls of the United States.

I also ask that you guide our schools back to ethics. The Ex-Secretary of Education, William J. Bennett, was right. Our universities do not teach their students ethics. To the contrary, they teach the opposite by their example of supporting fugitives from justice. Even worse, they give an extremely bad example to other countries by having the policy that the dollar is more important than justice.

Mr. President, there is no justice without ethics. Please guide us back to the truth of the last words of our Pledge of Allegiance: "... with liberty AND JUSTICE for all."

FOR THE PRESIDENT OF MEXICO

Please investigate the justice in the State of Michoacan.
(See the lists below.)

**FOR THE ALLIANCE FOR THE DEFENSE OF HUMAN RIGHTS
THE UNITED NATIONS**

**The Honorable Professor Guillermo Moreno Camacho
International Affairs Adviser**

I ask for your intervention to assure me justice.

I'm afraid to trust the justice in Michoacan one hundred percent because of bitter experiences over the past six years.

I am sending copies of my documents, already presented to the Attorney General's Office for its Penal Investigation 558/988 into a language school, CECEMMAC (now CMI, Centro Mexicano de Idiomas), for fraud.

As a student I came to the city of Morelia in 1981 to study Spanish. The director of the school asked me for a large loan. I made the loan because the school was supported by American universities and the president of the school is the wife of the Then-Chief Justice of the supreme Court of Michoacan. I trusted that such institutions would not support swindlers.

However, for six years -- without the advantage of knowing Spanish nor the laws of Mexico -- I suffered very bitter experiences. Here's a partial list.

1. They offered me a building as collateral that they didn't own.
2. They tried to cancel all my collateral with another contract.
3. They canceled two of my collateral checks, without paying.
4. They tried to cancel my only remaining check with a legal trick.
5. They threatened my friends by accusing them of being "prestanombres" (a penal offense in Mexico).
6. They prohibited me from entering the school -- part of my collateral -- cutting communications.
7. They falsely accused me of stealing a document from them to scare me from Mexico.
8. They paid me with checks without funds.
9. They threatened me with legal tricks to force me to change the promissory notes.
10. They threatened me with powerful people to discourage me from litigating.
11. They threatened to make the school disappear, if I didn't change the debt from the name of the school to the name of a person who could declare bankruptcy.
12. I was assaulted by unknown men to scare me from Mexico and keep me from getting a restraining order.
13. They kept me in a state of fear by refusing to answer my letters, which begged them to eliminate themselves from suspicion of being involved in the physical assault against me.
14. The school legally disappeared -- changing its name and address -- to avoid paying me.
15. They tried to control me with threats against my friends.
16. They gagged me by threatening to sue me for defamation to keep me from communicating with the universities.
17. They rejected my offer to cancel all interest payments and extend payment of the debt for ten years in small payments.
18. They tried to stain my reputation to diminish my evidence.
19. They falsely charged me with defamation in Mexico to scare me from the country.
20. I was forced to change lawyers three times because of betrayals.

21. They withheld information about the prior record of the director: for not paying debts; for defrauding investors in the United States; for changing the name and location of another previous school to avoid paying debts; and of the order for his arrest. (The director is now in his second country, with his third wife, and his fourth school.)
22. They tried to cancel the whole debt by paying only 4% as full payment of what CECEMMAC owes me -- by means of another fraud.

I suffered for six years trying to recuperate my life's savings.

Now I am suffering at the hands of officials:

1. Notary Public Number Five refused to revoke the power-of-attorney of my ex-lawyer.
2. Notary Public Number Thirteen -- the landlord of the new CECEMMAC school building -- did not officially notify my ex-lawyer of the revocation of his power-of-attorney, jeopardizing everything.
3. The Attorney General also did not notify my ex-lawyer that he no longer had power-of-attorney.
4. My ex-lawyer collected money consigned to me and never notified me; he's trying to collect honorariums twice; he disobeyed the order of a judge to return the money illegally collected; and tried to cancel the debt of CECEMMAC against my interests.
5. The Assistant Attorney General closed the investigation against my ex-lawyer for Abuse of Confidence, declaring that the lawyer had done nothing wrong.
6. The new Governor of Michoacan did not answer my petition published in **La Vox de Michoacan** on 24 January 1989, where I pleaded for justice.
7. The Attorney General of Michoacan -- in spite of two promissory notes which I cannot collect, four checks without funds, and all the events listed above -- closed the investigation against CECEMMAC, declaring that I was not defrauded.

Mr. Adviser, I have no other recourse except through the penal courts: CECEMMAC disappeared leaving no money. The jurisdiction is in Mexico because CECEMMAC was a Mexican school and everything happened in Mexico.

Please study my documents and investigate these strange situations to assure me justice.

If The Alliance cannot do this for lack of cooperation, please inform your headquarters, The United Nations, so they can investigate and, if necessary, warn the tourists and students.

PARA LOS PRESIDENTES, GEORGE BUSH Y CARLOS SALINAS DE GORTARI

Un grupo de educadores de la zona de Michoacán, en el marco de la Comisión de las Ciencias Sociales...

PARA EL PRESIDENTE DE LOS ESTADOS UNIDOS DE AMERICA

En el momento de la vida moral de la sociedad mexicana se debe de tener en cuenta a la moralidad...

PARA EL PRESIDENTE DE LOS ESTADOS UNIDOS MEXICANOS

Para el momento de la vida moral de la sociedad mexicana...

PARA LA ALIANZA, PARA LA DEFENSA DE LOS DERECHOS HUMANOS ORGANIZACION DE LAS NACIONES UNIDAS

Honorable Profesor GUILLERMO MORENO CAMACHO Asesor de Asuntos Internacionales

Para el momento de la vida moral de la sociedad mexicana...

- 1. No tolerar un sistema como garantía sin ser los dueños. 2. Tratar de cambiar las garantías con otros sistemas semejantes. 3. Cancelarlas de los más débiles de garantías sin pagarlas. 4. Tratar de cancelar las garantías y obtener otros por otros. 5. Anularlas en el momento de las garantías con otros sistemas. 6. No permitir entrar a la sociedad uno de los garantías con otros sistemas. 7. No permitir la entrada de otros en el momento de las garantías y que salgan del país. 8. No permitir que otros entren al país. 9. No permitir que otros entren al país para cancelar las garantías. 10. No permitir que otros entren al país para cancelar las garantías. 11. No permitir que otros entren al país para cancelar las garantías. 12. No permitir que otros entren al país para cancelar las garantías. 13. No permitir que otros entren al país para cancelar las garantías. 14. No permitir que otros entren al país para cancelar las garantías. 15. No permitir que otros entren al país para cancelar las garantías. 16. No permitir que otros entren al país para cancelar las garantías. 17. No permitir que otros entren al país para cancelar las garantías. 18. No permitir que otros entren al país para cancelar las garantías. 19. No permitir que otros entren al país para cancelar las garantías. 20. No permitir que otros entren al país para cancelar las garantías. 21. No permitir que otros entren al país para cancelar las garantías. 22. No permitir que otros entren al país para cancelar las garantías.

- 1. El Gobierno Central no pagó a promotores sus servicios. 2. El Gobierno Central no pagó a promotores sus servicios. 3. El Gobierno Central no pagó a promotores sus servicios. 4. El Gobierno Central no pagó a promotores sus servicios. 5. El Gobierno Central no pagó a promotores sus servicios. 6. El Gobierno Central no pagó a promotores sus servicios. 7. El Gobierno Central no pagó a promotores sus servicios. 8. El Gobierno Central no pagó a promotores sus servicios. 9. El Gobierno Central no pagó a promotores sus servicios. 10. El Gobierno Central no pagó a promotores sus servicios. 11. El Gobierno Central no pagó a promotores sus servicios. 12. El Gobierno Central no pagó a promotores sus servicios. 13. El Gobierno Central no pagó a promotores sus servicios. 14. El Gobierno Central no pagó a promotores sus servicios. 15. El Gobierno Central no pagó a promotores sus servicios. 16. El Gobierno Central no pagó a promotores sus servicios. 17. El Gobierno Central no pagó a promotores sus servicios. 18. El Gobierno Central no pagó a promotores sus servicios. 19. El Gobierno Central no pagó a promotores sus servicios. 20. El Gobierno Central no pagó a promotores sus servicios. 21. El Gobierno Central no pagó a promotores sus servicios. 22. El Gobierno Central no pagó a promotores sus servicios.

Señalamos que el grupo de educadores de la zona de Michoacán, en el marco de la Comisión de las Ciencias Sociales...

CHARLES RICHARD HARRIS

Turkey y Edoardo

Aumentó su Acervo Bibliográfico la Preparatoria Pascual Ortiz Rubic

Desde hace unos días la biblioteca de la preparatoria "Ingeniero Pascual Ortiz Rubic" de la Universidad Michoacana...

Case de Hidalgo Las nuevas adquisiciones contienen temas relacionados con Historia, Redacción, Filosofía, Ética, Literatura, Derecho, Sociología, Gramática, Geografía, Química, Psicología y otras que ya están a disposición de estudiantes y profesores de la institución.

Indicó que este tipo de publicaciones ayudarán a los alumnos a complementar debidamente los trabajos de investigación relacionados con las diferentes materias que cubren el programa de bachillerato en la

Señalo que las publicaciones son realizadas por editoriales como la de la Universidad Nacional Autónoma de México, Siglo XXI, Porrúa, Dzean, Breviario FCE, Efringe, Trillas, Quinto Sol, MacGraw-Hill, Grijalbo entre otras.

PARTICIPAMOS A FAMILIARES Y AMIGOS LA CELEBRACION DE LA EUCARISTIA POR EL DESCANSO ETERNO DEL ALMA DE NUESTRA QUERIDA MADRE

SRA. MA. DE LOS ANGELES GARCIA DE OCHOA

EN LA PARROQUIA DE LA MERCED EL PROXIMO DIA 3 DE FEBRERO A LAS 19 HRS

ATENTAMENTE FAMILIA OCHOA GARCIA

Cd Lázaro Cárdenas, Mich., Enero 31 de 1969

C. PRESIDENTE DE LA REPUBLICA LIC. CARLOS SALINAS DE GORTARI C. GOBERNADOR CONSTITUCIONAL DEL ESTADO DR. GENOVEVO FIGUEROA ZAMUDIO

Las autoridades del Municipio de Lázaro Cárdenas, Michoacán, lamentamos profundamente los trágicos sucesos ocurridos en la localidad de Chirapán de esta entidad el domingo pasado...

A osantos penas se vea la indignación por este cobarde atentado perpetrado por presuntos cardenistas, quienes sin margen de toda racionalidad obedecen ciega y temerariamente los dictados de predilecta cargada de odio contra sus propios hermanos...

Es tiempo ya de fijar responsabilidades y enjuiciar con todo el peso de la ley a los autores intelectuales y materiales de estas crímenes que se ocultan bajo la bandera y en contra de nuestro México.

- DR. FERNANDO URBEGAS RAMIREZ PRESIDENTE MUNICIPAL C. ELOY VELAZQUEZ LOPEZ SERIBICO MUNICIPAL C. CARLOS GARCIA MARTINEZ REGIDOR FELADNO VELAZQUEZ BERNANDEZ REGIDOR ADELFO CORTES ESPINOZA REGIDOR ING. JOE JAVIER FLORES P. ENO DEL H. A PLANTAMIENTO LIC. RICARDO LUNA GUIDO REGIDOR JESUS SALGADO AGUIRGA REGIDOR HUGO SERRA TORRES REGIDOR J. DOLORES PEREZ TAPIA REGIDOR

Translation of announcement in La Voz de Michoacan 10 March 1989.

Licenciado Carlos Salinas De Gortari
Constitutional President of the United Mexican States

You promised to assure justice to all inhabitants of the Mexican Republic, whether citizens or foreigners; since then I have publicly denounced irregularities in the administration of justice in my case. Are you investigating how justice is imparted in Michoacan?

Dr. Jaime Genovevo Figueroa Zamudio
Constitutional Governor of the State of Michoacan

You promised an open administration of government, to listen to the petitions of the inhabitants of the state. By means of a display announcement in La Voz de Michoacan, I solicited your position on very grave questions of justice. You never answered them. Is it possible you're not keeping your promise? And why did you not receive the International Adviser from the Alliance for The Defense of Human Rights? Aren't you interested in human rights?

TRUTH NO LIES YES

As another example of the injustice in Michoacan, I give you the decision of the First Judge of the Civil Court in Morelia, Lic. Jacinto Nava Mendoza: the sentence in the Civil Summary case 467/88 condemned me to pay Lawyer Benito Andrade Guzman for:

1. Jeopardizing my case against Victor W. Padelford Wayne and his school for fraud.
2. Accepting only 4% of the money owed me as full payment.
3. Hiding the collection in his own bank account and never notifying me.
4. Disobeying the order of the Second Judge of the Civil Court.
5. And for trying to collect honorariums twice, because lawyer Andrade already has his 20% honorarium in his pocket by not returning it to the Second Civil Judge, against court order.

How can Mexico keep pace with other civilized countries with justice like that, against the victims and in favor of the rich?

SERIOUS QUESTION: Victor W. Padelford Wayne fled from American justice; why has he no fear and not trying to escape from Mexican justice? The American fugitive, Victor W. Padelford Wayne, is a symbol of Mexican justice.

Why is the government of the State, through its DIF agency, cooperating with Centro Mexicano de Idiomas, it being well known that this center is operated by a fugitive from justice?

MY PROMISES TO THE MEXICAN PEOPLE

With all the money owed me -- by CECEMMAC, Victor W. Padelford Wayne, and Benito Andrade -- I'm going to pay my expenses and just honorariums; then I am donating all the money, including the interest, to a charity dedicated to helping the Mexican people. (I don't need 400 million pesos for myself, when, in the streets behind the cathedral, I see children anxiously eating rotten banana peels from the garbage.) That's why I have no interest in the money, I AM FIGHTING ONLY FOR JUSTICE.

I promise you that I will not pay any money to any authority to receive justice, because that denies justice to all Mexicans who cannot pay. I will not accept the services of the "judiciales"* nor others for "justice". I AM GOING TO TEST THE JUSTICE OF MICHOACAN FAIRLY, and I will keep you informed of the results, you and the Organization of the United Nations.

LONG LIVE THE MEXICAN PEOPLE

Charles Richard Harris
Tourist

* Judiciales are known for kidnapping people and torturing them for a percentage of any money collected, or for intimidating people for whatever purpose they are paid.

Aseguramos nuestro seguro pagando apartamentito.

paña.

Esto ocurrió durante la ceremonia mensual de homenaje a la Bandera Nacio-

nejo Cruz recordo que fue en Apatzingán en donde el generalísimo Morelos, acompañado de un grupo

nos, el ing. Cómego Cruz enfatizó la importancia que tienen actos como el celebrado en esta ocasión.

LIC. CARLOS SALINAS DE GORTARI
Presidente Constitucional de los Estados Unidos Mexicanos

Usted prometió asegurar la justicia a todos los habitantes de la República Mexicana, sean éstos, nacionales o extranjeros; luego entonces, he denunciado irregularidades en la administración de justicia en mi caso. ¿Está usted investigando como se imparte la justicia en el Estado de Michoacán?

DR. JAIME GENOVEVO FIGUEROA ZAMUDIO
Governador Constitucional del Estado de Michoacán

Usted prometió una administración de su gobierno, en forma abierta, para escuchar las peticiones de los habitantes del Estado. Mediante desplegados en el periódico La Voz de Michoacán, le solicité su posición sobre cuestiones de la justicia muy grave. Jamás fueron contestados de su parte. ¿Es posible que cumpla su promesa? ¿Y por que usted no recibió al Asesor de Asuntos Internacionales de la Alianza Para la Defensa de los Derechos Humanos? ¿No tiene interés usted en los derechos humanos?

VER/DAD MENTIRAS SI

Como otro ejemplo más de la injusticia michoacana, presentó la decisión del Juez Primero de lo Civil de Morelia, Lic. Jacinto Nava Mendoza: La sentencia del Sumario Civil 467/88 me condenó a pagar al Lic. Benito Andrade Guzmán por:

- 1.- Perjudicar mi denuncia contra Victor W. Padelford Wayne y su escuela por fraude.
- 2.- Aceptar solo 4% de lo que me adeudan como pago total.
- 3.- Esconder el cobro en su propia cuenta bancaria y nunca notificarme.
- 4.- Desobedecer el orden de la Juez Segundo de lo Civil de Morelia.
- 5.- Y para cobrar honorarios dos veces, porque el Lic. Andrade ya tiene su 20% de honorarios en sus bolsas, por no devolverlo a la Juez Segundo, contra las instrucciones.

¿Cómo puede marchar México con los otros países civilizados con justicia así, en contra de las víctimas y en favor de los ricos?

PREGUNTA SERIA: Victor W. Padelford Wayne huyó de la justicia estadounidense; ¿porqué él no tiene miedo y no está tratando de huir de la justicia mexicana? El fugitivo norteamericano, Victor W. Padelford Wayne, es un símbolo de la justicia mexicana.

¿Porque el gobierno del Estado a través del DIF coopera con el Centro Mexicano de Idiomas, siendo conocido que este centro es operado por un fugitivo de la justicia?

MIS COMPROMISOS AL PUEBLO MEXICANO

Con todo el dinero adeudado a mí --por CECEMMAC, Victor W Padelford Wayne, y Benito Andrade-- voy a pagar los gastos y los honorarios justos; entonces voy a donar todo el dinero, incluyendo los intereses, a una caridad dedicada a ayudar al pueblo mexicano. (Yo no necesito 400 millones de pesos para mí, cuando en las calles, atrás de la catedral, veo niños ansiosamente comiendo cáscaras putreficadas de plátanos de la basura). Por eso, no tengo interés en el dinero, **LUCHO SOLO POR LA JUSTICIA.**

Les prometo que no voy a pagar el dinero a ninguna autoridad para lograr justicia, porque ésta se niega a todos los mexicanos que no pueden pagar. No voy a aceptar los servicios de los judiciales ni otros para la "justicia". **VOY A PROBAR LA JUSTICIA MICHOACANA JUSTAMENTE,** y les informaré sobre los resultados a ustedes y la Organización de las Naciones Unidas.

VIVA EL PUEBLO MEXICANO

Charles Richard Harris
Turista

TRANSLATION OF OFFICIAL LETTER # 15363
FROM "PRESIDENCIA DE LA REPUBLICA"
DATED 30 MARCH 1989

UNIT FOR ATTENTION TO THE CITIZENSHIP
102.1
R.E. 20046

[Seal of the United
Mexican States]

Presidency of the Republic

[Stamped] 15363

National Palace, 30 March 1989.

C. FERNANDO GUTIERREZ BARRIOS
Secretary of State,
Present

Attention. C. Professor Jose Luis Garcia Mercado
Personal Secretary

Permit me to annex for your attention, a correspondence about a matter directed to the Constitutional President of the United Mexican States, by Mr. CHARLES RICHARD HARRIS, who is interested in an investigation of the justice in the State of Michoacan.

Given the nature of the affair, I will appreciate the attention given the interested party, and the report you furnish to this Unit about the case.

With nothing more in particular, I take advantage of this opportunity to send you a cordial greeting.

EFFECTIVE SUFFRAGE. NO RE-ELECTION*

CHIEF OF THE UNIT

[signature]

Licentiate OLGA ELENA PENA MARTINEZ

Carbon copy to: Licentiate Eugenio Hinojosa, Director of Agency
Management and Continuation - for his follow
through

Carbon copy to: Mr. Charles Richard Harris
c/o P.O. Box 12401, CoComCo
Oklahoma City
73157, U.S.A. [stamped] 15363

OEPM/rmmb

* [Standard political closing meaning that no Mexican President can be re-elected.]

K

Letter To The Editor

Dear Editor:

As a regular reader of The News I've come to trust your accurate and balanced reporting. Now I'm turning to you to report a serious situation. Not only could it damage Mexico's attempts to attract investors, it could also make a mockery of Mexican justice.

I came to Mexico 8 years ago to invest, after first enrolling in a school in Michoacan to learn Spanish. The school and its operator, a U.S. citizen, defrauded me of my life's savings. Since the Chief Justice of the Supreme Court of Michoacan and his wife were personally involved, I had trusted them and the American colleges and universities who supported the school. I had believed that they would not support a swindler.

When my loan was never repaid, and the American disbanded then renamed the school to avoid paying me, I waded through his lies and searched for his true background. He turned out to be a college professor and a fugitive from American justice. He had charged against him in California and sentences against him in Washington for not paying previous investors. Two of his previous schools in Mexico had also disappeared, owing creditors. His first wife had charged him with not supporting his children, and Washington State had issued an order for his arrest for kidnapping an adopted child. I've been fighting in Mexico for eight years, through 12 legal actions, trying to get my money back. The decisions against me make a mockery of Mexican justice. In summary they say that in Mexico it is not a crime to:

- give fraudulent guarantees,
- pay by checks without funds
- invent fictitious documents to cancel legal documents,
- pay a small part of a debt as payment in full,
- cancel guarantees without paying the debt,
- disband an organization without notifying creditors,
- threaten creditors' friends with fictitious documents;
- libel, defame, and falsely accuse creditors,
- impersonate an Honorary U.S. Consul,
- dictate jurisdiction in another country where nothing happened nor exists.

Because I was constantly betrayed, I finally charged my third lawyer with Abuse Of Confidence. The Procuraduria of Michoacan made a further mockery of Mexican justice by deciding that it is not a crime for a lawyer to:

- disobey the order of a Judge;
- collect money secretly in the name of his client and never notify his client,
- resolve a case in favor of his adversary, against his client.

I now wonder if it's even possible to commit Abuse Of Confidence in Mexico

As long as lawyers like these — who are untouchable — can prosper, I cannot see how normal Mexicans or investors can prosper.

Because the Governor of Michoacan would not answer my pleas for justice — and refused to see my representative from the Alliance For The Defense Of Human Rights, affiliated with the United Nations — I appealed to President Salinas de Gortari.

The president's office sent a letter to the Secretary of Gobernacion asking him to investigate and report. A year and a half later there was still no report. When I checked, it took Gobernacion a week to even find the letter.

Gobernacion also had not investigated my formal charge that the fugitive had become a resident of Mexico illegally with a false document; he had not declared the sentence against him, nor the order for his arrest, on his application.

He has now become a symbol of Mexican justice. In the United States he is a fugitive from justice. In Mexico he is an honored person. In the United States there are sentences against him for not paying investors. In Mexico "it is not a crime to do the same." In the United States there's an order for his arrest for kidnapping an adopted child. In Mexico he was permitted to adopt Mexican children.

It appears that the fugitive married a Mexican woman (his third wife) to get a "greenstamps" and adopted the Mexican children to protect himself from being extradited back to the United States.

Now that he seems to have successfully swindled the life's savings of a retired American investor, he is opening a new school in Guadalaajara for Americans who want to retire and invest in Mexico luring them with claims that he represents "more than 50 colleges and universities" charging them thousands of dollars for information that is readily available from the American Society and The American-Canadian Center, free.

I had hoped that President Salinas would provide a positive ending for the book about my Mexican nightmare to be published after the results of my final two cases now in the Supreme Court of Michoacan. But this year all my letters to The President — pleading for a report and justice — have gone unanswered.

In spite of my eight-year nightmare, I prefer to believe that President Salinas de Gortari is a just man who genuinely wants to help his people. I suspect that bureaucrats may be hiding things from him.

My treatment by the Mexican government also makes it extremely difficult for me to do an enthusiastic job as a member of the Tourism and the Media Committees of the American and Mexico Commission for the Governor of Arizona.

Would you please print my letter in the hope that the President himself may see it (I know he reads English), and in the hope that others will not be victimized in the meantime?

Thank you again for the tremendous service that The News is giving to all English-speaking tourists, students and investors in Mexico.

Sincerely,
Charles Richard Harris
Tourist-Student-Investor-Author
Oklahoma City, U.S.A.

Encl: Copies of supporting documents (a few of many)

The Middle East In Two Acts

Act I

By RICHARD SEB
Special To The News

I tell the world is a stage, then center stage has been preoccupied by the players in the Middle East.

The scene is late summer, 1990, and as the plot thickens, the audience notes that while good and evil have been portrayed as absolutes in other media, in this complex theater all have some legitimate aspirations and all have ulterior motives, too.

THE VILLAIN, Saddam Hussein has been greedy and evil. He, as dictator of Iraq, has openly violated THE VICTIM and has been condemned by the community. But — he has many mouths to feed. His subjects are numerous and poor. He has enormous debts from an eight-year war with his large neighbor, Iraq. It does not seem fair to him that THE VICTIM, the ruler of his tiny neighbor Kuwait, is so wealthy and has access to the sea, while he has to use long pipelines to far away foreign ports to export his oil. He has comparatively little oil and therefore wants to limit production and keep the price high. Before the invasion, he was very angry with

THE VICTIM, the not-too-sovereign little Emir of Kuwait, who was just minding his own business — but minding it too well in the eyes of THE VILLAIN. With more oil under his bench than he could possibly imagine, the Emir had no need for higher prices, his objective was simply to sell the greatest quantity possible before THE SAVIOR and THE ALLIES could find or invent alternate sources of energy. THE VICTIM had joined a cartel of other oil producing countries (including THE VILLAIN), but he had no intention of adhering to quotas imposed by the group. From his accumulated wealth of approximately 300 billion dollars, he thought he had bought his safety by giving major contributions (perhaps by giving "protection money" wasn't enough) to THE VILLAIN during his eight-year war

and by heartily supporting THE AXIS in their struggle against THE TARGET. In this, he was in the same position as

THE THREATENED, Saudi Arabia, which easily could have been the next victim if THE VILLAIN had continued the southward march of his enormous army. With many times as much oil reserves as THE VICTIM, it was deemed by the community imperative to save THE THREATENED, although its only redeeming value is oil. With its thousands of princes and their lavish displays of wealth, THE THREATENED remained a autocratic feudal state when also antagonized THE VILLAIN by selling as much oil as its customers required. And, of course, its main customer was

THE SAVIOR, The United States, now more than ever, saw cheap oil as a necessity to maintain the standard of living to which it had become accustomed. Therefore, to preserve the sovereignty of THE VICTIM (and, coincidentally, to avert a recession) THE SAVIOR convinced THE ALLIES, Great Britain, France, Germany, Japan and other countries dependent upon imported oil — along with Arab countries such as Egypt and Syria, which feared THE VILLAIN for their own reasons, to join in the imposition of sanctions, all aimed at forcing THE VILLAIN to retreat and leave. THE VICTIM and THE THREATENED in peace.

The Majority Of The Arabs

While THE SAVIOR and THE ALLIES are on one side of the stage and THE VICTIM and THE THREATENED are in the middle, THE VILLAIN stalks on the far side with THE AXIS lending him loud vocal support. Who supports THE VILLAIN? The majority of the Arabs (who are poor) in the region, the Jordanians, the Lebanese and all of the Palestinians, who neither see any of the riches of the region nor do they have any use for THE SAVIOR and THE ALLIES who support

THE TARGET, Israel. Iraq and its leader, THE VILLAIN, have long had THE TARGET in its sights and although THE SAVIOR has advised THE TARGET to lay low during this First Act, there is no question that THE TARGET will play an important role in Act Two.
(Said is a New York lawyer who has lived in Mexico for 16 years.)

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PATRICIA NELSON

Editor PATRICIA NELSON

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Graphic Arts Editor FRANCIS XAVIER G. GRADE

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Charles R. Harris
1532 West Lawrence Road
Phoenix, AZ 85015

March 20, 1991

Mr. Kenneth Y. Tomlinson
Editor in Chief
The Reader's Digest
Pleasantville, NY 10570

Please do not delegate

Dear Mr. Tomlinson:

Please thank Charles R. Morgan for his response to my letter of 28 February 1991 to you. Unfortunately, it indicates either that I failed to communicate or **The Reader's Digest** has no interest in correcting dangerous omissions.

I prefer to believe I failed to communicate. Please let me try again.

Many years ago **The Reader's Digest** published a filler asking the reader to guess the name of a famous person after listing several of his accomplishments. Few readers were able to identify him as Adolf Hitler because the list contained only favorable facts. It concluded by revealing it was only an example of how misleading facts can be, when some are omitted.

"Mexico's New Revolution" is another example. By telling how the president jailed corrupt union boss, Joaquin (La Quina) Hernandez Galicia, the author created the impression that President Salinas de Gortari is a champion of justice. He did not tell readers that this is a traditional trick of Mexican presidents. They start their terms making a grandstand show of justice by jailing a scapegoat, then let corruption go on as usual -- just as Jorge Diaz Serrano, the corrupt head of the government oil monopoly, was jailed by previous President Miguel De La Madrid. (Most Mexicans are wise to this scheme; please do not appear naive by reprinting the article in **Selecciones de Reader's Digest**.)

Other anecdotes created the impression Mexico is changing. That Mexico is safer because President Salinas is selling some government businesses and was educated at Harvard -- failing to mention the previous Mexican president also was educated at Harvard and not much changed during his term either. And, even though the author briefly listed some problems near the end, in an attempt at balanced reporting, the overall impression is summarized in the title. The reader will mistakenly believe that Mexico is changing and now may be safe for investing, as the president wants.

This is why I protested ... why I gave you the anecdote of my own eight-year nightmare in Mexico as proof that Mexico has not changed. How President Salinas -- far from being a champion of justice -- has even broken his written promise to me (Oficio # 15363) to investigate the injustice to me.*

My anecdote proved I was swindled out of my life savings and justice was completely denied me: the supreme court declared Mexico had no jurisdiction. Since everything happened in Mexico, jurisdiction -- and justice -- now exist nowhere.

Because no just resolution is possible, I was extremely disappointed in Mr. Morgan's hoping a resolution would come soon. His failure to see that my situation is dead, and proof that **Mexico's New Revolution is a hoax**, left me wondering if my protest and evidence received even a cursory glance.**

Mr. Tomlinson, I again protest the article, "Mexico's New Revolution", as misleading and dangerous. Mexico has not changed.

If the false impression is not corrected, more Americans will be lured into the same trap. I was forced to choose between corruption and my life savings. I was punished for challenging the system of bribing judges; I refused to pay because it denies justice to all who cannot pay. Future American investors will be punished also, if they do not support the corruption.

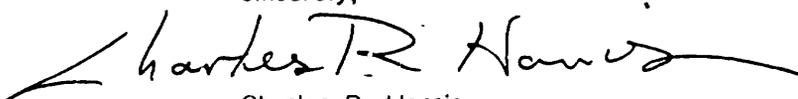
To mislead Americans into such a trap and force them to choose between ethics and their life savings is in itself immoral and unethical.

This is why Senator McCain has asked that I be scheduled to testify to Congress before it authorizes negotiations for a free trade pact with Mexico.

This is why I believed my old friend and companion, **The Reader's Digest**, would want to correct the false impression it helped to create.

Mr. Tomlinson, please tell me. Did I misunderstand your avoidance of the issue? Are you now abandoning everything you've been teaching me for 50 years? Have you forgotten that "the only thing needed for justice to die is that just men do nothing." Are you more proof of the desperate need for my upcoming book: **Nothing More Dangerous?**

Sincerely,



Charles R. Harris
602 249-3267

cc: United States Senator John McCain.
Mr. George V. Grune, Chairman & CEO.

* The tragedies of many more Americans are also available.

** Enclosures to my original letter of 28 February 1991 were:

Letter from U.S. Senator John McCain.
Letter from "Presidencia de la Republica, Oficio 15363".
Verified list of court cases in Mexico.
Article published in **Ovaciones**.
Letters published in **The News de Mexico**.
Summary of Events, Lawsuits, and Complaints for Congress....
Addendum.



Happy homecoming

Richard Flynn, released after 37 months in a Mexican prison, is united with his wife, Catherine, and their son, Ryan, 4, in Chicago. Flynn, 49, of Riverdale, Ill., visited Mexico in 1982 after his firm had

failed to deliver \$1.5 million in goods to a partly state-owned printing company. He was convicted of defrauding a government firm, but the Mexican Supreme Court overturned the conviction Monday.

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Letter To The Editor

Sharing An Experience

Dear Mr. O'Ferrill:
Having been an ardent reader of *The News*, during my one year stay in Mexico, and having appreciated the frank and unbiased reporting, I am turning to you to report a situation which has made me wonder if Mexico is indeed the place to do business.

One year ago I went to Mexico to open an office and started purchasing large quantities of plastic raw materials from leading Mexican suppliers. In a short period of time we started exporting to the Philippines, Korea and Taiwan at the rate of a couple of million dollars per month and last month our efforts culminated in the first ever large export from Mexico to Iran.

When I came to Mexico, because I had undergone two severe bypass operations I chose to legally bring my vintage 1988 Cadillac Fleetwood and since I could not drive due to medical problems, I hired a very competent Mexican chauffeur.

On February first I went to Loreto Verdes to visit a supplier and was informed by the driver that we needed gasoline. I told him to go to the nearest Pemex pump and return at his leisure at 2:00 p.m., after my meeting. I waited two hours for the driver to show up. He arrived by taxi and told me that the Adquisitor Interior had taken the car. Furthermore, he told me that the jurisdiction of the whole affair resided at the Adquisitor Interior in Toluca.

I went to Toluca only to be told by Mr. Bayon, the pompous and incompetent administrator, that the car now belonged to the Mexican Government. He told me that

I had no recourse and that I should buy a Mexican car.

Upon investigation I found out that a new Law came out on December 28, 1988 which states that a Mexican national cannot drive a car with foreign plates unless the owner is in the car at the same time. While fully appreciating the intent of the Law which is to prevent illegal cars in the country, I believe that the proper interpretation reveals that it must be proven that the car was in the Country illegally, which is not the case, and/or that it was being used for illegal purposes.

Lic. Tello, the Juridical Officer in Toluca, was fully prepared to impose a fine but was overruled by the Administrator.

I have since informed the Mexican Embassy in Washington, Mr. Corona, the General Manager of the Comité Olimpico Mexicano and several friends.

Needless to say that I have given instructions to stop all activities in Mexico and furthermore I have instructed my 11 offices worldwide to forget about Mexico. I further intend to contact my many friends and contacts worldwide to inform them about what goes on in Mexico. I wish I could have access to President Salinas to point out that this is not the way to attract business and investments to Mexico.

In view of the above I would appreciate your cooperation and perhaps your feeling to publicize this event so that other people cannot be victimized.

I was told that I should hire legal counsel. I consulted someone but I will be damned if I will pay 5,000 dollars to claim what is legally mine and was legally stolen by a corrupt Mexican functionary.

I shall give you time to absorb the above and shall phone you from New York in a few days. Incidentally, I was left hanging in the dark for well over three weeks, being obliged to live in a hotel always with the hope of being able to resolve the situation.

I certainly hope that you will give this letter of mine the consideration it deserves and I thank you for your cooperation.

Dr. V.H. Vekic, President
Petroco Inc.

economic crisis, with the government still staggering from Noriega's larceny and the U.S. economic sanctions of 1988, soldiers have continued to receive their salaries. But university professors did not receive their first paychecks of 1989 until late March.

Tight money is just one of Panama's problems. Panama is also a reluctant host to 20,000 illegal immigrants, most of whom came from China and Cuba in the last three years. Many paid \$15,000 apiece to obtain false visas and residency cards in a scam that netted Noriega millions of dollars.

its clear intent to prosecute the Noriega criminals and put an end to favoritism and nepotism, the most effective and appropriate aid the United States can give Panama is in-kind contributions — of technology, medicine, expertise, food, student grants, etc.

Any financial aid will be lost in the yawning black hole of militarism and corruption into which Panama continues to slide.

(Bernal, a visiting professor of International relations at Lehigh University in Bethlehem, Pa., edits "Alternativa," a Panama paper)

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Executive Editor: ROBERTO MENA
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STATEMENT OF THE INTERNATIONAL TRADE COUNCIL

INTRODUCTION

The recent decades have proven that for any country's economy to flourish, it is mandatory to play an effective role in the world economy. For the United States, there emerges in the decade of the nineties a pressing need to position itself accordingly. As competition for international trade has increased dramatically, this country's position as the undisputed leader in the world economy has simply not kept pace with the growth of emerging industrialized and developing countries. In essence, the competition for international business has become fierce. The proposed U.S.-Mexico Free Trade Agreement will provide a macro-economic benefit to the United States that it urgently needs in order to re-invigorate its economy, to provide long term growth for U.S. industry and labor over the next century and to improve its geo-political relationship throughout the Americas: North, Central, and South.

In the agreement exists an ideal partnership for both the United States and Mexico. The macro-economic benefit to both is evident: the U.S. has a comparative advantage with technology, marketing, and management, Mexico has a comparative advantage in production labor. Thus, both countries benefit by increased output, a better competitive position in the global markets. Since more than half of the labor input in a typical production cycle is in design, engineering, distribution, marketing, and after-sales service, the increase in combined output will not only provide increased labor output for Mexico, but also a definite increase in labor demand for the U.S.

The second major benefit, of the proposed FTA, to the United States is the geo-political consequences. A strong, prosperous Mexican economy is very much in the interest of the United States. There is little debate that Mexico, as the United States, will gain substantially from an FTA. Whatever progress and growth that the Mexican economy experiences must be looked upon favorably. A healthy, expanding economy, in effect, ensures political stability in Mexico, thus helping to ensure political stability in the region. Other countries in Central America and in the hemisphere will, as a result, witness the advantages of free, democratic societies.

Mexico has stated that the primary goal of a free trade agreement with the United States is to eliminate tariff and non-tariff barriers between the two countries. If the proposed FTA does in fact remain true to this objective, the "fast track" procedures will then be in the economic interest of the United States. The creation of a level playing field without delay will help the U.S. in its immediate need to rectify its massive trade deficit and perhaps help to salvage the country from its current recession.

In helping U.S. companies to establish in Mexico, the FTA will provide the U.S. with preferential access to the domestic market of Mexico, which is approximately one-third the size of our own in population and about eight percent of ours in consumption. The resulting positive effect on the U.S. balance of payments and current account is evident. In addition, the U.S. consumer has much to benefit from the "fast track" procedure. It will quite simply lower the cost of products and subsequently limit inflation in our domestic economy.

Any delay in implementation of the FTA will have two adverse effects. One, the many single issue lobbies, opposed to the FTA, will have more time to organize and work to prevent an actual, economic step forward. Two, the respective economies of the United States and Mexico will be restricted, for however long the delay lasts, from all of the benefits that accompany increased international trade.

The fundamental objective of the FTA with Mexico is to allow each country to fully benefit from the comparative advantage that it possesses. The United States offers expertise in technology, design competence, and world-wide marketing; Mexico offers low cost labor. The U.S. and Mexican economies complement each other, providing substantial geo-economic benefits to both. Thus, the knee-jerk reaction of the U.S. labor unions to oppose any FTA is unjustified and contrary to the best interest of U.S. labor and the U.S. consumer. The U.S. Secretary of Commerce, Robert A. Mosbacher, has stated that the FTA would create a "win-win" situation, because it would stimulate increased business on both sides of the border and generate greater economic prosperity for both people. In effect, both the United States and Mexico, as a result of an FTA, will enable themselves to compete more effectively in the world market.

The scope of the FTA is to be as wide as possible, eliminating all tariff and non-tariff barriers that the respective governments may allow by law. Any exclusion from the agreement will only serve to benefit minority or single industry groups to the detriment of the individual countries as a whole.

Ideally, the content is to be as open as the trade that exists between the fifty united states of this country. It shall be as broad as the Constitution will allow.

With respect to Canada's role in the free trade agreement, there are two important points to consider. One, Mexico's chief FTA negotiator sees the inclusion of Canada as a prerequisite to any free trade negotiations with the United States. Two, as a unit, the United States, Mexico and Canada, represent approximately \$5.5 trillion in purchasing power; collectively, they would comprise the largest market in the world. Each country, as a member of this market, will substantially bolster its position as a player in the world economy.

Every effort should be made to further open up parts of the U.S.-Canada agreement that were excluded in 1988, provided that it does not cause extended delays in the trilateral accord. If Canada refuses to entertain an all-encompassing agreement, the United States then must continue to work with all the possibilities for expansion of free trade with Mexico.

It is necessary to recognize the disparities between the three economies and the governments that control them. It is then in the interest of the U.S. to pursue the most inclusive agreements it can achieve despite the disparities. There must be a limit to the effect that a lack of agreement with one country should impede progress with the other.

The most certain and beneficial impact of a U.S.-Mexico FTA is that it will significantly enhance the U.S.' longterm economic position in the world economy.

The U.S.' competition is the countries in the world with low cost labor. To effectively compete in existing markets and to aggressively expand into emerging markets throughout the world, the United States needs Mexico both as a partner and as a supplier of cheap labor. Japan and other industrialized countries are investing in countries with low cost labor; to remain competitive, the United States must do the same.

It is important to note that in doing so, the U.S. economy will actually improve its domestic employment situation. In the U.S., the cheap labor workers will be phased out over time, retrained for better paying positions, and experience an actual increased standard of living in the long term. In addition, as production in Mexico rises via the low paying jobs, the U.S. creates opportunities in its own higher paying professions, such as engineering, design, implementation of new technology in manufacturing and product development. The net effect is that the U.S. gains global business, accesses new foreign markets, makes progress in correcting its trade imbalance, and also improves its domestic workforce and increases U.S. productivity.

The FTA will serve to increase U.S. productivity, an issue that is worth considering. Productivity can be measured against output in past years, but a more significant gauge is comparative productivity in the world market. Total labor comprises 80% - 85% of most product costs in design, engineering, manufacturing, distribution, marketing, after-sales-service, etc... If the cost of labor can be reduced, then productivity is increased by the same factor; competitiveness is subsequently increased and the consumer in the U.S. and its customers overseas benefit.

According to experts in an International Trade Commission report, the major advantages for the United States from an FTA with Mexico are as follows:

- 1.) enhance the competitive position of the U.S. among emerging trading blocs
- 2.) create jobs in the U.S.
- 3.) give certainty and predictability to U.S. investors by making Mexican economic liberalization permanent
- 4.) help develop the U.S. border area
- 5.) decrease the flow of illegal immigrants into the U.S.

Any special interest group that demands to be excluded from the FTA, such as industries or agriculture, must be subjected to an independent cost-benefit analysis. Only if the results prove a negligible effect on the economy and the consumer, should it be honored. If justified, it should be in the form of a three to five year phase-in period to allow relocation, retraining, or shrinkage by attrition.

By comparison to the U.S.-Canada agreement in 1988, the U.S.-Mexico FTA offers far greater potential for the following reasons:

- 1.) there was no comparative advantage between the U.S. and Canada
- 2.) there is a major comparative advantage between the U.S. and Mexico
- 3.) Canada's population is only one-tenth of the U.S. population
- 4.) Mexico's population is one-third of the U.S. population
- 5.) Over sixty percent of the Mexican population is younger than thirty-five and hungry for American products; they represent a drastically expanding consumer market

There will be a notable impact on several major U.S. industries. Information compiled by the United States International Trade Commission follows:

- AGRICULTURE:** An FTA is expected to affect significantly the level of U.S. trade with Mexico in agriculture products. Mexico is the second-largest foreign supplier to the U.S. market for these products after Canada, and the third-largest U.S. export market after Japan and the Soviet Union. About 40% of the of the agricultural imports from Mexico enter free of duty...The elimination of tariffs and NTBs under an FTA would generate a significant increase in U.S. imports from Mexico and a moderate increase in U.S. exports to Mexico.
- LIVESTOCK:** Removal of Mexico's relatively high tariffs on meats under an FTA would likely result in a moderate increase in U.S. exports of meats to Mexico. Similarly, the removal of U.S. duties and Mexican export fees on feeder cattle would likely result in a moderate increase in U.S. imports of such cattle.
- AUTOMOTIVE PRODUCTS:** The most significant factors affecting U.S. trade with Mexico in automotive products — are Mexican foreign investment restrictions, export performance requirements, local content rules, and import restrictions... An FTA would likely encourage the Big Three automakers to restructure their Mexican operations to increase their specialization, thereby achieving economies of scale and, in turn, enhancing their competitive position vis-a-vis Asian and European producers.
- TEXTILES AND APPAREL:** An FTA would also result in a significant short-term increase in U.S. exports of textiles and apparels to Mexico, which rose by 25% annually during 1985-89. The projected export growth would likely be concentrated in components for use as inputs in maquiladora operations producing garments and other textile products for export to the United States. In the long term, the growth of U.S. exports to Mexico would likely moderate as the Mexican textile industry becomes more developed.
- SERVICES:** U.S. trade with Mexico has traditionally been limited primarily because of Mexican limitations on foreign ownership and other restrictive NTBs. An FTA, coupled with recent Mexican efforts aimed at privatizing and liberalizing several services sectors, would likely lead to an increase in investment and export opportunities in Mexico for U.S. firms.
- Beyond what USITC projects, it is important to recognize the tremendous demand for infrastructure within Mexico, both in design and supplies. For the U.S. to establish its presence, early in the developmental stages of this process, would create a substantial market for U.S. services in Mexico for many years to come.
- CHEMICALS:** An FTA that removes Mexican restrictions on foreign investment and protects intellectual property rights would likely spur U.S. investment in Mexico for the manufacture of high-technology products and generate moderate growth in U.S. exports.

- ELECTRONIC EQUIPMENT:** U.S. exports to Mexico would likely grow moderately in the short run and significantly in the long run.
- ALCOHOLIC BEVERAGES:** An FTA would likely spur U.S. exports of alcoholic beverages to Mexico. These exports have grown rapidly since 1985, in response to Mexico's reduction or elimination of many of its duties and NTBs. The trend is expected to continue under an FTA as Mexican duties are further reduced and distribution arrangements in Mexico improve.

When evaluating the potential impact of an FTA on specific U.S. industries, there is an additional factor that deserves attention; it is an economic term known as "the multiply effect". In basic terms, increased activity in one or several areas/industries of an economy will cause an increased activity in other areas/industries of the economy. As new money enters an economy, it circulates and causes the multiply effect. As a direct result of an FTA, we estimate the multiply effect in the case of Mexico to be 4:1. This ratio implies that for every dollar that enters an economy, it will turn over four more dollars. Thus in the case of U.S.-Mexico trade, for every dollar that Mexico spends on imports, it will increase its productivity, experience an increase in income, and potentially spend more on U.S. imports.

SUMMARY

There is overwhelming evidence to support the case for the implementation of a free trade agreement between the United States and Mexico. The entire U.S. economy will benefit from such an agreement, particularly in the long term as Mexico develops its economy and becomes a more formidable market and trading partner. It is essential that the United States takes advantage of this opportunity to enhance its position in the global market. Any adverse effect to any specific U.S. industry must be seen as a chance to modernize and thus compete more effectively in the world economy. An FTA with Mexico is by all standards an economic step forward for the United States.

STATEMENT OF THE INTERNATIONAL LEATHER GOODS, PLASTICS AND NOVELTY
WORKERS' UNION, AFL-CIO

A. INTRODUCTION

The International Leather Goods, Plastics, and Novelty Workers' Union, (ILGPNWU) AFL-CIO, is headquartered in New York City. Nine thousand of our members live and work in the New-York-New Jersey metropolitan area. We have 3,000 Canadian members as well as members throughout the United States and Puerto Rico. Among other things, our members make handbags, luggage and personal leather goods (e.g., wallets, key holders).

The ILGPNWU is opposed to the initiation of negotiations with Mexico. An FTA with Mexico would result in the swift exodus of labor-intensive industries such as ours from the U.S. and result in a lowering of the standard of living for workers in U.S. manufacturing industries.

The disparities between the U.S. and Mexico are so immense (e. g., wages, environmental standards, safety requirements, degree of market openness) that a balanced agreement between two economies on such unequal planes is simply not achievable.

The U.S. Government's decision to forge ahead with FTA negotiations with Mexico should not be premised on the desire of the U.S. business community to exploit a ready and abundant source of cheap labor while flouting workers' rights, and environmental, health, and safety regulations. These standards have taken the better part of a century to achieve in this country. To permit the exploitation of Mexico's cheap wages, workers and environment by U.S. businesses seems a throw-back to the era of the robber barons and colonialism at its worst. Tragically, it also means that a substantial portion of our work force—the under-educated, low-skilled, and older blue collar workers—who lose their jobs to Mexican workers will have no place to go. What provisions will be made for these people?

The displacement of a sizable portion of the U.S. work force that would result from a U.S.-Mexico FTA will combine with other job losses that are the direct result of new and ongoing trade initiatives of this Administration, such as expanded trade provisions of the CBI, the Andean Initiative, the Enterprise for the Americas Initiative, and the Uruguay Trade Round. The effects of the improved market access features of these initiatives have not been fully assessed on U.S. employment in the industries that will be hardest hit by these programs. Has the Congress, the ITC or U.S. policy-makers even considered the cumulative effects of these programs on U.S. labor? Tunnel vision, or perhaps the needs of U.S. policy-makers, gives rise to requests to weigh the economic impact of a U.S.-Mexico FTA, as bad as it may be, in isolation of these other trade and production-sharing initiatives. We encourage the Congress to expand its purview to encompass the impact of the full range of proposals currently being planned and implemented by the Bush Administration.

B. AN FTA WITH MEXICO WILL GREATLY EXACERBATE THE ALREADY SUBSTANTIAL UNEMPLOYMENT IN THESE INDUSTRIES CAUSED BY DEVELOPING COUNTRIES' IMPORTS AND OTHER U.S. TRADE PROGRAMS

Since 1982, 14,200 jobs were lost in the luggage, handbag and personal leather goods industries, representing a decline in employment of at least 34 percent. This enormous job loss is directly linked to massive import surges in handbags, luggage and flat goods. (See Table 1.) The jobs lost in these industries are not high paying jobs nor are they held by people who are easily re-employed. Our members are minorities, women and immigrants. Many are under-educated and do not possess skills outside these industries. Although wages in these industries tend to be among the lowest of all U.S. manufacturing, Mexico's wages are still just a fraction of what U.S. workers earn in these industries.

Many FTA advocates dismiss concerns about the loss of jobs in these industries and the loss of the industries themselves, claiming that the law of comparative advantage dictates that the U.S. should be moving out of these industries and into areas where it has comparative advantage (e.g., technological superiority). It is comforting to FTA advocates to assume that workers who lose their jobs in these industries will move on to better jobs and opportunities, and the U.S. economy as a whole will be uplifted. But don't bet on it. According to a recent article that appeared in the *Washington Post*,¹ Professor Robert M. Dunn, Jr. of George Washington University postulates that a U.S.-Mexico FTA:

¹ "Low-Paid Workers Would Lose Even More in Free-Trade Pact With Mexico," *The Washington Post*, August 1, 1990.

[W]ould also redistribute income away from unskilled and semi-skilled labor and toward professional and technical labor and capital. Because the "winners" would be people whose incomes are already above average, while the "losers" would start with below average incomes, this arrangement would make the distribution of U.S. incomes more unequal.

The reason for this is clear: With an under-employed population of about 90 million people Mexico can produce a lot of labor-intensive goods such as garments and shoes. As a result, U.S. wage rates for unskilled and semi-skilled labor would fall, while returns to capital and to professional and technical labor would rise. With respect to improved job prospects for these workers in the lower-skilled jobs, he states:

Retraining laid-off workers, with the goal of making them high-income skilled workers, is often seen as the answer, but experience with such programs has been very disappointing. Most of the affected workers have limited educational backgrounds, and many are not young. Despite retraining efforts, they generally have ended up with lower incomes than in the jobs they lost.

Some estimates hold that almost a third of the U.S. work force falls into the semi-skilled and under-educated category. Before the U.S. formally enters these negotiations with Mexico, we must fully comprehend the implications that this action will have on such an enormous number of U.S. workers.

C. A U.S.-MEXICO FTA WOULD DRAW BOTH U.S. AND ASIAN INVESTORS TO MEXICO AND ALSO RESULT IN TRADE DIVERSION

It is fairly evident that a U.S.-Mexico FTA will result in U.S. companies shuttering their doors only to reopen them in Mexico where they can not only take advantage of cheap labor, and a lax regulatory environment, but guaranteed, preferential access to the U.S. market. What perhaps is not so evident is that Asian investors are already moving into Mexico with the same goals in mind. Thus, the same Asian producers that are flooding the U.S. domestic handbag, flat goods and luggage markets, will add a new and improved base of operations in Mexico to launch a second wave of Asian-financed goods to our market. Moreover, there will also be substantial trade diversion through Mexico of Asian goods. There is simply no way to prevent it.

However, even without the prospect of more Asian-financed and/or diverted imports via Mexico, Mexico, on its own, will pose a huge threat to our industries in the future. Kodak Mexicana's President Donald F. Spieler was quoted in a recent *Business Week* article as saying that: "By 2000, I see Mexico as being a Korea but with an even wider industrial base."

D. THE FTA WILL LIKELY BENEFIT MEXICO AT THE EXPENSE OF AMERICAN WORKERS

Clearly the disparities between our two economies make the concept of an FTA both unrealistic and unworkable. Mexico is a developing country and maintains a web of restrictive trade barriers. For example, Mexico requires import permits and licenses on some 200 products, encourages "buy national" policies in many sectors, has a poor track record on the protection of intellectual property rights, and maintains tight restrictions over foreign investments. Mexico also uses standards, testing and certification as well as registration and certificate-of-origin as non-tariff barriers on a variety of goods. In contrast the U.S. maintains relatively few nontariff barriers.

The U.S. population is almost triple that of Mexico's with a much higher GNP of \$5.23 trillion compared to the GNP of Mexico, which is \$201 billion. The much larger, far richer U.S. market is thus a far more lucrative prize.

There is also a vast gulf in wages, working conditions and standards of living that make it difficult to conceptualize the integration of our two economies that an FTA is supposed to accomplish.

The negotiations are unlikely to bridge or even address these massive differences, making a balanced and enforceable agreement virtually impossible. Moreover, the U.S. has a poor track record of enforcing its FTA rights. The 1990 *National Trade Estimate Report on Foreign Trade Barriers* listed several areas where Israel was not living up to its obligations under the FTA (which took effect in 1985), including the levying of a purchase tax that has been "steadily offsetting duty reductions achieved under the FTA;" violations of Israel's import licensing agreement with the U.S. under the FTA; and the possibility that Israel may also be violating the terms of its FTA commitment to phase out certain export subsidy programs. This record leaves us with little confidence that the U.S. will treat Mexico's violations any differently.

There is also the concern that the U.S. will negotiate away or diminish U.S. industries' ability to seek redress from imports, which has been the case with both Canada and Israel. This limitation will be yet another blow to U.S. firms and workers.

E. CONCLUSION

A U.S.-Mexico FTA is not a good deal for U.S. workers. Before the U.S. gets too far down this road, Government officials need to understand the implications for U.S. labor, particularly those individuals who are not among our most employable. The U.S. Government also has the obligation to add into this equation the impacts of the many other trade initiatives of the Bush Administration on the livelihood of millions of U.S. workers.

Table 1.—SELECTED ECONOMIC INDICATORS ¹

Employment	Luggage (SIC 3161)	Personal Leather Goods (SIC 3172)	Handbags (SIC 3171)
1982	13,700	11,700	16,400
1983	12,900	11,100	15,000
1984 ¹	13,200	11,000	13,500
1987	11,300	8,800	8,100
1988	11,700	9,000	8,000
1989	11,700	9,000	6,900
Production/Shipments	(million dollars)	(million dollars)	(million units)
1982	647.0	393.0	45.9
1983	676.0	419.0	43.1 (E)
1984	718.0	405.0	40.3 (E)
1987	817.0	412.0	31.9
1988 (P)	822.0	394.0	28.1 (E)
1989 (P)	860.0	375.0	25.0 (E)
Imports	(million dollars)	(million dollars)	(million units)
1982	334.8	87.4	164.0
1983	399.9	105.2	184.1
1984	563.8	134.3	199.5
1987	846.3	222.3	202.8
1988	837.5	249.9	193.4
1989	982.5	243.8	169.7
Import Penetration ²	(Percent)	(Percent)	(Percent)
1967			
1972			
1977			
1982	48 (E)	26 (E)	81
1983	51 (E)	28 (E)	83 (E)
1984	58 (E)	34 (E)	85 (E)
1987	64 (E)	46 (E)	87
1988 (P)	64 (E)	49 (E)	88 (E)
1989 (P)	67 (E)	50 (E)	88 (E)

¹ 1985 and 1986 are not included on this chart because domestic shipments data (in value terms) for some industries, as presented by Census, were unreliable.

² For the luggage and personal leather goods industries, where import and domestic production data are available only in terms of value, import penetration has been estimated to reflect estimated penetrations in terms of units.

(E)—Estimated.

Source: Based on U.S. Department of Commerce, International Trade Commission, and Bureau of Labor Statistics data.

STATEMENT OF THE INTERNATIONAL UNION OF ELECTRONIC, ELECTRICAL, SALARIED, MACHINE AND FURNITURE WORKERS, AFL-CIO (IUE)

Members of the Committee, I am William H. Bywater, President of the International Union of Electronic, Electrical, Salaried, Machine and Furniture Workers (IUE), AFL-CIO. On behalf of the American workers represented by the IUE, I appreciate the opportunity to submit this statement on the Bush Administration's proposal to negotiate a "free trade" agreement among the United States, Mexico and

Canada. The officers and members of the IUE concur with the view expressed earlier before this Committee by the AFL-CIO and other parties that this agreement would be an economic disaster for American workers and their communities. We, therefore, urge the U.S. Congress to block the approval of any such agreement.

The IUE represents production and maintenance workers in a wide spectrum of industries, including the electrical-electronics, transportation, fabricated metal, power-generation equipment, and automotive parts industries. At one time, our union had 360,000 members. Today we have 165,000. Our membership's dramatic decline is due, in large part, to our members having been displaced, as their employers cut back or totally shut down their American operations in favor of offshore lower wage labor markets. U.S. trade "policy" has only fostered this corporate investment strategy. The United States has already lost entire industries—the radio and black and white television industries are but two examples—and many other industries are rapidly following their path to extinction. While millions of American homes now contain color televisions, compact disc players, major appliances, and other electronic and electrical goods with American brand names, the majority of these products are no longer made in this country. While a vast U.S. market, hungry for these goods, has contributed to the profits of many American corporations, these profits have not translated into domestic employment. The U.S.-based consumer electronics and appliances industries have become mere fractions of what they once were. And, it is those American workers who remain employed in these industries who will become among the most "endangered of species" if a free trade pact with Mexico is approved by the U.S. Congress.

Proponents of a free-trade agreement ("FTA") would have the Congress and the American public believe that it will be good for American workers and the domestic economy. They suggest that by providing incentives for companies to move basic manufacturing to Mexico, the FTA will help to maintain higher paying jobs here at home. This argument, however, is specious and it obscures the real reason that this pact has such avid supporters. Those supporting this agreement expect to benefit economically from the exploitation of Mexico's cheap labor and lax, or non-existent, governmental regulation. While the agreement will surely boost the profits of many American-based companies, it will cause irreparable harm to the millions of American workers who will, consequently, lose their jobs.

There is nothing new about U.S. companies moving abroad for cheap labor. Any argument that a free trade pact will benefit the domestic economy is contradicted by two decades of experience with the "maquiladora" program. The "Maquiladoras" are assembly plants that have been established in Mexico by foreign corporations. Approximately ninety percent of the "maquilas" are owned by U.S.-based corporations, and the products from the plants are sold in the United States. Maquila workers are paid the abysmal wage of 60 to 70 cents an hour.

Electronics manufacturing and assembly constitute the third largest Maquila industry. In Mexico's northern border region, maquila workers assemble a wide variety of products which are made—or were once made—in the U.S. by IUE members. These products include radio and TV components, electrical and electronic sub-components, auto parts and components, household appliances, transformers and furniture. During the past decade, companies such as Bendix, Chrysler, General Electric, General Motors, Litton Industries, North American Philips, RCA, Sylvania, United Technologies, Westinghouse and Zenith abandoned assembly operations in this country and relocated them across the Rio Grande. The result has been job loss for hundreds of thousands of U.S. workers and economic devastation for many communities.

Our experience with the maquiladora program offers just a sample of what American workers may expect from a free trade agreement with Mexico. Such an agreement would vastly expand the territory from which companies could recruit low-wage workers. A free trade agreement would also greatly increase opportunities for multinational corporations to circumvent U.S. laws and regulations intended to protect workers and the environment. An FTA would facilitate the creation, in our own backyard, of a manufacturing zone where companies could operate free of the social, economic and ethical restrictions which are operative in the United States.

At the present time, a widespread practice of American-based firms in our industries is to make components of a product here, ship them to their maquila plants over the border for assembly, and then return the finished product to this country for sale. Currently, about 95% of the components used in the maquilas are produced in the U.S. A recently issued study by the U.S. International Trade Commission concludes, however, that the proposed pact would allow Mexico to produce *more* of the *component* parts for use in the maquiladoras. Such a shift would mean the exportation of even more jobs from this country.

Five years ago, I testified before the House Banking Subcommittee on Economic Stabilization regarding American trade and investment with Mexico. At that time, U.S. firms had invested nearly \$2 billion in the maquilas, and we had lost nearly 300,000 American manufacturing jobs. Since 1986, many American-based companies have expanded their existing operations in Mexico, and many new companies have begun investing there. There are now some 2,000 maquilas along the border, and they employ nearly 500,000 Mexican workers. U.S. automobile firms today operate more technologically sophisticated plants in Mexico than they do at home. Much of California's furniture industry has relocated to Tijuana, Mexico.

General Dynamics, one of America's largest defense contractors, announced plans earlier this year to open a 200 worker plant in Tijuana to produce electrical components for its defense-related products. This announcement highlights a concern of our union that goes beyond considerations of domestic employment. Our collective bargaining experience with many of this nation's largest defense contractors, as well as with smaller defense suppliers and parts manufacturers, tells us that the capacity of the United States to maintain a viable defense industrial base within our own borders is being threatened by current investment patterns. Defense contractors are among the many corporations seizing the opportunity to improve their already healthy profitability by exploiting cheap Mexican labor. The folly of depending on foreign sources for our military defense should be self-evident.

The domestic repercussions of investment abroad are already being felt. The number of workers officially counted as unemployed reached 7.7 million in January of this year. When the millions of workers who have been forced to accept part-time employment and those who are too discouraged to continue their search for work are also counted, the total number of Americans suffering from partial or total income loss is a staggering 14.4 million. Moreover, less than half of those "officially" unemployed were drawing jobless benefits at the end of last year. In the manufacturing sector, employment declined by 70,000 in the first month of the year, continuing a downward trend. A total of 900,000 jobs have been lost since the beginning of 1989. The U.S. manufacturing sector shrank from 23% of domestic employment to only 18% between 1979 and 1990.

Our members are outraged that the Bush Administration is insisting on forging ahead to negotiate an FTA with Mexico against this backdrop of recession, job loss, and increasing demands from employers that U.S. workers moderate their expectations of wage and benefit improvements. We are also dismayed that the Administration is seeking fast track authority for the negotiations. The ramifications of this proposal are far too broad and serious for it to be negotiated without the full involvement and input of the Congress. The following are but a few examples of the adverse impact that our economic relationship with Mexico has already had on IUE members:

1. *IUE Local 748, Jefferson City, Tennessee:* In 1978, with over 2,000 production workers, the North American Phillips Consumer Products Division ("NAP") was one of the largest employers in this rural area of Eastern Tennessee. IUE members made electronic components for televisions and video games, as well as television cabinets for Magnavox, Philco and Sylvania. In 1982, the company shifted production of a popular new hightech product, the Odyssey video game, and laid off 950 of their Jefferson City workers. Eight hundred jobs were relocated to Mexico and 150 jobs went to another NAP facility in the United States. Why? With wages at only \$5.40 an hour, NAP was hard-pressed to argue that its labor costs were making it unprofitable. Indeed, the company did not even try to seek wage concessions from the local union because it realized that even at minimum wage, the Tennessee workers could not possibly compete with Mexican workers. In Mexico, NAP could pay their workers just *65 cents an hour—\$5.20 a day.*

In 1986, when I testified before another Congressional Committee, IUE represented 840 workers at this local. By that time, the employees no longer did any electronic component manufacturing; the Jefferson City plant made only television cabinets. All of the electronic components that go into the cabinets were already being assembled in Mexico. And, when it was time to renegotiate our collective bargaining agreement, the company repeatedly "reminded" us of their seven plants in Mexico.

Today, the membership of IUE Local 748 has shrunk to 550. Two months ago, local NAP management bid on a contract for 30,000 console television cabinets for Curtis-Mathis. The contract they received was for only 6,000 projection TV cabinets—the other 24,000 cabinets are going to be made in Mexico.

2. *IUE Local 849, Evansville, Indiana:* In 1986, the IUE represented 850 Zenith workers at the company's two plants in Evansville, Indiana. Today, we no longer represent any Zenith workers in Evansville because both plants have been completely closed down. The work was moved to Mexico. One thousand hourly and sala-

ried Evansville workers lost their jobs, devastating many families and the community. Among those who lost their jobs were workers who had been with Zenith for more than 20 years.

3. *IUE Local 717, Warren, Ohio:* In 1973, IUE represented some 13,000 production workers at the General Motors, Packard Electric Division ("GM") in Warren. In 1974, GM moved 2,200 jobs to two new non-union plants in Mississippi, and began to build three new plants in Juarez, Mexico. By 1975, the Mexico plants were completed with a workforce of 7,000. By 1986, GM's Packard Division had seven plants along the Mexican border with more than 15,000 workers. Meanwhile, employment at the Warren, Ohio facility had shrunk to 9,000. Today, GM has twenty-four manufacturing plants in Mexico with 11,100 work stations and 23,700 workers. Only 8,200 jobs remain in Warren.

4. *IUE Local 463, Brooklyn, New York:* The Parker Hannifan (Ideal Clamp Division) shop in Brooklyn, New York is now closed. In the early 1980's, there were 600 workers employed there. Then the company opened a plant in Matamoros, Mexico and 300 American workers lost their jobs. In 1986, the company closed down what was left of the Brooklyn plant.

5. *IUE Local 255, Pittsfield, Massachusetts:* Fifteen years ago, General Electric ("GE") employed some 15,000 workers in Pittsfield. By 1987, employment was down to 5,000. Today, only 1,000 hourly jobs remain. In September of last year, another 60 jobs—wiring jobs for a defense project, the Aegis Director—were lost to Mexico. The reason given by the company? GE claimed it was more competitive to have the work done there, rather than pay \$12.00 an hour to American workers.

6. *IUE Local 731, Memphis, Tennessee:* IUE members at this G.E. plant assemble all types of lights for automobiles, i.e. automotive head lamps, directional signals, and brake lights. In 1989, some 400 workers were employed at this plant, with assemblers making an average of \$10.00 per hour, and inspectors averaging \$17.00 per hour. Between May and June of 1990, forty-four workers, all of them women, were laid off. Their jobs went to a G.E. plant in Acuna, Mexico. Shortly thereafter, the company announced that it was moving six additional jobs to Mexico.

7. *IUE Local 806, Kirkland, Indiana:* IUE members at AES Interconnects in Kirkland, Indiana make wire harnesses for auto suppliers and earn \$5.00 an hour. All of the IUE members at this plant are women; some of them are single mothers. In October, 1990, twenty-eight people were employed at this plant. In November, when a customer chose to shift a \$45,000 order to another company with a manufacturing facility in Delanosa, Mexico, the workforce was reduced to fourteen. Then, in December, two more women lost their jobs. The company's explanation was reduced demand.

8. *IUE Local 840, Troy, Illinois:* Since 1982, membership at IUE Local 840, Basler Electric, has declined as \$7.50 per hour jobs have been relocated to Reynosa and Matamoros, Mexico. The company has moved the entire magnetics assembly operation, e.g. transformers, to Mexico. While Basler Electric currently provides 430 jobs, local union officers estimate that there would now be a total of 650 jobs at this plant, but for the transfer of the magnetics work to Mexico.

9. *IUE Local 826, Bloomington, Indiana:* IUE represents 700 employees making an average wage of \$ 10.00 per hour at the Otis Elevator facility in Bloomington. Last year, the company transferred its wire control parcel work to Mexico. Between twenty and thirty jobs were lost. On January 1, the company laid off fifty more people, citing the current downturn in the economy. All of these people remain out of work.

10. *IUE Local 1010 FW, Los Angeles, California:* In April 1990, IUE negotiated its first contract with Chair Factory, Inc. The agreement provided for an average hourly wage of \$7.50 for the forty-five production workers. Six months into the contract, the company cited economic hardship and transferred 30 jobs to a subcontractor in Tijuana, Mexico.

Our union could provide this Committee with many other examples of IUE members who have lost their jobs because their employers either moved production to Mexico or were forced to close because they were unable to compete with other companies already producing in Mexico or other low-wage havens abroad. There are, in addition, thousands of other IUE members and other American workers who have been forced to accept inferior wage and benefit agreements because their employers have threatened to move even more jobs to Mexico.

A free trade pact with Mexico will only increase unemployment and exacerbate the existing inequities in income distribution. Such an agreement will give American-based corporations a "green light" to shift more and more work out of this country. It will further discourage domestic investment in technology, machinery,

and worker education and training. For all of the above reasons, the IUE strongly urges the Congress to reject an FTA with Mexico.

STATEMENT OF CONGRESSWOMAN MARCY KAPTUR, OHIO'S 9TH DISTRICT

KAPTUR RESPONDS TO PRESIDENT BUSH'S CALL FOR TRILATERAL TRADE NEGOTIATIONS

Yesterday President Bush announced that the U.S.-Mexico free trade agreement will proceed as a trilateral negotiation to include Canada on the fast-track procedure. I do not rule out the potential benefits of a future North American Free Trade agreement, but I do have serious doubts about rushing into such an agreement that includes a country with the standard of living and level of development of Mexico. The precedent of the U.S.-Canada FTA should not be basis alone for entering into a FTA with Mexico. While the U.S. and Canada have similar economies, including levels of economic development, regulations and standards, the U.S. and Mexico have great disparities in these areas. These disparities must be narrowed before a truly fair FTA can be entered between the two countries.

Before any negotiations begin they must include serious consideration of the consequences of such an agreement on labor and workers' rights issues. I am concerned that the Administration is not at all conscious of the serious U.S.-Mexico labor conflicts that are inherent in a potential U.S.-Mexico FTA. United States Trade Representative Carla Hills has told me the only topic ruled off the table in the proposed negotiations is that of labor mobility, however, she has promised to leave the door open to workers rights issues and to give advice during the negotiations. If this is indeed a sincere offer, then I request of Ambassador Hill to expand the negotiating agenda to include workers' rights and environmental issues of concern.

I request such an expansion of the agenda because any agreement reached with Mexico will have a significant impact on our workforce as well as the levels of manufacturing investment in the U.S. With the average wage for manufacturing in Mexico hovering at \$0.57 per hour compared to \$10.47 per hour in the United States, it is easy to understand how U.S. jobs could be drawn to the lower wages of Mexico. As the maquiladora program has proven, U.S. companies have relocated part of their operations in Mexico—usually unskilled production workers—as an easy way to bring down costs, often avoiding investment here at home in research, education, and training. Only by investing in these can long term improvements in production methods, quality, and costs here in the U.S. U.S. companies cannot ultimately be competitive globally by relying solely on short-term lowered wage rates and lower environmental and health and safety standards to bring down U.S. cost structures.

If current trends continue and low paying and labor intensive jobs are transferred to Mexico, Mexican workers will be merely assembling products for export rather than learning skilled, manufacturing processes which could be used to spur economic development. The Mexican people then would still be operating as a low wage economy and remain unable to raise their standard of living to purchase the very consumer products they are assembling, as is now the case.

This Member of Congress cannot approve a free trade agreement unless Mexico's standard of living is raised upward toward the level of the United States. The United State's standard of living must *not* be lowered toward the level of Mexico's.

STATEMENT OF THE LEAGUE OF UNITED LATIN AMERICAN CITIZENS

I am Jose Velez. I am the National President of the League of United Latin American Citizens. LULAC is a National non-profit organization with a membership committed to human and economic development of U.S. Latin Citizens.

Mr. Chairman, members of the Senate Finance Committee, as the President of the League of United Latin American Citizens I want to inform you that LULAC members are enthusiastically supportive of the proposed U.S -Mexico Free Trade Agreement. As a Texan and representative of all Americans, I think you share with LULAC's membership the hope that the free trade agreement will provide a means of enhancing the well being of U.S. and Mexican economies in an increasingly competitive international economy.

LULAC believes that Mexican workers and the Mexican population in general deserves a government that is committed to public policy objectives that will promote employment in Mexico at a livable wage, with health and worker standards that will promote worker productivity and development.

Having met with Mexican government representative, I believe that the Mexican government is prepared at this moment to pursue the free trade agreement in behalf of economic development objectives which are consistent with U.S. foreign policy objectives

I believe, however, that U.S. public and private sector proponents of the Free Trade Agreement must be prepared to ensure that the American worker will not be adversely impacted. I believe that the first obligation of government is to assist in preparing American citizens for productive employment where they can advance in the basis of their individual work ethic and ambition. If sectors of our economy are expected to experience short or long term employment displacement then it is our mutual obligation to ensure that viable worker benefit, training and mobility programs are in place which will facilitate transition to another occupation or region of the country.

The LULAC membership views the FTA as involving more than commerce between countries that share a contiguous border region. This trade agreement will not be truly "Free" for either Mexico or the U.S. It constitutes nothing less than a "social contract" between the U.S. and Mexico to form an economic relationship which will promote the mutual goal of developing each others work force to it's maximum comparative advantage.

The pursuit of this contract will require and compel collaboration and cooperation in addressing known deficiencies and disparities in our educational systems, approaches to managing worker standards and health regulations and environmental statutes. At the heart of this agreement must be our understanding of what free trade will do to the Mexican and American work force as the paramount factor in accomplishing the objectives of the FTA. Clearly to ignore the basic human factors inherent to the FTA is unwise if not foolish.

The point I want to make in behalf of LULAC is that the impact of the FTA is not going to be realized within the Washington, D.C. Beltway. It has been LULAC's historic experience that the Federal Government's initiatives often times have unforeseen consequences that are neither as bad or good as prescribed by "experts" and "professional prognosticators." We seek to sensitize those involved in the public discourse over the FTA that LULAC has expectations of the agreement which may not be uppermost in the minds of those trade economist who pontificate about micro-economic scenarios but are rarely directly involved in the micro-economic reality of U.S.-Mexico Trade in the border region. LULAC expects that this Senate Finance Committee, and indeed this administration, which is advancing this trade initiative, are fully cognizant of our collective responsibility to working people in both Mexico and the U.S. who want to be productive members of a more competitive North American economy.

From a purely selfish perspective, some LULAC members have asked me directly, should we support a free trade agreement that will result in a potential export of American jobs - even to Mexico? Relatedly I am asked by members how Hispanic-Americans are going to fare in this more competitive economy when high tech and management skills will be at a premium? Like all Americans LULAC members ask questions about job mobility, advancement and where and when should we anticipate job displacement.

Senator Bentzen, you have been a friend to LULAC for many years. You know that the bulk of Hispanic Americans reside in our Border States. Economists have maintained that the Sun Belt region will benefit by an increase in U.S.-Mexico trade. The reality of LULAC's experience in the Border Region is that the federal government's efforts to bring timely and efficient leadership to this region in terms its unique educational, health, environmental, housing and law enforcement needs have at best been haphazard. In the context of the proposal Free Trade Agreement how are intergovernmental and intragovernmental issues going to be managed? Will state and local jurisdictions have the authority and resources to effectively address those unique international and domestic issues that will characterize the U.S.-Mexico Border in an era of free trade? In testimony provided last June before the House Ways and Means Committee, New Mexico's Representative Bill Richardson commented that he felt that a U.S.-Mexico FTA would provide some impetus for the federal government to get it's act together and provide some pragmatic policy leadership in addressing current of border problems.

While I applaud his support for the FTA I don't share Rep. Richardson's optimism. I want to know how the consequence of the FTA in the short term and long term are going to be managed. Surely this Committee is aware that the State Department's Bi-National Commission does not have a single working group out of its eleven involved in discussing Mexico-U.S. labor issues.

Mr. Chairman, because of your personal knowledge of the aspirations of Mexican Americans in Texas, I want to take this opportunity to inform the Senate Finance Committee of some facts of life about the preparation of Hispanic Americans to make a transition to that more competitive economy that proponents of FTA claim will result. It is my hope that you share my concern about these facts and will sensitize both the Departments of Labor and Education as to the critical role they must be prepared to play in altering them.

While the Hispanic population in the U.S. has increased in almost protean dimensions the percent of Hispanic youths who finish High School has decreased. As the American Council of Education has concluded, "...the long term costs of not adequately educating large numbers of young Hispanics is going to be enormous." Despite our population increase, Hispanics are grossly under represented at every rung of the educational ladder.

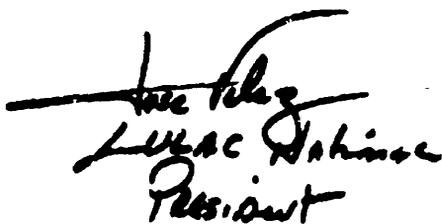
A recent American Council on Education Report concluded that "...without immediate intervention to educate and train not only those in school now, but those who have already left school Hispanic youth face serious obstacles in effectively entering the U.S. work force and economy".

As we consider the long term benefits projected to result from the FTA, such as more competitive economy and better jobs for the American worker, let's keep in mind that Hispanics are usually employed in low-paying, semi-skilled jobs. They also tend to work in economic sectors vulnerable to cyclical unemployment and in industries that are either growing slowly or declining such as agriculture. We in LULAC know that lack of education and limited access to employment training will restrict the number of Hispanic Americans prepared to transition to those better jobs that are to

developed and developing country. Human resource development issues should be in the forefront of FTA discussions. If a more competitive economy is our national goal then let's explore how we collectively intend to prepare the American worker to play a productive role in that economy. If better jobs is a national objective, then what assurances can we give the American worker that he will be qualified for that high tech management position that is promised as a dividend of U.S. participation in the PTA.

LULAC is committed to the promise of the FTA and it is prepared to work with public and private sector groups to realize it's potential. Our mutual collaboration however, will require more than rhetoric. It will require insight into cultural, political and intergovernmental differences. It will also involve far more work force analysis than has been undertaken by either country.

LULAC is prepared to assist in any way that it can to promote mutual understanding between Mexican and American workers and entrepreneurs. Government agencies involved in managing the socioeconomic consequences of U.S.-Mexico Border interactions can depend on the cooperation of our U.S. membership.


LULAC National
President

STATEMENT OF THE LUGGAGE AND LEATHER GOODS MANUFACTURERS OF AMERICA, INC.

The Luggage and Leather Goods Manufacturers of America (LLGMA) is a trade association representing the domestic industry producing and selling luggage, business cases, and flat goods. The LLGMA's members account for over three quarters of all sales of these products in the United States. The LLGMA opposes the negotiation of a free trade agreement between the United States and Mexico.

This opposition is based primarily on the adverse impact that such an agreement can be expected to have on the domestic industry. This industry is already import-sensitive as a result of a decade of rapid import growth, which caused significant losses of production and employment. While most of this import growth has been and continues to be from Far East suppliers, Mexico has become a major supplier and has the potential to increase significantly. Textile luggage and flat goods are currently under a designated consultation level negotiated between the United States and Mexico, which provides a modest restraint on rapid growth in imports from that source. This alone reflects the import-sensitivity of the U.S. industry and the U.S. government's recognition of this sensitivity.

At the same time that the United States represents a large market that Mexico could exploit in large volumes, the domestic industry does not see any similar opportunity in the Mexican market. Mexico's economy is only 3.6% of the size of the United States' economy. This holds little promise that reciprocal benefits will accrue to the United States if a free trade agreement is concluded.

The move to open up the U.S. market to Mexico on very preferential terms relative to other countries comes at a time when this industry is being adversely affected by the slowdown in the U.S. economy. As shown in the attached table, employment in 1990 has fallen significantly, after holding steady in 1989. The steady employment in 1989 was a rare and welcome respite from the steady attrition that had affected the industry during the previous decade.

This stable condition in 1989 had resulted from the impact of the decline in the U.S. dollar and the belated, but finally significant, impact of the bilateral restraints on textile luggage imports from the PRC. However, the downturn in the economy has prevented the industry from gaining from the modest pause in increases in import competition.

This progress in slowing import-related attrition would be undercut by opening up the U.S. market on preferential terms to another very low-wage supplier. Moreover, it would hamper the ability of the industry to cope with the poor economic conditions it now faces. As a result, the LLGMA is opposed to the negotiation of a free trade agreement with Mexico.

STATEMENT OF THE MARICOPA COUNTY BOARD OF SUPERVISORS

Mr. Chairman, members of the Committee, I am Ed Pastor, a member of the Board of Supervisors in Maricopa County, Arizona. I appreciate the opportunity to appear before you today.

Let me go on record at the outset as stating that I support the actions to date of the Governments of Mexico and the United States, with respect to the Free Trade negotiations. I further support the addition of Canada to the discussions and believe that when this is all brought to a successful conclusion, the North American Continent will represent the largest and most powerful economic zone in the world.

We all know the antecedents of this issue. In the summer of 1990, Presidents George Bush and Carlos Salinas de Gortari stated that they supported negotiations for a U.S.-Mexico Free Trade Agreement, with comprehensive elimination of trade barriers as the ultimate objective. They called for the elimination, to the extent possible, of tariffs, and a reduction in non-tariff barriers such as import quotas, licenses and other technical impediments to trade. Quick and fair dispute settlement procedures, and protection for intellectual property rights were also contemplated to be part of the Accord, which we hope will result in an expansion of the flow of goods, services and investment between our two countries.

I am not that naive as to think that everyone is looking positively at this proposal just to be good guys. On the contrary, in large part, the realities of world economics forced it upon us. But, nevertheless, I sincerely believe that a Free Trade Agreement can be positive for all concerned.

In Mexico, President Carlos Salinas de Gortari recognized that there was a lack of foreign investment coming from other countries. Japanese investors were taking a "wait and see" attitude before committing to significant additional activity. Similarly, as the Eastern European countries were changing politically, European investment moved towards emerging opportunities there. Salinas also saw the develop-

ment of regional trading blocs in Europe and the Asia-Pacific nations and perhaps felt the need to form a union with the United States, at least for defensive reasons.

Though Mexico's sudden willingness to discuss a Free Trade Agreement surprised the United States (we had been concentrating on the Uruguay Round of GATT negotiations), I commend Congress and the Administration for moving swiftly to take up the subject.

The general implications of a Free Trade Agreement can easily be discerned. Historically, when an economic union is forged, the country with the lowest income usually increases its standard of living more in percentage terms. This was the case with Italy in the European Economic Community. It is also good for the United States. Quite simply, it means that Mexican consumers will have more money with which to buy goods produced here. Also, the addition of 82 million Mexicans and 26 million Canadian consumers to our 250 million population will result in a large increase to America's consumer market.

But, we must be frank and honest with one another during this process. On balance, free trade is positive, but not everyone will come out ahead.

It appears that a Free Trade Agreement would favor those types of U.S. Industries which involve a high-tech process; those cases where manufacturing cannot be easily shifted to Mexico; industries such as telecommunications, computers and sophisticated pollution-control equipment.

The U.S. losers could include those industries with more traditional processes. Companies that would have a greater probability of relocating to Mexico would be textile, clothing, and to some degree automobile assembly operations.

Looking at the impact from a Southwestern perspective, we are not heavily endowed with textile, clothing, and auto assembly industries, which have a greater probability of being potential "losers." Conversely, the Southwestern region of the United States does have a certain presence in telecommunication and the computer industry—two potential "winners." Hence, we see our region benefiting particularly.

Behind Canada and Japan, Mexico is our third most important trading partner. It is one of the top three Latin American countries in terms of U.S. investment. It is the third best market for U.S. agricultural products, and is the fourth most important source of petroleum. U.S. exports to Mexico doubled from \$12 billion to \$25 billion between 1985 and 1989. For 1990, this figure is estimated at \$28 billion. U.S.-Mexico trade is also reasonably in balance since we account for two-thirds of Mexico's exports and about 68% of their imports.

The United States has other interests in Mexico, also being the largest source of foreign investment there. Two-way tourism is also important; not just for the revenues it brings, but also as an enhancer of cultural understanding.

Of additional interest to American producers should be Mexico's population and demographics. Mexico is projected to increase from a population of roughly 82 million in 1990 to at least 109 million by the year 2000; an annual increase of 2.3%. Those numbers show a growing market for consumer goods, many of which will be produced in the U.S. Another interesting statistic, is that nearly half of this population is presently under the age of 19; people who are just now beginning their "high-consumption" years.

This data shows a relatively large and untapped market for American goods and products as well as a large labor pool from which to draw for those U.S. companies desiring to locate in Mexico for competitive reasons. For Mexico, a Free Trade Accord will help their economy provide jobs for this growing population and should help reduce illegal immigration in the United States.

As a native of Arizona, I am aware of the trade impact on my home state. During 1989, at the Mexico/Arizona border, we had crossings of 26.5 million people; 7.8 million vehicles; 200,000 commercial trucks and 200,000 cargo containers. A study completed for the U.S. Customs Service indicates that by 1994 cargo container crossings will be up by 50%, and people and vehicle crossings will increase by 20%. Further, by the end of the decade, it is estimated that vehicle crossings will increase by 40%. Predictably, with a Free Trade Agreement, the percentages will increase dramatically.

We need to be ready.

While technically a separate issue, I believe the matter of adequate infrastructure needs to be addressed—perhaps in parallel—to assure success in the implementation of any Free Trade Agreement. There are both short and long-term infrastructural issues. Due to the increase in pedestrian traffic, vehicles and cargo, customs facilities must either be expanded or established at key border crossings. The U.S. Customs Service must be able to process the traffic in a more effective, efficient manner and still protect the interests of the U.S. The Federal Government must make the

commitment to provide the necessary facilities to enhance the success of any Accord. Obviously, the trained personnel required to staff these facilities must also be provided to meet the increased demand for services.

Of equal importance is the automation of custom services for both countries. It is very important that the telecommunications and computerization of both countries be compatible and up-to-date. If they are not, that could serve to thwart the implementation of the Free Trade Agreement and mitigate its benefits.

A slightly longer-term issue with respect to a Free Trade Agreement is the infrastructure required to successfully address the environmental implications of expanded trade between our two countries. The industrial expansion of the past decade along our border has demonstrated that both the U.S. and Mexican ecologies are directly affected. Because of the geological and ecological characteristics of the border region, communities along both sides share common air and water supplies. Due to the terrain characteristics, contamination of natural resources on one side results in pollution on the other.

While infrastructure issues have historically been the responsibility and province of local governments, I would suggest that the rapid growth of the border areas has created a situation where many political subdivisions find themselves unable to fulfill the legitimate needs of the population. As a result, I would suggest that both Federal Governments must realize that they need to assist local authorities with reasonable amounts of technical assistance and financial aid to ensure that the infrastructure required to protect the public health and environment is in place as the expanded industrialization occurs.

Free Trade is a national issue. The benefits to the United States will be felt nationwide, not just at the border. Accordingly, it is reasonable to share some of the costs.

The infrastructure issues, while not glamorous, are important and must be addressed in order to ensure that the full benefits of any Free Trade Agreement are reaped.

I urge your careful consideration of them during this process.

STATEMENT OF THE MEXICAN CERAMIC SANITARYWARE INDUSTRY

On behalf of our clients, Fabricas Orion, S.A. and Sanitarios Azteca, S.A. of Monterrey, Mexico, and Vitromex, S.A. of Saltillo, Mexico, the Mexican manufacturers and exporters of ceramic sanitary fixtures and we hereby submit our comments regarding the likely impact of a Free Trade Agreement with Mexico on the ceramic sanitary fixtures industry in the United States. Our clients believe that a Free Trade Agreement between Mexico and the United States would be beneficial to the sanitary fixtures industries of both economies, and would not have an adverse impact in either country.

The sanitary fixtures discussed herein are ceramic sinks, washbasins, washbasin pedestals, baths, bidets, water closet bowls, flush tanks, urinals and similar sanitary fixtures, classified under HTS subheadings 6910.10.00 and 6910.90.00, and dutiable at 7.2 percent *ad valorem*. Under the U.S.-Canada Free Trade Agreement, the rate of duty on these items is currently 6.4 percent.

Ceramic sanitary fixtures are manufactured from a mixture of clay, kaolin, silicate, feldspar and water which is poured into molds, dried, and fired. Valves and fittings are then attached to the finished product. Although Mexican and U.S. products are substantially similar as both must comply with the uniform industry standards established by the International Association of Mechanical and Plumbing Officials, the U.S. product tends to be of higher quality, while the Mexican product is used primarily in low-cost government housing projects and sold in the do-it-yourself home improvement market.

Demand for plumbing fixtures is obviously related to the amount of new construction and the amount of remodeling and repair being undertaken. The U.S. Department of Commerce 1990 Industrial Outlook has predicted that during the 1990-1994 period, overall new construction will remain near current levels, while remodeling and repair will increase steadily. 1990 U.S. Industrial Outlook at 5-3. These trends favor the continued increase of shipments of ceramic sanitary fixtures.

The U.S. domestic industry which produces ceramic sanitary fixtures is a growing one which has a dominant position in the U.S. market. According to the current industrial report published by the Department of Commerce, shipments of all plumbing fixtures by U.S. companies in 1989 increased by 2 percent over 1988 shipments. Shipments by domestic companies of vitreous china plumbing fixtures, which includes the products classified under the HTS subheadings at issue here, increased

even more: domestic shipments of vitreous china fixtures were valued at \$758.5 million in 1988, while in 1989 the value had climbed to \$808.5 million, an increase of 6.6 percent. Domestic shipments of vitreous china plumbing fixtures further improved during the first two quarters of 1990 as compared with the same periods in 1989. See U.S. Department of Commerce Current Industrial Report MQ34E (August 1990). The domestic industry producing ceramic sanitary fixtures is clearly doing quite well.

Mexican imports of ceramic sanitary fixtures, and indeed imports of this merchandise generally, clearly play a very limited role in the U.S. market. Total U.S. apparent consumption of vitreous china plumbing fixtures in 1989 was valued at \$859.1, an increase of 6.0 percent over 1988, when domestic consumption was valued at \$758.5 million. During 1989, imports made up about 9 percent of domestic apparent consumption of these products. See U.S. Department of Commerce Current Industrial Report MQ34E (August 1990). As most vitreous china plumbing fixtures imported from Mexico are encompassed by HTS subheadings 6910.10.00 and 6910.90.00, import figures available from the Census Bureau for these headings provide a fairly accurate estimate of Mexico's share of the U.S. market. In 1989, imports of this merchandise from Mexico were valued at \$26.2 million, which amounted to only 3.0 percent of total U.S. apparent domestic consumption. These figures clearly demonstrate that Mexico plays a very small, and limited, role in the U.S. market for ceramic sanitary fixtures.

Imports of sanitary fixtures from Mexico classified under 6910.90.00 represented only 5.8 percent of total imports under this subheading during 1989, and totaled only \$227,696 during that period. See Bureau of the Census Report IM 146. Total imports under this subheadings from all sources, in fact, came to only approximately \$ 3.9 million in 1989. *Id.* Sanitary fixtures classified under this subheading, therefore, are clearly not major import commodities, and are certainly not major export commodities for Mexico. Even the immediate elimination of import duties on this tariff item would have no adverse impact on the U.S. industry producing sanitary fixtures.

The immediate elimination of tariffs on imports of sanitary fixtures from Mexico classified under HTS subheading 6910.10.00 is likewise not likely to have a negative impact on the domestic sanitary fixtures industry. Imports from Mexico under this provision were valued at \$25.9 million in 1989, while total imports of the products covered under this provision were valued at \$68.7 million. Bureau of Census IM 146. This tariff subheading covers the bulk of imports of ceramic sanitary fixtures and, as was pointed out above, represents only a small part of total U.S. apparent domestic consumption.

Import duties on these products are not unusually high, and the elimination of tariffs on imports of these products from Mexico is highly unlikely to cause a surge of imports into the United States. Considering the small role of Mexican sanitary fixtures in the United States, even the immediate elimination of import duties on these products is very unlikely to adversely affect the U.S. industry.

For the foregoing reasons, we believe that a Free Trade Agreement with Mexico would be beneficial to the ceramic sanitary fixtures industries of both the United States and Mexico. Therefore, we urge the Finance Committee to allow the negotiation of a Free Trade Agreement to proceed under the expedited procedures provided for by U.S. law.

STATEMENT OF THE MEXICAN CERAMIC TILE INDUSTRY

On behalf of our clients, the major Mexican ceramic tile manufacturers and exporters,¹ we hereby submit our comments regarding the likely economic impact of a Free Trade Agreement with Mexico on the ceramic tile industry in the United States. Our clients believe that a Free Trade Agreement between Mexico and the United States would be beneficial to the ceramic tile industries of both economies, and would not have an adverse impact in either country.

The U.S. ceramic tile industry is an excellent example of a domestic industry whose growth has been spurred in part by competition from abroad. U.S. ceramic

¹ Represented in this group are the major Mexican ceramic tile manufacturers and exporters including Ceramica Regiomontana, S.A., Azulejos Orion, S.A., Ladrillera Monterrey, S.A. and Industrias Intercontinental, S.A. of Monterrey, Mexico, Internacional de Ceramica, S.A. of Chihuahua, Mexico, Ideal Standard, S.A., Porcelante, S.A. of Mexico City, and Vitromex, S.A. of Saltillo, Mexico. These manufacturers represent in excess of 95% of all exports of ceramic tile from Mexico to the United States.

tile producers have traditionally done well only in the non-residential market, where they have a competitive advantage over imports in terms of availability and technical assistance. U.S. companies are able to ship large amounts of tile more quickly than their foreign competitors and have personnel on hand to advise the purchasers. USITC Pub. No. 2289 (June 1990). However, the industry has not done as well in the residential markets, largely because the industry was not sufficiently responsive to the demands of U.S. consumers, who were increasingly demanding newer styles, colors, and sizes of tiles which were not produced by the U.S. industry. The U.S. industry limited itself primarily to production of more traditional tile products, which forced consumers to turn to imports for specialty items such as natural ceramics and for the variety which was simply unavailable from domestic producers. Nor was the domestic industry very cost efficient, which severely curtailed its ability to produce a greater variety of products.

During the last decade, however, the U.S. ceramic tile industry realized that in order to become fully competitive in the U.S. market, it would have to become more cost-efficient and offer a greater variety of products. In recent years the industry began to reinvest large amounts into upgrading facilities and into research and development. New plants have been and are being built in order to increase efficiency and to meet the demands of a now expanding market. See U.S. Industrial Outlook 1989 at 2-12, 2-13.

Improvements in the domestic industry were documented by the International Trade Commission in its report to the President concerning the probable economic effect of adding ceramic tile to the list of GSP-eligible products, filed in the special GSP review for certain Andean countries. See USITC Publication 2289 (June 1990). The ITC report shows a 47 percent increase in U.S. consumption of ceramic tile between 1985 and 1989. U.S. producers have clearly taken advantage of this growth in consumption: while in 1985 there were 114 producers of ceramic tile in the country, in 1989 this figure had grown to 129. Since 1986 the number of producers has increased at an annual rate of 4 percent. The U.S. industry has also become a far more important player in the global market: since 1985, U.S. exports of ceramic tile have increased by 71 percent. *Id.*

In spite of the advantage that foreign producers traditionally held in terms of cost efficiency and despite the fact that these producers offered a greater variety of products, the share of the market held by imports has remained quite stable. In 1980, as a result of the Tokyo Round, tariffs on ceramic tile were reduced by 20 percent. In 1979, the year prior to the tariff reduction, imports enjoyed a 48.3 percent share of the U.S. market. In spite of the significant tariff reduction, the import share of the market did not increase dramatically. It reached a peak of 57.5 percent only in 1985, and had fallen to 52 percent by 1988. The Tokyo Round tariff cuts clearly did not result in a tremendous influx of imports, and clearly did not have an adverse impact on the performance of the domestic tile industry. In any case, according to the ITC Report in the Andean GSP Review, ceramic tile imports from Mexico constitute only 4 percent of total U.S. consumption, and a Free Trade Agreement would be limited to this small portion of the market. USITC Pub. No. 2289 (June 1990).

It is likely that but for the competition from imports over the past two decades, the U.S. industry would not have made the advances noticeable in the past few years. A further decrease in tariffs is likely to stimulate the industry to make further improvements in efficiency, allowing the industry to grow more rapidly and to keep pace with foreign industries. This is much more likely to occur if the reduction in tariff rates occurs on a bilateral basis. The largest importers of ceramic tile to the United States are Italy and Spain. A reduction in the applicable rates for Mexico alone would help that country's producers to compete more effectively with the Italian and Spanish imports, without flooding the market with imports that could worry the domestic industry.

Ceramic tile is one of the few products which still carries a high tariff rate. Currently, that rate is 19 percent *ad valorem*. The past decade has shown that a significant across-the-board tariff reduction failed to have a detrimental impact in the United States, but, rather, stimulated the domestic industry to become more competitive. In light of this, it is clear that the reduction and eventual elimination of this tariff for only Mexican imports is very unlikely to have a negative impact in the United States.

Mexico continues to be plagued with tremendous problems, including its large foreign debt and a relatively low standard of living. These problems must be overcome if Mexico is to continue the growth of the past four years. Only by increasing productivity and wages in Mexico will that country be able to purchase the goods produced in the United States. It is, therefore, in the interest of the United States to encourage growth and development in Mexico. A Free Trade Agreement between

the United States and Mexico will allow Mexico to earn more foreign exchange, and will enable the country to import more goods from the United States. This in turn will stimulate the U.S. economy to produce more goods. A Free Trade Agreement will, we submit, bring a net benefit to both countries, and will not injure the U.S. economy.

For the foregoing reasons, we believe that a Free Trade Agreement with Mexico would be beneficial to both the United States and Mexico. Therefore, we urge the Finance Committee to allow the negotiation of a Free Trade Agreement to proceed under the expedited procedures provided for by U.S. law.

STATEMENT OF THE MEXICAN FROZEN VEGETABLE PROCESSORS

These comments are submitted on behalf of seven¹ independent Mexican frozen vegetable processors, located in the Bajío region of Mexico, in support of the proposed Free Trade Agreement between the United States and Mexico, and to request an accelerated phase-out of import duties presently imposed on imports of frozen vegetables into the United States from Mexico because of the extremely high rate of these duties. Of particular concern are those frozen vegetables subject to 17.5 percent or 25 percent rates of duty, which include frozen broccoli, cauliflower, and okra, as well as frozen spinach.

As the major U.S. food processors have begun to realize the benefits from multiple sourcing, the importance of Mexico as a source of frozen produce into the United States has increased. It must be emphasized that unlike the case of many products imported into the United States, Mexican exporters of frozen vegetables did not come to the United States in search of a market. Instead, the U.S. market (or more precisely, the U.S. multinational food companies) came to Mexico in search of additional sources of supply. By the late 1970s, most of these multinational food companies had realized that being dependent upon supply from a single geographic source, *i.e.*, California, was extremely risky, and they began to diversify their sourcing to other areas in the United States, and Mexico. Not only did they source from Mexico, but many established their own freezing operations in Mexico, which now account for a significant percentage of Mexico's exports to the U.S. market. Besides reducing risk, this also permitted a greater ability to source product on a 12-month basis.

Since production of vegetables is dependent upon seasonal and climatic conditions, to ensure a year-round supply of any given item, food companies attempt to source from numerous suppliers in geographically diverse areas. The more options there are in terms of sourcing, the more reliable the supply of these vegetables becomes. Mexico has, in recent years, become a particularly important source of vegetables for U.S. processors, and the U.S. market generally, due to its proximity to the United States and to seasonal and climatic differences between the two countries.

Sourcing from Mexico enables U.S. producers to operate their facilities year-round, rather than having to tie their production to the crop schedule in the United States. With access to Mexican crops, producers can turn to Mexican growers, or to other production areas in the United States, as areas in the United States pass their peak production periods. By geographically varying the source of their raw vegetables, U.S. processors reduce the risk that erratic weather patterns resulting in crop damage in any particular growing region will have a significant impact on supply in the United States.

A large portion of the frozen vegetables imported from Mexico consists of frozen broccoli or cauliflower. For many years, California growers dominated the market for these vegetables. As recently as 1979, California accounted for 100 percent of all frozen broccoli packaged in the United States, and for fully 95.1 percent of all shipments of frozen broccoli nationwide. California also dominated the market for frozen cauliflower, accounting for about 70 percent of shipments in the United States during the early 1980s. See Runsten and Moulton, "Competition in Frozen Vegetables," *Competitiveness At Home And Abroad: Report Of 1986-87 Study Group On Marketing California Specialty Crops: Worldwide Competition And Restraints*, at 37 (June 1987).

Over the past few years, demand for broccoli and cauliflower has increased tremendously with changing consumer tastes, changing demographic trends, and changing marketing techniques. While California remains the most important

¹ Congelados Don Jose, S.A. de C.V., of Leon, Mexico; Covemex, S.A. de C.V., of Celaya, Mexico; MAR BRAN, S. de R.L. de C.V., of Irapuato, Mexico; Expohort, S.A. de C.V., of Queretaro, Mexico; Vegetales Congelados, S. de P.R., of Irapuato, Mexico; Expor-San Antonio, of Celaya, Mexico; and Empacadora de Hortalizas del Bajío, S.P.R.R.L., of Guanajuato, Mexico.

source of these vegetables, this growth has increased the importance of product imported from Mexico and product from other regions in the United States. The increased demand for frozen broccoli and cauliflower is evident from production figures for the past decade. Total acreage in the United States under production for broccoli and cauliflower increased by 89 percent (from 68,300 to 120,093 acres) and 64.6 percent (from 41,500 to 68,400 acres), respectively, between 1976 and 1986. This increase is attributable in part to increases in production in California, where broccoli acreage increased by 65.2 percent and cauliflower acreage by 58.7 percent between 1978 and 1986. The remainder of the increase is due to expansion in other parts of the country. During this period, cultivation was introduced in a number of regions outside California, including Maine, New York, Illinois, Colorado, Virginia, North Carolina, South Carolina, and Oklahoma. Production also increased dramatically in Texas, Oregon, and Arizona. See Cook and Amon, "Competition in the Fresh Vegetable Industry," in *Competitiveness At Home And Abroad*, supra at n.3.

It is important to note that much of the growth in demand for broccoli and cauliflower has resulted from an increased demand for high quality cuts and for gourmet food generally. Broccoli and cauliflower of the necessary quality for these applications can only be achieved through hand-cutting the vegetables. U.S. food companies have not been able to source hand-cut product economically in the United States, and have looked increasingly to sources abroad, especially Mexico, for product. The availability of Mexican product permits the companies to obtain these desired cuts at an acceptable cost, and also accords nicely with their efforts to minimize the economic risks inherent in this industry by geographically diversifying their sources of supply. The Mexican processors have specifically focused their production efforts on the segment of the market calling for labor-intensive hand-cut product, realizing that they can serve this market more efficiently than U.S. processors. U.S. processors continue to produce economically, and profitably, those larger cuts where mechanized cutting is feasible.

Even with the growing popularity of gourmet cuts, according to the International Trade Commission, California, traditionally the largest producer of these vegetables, remains "very competitive in the U.S. market for . . . frozen . . . broccoli and cauliflower." See *Competitive Conditions In The U.S. Market For Asparagus, Broccoli and Cauliflower*, supra at xi. U.S. producers have maintained their dominance in the U.S. market by continuing to supply those segments of the domestic market which do not call for hand-cut produce.

Although imports of frozen broccoli and cauliflower from Mexico have increased over the last five years, U.S. processors, although losing market share in a growing market, have increased their production and sales during this period. While the California growers and processors find it convenient to blame imports from Mexico for the loss of their nearly monopolistic position in the frozen broccoli and cauliflower market from the early part of the 1980s, part of this market share has gone to U.S. processors located in other areas of the United States, not to imports.

Despite the greater efficiency with which Mexican processors produce certain cuts of frozen vegetables, they continue to face tremendous competitive disadvantages in the U.S. market. The stigma of being "foreign" is an increasingly serious problem for Mexican growers as concern grows among U.S. consumers over food safety, and specifically over the use of pesticides and the presence of pesticide residues. Over the years, allegations have been made (often by U.S. growers and processors who know these allegations are false) that Mexican (and other) imported produce is somehow more likely to contain harmful pesticides than is produce grown in the United States. These allegations were clearly and convincingly refuted by the ITC in its 1988 investigation into Mexican broccoli and cauliflower production. The ITC "has uncovered no evidence of improper use of chemicals such as pesticides or herbicides) in either U.S. or Mexican industries," and found the use of pesticides and herbicides by U.S. and Mexican growers to be "roughly similar." *Competitive Conditions In The U.S. Market For Asparagus, Broccoli, And Cauliflower*, supra at 6-10. The ITC cited the testimony of the Food and Drug Administration which stated that between 1984 and 1988, of the hundreds of samples of Mexican broccoli and cauliflower tested for pesticide or herbicide residue, not one was found to be violative. *Id.* at 6-12.

Many Mexican processors supply product to U.S. multinational companies, which, prior to sourcing from Mexico, ensure that their Mexican suppliers meet the same rigorous standards imposed on their U.S. suppliers. Frequently, these standards are higher than those established by the U.S. Government. Once having started sourcing from a Mexican grower, these companies monitor their imports to ensure continued compliance with these standards. Additionally, Mexican growers and processors are well aware of the disastrous impact on their business in the United States

if they were found to be using illegal pesticides, or applying legal pesticides improperly, and therefore are very careful to ensure pesticides are used in strict compliance with U.S. Government standards. In spite of the facts, however, consumer perception (or, more accurately, misperception) plays an important role in this industry and the continuing public allegations concerning the safety of Mexican vegetables—although without any factual basis—has the potential to do great damage to Mexican growers and processors.

The claim that Mexican processors have a competitive advantage over U.S. processors because they need not comply with the host of regulatory requirements imposed by various U.S. Government agencies is incorrect. We note that Mexican growers and processors must comply with almost all of the regulatory requirements imposed by the U.S. Department of Agriculture, the Food and Drug Administration, and the Environmental Protection Agency in order to sell their product in the U.S. market. Further, the Mexican processors (or U.S. importers of their product) must also deal with the U.S. Customs Service, and with the myriad regulations with which imported agricultural products must comply.

The costs involved for Mexican growers and processors to import the necessary fertilizers, herbicides, pesticides, etc. from the United States are significantly greater than the costs incurred by U.S. growers. Additionally, Mexican processors now pay more for energy and fuel than their counterparts in the United States. Even the benefit from the transfer of U.S. technology to Mexican processors has been a mixed blessing, as the machinery and equipment which they use must be imported from the United States, and costs the Mexican processors much more than U.S. processors would have to pay for the same machinery and equipment. Mexican producers must also contend with a poor transportation infrastructure and a very unreliable telecommunications system. Interest rates are substantially higher in Mexico than in the United States, adding to the higher price Mexican growers/processors must pay for pesticides, herbicides, and for machinery and equipment. These additional costs also result in Mexican processors paying, on the average, a much higher price for raw produce than do processors in the United States. The reduction and eventual elimination of import duties would help to offset these competitive disadvantages faced by Mexican processors.

Further, the production capacity of the Mexican processors is limited, and is subject to very real restraints. The ability of the Mexican processors to ship product is proscribed by severe shortages of agricultural land and water in Mexico, both necessary components for growing the raw produce required for the processing operations. Such limitations, imposed by nature, are not readily susceptible to remedy.

The reduction, and eventual elimination, of import duties on frozen vegetables from Mexico under a Free Trade Agreement would not adversely affect U.S. frozen vegetable processors. The Mexican product already faces a multitude of competitive disadvantages vis-a-vis U.S. producers, and the duties imposed on imports—especially at the 17.5 percent and 25 percent levels—serve only to increase the cost of the product to the U.S. consumer. These extremely high duties have prevented Mexican processors from diversifying their production, which is heavily concentrated towards frozen broccoli and cauliflower. Recent attempts by certain Mexican processors to export frozen spinach and okra, which would result in less production of frozen broccoli and cauliflower (as all production is on the same equipment), have been hindered by the 17.5 percent import duty on these products. These high duty rates make entry into new product areas extremely difficult, and deter many Mexican processors from attempting to diversify their production and exports to the United States (which, if successful, would reduce Mexican exports to the U.S. market of frozen broccoli and cauliflower).

For all of the reasons discussed herein, we urge that the import duties imposed on frozen vegetables from Mexico—especially those at the 17.5 percent and 25 percent levels—be eliminated, or, at a minimum, subject to accelerated reduction under any Free Trade Agreement negotiated between the United States and Mexico (and Canada).

STATEMENT OF THE MEXICAN NATIONAL CITRUS PROCESSORS ASSOCIATION

This statement is submitted on behalf of The Mexican National Citrus Processors Association to set forth its views on the likely impact of a Free Trade Agreement with Mexico on the orange juice industry in the United States. The Mexican National Citrus Processors Association urges that frozen concentrated orange juice for manufacturing and single strength orange juice from Mexico be accorded unconditional duty-free treatment at the time of the implementation of a Free Trade Agree-

ment. Such action would have no adverse impact on the U.S. orange juice industry, and would, in fact, benefit the U.S. industry by reducing its reliance on frozen concentrated orange juice from Brazil, thereby weakening somewhat the overwhelmingly dominant role played by the Brazilians in the U.S., and world, frozen concentrated orange juice markets.

Imported frozen concentrated orange juice for manufacturing is sold mainly to U.S. juice processors, who use it to produce frozen concentrated orange juice and/or chilled reconstituted orange juice for sale to consumers in the United States. The product is dutiable at a rate of 9.25¢/liter, a rate imposed more than 40 years ago. Because this is a specific tariff rate, its ad valorem equivalent rate will vary with the price of the frozen concentrated orange juice. Since 1985, the ad valorem equivalent rate has ranged between 27 percent and 62 percent, abnormally high by whatever measure. Single strength orange juice is subject to a rate of duty of 5.3¢/liter. We respectfully submit that immediate duty-free treatment for these products would not have any adverse impact on the U.S. orange juice industry, given the fact that imports are needed in the U.S. market to fill a significant, and historic, shortfall in supply.

In Florida, which is the largest source of oranges in the United States and the world's second largest source after Brazil, freezes which in the past have only affected the northern part of the State have recently affected groves as far south as Miami. These weather patterns have made Florida an unreliable source of supply. Any projection for growth in the production of oranges in Florida will always be dependent on the weather. California and Arizona, the second largest producing regions in the United States, have projected no growth in orange production, according to industry sources. The remaining, and least important, producing region in the United States—Texas—was devastated by the 1983 and 1989 freezes.

Due to the vagaries of the weather and a reluctance to become too dependent on any source (or sources) of supply, U.S. orange juice processors seek different, geographically diverse, sources. Unconditional duty-free treatment for frozen concentrated orange juice and single strength orange juice under a Free Trade Agreement would assist the U.S. industry in further diversifying its sourcing.

U.S. orange growers currently sell all the product they grow, but fail by a wide margin to meet demand for the product in the U.S. market. U.S. processed orange juice consumption is estimated to be approximately 1,338 million gallons single strength equivalent ("SSE") for 1991, according to the Florida Department of Citrus. U.S. orange producers will meet less than two-thirds of total demand, with the shortfall being filled by imports, primarily from Brazil.

Imports serve the role of a residual supplier in the U.S. market, i.e., the amount in the U.S. market in any given year depends largely on the shortfall of fruit supply in the U.S. market. Between 1985 and 1989, as production of frozen concentrated orange juice of 65° Brix in Florida increased, imports of this product decreased on almost a one-for-one basis. The designation of frozen concentrated orange juice and single strength orange juice as immediately unconditionally duty-free therefore will not result in U.S. producers losing any share of the market to imports. U.S. producers will continue to sell all that they produce. Rather, the effect of such action will be seen in the import market.

Brazil has long been and remains the primary source of imported of frozen concentrated orange juice into the United States. Brazil is, in fact, *the dominant force* in the world market for frozen concentrated orange juice, and has the power to lead and dictate world market prices. Brazil accounts for almost two-thirds of total world production, and over 90 percent of world exports, of frozen concentrated orange juice for manufacturing. In contrast, Mexico accounts for approximately two percent of world production, while U.S. producers account for approximately one-third. Imports from Brazil today account for 83 percent of the U.S. import market in terms of quantity, and for 81 percent in terms of value. As recently as 1985, frozen concentrated orange juice from Brazil made up 97 percent of the import market. However, during the mid-1980s, U.S. processors began to look to alternative sources for imported product, including Mexico, recognizing the inherent danger of being totally dependent on a single source of supply. However, given the power and dominance of the Brazilian processors in the world market (three companies control 75 percent of Brazilian production), it has been very difficult for Mexican producers to compete against Brazilian imports.

Brazilian producers enjoy certain advantages which make it very difficult for Mexico, *a very distant second source of supply* in the U.S. import market, to compete. These competitive advantages have precluded, and will continue to preclude, Mexico from becoming a more important supplier to the U.S. market. Brazilian producers can ship product during all 12 months of the year, having the resources and

capacity to store product year round after it has been processed. Mexican producers ship during only 4 or 5 months of the year, as they do not have the capability, or resources, to create a service structure to store processed product and ship it throughout the year. Since the Brazilian processing industry is 20 times larger than that of Mexico, it is able to take advantage of economies of scale which are unavailable to the smaller Mexican producers. Brazilian producers of frozen concentrated orange juice are also vertically integrated, being owners of very large orange groves. This provides the Brazilians with a steady and readily available source of fresh oranges which enables them to set the price of the frozen concentrated orange juice. Mexican processors, in contrast, must compete for supply of oranges in the spot market with the very strong market for fresh oranges in Mexico.

Additionally, Brazilian producers incur lower processing costs than do Mexican producers, in part because the Brazilian producers have a much higher rate of capacity utilization in their processing facilities, and greater resources for research and development, than do producers in Mexico. Brazilian producers also have "tank farm operations" for frozen concentrated orange juice in the United States, Europe and Japan, and also maintain permanent sales forces in these parts of the world. Furthermore, Brazilian producers incur significantly lower transportation costs than do Mexican producers. While Mexican producers ship their product in individual 54-gallon drums or in tank trucks, Brazilian firms own their own tankers, which they use to ship frozen concentrated orange juice to the United States, more than offsetting any geographic advantage Mexican processors may have. The cost to Brazilian firms to ship from Santos Port to Florida (the location of most U.S. juice processors) is significantly less than the cost incurred by Mexican exporters.

Brazilian processors owe their dominance of the import market in part to government support of the industry. It is the Mexican industry's understanding that Brazilian frozen concentrated orange juice producers were able to take advantage of programs which provide interest-free credit, and are given exemptions from certain Brazilian taxes. The Brazilian citrus industry is highly capitalized and has an infrastructure to maintain aggressive growth, providing a significant competitive advantage to the Brazilian processors in the world market.

In 1960, Mexico produced more oranges than Brazil. Today, Brazil produces six times as many oranges as Mexico, with production of 12 million metric tons predicted for 1990, as compared to less than 2 million metric tons for Mexico. Production of oranges has increased slowly in Mexico over the past 30 years and, in the last 4 years, has been highly inconsistent and erratic. Any increase in orange juice exports from Mexico has been due to record international prices in 1988, 1989, and 1990, and not to any increase in fruit production. As prices decrease, this trend will reverse because of the relatively unsophisticated horticultural practices in Mexico, the very small size of individual growers, and their lack of financial resources.

Orange producers in Mexico sell most of their product to the domestic fresh fruit market. In 1987, about 35 percent of oranges grown in Mexico were processed—today that percentage is down to just over 30 percent. Even with the designation of orange juice as unconditionally duty free at the time of implementation of a Free Trade Agreement, the ability of Mexican producers to export will remain severely constrained by the inadequate supply of fresh oranges. The lack of economies of scale at the grove level (land is highly fragmented), the poor land productivity (Mexican orange growers produce 10 metric tons per hectare versus 40 metric tons per hectare produced by Florida growers, on average), the lack of tree care and grower sophistication, the lack of adequate financing, and high financial costs impose severe growth constraints. Supplies of oranges are likely to increase, if at all, only over a very long period of time.

It is important to remember that lower labor costs and available land do not, by themselves, guarantee competitiveness. Technology and technical abilities, grove management capabilities, favorable financing, economies of scale (large groves), and high productivity levels are by far more important than inexpensive labor. While Mexico has lower labor costs, it has none of these other advantages, which are available to the U.S. (and Brazilian) industry. It is important to remember that a Free Trade Agreement will increase labor costs in Mexico and will somewhat reduce the existing gap between the U.S. and Mexico. There will be no "surge" in imported orange juice from Mexico in response to duty-free designation; any increase in imports will come at the expense of other imports (predominantly from Brazil), and would be moderate, reflecting the limitations imposed by the lack of adequate supply of fresh oranges to the processors in Mexico.

Recent events have caused some upheaval in the orange juice market. International prices have soared to record levels as the result of scarce supply of oranges due to droughts in Brazil and freezes in Florida. U.S. consumption of orange juice

has lost market share to other juices and has been stagnant or has decreased due to the concentration and volatility of supply. U.S. consumers, marketers, processors, and even growers, have had to suffer the consequences of drastic and unpredictable ups and downs in prices, supply and consumption. Unconditional duty-free treatment under a Free Trade Agreement for orange juice would allow U.S. producers to better react to the unpredictable but probable domestic or foreign supply shortfalls.

The U.S. orange juice industry's ability to participate and position itself in growing foreign markets is also limited by its ability to develop other sources of supply. The U.S. and Brazilian citrus industries already have the capital resources, technology, existing economies of scale, and marketing expertise to strongly position themselves for entry in the large markets in Europe and Japan, which are growing rapidly. For example, Japan will liberalize its import quotas by April 1, 1992. Its current consumption is estimated to be 115 million gallons SSE. By the year 2000, its consumption is expected to be between 40 to 50 percent of U.S. orange juice consumption, which is 4 to 6 times more than its current consumption. Mexico may be the best source for a portion of the additional supply needed in the future to take advantage of the export market opportunities presented, especially should such supply become unconditionally duty free.

U.S. producers who purchase frozen concentrated orange juice from Mexican sources do so at the expense of Brazilian exporters. This reflects not only the desire of U.S. juice processors to reduce, to the extent possible, their reliance on Brazil as the single source of supply for imported frozen concentrated orange juice, but also the desirability of the Mexican product. Mexican orange juice is produced mainly from Valencia oranges, and, as a result, is of a quality superior to that of the Brazilian product. The Mexican product is ordinarily used by U.S. processors as a blend in combination with frozen concentrated orange juice from Florida and Brazil, or California and Brazil. However, Mexican frozen concentrated orange juice can only compete with the Brazilian product up to a point: significant limitations on the amount of orange juice which the Mexican industry can produce, combined with the numerous other competitive advantages enjoyed by the Brazilian producers, will keep the Mexican industry from ever becoming truly competitive with the Brazilians.

The immediate designation of frozen concentrated orange juice for manufacturing and single strength orange juice to unconditional duty-free status would benefit the U.S. orange juice industry. Imports allow the U.S. industry to source orange juice from geographically diverse areas, which proves critical in times when crops fail in certain areas, and at other times reduces their dependence on any one source of supply. High concentrations and volatility of supply can prove to be critical to the U.S. industry, since orange juice is a highly fungible product and the market has contracted. Consumers switch easily between juice products, and once market share has been lost, it is very difficult to regain. Diversifying sources of supply of orange juice can reduce risk to all participants in the U.S. orange juice industry, and will increase stability in the U.S. market, to the benefit of producers and consumers.

For all the reasons discussed above, we respectfully urge that frozen concentrated orange juice and single strength orange juice be considered for immediate unconditional duty-free treatment under a negotiated Free Trade Agreement with Mexico.

STATEMENT OF DONALD A. MICHIE

My name is Donald A. Michie. I am director of the Texas Centers for Border Economic and Enterprise Development at The University of Texas at El Paso. I am also a member of the boards of directors of the El Paso Foreign Trade Association, the Texas/Mexico Authority and the Border Trade Alliance. In these capacities, I am deeply involved in the industrial development of the Southwest border with Mexico.

The purpose of my testimony today is to present a Southwest border perspective on future free trade relations among the United States, Canada and Mexico. Free trade holds tremendous promise for the Southwest. If planned and managed correctly, the region, under free trade, will be a high-technology, production-sharing and logistics center for North American industry. For this to become a reality, however, free trade—the agreement and its companion initiatives—must benefit the region and address its needs.

The free trade agreement will be crafted for the national economy, and not necessarily for the Southwest border. The effects of the agreement, however, will be borne directly by the communities of the Southwest border states. The effects are clear. Free trade will increase the exchange of products and services that enhance border economic development; but free trade will also place a heavy burden on the region's infrastructure, one already under tremendous stress. Unless resolved, the

lack of adequate infrastructure will be a significant non-tariff barrier to free trade and will pose limits on the positive effects of free trade for the nation's economy. Hence, free trade, the national issue, must address border infrastructure, the regional issue, if the promise of development is to be fulfilled.

THE SITUATION

From a national perspective it may be difficult to appreciate the promise of "quality of life" that free trade portends for the Southwest border with Mexico. Trade appears to be a global issue. Major trading blocks, including the European Community, the Far East and North America are engaged in intense industrial competition. GATT and bilateral trade dominate international commerce.

Global industrial competitiveness determines the ability of trading blocks, nations and industries to offer products and services at prices comparable to, or better than, others. Industrial competitiveness is a function of cost. An entity's total-cost-of-business must allow the price of its products and services to cover total costs, plus profits that allow a fair rate of return for investors and a reasonable standard of living for workers.

Within this scenario is positioned the Southwest border with Mexico, a poverty stricken region and, at best, a transshipment point for trade with Mexico. U.S. border counties exhibit per capita incomes well below the national average. Examples of border per capita incomes include \$7,868 for Cameron, Texas; \$7,839 for Presidio, Texas; \$9,333 for Luna, New Mexico; and \$14,362 for Pima, Arizona. Border county unemployment rates are high, ranging between 10 and 50 percent. The Texas counties of Starr and El Paso, for example, have unemployment rates of 50 and 12 percent, respectively. Border families live under intolerable poverty. In most counties, 25 to 50 percent of families earn less than \$12,000 per year.

Opportunities for economic development are rare. Southwest border communities are predominantly transshipment points for trade with Mexico. Laredo and El Paso, Texas; Nogales, Arizona; and Calexico and San Ysidro, California, are communities dominated by trade service industries—including transportation, customs house brokerages, financial and industrial parks. These are not labor-intensive industries. Despite increased trade with Mexico, regional unemployment remains double-digit.

Finally, border infrastructure is overburdened. Infrastructure includes ports of entry, highways, housing, water, sewage, telecommunications, education and health. U.S. port facilities are understaffed. U.S. border community *colonias* lack adequate housing, water, electricity, education and health care facilities. Communicable diseases, including hepatitis, occur at eight or more times the national average. Thirty-five percent of the children and 85 percent of the adults residing in the San Elizario colonia of El Paso County are hepatitis victims. There, quality of life takes on Third World dimensions. Forty percent of El Paso's young adults are high school dropouts. Furthermore, border communities lack the tax bases necessary to resolve these problems. Service industries generate few revenues for public infrastructure and demography overburdens public resources.

This, however, is not the whole story. Southwest border communities, when integrated with sister communities in Mexico, possess total-cost-of-business environments that are competitive globally. Maquiladoras, utilizing these cost benefits, maintain industrial competitiveness and create jobs for American workers. A globally competitive total-cost-of-business environment has made Cd. Juarez, Chihuahua, Mexico and El Paso, Texas, the largest production-sharing and logistics center in the world.

Southwest business attributes are unique. Communities have abundant, youthful labor. Technology is readily available. In Texas and New Mexico, government installations such as White Sands, Sandia, Los Alamos and Fort Bliss test and develop the highest technology and latest composite materials. Transportation and logistical support are world class. Raw materials, including copper, are found in abundant supply. These factors help explain the promise of industrial development for the Southwest border. What prevents the promise from becoming reality is the lack of a "plan of action," a plan joining government and private industry in a partnership for border development.

THE MYTHS OF SOUTHWEST BORDER DEVELOPMENT

The Southwestern border with Mexico is becoming the "fall guy" in the debate for free trade. Opponents cite border issues, particularly the environment and Mexico's maquiladoras, as reasons not to proceed with free trade negotiations; but for the Southwest border, free trade is the best hope for development and the resolution of infrastructure problems.

To place border development in proper perspective, certain facts must be reviewed. First, Mexico is experiencing a financial crisis. Mexico's infrastructure is often inadequate because (a) previous administrations had other priorities, (b) existing investment capital is inadequate, and (c) the demand for infrastructure caused by demography exacerbates the problem. The bill for infrastructure far exceeds Mexico's investment ability.

Second, Mexico's environmental law is not at issue. Enforcement, a financial problem, is.

Third, worker rights in Mexico are not an issue. Mexico's labor law provides more protection for workers than does U.S. law. Mexican workers have mandated social security, paid holidays, vacation premiums, Christmas bonuses, and severance and termination protection. They have benefits that include savings plans and loans, medical, meals, food coupons and transportation. Maquiladora workers earn a fair wage with benefits relative to domestic industry in Mexico. Upward job mobility is a fact of life.

And fourth, critics impose U.S. economic standards on Mexico. Supply and demand for labor determines wage rate differentials between the United States and Mexico. Mexico must create about 1.0 million new jobs every year to employ new entrants into its labor force. Given this figure, wage rate differentials will remain for the indefinite future.

Despite these facts, certain myths abound:

Myth #1: Southwestern border infrastructure is overburdened; therefore, economic growth must stop. Actually, the solution to the infrastructure issue is investment, growth and development. Border communities need new and cleaner industries, skilled technicians and investment to create the resource base necessary to finance infrastructure. Local tax bases must expand. Zero growth offers no solution.

Myth #2: Maquiladoras are detrimental to development. Critics of free trade would have you believe that production-sharing with Mexico is detrimental to the interests of the United States and Mexico. Although refuted by objective investigation, the disinformation campaign continues. Corollaries to this myth include:

(a) Maquiladoras cost American workers jobs. Economic growth and development by definition causes job displacement. Industrial competitiveness does cause business to relocate to lower total-cost-of-business environments. However, maquiladoras source materials predominantly from the United States, creating and retaining more jobs for U.S. citizens than are lost to Mexico. Furthermore, maquiladora production is totally integrated into the U.S. economy with significant employment benefits for the Rust Belt and other regions (Exhibit 1). These benefits have been fully documented by studies conducted by The University of Texas at El Paso, the U.S. International Trade Commission and the U.S. Department of Labor.

(b) Mexico's minimum wage rates exploit maquiladora workers. The wage and benefit package paid minimum wage workers by maquiladoras is the best available in Mexico's domestic economy (Exhibit 2). The package includes a mandated, government-determined direct wage, plus benefits that are both compulsory and competitive. Compulsory benefits mandated by the government include social security, a paid housing tax, a vacation schedule, seven holidays, Christmas bonuses and vacation premiums. Competitive benefits, or those not mandated by the government, include attendance bonuses, food coupons, transportation, savings plans and meals. Minimum wage workers work 45 (1st), 42 (2nd) or 39 (3rd) hours, but are paid for 56 hours per week.

Basic differences occur with domestic industry in competitive benefits offered by maquiladoras, principally in attendance bonuses, food coupons, transportation and meals. These are not taxable to the worker and bring wages and benefits to \$1.71 per hour (nationally). Further, minimum wage workers are becoming the exception in maquiladoras. They constitute only 34 percent of total maquiladora employment in Cd. Juarez.

(c) Upward mobility is not possible in maquiladoras. As indicated, 66 percent of workers earn more than minimum wage and benefits. Furthermore, most management and professional positions are staffed by Mexican nationals. These positions carry salaries that amount to approximately 90 percent of those paid to U.S. nationals. Exhibit 3 shows annual salaries paid Mexican professionals. In Cd. Juarez, some jobs pay higher salaries than those in El Paso, Texas. The jobs are traffic managers, warehouse supervisors and customs specialists.

(d) Maquiladoras violate fundamental worker rights. Previous discussion dispels this myth. Workers are well protected by law. Wage and benefit packages are excellent by Mexican standards. Work conditions are generally world class. Meals and

health care are provided. Unionization is opposed by management, but union organization efforts are protected by law. Unionization procedures only require 20 signatures for a labor board to require a worker election. Forty percent of maquiladoras are unionized. Management opposes unionization because it claims union self-interests often supersede employee benefits.

(e) Maquiladoras do not build infrastructure in Mexico. Maquiladoras do contribute to infrastructure development in Mexico. The plants pay a 5 percent tax on payroll for housing. In addition, voluntary contributions are made to the Mexican communities for public projects. Maquiladoras resist further assessments because Mexican officials are often not accountable for expenditures, and infrastructure is built elsewhere with little direct benefit to workers.

(f) Maquiladoras violate Mexico's environmental laws. Maquiladoras are leading domestic industry in efforts to observe and enforce environmental laws in Mexico. The scope of the problem, though, is beyond the ability of maquiladoras to control or finance. Entire communities lack infrastructure, including sewage and treatment facilities. The cost exceeds the financial capability of the national treasury. The solution awaits economic recovery, creative financing mechanisms, tax and political reform and community bonding authority.

U.S.-MEXICO BORDER: A DEVELOPMENT PLAN OF ACTION

Free trade is the vehicle by which the benefits of industrialization are likely to reach the Southwest border. Under a U.S.-Mexico agreement, a border development plan must include the integration of bi-national resources, provisions for the free trade agreement and companion legislation.

Integration of Bi-National Resources

U.S. and Mexican border communities form single trade areas divided by political boundaries. Exhibit 4 shows how the sister communities of El Paso, Texas, and Cd. Juarez, Chihuahua, Mexico, share a development plan. The trade area's total-cost-of-business is determined by its (a) attribute base—consisting of low-cost, productive labor, entrepreneurship, access to U.S. markets and high technology—and (b) infrastructure—including port-of-entry facilities and staffing, basic business philosophy, investment capital, skilled technicians, health and education.

The attribute base reduces the costs of business; the lack of infrastructure increases these costs. However, the integration of these resources holds promise for a competitive position, unparalleled globally, as a high-technology, production-sharing and logistics center for North American industry. Promise becomes reality if costs associated with infrastructure can be reduced.

Provisions for the Free Trade Agreement

The Southwest border position on free trade must be included in the agreement. The Border Trade Alliance position summarizes business experience with Mexico gathered from more than 1,000 border residents. Its provisions are recommendations on U.S. investment, tariffs, market access for products and services, rules of origin, customs procedures, intellectual property rights and other trade issues.

The recommendations also include recommendations for production-sharing with Mexico and suggestions for addressing environmental problems. Specifically, the BTA recognizes a role for Mexico's maquiladora program under free trade. The program's cost center benefits enhance the industrial competitiveness of North American industry. If improved by provisions that include free market currency exchange and access to Mexico's domestic markets, the program will become vital to Mexico's economic development.

Mexico's environment can be improved substantially if its domestic market is opened to U.S. technology, products, services and investment. These provisions ensure that the exchange of products and services across the international boundary are free of significant barriers to trade. Border development is enhanced by serving the increased trade associated with these provisions.

Companion Legislation

Free trade, the national issue, must be used to focus resources (Federal, state and local) on the regional issue of border infrastructure. Inadequate infrastructure is a significant non-tariff barrier to trade that will limit the benefits of free trade for our national economies. Any program to address infrastructure must be comprehensive, bold and imaginative. The demand for infrastructure improvement is beyond the funding capabilities of public and private sectors, individually. Therefore, the program must join the resources of these entities.

I recommend the creation of a Southwest Industrialization Initiative to achieve the industrialization goals of the Southwest border with Mexico. The initiative should have several components:

Database Centers

Database centers for the Southwest border region would be funded to inventory regional credits and debits. Statistics would be maintained on border attributes, including trade information by individual port of entry, sourcing of materials by the maquiladoras, demographics, investments, business and service capabilities, technology transfer and employment.

The database centers would also inventory and prioritize infrastructure projects. Infrastructure would be classified by "definable" revenue base. Types with definable revenue bases such as port facilities and staffing, highways, and housing would be recommended for privatization. Other types—including water, sewage, education and health—would be financed by public funds. Database centers would reside at regional universities to take advantage of computers, faculty and student resources.

Professional Service Centers

Department of Agriculture Extension Offices and Colleges of Business and Engineering at regional universities would join to provide technology transfer and business services for industrial development. The database centers would be on-line with professional service centers to support business planning and operations.

New technologies available through government contract research and laboratories would be integrated into the system for transfer to private industry. For instance, North American industries would be encouraged to gain access to higher technology developed by Los Alamos, Sandia, Kirkland, White Sands and Fort Bliss for transfer to border industries. Production facilities could be established in foreign trade zones adjacent to these facilities to enable high technology consulting firms to transfer production technologies to manufacturers and to train management in those technologies. The tactic would bring capital investment, manufacturing of composite materials and higher-skilled employment to the region.

Southwest Border Development Bank

A major obstacle to border development is the lack of investment capital for business start-ups and expansion. A guaranteed loan program backed by government bonds should be created to raise capital to support border investment.

Rural Development

The battle for industrial competitiveness nationally has been fought in urban America. The effort to reduce total-cost-of-business has focused on international production-sharing in the Far East, Canada and Mexico. Yet, rural America has resources—including tool and die, metal stamping and other services—which may be sourced at less cost than those offshore. To date, no plan has been developed to integrate rural-based resources into American, non-agricultural industry.

The proposed Southwest Industrial Initiative will have this program as an objective. The database will seek to identify qualified firms in rural communities who serve agricultural and energy-related industries but can provide services to other manufacturing industries. The professional service centers will match rural-based firms with these non-agricultural clients. The objective is to integrate rural America into our national competitiveness program.

Infrastructure Funding

Creative financing must be developed for border infrastructure projects. The proposed database centers would inventory and prioritize infrastructure projects, recommending some for public financing and others for privatization. Federal and state dollars probably could finance water and sewage, environmental, health and education projects. Private dollars could finance ports of entry, transportation facilities, lease contract employees to governmental agencies and build toll roads.

Infrastructure User Fees

A comprehensive system of user fees should be developed to provide essential government services to support international commerce. The present system of agency-specific user fees which are deposited in the general treasury should be abandoned. This system is too costly and does not target funds for urgently needed services and infrastructure requirements. Fee structures should be restricted to debt retirement, capital reserves for maintenance, and fair rates of return on investment.

Southwest Border Free Trade Zones

Exhibit 5 outlines a program designed to attract investment to the Southwest border. The program establishes free trade zones within trade areas located on the border with Mexico. Commerce within the zones would be conducted without tariffs with minimum inspection by Federal authorities. Inspection stations at Border Patrol checkpoints located at the fringe of the trade area (up to 60 miles from the port of entry) would be established. Traffic seeking entry into the interior of the United States would receive thorough inspection within existing commercial import lots or at fringe inspection facilities. In El Paso, this program would reduce inspections of noncommercial traffic from 42.0 million per year to less than 6 million.

The objective of the program would be to eliminate poverty in, and industrialize, border communities. In addition, inspection facilities and staffing would be privatized just as Centralized Examination Stations (CESSs) and staffing are today. Inspections by government agencies would improve because local traffic would be exempted. Drug interdiction would work because commercial shipments originating in border communities would be subject to inspection at fringe facilities. Border communities could no longer be staging areas for drug shipments.

The above recommendations outline a broad legislative initiative for Southwest border development under free trade. The initiative recognizes the need for information, professional outreach services and capital investment essential to industrial development. The Free Trade Enclave program creates an environment conducive to development. After decades of poverty, the Southwest border with Mexico deserves its day in the sun. Government and industry must join to bring the promise of free trade to the border.

Attachment.

Exhibit 1

MAQUILADORA IMPACT SURVEY: U.S. NATIONAL MAQUILADORA RELATED FACILITIES

Region/State	PARENT PLANTS		DIRECT CUSTOMERS		MAJOR SUPPLIERS		SUBTOTALS	
	Number	No. of Jobs	Number	No. of Jobs	Number	No. of Jobs	Facility	Jobs
New England	20	4369	25	6164	58	20525	103	31058
Connecticut	2	92	7	81	16	1178	25	1351
Maine	4	750	2	0	3	130	9	880
Massachusetts	8	2928	13	5748	25	18763	46	27439
New Hampshire	2	500	1	0	1	20	4	520
Rhode Island	4	99	2	335	10	228	16	662
Vermont	0	0	0	0	3	206	3	206
Middle Atlantic	30	6132	76	19253	121	5515	227	30900
New Jersey	8	695	19	5014	28	749	55	6458
New York	14	5013	32	11435	42	1972	88	18420
Pennsylvania	8	424	25	2804	51	2794	84	6022
South Atlantic	51	14893	51	37096	65	11586	167	63575
Delaware	1	4400	2	4000	4	360	7	8760
Florida	5	1603	17	21876	7	796	29	24275
Georgia	12	758	11	9410	11	2685	34	12853
Maryland	2	62	6	1222	1	7	9	1291
North Carolina	20	5853	10	578	22	4966	52	11397
South Carolina	6	1087	2	10	12	2345	20	3442
Virginia	3	1040	2	0	6	390	11	1430
West Virginia	2	90	1	0	2	37	5	127
East North Central	107	57243	149	165995	213	31128	469	254366
Illinois	44	17953	46	56588	84	9121	174	83662
Indiana	19	5868	20	30232	24	10497	63	46597
Michigan	18	14265	36	53718	40	3935	94	71919
Ohio	13	13607	30	16371	41	4620	84	34598
Wisconsin	13	5550	17	9086	24	2955	54	17591
East South Central	45	13756	28	20233	41	2788	114	36777
Alabama	4	1765	6	1530	5	1097	15	4392
Kentucky	6	1113	5	12471	7	805	18	14389
Mississippi	18	4960	4	147	8	315	30	5422
Tennessee	17	5918	13	6085	21	571	51	12574

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MAGUIADORA IMPACT SURVEY: U.S. NATIONAL MAGUIADORA RELATED FACILITIES

Region/State	PARENT PLANTS		DIRECT CUSTOMERS		MAJOR SUPPLIERS		SUBTOTALS	
	Number	No. of Jobs	Number	No. of Jobs	Number	No. of Jobs	Facility	Jobs
West North Central	24	12321	51	69379	33	13513	108	95213
Iowa	2	2200	7	46665	7	12375	16	55240
Kansas	0	0	7	7029	3	55	10	7084
Minnesota	5	1505	12	2513	4	76	21	4174
Missouri	11	8210	21	17486	13	851	45	26547
Nebraska	4	216	3	19	4	115	11	350
North Dakota	1	100	1	1667	0	0	2	1767
South Dakota	1	10	0	0	2	41	3	51
West South Central	60	7119	62	20166	117	8142	239	35427
Arkansas	3	1205	7	777	5	238	15	2220
Louisiana	3	155	6	375	2	50	11	580
Oklahoma	2	1008	6	7470	8	439	16	9117
Texas	52	4751	43	11544	102	7215	197	23510
Mountain	28	3192	23	2192	40	18248	91	23632
Arizona	22	2270	10	456	34	17906	66	20632
Colorado	4	292	6	1113	3	36	13	1441
Idaho	0	0	1	500	1	0	2	500
Montana	0	0	1	0	0	0	1	0
Nevada	0	0	2	3	0	0	2	3
New Mexico	1	330	1	0	2	306	4	636
Utah	1	300	1	0	0	0	2	300
Wyoming	0	0	1	120	0	0	1	120
Pacific	53	10091	68	66076	85	53263	206	129430
California	53	10091	56	45766	83	50253	192	106110
Oregon	0	0	5	20030	1	3000	6	23030
Washington	0	0	7	280	1	10	8	290
Various U.S. Sites	4	2500	14	365773	4	6195	22	374468
Canada	1	0	2	230	3	200	6	430
Other Foreign	3	270	1	400	0	0	4	670
TOTALS	426	131886	550	772957	780	171103	1756	1075946

Exhibit 2: Wage/Benefit Packages
 Comparison Between *Maquiladoras* and Domestic Industry in Mexico

<u>Items</u>	<u>Maquiladoras</u>	<u>Domestic Industry</u>
Minimum Wage	Same	Same
Benefits:		
<u>Compulsory (Mandated):</u>		
Social Security	Same	Same
Housing Tax	Same	Same
Holidays (7)	Same	Same
Vacation Schedule	Same	Same
Christmas Bonus	Same	Same
Vacation Premium (15)	Same	Same
<u>Competitive:</u>		
Attendance	Common	Not Common
Food Coupons	Common	Not Common
Transportation	Common	Not Common
Meals (1.57 per day)	Common	Not Common

Source: Institute for Manufacturing and Materials Management
 The University of Texas at El Paso

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Exhibit 3: Professional Salaries
 A Comparison of Maquiladora and El Paso Salaries by Position

<u>Position</u>	<u>Salaries</u>		
	<u>1987</u>	<u>Maquiladoras</u> <u>1990</u>	<u>El Paso</u> <u>1990</u>
Personnel Manager	\$12,000	\$23,400	\$25-45,000
Chief Financial Officer	16,800	31,200	38-70,000
Director of Manufacturing	18,000	42,600	40-85,000
Materials Manager	16,800	24,600	38-71,000
Quality Assurance Manager	10,800	23,400	39-63,000
Engineer	13,200	25,800	*52-78,000

*Engineering Manager

Source: Institute for Manufacturing & Materials Management
 The University of Texas at El Paso

**Exhibit 4: Production Sharing Growth Opportunity
(Industrialization)**

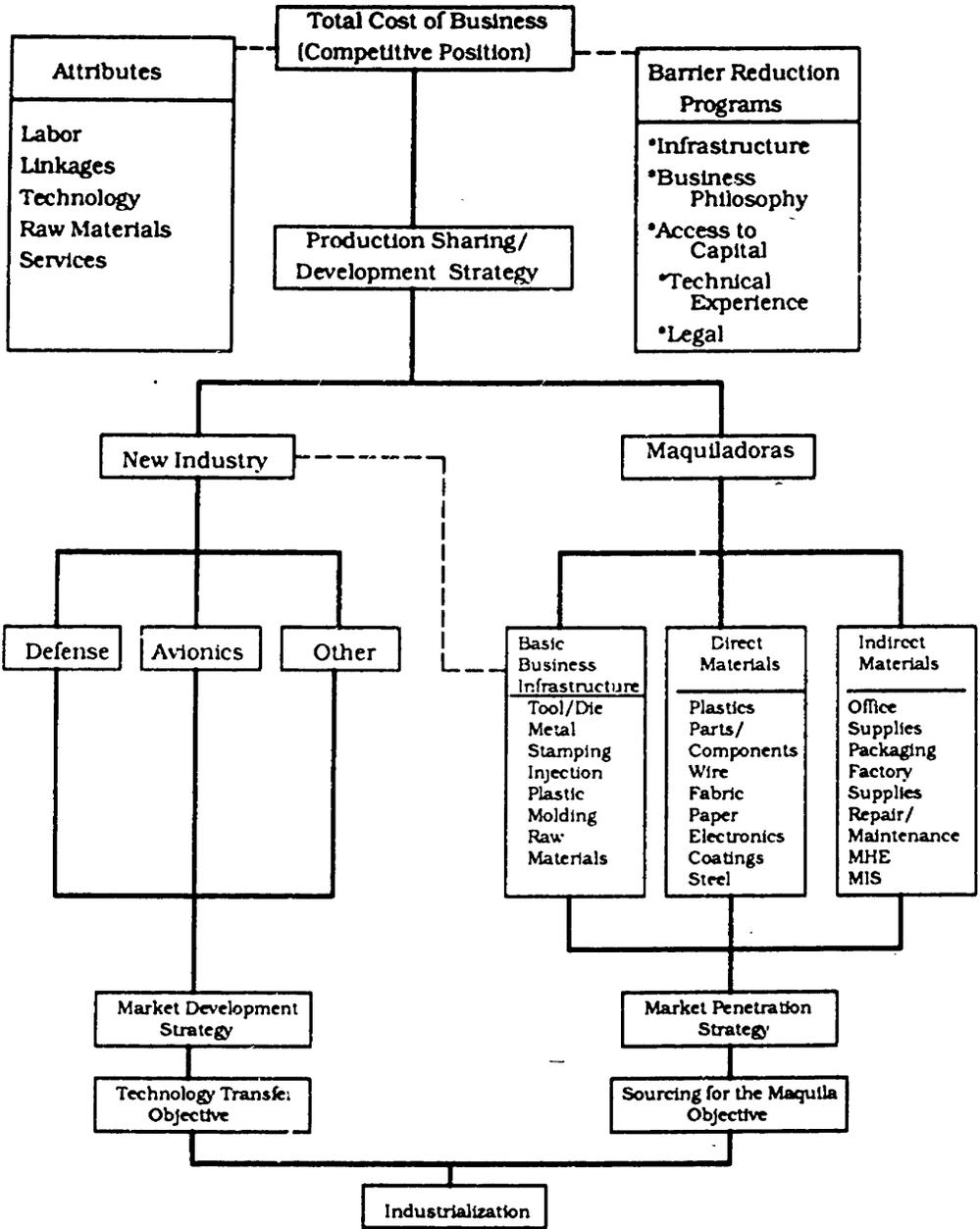


Exhibit 5

U.S.-MEXICO BORDER FREE TRADE ENCLAVES: A PROPOSAL FOR COMPANION LEGISLATION

The Issue

Inadequate infrastructure and industrial opportunities create a significant non-tariff barrier to trade along the U.S.-Mexico border. A bold, imaginative and practical program is needed to eliminate this barrier.

Recommendation

The United States should enact as companion legislation to the U.S.-Mexico Free Trade Agreement a provision for the creation of Free Trade Enclaves for select communities along the U.S.-Mexico border. Specific legislative provisions would include:

- **Geography.** A free trade enclave would be defined by the border community's trade area, not to exceed more than 90 miles from the principal border crossing into the interior of the United States.

Justification. A free trade zone must encompass the primary trade area of the border community to reflect the community's principal trading base. U.S. Customs and Immigration and Naturalization Service procedures would be enforced at the fringe of the border free trade zone (trade area).

- **Geographic Isolation.** Border free trade enclaves would be established only for those communities sufficiently isolated by geographical distance and transportation to control traffic and trade entering and leaving the area.

Justification. Geographic isolation is essential to the enforcement of government policy administering a free trade enclave. Extensive urban development and transportation systems would disqualify the border community from consideration. Isolated border communities such as Tecate and Calexico, California; San Luis, Lukeville, Sasabe, Nogales, Naco and Douglas, Arizona; Columbus and Santa Teresa, New Mexico; and El Paso, Presidio, Del Rio, Eagle Pass and Laredo, Texas, would probably qualify for consideration (Exhibit 1).

- **Free Trade Provisions.** The provisions of the Agreement would be implemented immediately within the free trade enclaves. Any extended timetable for reducing tariffs or investment restrictions would be waived.

Justification. The intent of the free trade enclave concept is to promote the industrialization and development of an impoverished region of the United States. Immediate implementation of the provisions of free trade would be a catalyst to attract private investment to isolated border communities, an element necessary for quality

development and the reduction of infrastructure limitations. Unless exempted from the extended timetable for these trade provisions, there would be no financial incentive for private industry to invest in border business and infrastructure projects.

• **Federal Regulation.** Subject to the right to inspect and enforce the laws of the United States, primary administration of federal regulations would occur at the fringe of a free trade enclave.

- (a) Inspection of commercial traffic by U.S. Customs would occur at existing border ports of entry and new facilities located at the fringe of the free trade enclave. Line release and secure cargo shipments from Mexico destined for interior locations would be cleared at the border and checked at the fringe customs facilities. Shipments originating within the U.S. free trade enclave and destined for U.S. interior locations would be inspected and sealed at either the border or fringe customs inspection facilities. Shipments traversing the free trade enclave but remaining within the territory of the United States would be inspected and sealed upon entry into the free trade enclave and checked upon exit.
- (b) U.S. Customs and INS inspection of noncommercial traffic would occur principally at the fringe customs inspection facilities. Traffic from Mexico would be permitted egress and ingress rights to the enclave subject to the federal agencies' right of inspection. Traffic control and monitoring may be administered by a red-light, green-light inspection mechanism. All traffic entering the interior of the United States would be subject to thorough inspection and would require documentation.
- (c) Immigration laws regarding employment of foreign nationals would be unchanged. Mexican and other foreign citizens seeking employment and residence within the border free trade enclaves would be required to obtain necessary visas.
- (d) U.S. Department of Agriculture inspection requirements would remain unchanged. U.S. ICC Commercial Zones would remain intact.

Justification. The objective of these provisions is to minimize the regulation of traffic at congested ports of entry along the border with Mexico. Federal agents inspect more than 40 million people annually in El Paso, Texas. Most of these people enter the El Paso community to shop, visit relatives, or conduct business. There is little reason to subject these people to inspection, given the purpose of their trips. To preserve the right of inspection, a red-light, green-light inspection procedure could be installed at the border port facilities. Those entering the interior of

the United States, however, would be subject to rigid inspection at fringe customs facilities. These people total no more than 6 million per year. The effects would be to encourage local, transborder traffic, alleviate traffic congestion at border ports of entry and strengthen enforcement of traffic laws by people entering the interior of the United States.

- **Capital Improvements.** Capital improvements necessary to establish U.S. Customs and other agency facilities at fringe areas and interstate transportation facilities (and perhaps staffing) would be built and financed by private capital.

Justification. Capital improvements for infrastructure - such as ports of entry, central examination stations, and other inspection facilities - should be financed by private capital. Public funding is insufficient to finance these projects. These facilities have definable revenue bases determined by the volumes of traffic. User fees would retire debt and provide a reasonable rate of return to the investors. A contract or licensing arrangement could direct a percentage of the revenue into the federal treasury.

Effects

The following benefits would accrue to the United States:

- **Efficient Flow of Commerce.** Traffic congestion at border ports of entry caused by inadequate port facilities and staffing would be eliminated by the free flow of noncommercial traffic.
- **Investment.** Private capital would be attracted to this proposal and would prompt economic development in an impoverished region of the United States. Private capital investment and development would reduce the need for publicly funded, welfare-related programs in the region. Public infrastructure would be financed privately with benefits and revenues received by the federal treasury.
- **Drug Enforcement.** Drug interdiction would be improved. Primary inspection of reduced volumes of traffic at fringe locations would provide time for more thorough inspection of vehicles. Movement of drugs would have to shift to isolated, non-free trade enclave locations on the border to avoid trade area inspections. Drugs could not be staged and shipped from border communities without great risk.
- **Regional Development.** The enclave concept would bring development to an impoverished region. The Southwest border could become a major production-sharing center for North American industry, creating and retaining jobs in other areas of the United States.
- **North American Industrial Competitiveness.** The concept would also integrate complementary, low-cost resources found in Mexico and the United States, thereby, enhancing price competitiveness of North American products and services.
- **Expanded Tax Base.** As a final benefit, free trade enclaves would generate economic development, new companies would be formed and existing businesses would find it profitable to move to the border. Such economic growth would, in turn,

expand the tax base, allowing for quality growth, and community and environmental improvement.

Situation

In 1990, U.S.-Mexico trade exceeded \$55 billion. Mexico ranks as the third largest U.S. trading partner behind Japan and Canada. The United States ranks first among Mexico's trading partners. If free trade is negotiated, U.S.-Mexico trade is expected to double or triple prior to the turn of the century.

U.S.-Mexico trade can be categorized into two primary components: the direct exchange of products and services, and production-sharing. The former represents international markets for domestic production within the respective countries. The latter represents industrial competitiveness, i.e., a joining of resources including capital, technology and labor to produce price-competitive products for sale on the global market. Production-sharing is, therefore, a business strategy designed to enhance the industrial competitiveness of North American industries.

Industrial competitiveness is a function of the total cost of doing business. Higher business costs reduce the price competitiveness of North American products and services relative to other foreign products and services. Barriers to trade increase these costs with the resulting loss of market share, sales, and ultimately, jobs for American workers.

The lack of adequate infrastructure along the U.S.-Mexico border significantly contributes to higher costs and the loss of price competitiveness for U.S. and Mexican products. Because of inadequate infrastructure, exports and imports incur higher costs, including transportation and storage services. Production-sharing firms also pay higher costs.

Infrastructure problems that cause these cost increases include the lack of facilities and resources to improve border ports of entry, water and sewage services, health care clinics, transportation lines, education institutions, technology transfer services, telecommunications operations, waste disposal services, and air quality problems.

It must be noted that there are other non-tariff barriers caused by bureaucratic redtape associated with federal regulation of trade. These include port administration, customs clearance policies and procedures, and documentation issues. These must be addressed through administrative rulemaking.

The lack of adequate infrastructure is caused by financial burdens on border communities. Public funding alone is insufficient to address the problem. Other means, including the privatization of facilities and staffing, must be found to finance the myriad of projects. A viable financial program requires a compilation of infrastructure needs. Infrastructure projects must be classified according to "definability" of revenue bases. Projects that have clearly definable revenue bases are suitable for privatization, such as the creation of ports of entry and their staffing. User fees could finance these infrastructure projects.

The benefits of U.S.-Mexico free trade must accrue to the Southwest border. Free trade is a national issue intended to benefit our national economies. The direct effect free trade will, however, be experienced by Southwestern border communities and states. If the

Southwest border does pose a barrier to free trade, bold, imaginative initiatives must be undertaken to bring the benefits of free trade to the region.

Summary

Why propose a legislative initiative for the Southwest border? First, the lack of border infrastructure affects trade between our national economies. If that trade is to be efficient, border infrastructure problems must be solved.

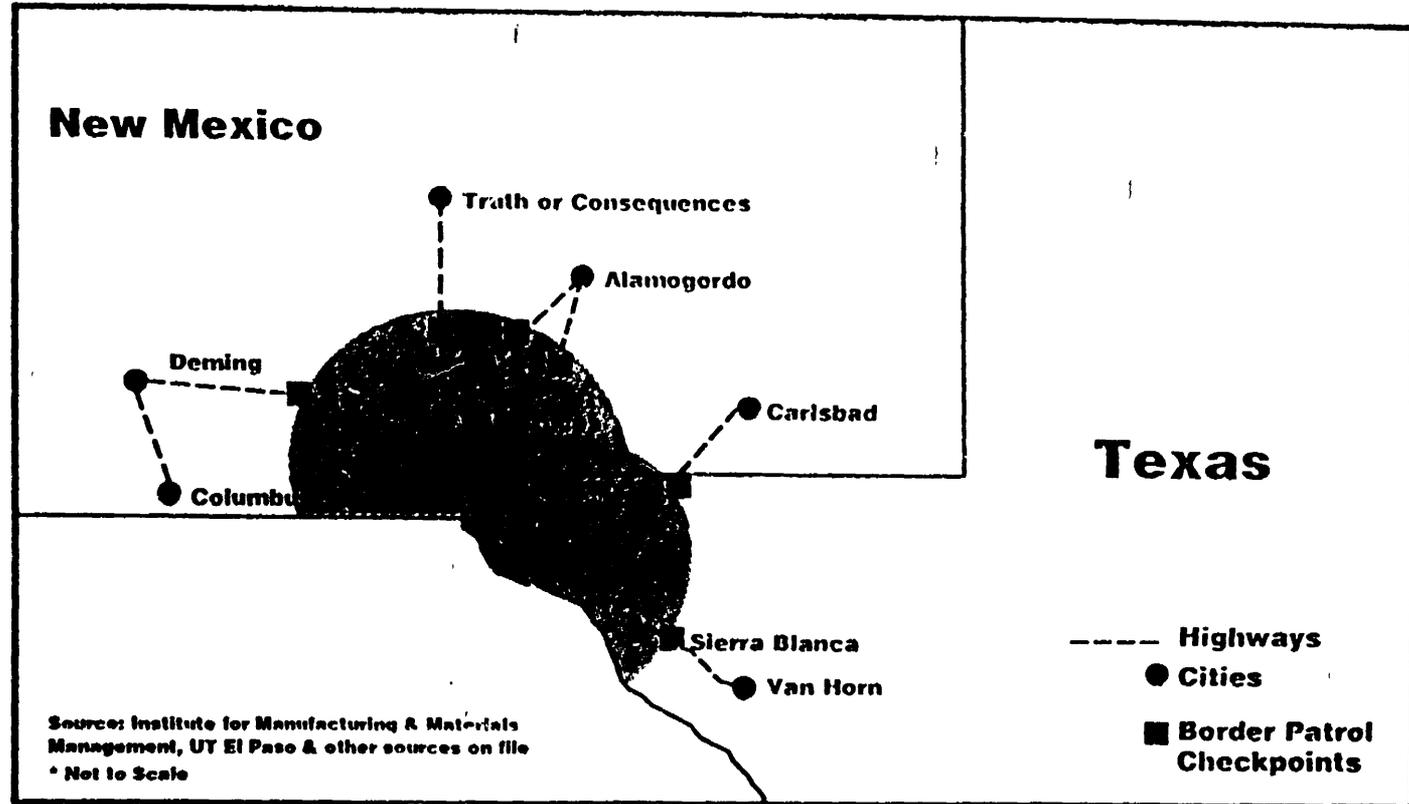
Second, the Southwest border counties rank among the most impoverished in the United States. Per capita incomes of border counties don't begin to approach the national average. Families below the poverty level exceed 25 percent of all families. Unemployment rates range from 10 to 50 percent. High school dropout rates exceed 40 percent. Free trade, if managed effectively, provides the development opportunity to help eradicate these problems.

Finally, the benefits of free trade will not automatically accrue to the border communities or states. Production-sharing, a \$15 billion border industry, has created service jobs and sold real estate, but the problems of unemployment and poverty persist. Industrialization and high-quality jobs did not result from production-sharing. If the border is to benefit from free trade, a proactive program that includes special provisions within the agreement, companion legislation for development and administrative rulemaking to minimize bureaucratic redtape must be undertaken. The border has the responsibility to bring the Southwest Industrialization Initiative to the attention of government and industry decision-makers.

*- Prepared by the Institute for Manufacturing
and Materials Management,
University of Texas at El Paso*

Exhibit 1

Paso del Norte Free Trade Enclave: An Example



STATEMENT OF MOTOR & EQUIPMENT MANUFACTURERS ASSOCIATION

The Motor & Equipment Manufacturers Association (MEMA) welcomes the opportunity to present its views to the Senate Committee on Finance regarding the key issues and likely impact of the proposed U.S.-Mexico North American Free Trade Agreement (NAFTA) with respect to the motor vehicle components industry.

Founded in 1904, MEMA is the only association which exclusively represents U.S. manufacturers of motor vehicle parts, accessories, and allied products. MEMA members supply both original equipment components and systems to car and truck manufacturers and replacement parts to the aftermarket sales and service industry.

Appropriateness of "Fast-Track" Procedures for U.S.-Mexico NAFTA

Since 1986 Mexico has undertaken a series of constructive reforms of its automotive trade policies which have opened the door for a significant expansion of U.S. parts exports. These changes are welcomed developments, but their durability and positive impact on our industry have been exaggerated. Mexico's automotive sector remains highly regulated and access for both U.S. parts exporters and investors is still quite restricted.

MEMA has just completed a major survey of its members attitudes regarding the proposed U.S.-Mexico NAFTA and its likely impact on their U.S. operations and overseas investment strategies.

The results of this confidential survey indicate that U.S. motor vehicle parts suppliers favor negotiation of a U.S.-Mexico NAFTA, on the condition that the U.S. Government agrees to give high priority to achieving key U.S. industry objectives.

Specifically, MEMA would support a congressional grant of "fast-track" authority in return for a clear Administration commitment to Congress, before June 1, that the following U.S. automotive supplier industry priorities will be vigorously pursued:

- Establishment of a strong North American rule of origin to ensure that automotive products receiving NAFTA tariff preferences are wholly or substantially manufactured in the United States, Mexico, and Canada. Based on our survey, at least a 60 percent origin rule is necessary to advance U.S. industry's interests.
- Removal of remaining Mexican restrictions on foreign investment in the auto parts sector. With certain exceptions, Mexico still limits foreign investment in its national auto parts industry to a 40 percent share. This policy restricts U.S. access to the Mexican market through local production.
- Reciprocal elimination of Mexican and U.S. tariffs on automotive products over a 5-to-10 year period. There is a strong consensus that Mexico and the United States should remove all tariffs on roughly the same timetable.

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- A phase-out of Mexico's local content requirements, which continue to limit the ability of U.S. exporters and of U.S.-majority owned firms in Mexico to compete with Mexican majority-owned suppliers.
- A phase-out of Mexico's trade-balancing requirements, which unfairly link increased automotive imports with greater investment in and exports from Mexico. Unless these requirements are substantially liberalized, Mexico's automotive trade surplus with the United States will become institutionalized and grow.

We are continuing to consult with Administration officials about these specific negotiating objectives. The rule of origin issue, as during the U.S.-Canada FTA negotiations, will be particularly contentious given non-North American producers' support for a weak NAFTA origin rule.

It therefore is essential that the Administration work with MEMA and other interested parties representing manufacturers to develop a firm negotiating stance on this issue prior to the initiation of any formal negotiations with Mexico or Canada. MEMA asks for this Committee's support in emphasizing the importance of this matter to the Administration.

Priority U.S. Negotiating Objectives

Strong NAFTA Rule of Origin

As this Committee is aware, the Canadian Government continues to resist a U.S. proposal to amend the U.S.-Canada FTA to require a 60 percent, rather than only 50 percent, rule of origin requirement for automotive products. This proposal, supported by a broad cross-section of the U.S. and Canadian auto industry, has been made repeatedly since 1988 under a specific congressional mandate.

As part of the NAFTA negotiations, the U.S., Mexican, and Canadian Governments have an opportunity to adopt an automotive rule of origin which ensures that automotive producers with substantial manufacturing commitments in North America are the beneficiaries of their countries' mutual tariff reductions. While various types of origin rules have been considered, MEMA continues to believe that a strong value-content rule, combined with a change in tariff heading or subheading, is the most effective and workable approach toward achieving this objective.

The rapid growth of the Mexican maquiladora program and of U.S. 807.00 (now HTS 9802.00.80) imports is a matter of concern to some producers and workers in our industry. This concern can be minimized by adopting a NAFTA rule of origin which encourages continued substantial use of North American, and particularly U.S., components in products assembled in Mexico under this program.

Mexican Foreign-Investment Restrictions

Despite its general efforts to liberalize foreign investment rules, Mexico continues to limit foreign investment in its national auto parts industry to a 40 percent equity share. While the new rules allow foreign parts manufacturers to invest as majority owners through a 20-year trust arrangement, this restricted approach is not a viable one for many U.S. automotive suppliers.

We also understand that Mexico's new decree only allows national parts suppliers with majority Mexican ownership to serve both the original equipment (sales to vehicle producers) and the aftermarket (replacement sales) segments of the local market. If this policy is in fact being applied, it limits genuine local market access for U.S. majority-owned ventures and reinforces the export-orientation of Mexico's auto decree.

MEMA members report that removal of Mexico's restrictions on foreign investment, including those now applied to maquiladora plants, would encourage some to make initial or expanded investments in Mexico. Our survey also suggests that elimination of these restrictions would likely not lead to a massive or rapid shift in U.S. auto parts industry capacity to Mexico.

Reciprocity in U.S. and Mexican Tariff Reductions

Another key finding of MEMA's survey is that most U.S. suppliers believe the United States and Mexico should eliminate tariffs on roughly the same timetable under the proposed NAFTA. Few companies believe a transition period of less than five years is realistic. Virtually all believe a transition period of more than ten years would substantially limit the value of any NAFTA.

Removal of Mexican Local Content Requirements

Under its new auto decree, Mexico has modified its local content requirements in a way which suggests more open competition between local and foreign automotive suppliers in the future. As mentioned above, however, our close analysis of these changes suggests that Mexico is continuing to use local content rules to encourage all vehicle manufacturers in Mexico to buy more heavily from Mexican-controlled suppliers, and to facilitate their exports. The displacement effect on U.S. suppliers could in fact increase if the new local content requirements remain in place.

Given the high level of historical protection given to Mexican national suppliers, some of which are co-owned by U.S. companies, an abrupt removal of local content restrictions would not serve Mexican or U.S. economic interests. Nonetheless, U.S. original equipment suppliers' access to Mexico's local market will remain limited until current local content restrictions are removed. Ideally, these restrictions should be phased out over a 5-year period in a manner which does not discriminate between new and established investors.

Elimination of Mexican Trade-Balancing Requirements

New Mexican trade-balancing requirements are designed to ensure that Mexico achieves a net surplus in its automotive balance of payments, while allowing foreign-owned Mexican assemblers of cars and light trucks (GM, Ford, Chrysler, Nissan, Volkswagen) to rationalize their local production and market offerings through limited imports. As the ITC report notes, the overall impact of this new trade-balancing approach on U.S. trade and investment depends heavily on the strategy of vehicle assemblers in Mexico.

Mexico's new trade-balancing requirements are likely to increasingly distort U.S.-Mexico trade and investment flows given the growing volume of bilateral vehicle and parts trade and the credit given in the trade-balancing formula for major new automotive assembler investments in Mexico. This is a matter of major MEMA concern which needs to be addressed in the NAFTA negotiations.

Accordingly, MEMA urges the Administration and Congress to examine these trade-balancing rules carefully with the objective of establishing a reasonable time frame for their removal under the proposed NAFTA. If these rules are not phased out, producers in Mexico will continue to have an incentive to aim a disproportionate share of their production at the U.S. market. Significant job losses and plant consolidations could result in the United States.

Other Negotiating Priorities

Import Safeguard Provisions

Another important issue which affects automotive as well as non-automotive industries is the negotiation of an effective safeguard provision to deal with major import surges which could harm U.S. producers and workers. MEMA strongly endorses efforts to develop special safeguard provisions, perhaps along the lines of those in the U.S.-Canada FTA, to protect U.S. producers and their employees from any future injurious surge in imports from Mexico.

Improved Protection of Intellectual Property

Mexico has taken steps to improve protection of intellectual property in recent years, including making a commitment to introduce comprehensive legislation to strengthen standards of protection and enforcement. New, more liberal technology transfer regulations also were put in effect in 1989. During the NAFTA negotiations, the U.S. Government should press for prompt passage and implementation of Mexico's proposed IPR legislation.

U.S.-Canadian Issues to be Addressed in the Proposed NAFTA

The principal U.S.-Canada issue which needs to be addressed is the adoption of a strong North American rule of origin for automotive products. Ideally, this would be undertaken through agreement on a trilateral NAFTA rule of origin standard involving the United States, Canada, and Mexico.

Anticipated Benefits of the Proposed NAFTA

U.S. motor vehicle parts manufacturers have a major trade and investment stake in Mexico. Trade in automotive parts and accessories accounted for an estimated \$9.1 billion, or about 16% of total U.S.-Mexico trade in 1990 according to U.S. Department of Commerce data. U.S. automotive suppliers have invested heavily in Mexico's national auto parts and maquiladora industries, accounting for about 73 percent of total foreign investment in these sectors in 1989 according to the just-released ITC report.

The U.S. deficit in automotive parts trade with Mexico exceeded \$1 billion from 1986 through 1989. This deficit fell to an estimated \$200 million last year due to a \$1 billion increase in U.S. exports to Mexico and a weakening of U.S. vehicle sales and parts demand.

Because the U.S. and Mexican motor vehicle industries already are closely integrated, growth in U.S.-Mexico parts trade will likely slow significantly in 1991 due to the current North American industry downturn. Longer-term trends are more difficult to predict, particularly in light of uncertainties associated with implementation of Mexico's new auto industry decrees.

On balance, MEMA believes a properly structured U.S.-Mexico NAFTA would result in net benefits for U.S. manufacturers of motor vehicle parts, accessories, and allied products.

Currently, U.S. automotive suppliers serve Mexico through a combination of exports and local production. A substantial share of U.S. imports from Mexico is derived from maquiladora/9802.00.80 co-production arrangements in which U.S. companies participate. U.S. market access in Mexico is limited by government restrictions on imports, on the sale of maquiladora output in Mexico, and on foreign investment in Mexican auto parts enterprises.

Barriers to greater Mexican participation in the U.S. automotive market are largely commercial in nature rather than government-imposed. Nominal U.S. tariff rates are low by world and Mexican standards. Effective U.S. rates for automotive components are even lower due to the U.S. 9802.00.80 provision, the Generalized System of Preferences (GSP) program, and foreign-trade zones.

These U.S. programs now provide major unilateral tariff concessions to Mexican producers. Therefore, an important U.S. benefit from the proposed NAFTA would be to establish a new, more reciprocal relationship with Mexico in the automotive sector.

Mexican wage and total compensation levels are substantially below those in the United States, according to available data. However, several factors appear to partially offset this Mexican competitive cost advantage:

- 1) Underdeveloped social and economic infrastructure in Mexico, which raise costs and lower productivity; and
- 2) Lower quality and productivity levels, particularly outside of the maquiladora industry, due to restrictions on material sourcing and lower levels of factory automation and investment in process control.

Through the maquiladora program, Mexico now plays an important role in helping U.S. auto parts manufacturers rationalize their North American production to compete more effectively at home and abroad. The proposed NAFTA would encourage further rationalization, thereby allowing U.S. producers to preserve U.S. employment which otherwise might be placed at risk due to growing competition from low-wage producers in other regions of the world.

Concluding Remarks

The Motor & Equipment Manufacturers Association is working closely with the Administration as it defines specific U.S. negotiating objectives for the proposed NAFTA. MEMA believes these negotiations should go forward under the fast-track procedures, provided the Administration is willing to commit itself to the specific negotiating objectives outlined in our testimony.

MEMA urges members of this Committee to continue to play an active oversight role in the pre-negotiations period through June, as well as thereafter, to ensure that U.S. negotiating objectives are well-defined and consistent with the economic interests of key U.S. industries, such as our own.

NATIONAL CATTLEMEN'S ASSOCIATION,
Washington, DC, February 11, 1991.

Hon. LLOYD BENTSEN,
Chairman, Committee on Finance,
U.S. Senate,
205 Dirksen Building,
Washington, DC

Dear Mr. Chairman: The National Cattlemen's Association is vitally interested in the upcoming U.S.-Mexican Free Trade Agreement negotiations. The following policy was adopted at our annual meeting January 22, 1991 in Dallas, Texas:

WHEREAS, President Bush has informed Congress of his intention to enter into negotiations with Mexico for a Free Trade Agreement; and

WHEREAS, the government of Canada has requested to be a participant in the negotiation; and

WHEREAS, if concluded and approved by Congress, such an FTA would create an open North American trading block,

THEREFORE BE IT RESOLVED, the National Cattlemen's Association supports the concept of free trade and supports the U.S. entering into such negotiations with Mexico which may include Canada.

BE IT FURTHER RESOLVED, that the NCA be actively involved in negotiations through private sector advisory committees.

BE IT FURTHER RESOLVED, such negotiations provide fair and open trade of cattle, beef and beef products, and reciprocity.

BE IT FURTHER RESOLVED, that negotiations dealing with animal health, environmental and food safety be based on sound science and research and that regulations not be construed to be non-tariff trade barriers.

BE IT FURTHER RESOLVED, that negotiations insure that cattle imported from Mexico are of Mexican origin."

The policy expresses our support for a successful outcome to a U.S.-Mexican FTA. We have several concerns that we believe must be addressed in negotiations with Mexico and Canada.

The NCA is represented on all levels of the private sector advisory committees and will participate in that process. We also look forward to working with you and other members of the Senate Finance Committee during the course of the negotiations.

Please call on us at anytime if you have any questions from us regarding a U.S.-Mexican FTA on a proposed North American Trade Agreement.

Sincerely,

DON B. SMITH, *President.*

STATEMENT OF THE NATIONAL CHAMBER OF MANUFACTURING INDUSTRY

MEXICO IS LIVING AN ECONOMIC, POLITICAL AND SOCIAL CHANGES ERA WHICH IS SETTING THE STAGE FOR A MORE VIGOROUS AND INTERNATIONALLY ORIENTED COUNTRY.

FOR THE PURPOSES OF THIS TALK I WILL ONLY REER TO THOSE ASPECTS RELATED TO WHAT COULD PRESENTLY BE THE ECONOMIC ISSUE OF THE UTMOST IMPORTANCE FOR THE INDUSTRY, TRADE AND SERVICES OFFERED BY THE PRIVATE SECTOR.

THE POSSIBILITY TO SIGN A FREE TRADE AGREEMENT BETWEEN THE UNITED STATES AND MEXICO HAS BECOME A MATTER OF MAJOR INTEREST. FOCUSING ON A NEW ECONOMIC MODEL WHERE MARKET FORCES AND FREE ENTERPRISES WILL BE THE DRIVING ENGINE FOR THE GENERATION OF WEALTH. LIKEWISE, THE CONCLUSION OF A FREE TRADE AGREEMENT WILL ASSURE THAT THE EFFORTS OF PRODUCTIVE ACTIVITIES TOWARDS INTERNATIONAL MARKETS. WILL BE SUCCESSFUL AT THE LONG TERM. WITH WHICH THE FIRMS MAY SUCCESSFULLY PLAN ITS ADAPTATIONS TO OBTAIN GREATER COMPETITIVENESS AT A WORLDWIDE LEVEL.

MEXICO ENJOYED A LONG PERIOD WITH A PROTECTED MARKET AND IMPORT SUBSTITUTION MODEL. WHICH SUPPORTED THE CONSTRUCTION OF A COMPLEX INDUSTRIAL PLANT. RANKED AMONG THE LARGEST IN THE WORLD. NEVERTHELESS, DEVELOPMENT WITHIN MANY SECTORS WAS NOT COMPLETE. AND IN OTHERS, THE SOURCES OF EFFICIENCY AND COMPETITIVENESS WERE DETERIORATED WHEN FAILING TO RESPOND TO INTERNATIONAL CONDITIONS.

IN THE OPEN MARKET ENVIRONMENT WHERE MEXICAN INDUSTRY PRESENTLY LIVES. THE PRIVATE SECTOR ASSUMES A POSITIVE ATTITUDE TO SUCCESSFULLY FACE INTERNATIONAL COMPETENCE IMPERATIVES AND RECONSTRUCT THE COMPETITIVENESS BASIS OF OUR BUSINESS. ONE OF THE NEW TASKS, IS TO FIND NEW MARKETS AND BUSINESS ASSOCIATES FOR OUR EXPORTS PRODUCTS. NEW SOURCES AND INPUT SUPPLIERS, INTERMEDIATE AND CAPITAL GOODS TO STRENGTHEN OUR ACTIVITY, UPDATED EXPERIENCES

OF MANAGEMENT AND ORGANIZATION AND NEW BUSINESS ASSOCIATES CONTRIBUTING WITH MODERN TECHNOLOGY.

FOR THESE REASONS, AND WITH THE OPEN ATTITUDE SHOWN BY OUR AUTHORITIES, THE PRIVATE SECTOR SHALL PLAY A MAJOR ROLE WITHIN NEGOTIATIONS TO EVENTUALLY SIGN A FREE TRADE AGREEMENT WITH THE UNITED STATES.

PRIVATE SECTOR ORGANIZATION.

DURING THE RECOMMENDATION PROCESS OF THE SENATE OF THE REPUBLIC OF OUR COUNTRY, HELD DURING THE MONTH OF APRIL AND MAY 1990, MEANT FOR THE ANALYSIS OF MEXICAN TRADE RELATIONS WITH THE WORLD, INDUSTRIAL, TRADE AND SERVICE ORGANIZATIONS, AGREED IN THE FACT THAT THE INTENSE COMPLEMENTATION OF MEXICAN AND AMERICAN ECONOMIES, WILL BE THE DRIVING FORCE IN A COMPREHENSIVE AGREEMENT INTENDED TO GIVE MORE FIRMNESS TO ECONOMICAL FACTORS EXCHANGE BETWEEN BOTH NATIONS.

THEREAFTER, WHEN THE FIRST OUTCOMES FROM TOP LEVEL TALKS REGARDING THE STARTING OF JOIN TASKS TO END UP WITH THE SIGNATURE OF THE FREE TRADE AGREEMENT WERE DISCLOSED, THE MEXICAN PRIVATE SECTOR CONSIDERED IT WAS VITAL TO FORM A WORK FORCE, WITHIN THE PREVAILING REPRESENTATION STRUCTURES TO OBTAIN THE FOLLOWING OBJECTIVES:

- TO HAVE AN ADEQUATE COMMUNICATION WITH NEGOTIATING REPRESENTATIVES.
- TO KEEP THE WHOLE AND EACH OF REPRESENTATIVE ORGANIZATIONS WITHIN THE PRIVATE SECTOR, IN THE INDUSTRIAL, TRADE AND SERVICE-RENDERING FIELDS, INFORMED.
- TO TIMELY PREPARE SECTORIAL DIAGNOSIS TO BE USED AS A BASIS AS WELL AS THE SPECIFIC PROPOSALS OF EACH SECTOR.

- TO HARMONIZE ALL SAID STATEMENTS SO AS TO RECONCILE THE DIFFERENT SECTORIAL INTERESTS AND TO HAVE A STRATEGIC PROPOSAL EMERGE PERSUANT TO NATIONAL INTEREST.

- TO PRESENT OUR NEGOTIATIONS CONCRETE RECOMMENDATIONS AND NEGOTIATION SUPPORT.

IN THIS WAY, DURING THE MONTH OF JUNE 1990, THE FOREIGN TRADE BUSINESS ORGANIZATIONS COORDINATION, "COECE", WAS FORMED, INTENDING TO ANALYZE MATTERS HAVING AN INFLUENCE ON INTERNATIONAL ACTIVITY.

THE "COECE" IS INTEGRATED BY 15 OF THE MOST REPRESENTATIVE BUSINESS ORGANIZATIONS WITHIN THE COUNTRY, WHICH ARE WORTH MENTIONING ONE BY ONE:

- THE BUSINESS COORDINATING COUNCIL "CCE"
- THE MEXICAN COUNCIL OF BUSINESS MEN "CMHN"
- THE NATIONAL FARMING AND LIVESTOCK COUNCIL "CNA"
- THE NATIONAL CONFEDERATION OF INDUSTRIAL CHAMBERS "CONCAMIN"
- THE NATIONAL CONFEDERATION OF NATIONAL CHAMBERS TRADE "CONCANACO"
- THE NATIONAL CHAMBER OF THE TRANSFORMATION INDUSTRY "CANACINTRA"
- THE EMPLOYERS CONFEDERATION OF THE REPUBLIC "COPARMEX"
- THE NATIONAL CHAMBER OF TRADE "CANACO"
- THE MEXICAN BUSINESS COUNCIL FOR INTERNATIONAL AFFAIRS "CEMAI"
- THE MEXICO-U.S.A. A CHAMBER OF COMMERCE
- THE MEXICAN CHAPTER OF THE INTERNATIONAL CHAMBER OF TRADE "CCI"
- THE NATIONAL ASSOCIATION OF IMPORTERS AND EXPORTERS OF THE MEXICAN REPUBLIC "ANIERM"
- THE NATIONAL COUNCIL OF FOREIGN TRADE "CONACEX"
- THE MEXICAN ASSOCIATION OF STOCK EXCHANGE "ANCB", AND,
- THE INSURANCE INSTITUTIONS MEXICAN ASSOCIATION "AMIS"

THE COECE APPOINTED A REPRESENTATIVE FOR THE FREE TRADE AGREEMENT NEGOTIATION, A CHIEF EXECUTIVE OFFICER AND A STAFF GROUP FOR TECHNOLOGICAL AFFAIRS WAS FORMED, AS WELL AS OTHER FOR JURIDICAL AND LEGAL ORIENTED MATTERS. AT THE SAME TIME, EFFORTS WERE JOINED TO STRENGTHEN THE WORK OF AN OFFICIAL IN THE CITY OF WASHINGTON AS WELL AS FOR INFORMATION AND ANALYSIS MATTERS. THE ECONOMIC AND SOCIAL STUDIES CENTER OF THE PRIVATE SECTOR (CEESP) HAS BEEN OF VALUABLE ASSISTANCE.

ONE OF THE MOST IMPORTANT TASKS OF COECE MEMBERS IS TO PREPARE THE DIAGNOSIS OF CHALLENGES AND OPPORTUNITIES FOR ENTREPRENEURS WITHIN THE DIFFERENT ACTIVITY SECTORS, WHICH WILL RESULT IN SPECIFIC PROPOSALS AND NEGOTIATIONS FOR EACH SECTOR. FIVE LARGE COORDINATION COMMITTEES WERE CREATED WITH THESE PURPOSES:

- THE INDUSTRY COORDINATING COMMITTEE
- THE FARMING AND LIVESTOCK COORDINATING COMMITTEE
- THE TRADE AND SERVICES-RENDERING COORDINATING COMMITTEE
- THE FOREIGN TRADE COORDINATING COMMITTEE, AND
- TEMPORARILY, THE FINANCIAL SECTOR, STOCK EXCHANGE AND INSURANCE COORDINATING COMMITTEE.

THE IDEA TO INTEGRATE THESE LARGE COORDINATION AREAS IS TO OBTAIN AND DEQUATE LEVEL OF DETAIL IN ANALYSIS AND PROPOSALS. THROUGHOUT THE SUB-SECTOR. THESE SUB-SECTORS ARE INTEGRATED BY THE REPRESENTATIVES OF THE DIFFERENT ORGANIZATIONS WHICH ARE MORE DIRECTLY RELATED WITH THE ACTIVITIES REFERRED TO. EACH ORGANIZATION APPOINTS A TOP LEVEL ENTREPRENEUR HAVING A DEEP KNOWLEDGE OF ITS SECTOR TO BE PART OF THE RESPECTIVE TASK FORCE.

THE RESPONSE COECE HAS RECEIVED HAS BEEN HIGHLY STIMULATING. PRACTICALLY, THE WHOLE SECTORIAL GROUPS HAVE ALREADY BEEN FORMED AND HAVE STARTED TASK FORCES, UNDER UNIFIED DIAGNOSIS CRITERIA.

THE CORRESPONDING METHODOLOGY WAS DEFINED IN A JOINTED EFFORT OF NEGOTIATING AUTHORITIES, THE CENTER OF ECONOMIC AND SOCIAL STUDIES OF THE PRIVATE SECTOR AND COECE ITSELF. IT IS WORTH MENTIONING THAT THIS ORGANIZATION EXERCISE COMES TOGETHER WITH AN INTENSE DISCLOSURE CAMPAIGN REGARDING THE SCOPE OF THE FREE TRADE AGREEMENT AND TO PROPOSE THE MOST INTENSE PARTICIPATION OF THE PRIVATE SECTOR.

THE MEXICAN PRIVATE SECTOR IS FULLY AWARE OF THE SITUATION AND THE SCOPE OF THE CHALLENGE WHICH WOULD MEAN TO SHARE THE MARKETS. IT ALSO KNOWS THAT THE ECONOMIC PROGRAM DEFINING THE NEGOTIATIONS ATMOSPHERE IN OUR COUNTRY ADVANCES THROUGH THE ADEQUATE PATH. THESE WILL GRADUALLY FOSTER COMPETITIVENESS OF THE ECONOMY AND TO IMPROVE EFFICIENCY.

FROM THE ANALYSIS OF THE CHALLENGES AND OPPORTUNITIES THAT MEXICAN ENTREPRENEURS WILL FACE, IT MAY BE CLEARLY SEEN THAT WE SHALL HAVE TO FOCUS OUR ATTENTION TO THE SECTORS WHICH ALREADY OBTAIN COMPARATIVE ADVANTAGES AND WHICH MAY DEVELOP OTHER NEW ONES BY MEANS OF SPECIALIZATION. WE WILL HAVE TO LIKEWISE FOSTER THOSE COMPLEMENTARY ACTIVITIES, WITH A SPECIAL EMPHASIS IN MEDIUM AND SMALL FIRMS.

WE CONSIDER THAT SOME OF THE DESIRABLE CHARACTERISTICS FOR THE FREE TRADE AGREEMENT IS TRANSLATED INTO TANGIBLE BENEFITS FOR THE BUSINESS COMMUNITY IN MEXICO AND THE UNITED STATES ARE FOLLOWING:

- THE ACKNOWLEDGEMENT OF THE DIFFERENCES BETWEEN MEXICAN AND AMERICAN ECONOMIES.
- A CONGRUENT TARIFF ELIMINATION.
- THE ADEQUATE CONSIDERATION OF THE ANTI-TRUST LAWS.

THE ESTABLISHMENT OF ARBITRATION AND CONTROVERSY RESOLUTION MECHANISMS ELIMINATING DISCRETIONALITY.

- THE IMMEDIATE ELIMINATION OF NON-TARIFF BARRIERS.
- THE CONSOLIDATION OF PREFERENCES GRANTED TO MEXICAN PRODUCTS IN THE GSP.
- A FAIR DEFINITION OF INDUSTRIAL QUALITY AND INDUSTRIAL SAFETY REGULATIONS, AS WELL AS.
- SHARING OF ECOLOGICAL, SANITARY AND BIOSAFETY RESPONSABILITIES.
- AN ADEQUATE DEFINITION OF ORIGIN REGULATIONS.
- THE ELIMINATION OF ALL IMPORT QUOTAS AND THE REMOVAL OF EXPORTS VOLUNTARY RESTRICTIONS.

MEXICAN PRIVATE SECTOR IS CONVINCED FROM THE BENEFITS BROUGHT OF A FREE TRADE. FOR MEXICAN AND AMERICAN FIRMS AND STRONGLY REJECTS THE USE OF UNFAIR PRACTICES OF FREE TRADE. THE PRESENT TIMES DEMAND THE NEED TO BE COMPETITIVE AND EFFICIENT. THEREFORE AN IMPORTANT ELEMENT IS A FAIR MECHANISM FOR THE SOLUTION OF CONTROVERSIES.

WE SHALL KEEP ON FOSTERING THE HEALTHY DEVELOPMENT OF FREE ENTERPRISES AND AVOIDING PAST TIMES DISTORTIONS. THE MEXICAN PRIVATE SECTOR HAS ALREADY OBTAINED THE SUFFICIENT DEGREE OF MATURITY. BUT IT ALSO REQUIRES THE SAME TREATMENT RECEIVED IN YOUR COUNTRY TO BE IN EQUAL CONDITIONS.

DEAR FRIENDS. WE ARE FACING A GREAT CHALLENGE. AND I AM SURE THAT BY MEANS OF ORGANIZATION, EXCELLENCE AND RESPONSABILITY WE ARE GOING TO BE SUCCESSFUL IN ACHIEVING A BETTER OPTION FOR MEXICO AND THE UNITED STATES.

IN MEXICO WE ARE NOT WILLING TO EXPORTS ONLY LABOUR, WE WISH TO PARTICIPATE IN A MORE DYNAMIC TRADE EXCHANGE THROUGHOUT THE INCORPORATION OF ADDED VALUE IN COMPETITIVE AND HIGH QUALITY PRODUCTS FOR THE BENEFIT OF ALL, AMERICANS AND MEXICANS.

STATEMENT OF THE NATIONAL CONSUMERS LEAGUE

Chairman Bentsen and members of the Committee, my name is Linda Golodner. I am executive director of the National Consumers League, a private nonprofit membership organization with members representing every state in the nation and all walks of life. The League was founded in 1899 and has a history of strong leadership in efforts to eliminate the ravages wrought by child labor. This commitment culminated in the passing of the Fair Labor Standards Act in 1938 and efforts continue today in child labor research, education, and advocacy.

In addition to directing the National Consumers League, I am here today as co-chair of the Child Labor Coalition. This Coalition of 32 national and international organizations was formed in response to concern expressed in the November 1989 Capitol Hill Forum on exploitation of children in the workplace. Its concerns are global; the Child Labor Coalition believes that children are the promise of all societies and recognizes that exploitation of children in the labor market, both in the United States and throughout the world, represents a threat to their health, education, and well-being. The Coalition also believes that domestic child labor laws and international labor standards meant to protect children from exploitation are poorly enforced or ignored.

Mexico is a perfect example of this dichotomy. Here we see a country with child labor laws which sets a minimum age for employment at 14 years; restricts 14- and 15-year-old children to a maximum of 6 hours of work per day; and prohibits hazardous work for children under the age of 16. It is one of several countries which has ratified the U.N. Convention on the Rights Of The Child of which Article 32 addresses child labor. Any progress in laws, however, is stymied because viable enforcement is absent and child labor abuses are rampant. Enforcement efforts fall inadequately short for the over 11 million working children in Mexico. Moreover, documentation and statistics on the extent of child exploitation in the country are also insufficient and substantial inconsistencies exist between official figures and non-governmental sources.

Official sources state that of the over 20 million children in Mexico between the ages of 0 and 9, zero are economically active and among the over 10 million children between the ages of 10 and 14, only 1.2 million are economically active. Other sources, however, indicate that the "official" figure of 1.2 million working children does not represent the 10 million children between the ages of 6 and 15 who work in the informal sector as self-employed washing car windscreens, selling chewing gum, cleaning shoes, and wrapping and delivering packages among other jobs. These children are not considered "officially" working because a structured employer/employee relationship does not exist and therefore a "wage" and legal "working day" is not required. Of these 10 million children, approximately 1.5 million are abandoned, drug addicts, and/or living on the street. In light of this enormous economic activity, it is not surprising that half of the children entering primary school drop out and only 10 percent of Mexico's children go on to secondary school.

Child labor is found in all sectors of Mexico's economic activity. In agriculture, by far the most prevalent area of child labor, children as young as six are hired out with their families to harvest fruits and vegetables. In the garment industry and other small-scale industries, children often work alongside a parent "helping out" and are therefore not considered employees, paid, or protected when injured. Child labor is also prevalent in construction, services and small businesses, and domestic service. This economic activity among Mexico's youth pays off in health, safety, and educational devastation.

What I have relayed presents a clear portrait of the overwhelming magnitude of child labor in Mexico; therefore, it is imperative that a child labor enforcement strategy must be intrinsically tied to any negotiated trade agreement with Mexico. The Administration's endeavor to enter into negotiations with Mexico for a comprehensive free trade agreement, however, does not indicate a concern for child labor abuses in Mexico. The Administration intends to use fast track authority, thus effectively limiting the debate and prohibiting amendments on issues such as child labor exploitation.

If the U.S.-Mexico Free Trade Agreement does not provide for the protection of children, what can the U.S. expect from an agreement? First, we can expect increases in child labor. An example is the Maquiladora industries. There are currently some 1,800 Maquiladora plants in Mexico employing approximately 500,000 workers, most of which are young women who are paid less than half of the average hourly wage in Mexico. The Wall Street Journal reported on September 22, 1989 that the growth of the Maquiladora program, "is helping turn much of the (Mexico-U.S.) border area into a sink hole of abysmal living conditions and environmental

degradation." Child labor is not uncommon in these plants where enforcement is lax and violations go unchecked. Last year, The Arizona Republic related, among other problems frequently found in the Maquiladora industries, the employment of a 13-year-old girl in Nogales by General Electric on the 4:30 p.m. to 1:30 a.m. shift making electrical wiring strips. Any agreement of which stringent enforcement of child labor laws is not an integral part will certainly not only open the door, but also encourage U.S. industries to relocate and operate under the "no restrictions" environment that is prevalent in Mexico. If child labor enforcement is not addressed in a U.S.-Mexico Free Trade Agreement, then an increase in child labor will accompany the increase in Maquiladora-type industries.

The U.S. can expect another result of an agreement which does not include child labor enforcement provisions. As trade increases between the two countries, products manufactured and food harvested by child labor will be foisted on U.S. consumers. Most consumers will find the "highly touted" lower prices and increased goods made available through the exploitation of both adult and child workers repugnant and unacceptable. This response has been seen before. At the turn of the century, the National Consumers League, combated the rampant child labor exploitation through instituting the Consumers League Label which was affixed to factory products, guaranteeing consumers that the product, among other safeguards, was not manufactured by children under the age of 16. Will U.S. consumers at the turn of this next century be called upon to take similar precautions to avoid supporting child labor practices through their purchases?

The exploitation of children which impacts their health, well-being, and education negates any of the Administration's perceived benefits for a "fast track" agreement. The Coalition calls upon this Committee to democratize the process by revoking fast track authority, thus providing the opportunity for an open debate on issues such as child labor.

Any U.S.-Mexico Free Trade Agreement must address child labor concerns. The following are five recommendations which evolved out of the Coalition's child labor workshop at the Capitol Hill Forum on the U.S.-Mexico Free Trade Agreement on January 15, 1991. The Child Labor Coalition and the National Consumers League presents the following for Congressional consideration:

1. The U.S.-Mexico Free Trade Agreement should require that Mexican children be afforded the same protection as U.S. children regarding child labor exploitation as found in the Fair Labor Standards Act. It is strongly recommended that no exceptions be given to agricultural labor.
2. The U.S.-Mexico Free Trade Agreement should require enforcement of child labor laws with authorities who oversee the compliance of the U.S.-Mexico Free Trade Agreement being responsible for compliance of said laws.
3. The U.S.-Mexico Free Trade Agreement should ensure that re-entry time for farm workers entering fields after pesticides have been used be reevaluated for children.
4. The U.S.-Mexico Free Trade Agreement should ensure that this agreement does not escalate the problem of the exploitation of children in the garment and agricultural industries in both the U.S. and Mexico.
5. The U.S.-Mexico Free Trade Agreement should establish a system to monitor the human rights sections of the agreement to include visitation by non-government representatives. This would ensure compliance with child labor laws and workers' rights.

In conclusion, it is imperative that fast track authority is revoked and Congress is given the opportunity to ensure that child labor issues, as well as human rights, environmental, agricultural, and labor concerns are an integral part of any negotiated trade agreement.

STATEMENT OF THE NATIONAL POTATO COUNCIL

The National Potato Council (the "Council") submits the following comments in conjunction with the Senate Finance Committee's February 20, 1991 hearing on the proposed negotiation of a free trade agreement with Mexico. The Council respectfully requests that these comments be included as part of the formal written record of the hearing.

The Council is a trade association representing approximately 13,000 potato growers from across the United States. These potato growers are involved in marketing both fresh and processed potatoes in the United States and abroad. The Council is responsible for representing the industry in trade policy issues. In that capacity, the Council directly works with Congressional Members and officials at the U.S. Depart-

ment of Agriculture and the Office of the U.S. Trade Representative on the industry's behalf.

The U.S. potato industry relies on the U.S. domestic market for roughly 87% of its total fresh potato trade and 80% of its total processed potato sales. For this reason, the Council is extremely concerned with the potential for increased imports of Mexican fresh and processed potato items as a result of a free trade agreement. The Council is also concerned that a free trade agreement will entice U.S. potato processors to move their operations to Mexico to take advantage of low labor and other low overhead costs. In turn, these plants would likely look to source their fresh supply from Mexican produced potatoes, rather than from current U.S. sources.

I. THE UNITED STATES SHOULD CONCLUDE ALL EFFORTS IN THE URUGUAY ROUND BEFORE FORMAL NEGOTIATIONS BEGIN ON A FREE TRADE AGREEMENT WITH MEXICO

The Council strongly supports an Uruguay Round agreement in agriculture that calls for substantial reductions in all three negotiating areas—external subsidies, internal subsidies and market access. With the GATT negotiations now formally restarted, the Council is hopeful that an Uruguay Round agreement can be reached, which is fully in line with the U.S. proposal. Because the Council believes such an agreement is the only way to achieve real export gains and a level playing field among trading nations, the Council believes negotiations on a free trade agreement with Mexico should not formally begin until the Uruguay Round negotiations are concluded. If agricultural countries, including Mexico, were required to compete with no unfair or artificial assistance and no import barriers, U.S. agriculture would be able to recapture much of the global market share lost to low-priced subsidized exports of other producing nations.

II. ALL TARIFF AND NON-TARIFF BARRIERS MUST BE ADDRESSED IN THE FREE TRADE NEGOTIATIONS

Agriculture has consistently been touted as one of the more controversial issues that will be addressed in a free trade agreement with Mexico. Mexican farmers, which have the advantage of low labor and production costs, under a free trade agreement, will have access to 240 million U.S. consumers. The facts overwhelmingly suggest that Mexican farmers and agricultural exporters will gain substantially more from a free trade agreement than their U.S. counterparts. This is particularly true in the horticultural area where Mexico is considered directly competitive with U.S. production. For this reason, it is particularly important that a free trade agreement cover tariffs, non-tariff barriers, subsidies, phytosanitary requirements and the harmonization of testing, certification and inspection standards of the two countries.

The U.S.-Canada FTA is a good example of how U.S. potato growers will be injured if non-tariff barriers, subsidies, phytosanitary issues and certification procedures are not covered. Under the Canadian agreement, most issues, other than tariffs, were left to be resolved multilaterally in the Uruguay Round negotiations. Because an Uruguay Round agreement has yet to be reached, these issues remain unresolved and have resulted in unfair advantages in favor of Canadian growers and exporters.

In the event the Uruguay Round negotiations are concluded with no agreement reached, it is critical that a U.S.-Mexico agreement address all areas that restrict trade in agriculture. With Canada a full participant in the U.S.-Mexico negotiations, it is also hoped that the U.S.-Canada agreement can be supplemented to address subsidy and other issues if not resolved by the Uruguay Round.

A. Mexico's Restrictive Licensing Practices Must Be Eliminated.

Despite liberalization in other areas, Mexico continues to restrict agricultural imports through a system of licensing requirements. The use of import licenses enables the Mexican government to maintain discretionary control over individual shipments into Mexico and, in effect, acts as a quota. (ITC report on "The Likely Impact on the United States of a Free Trade Agreement With Mexico," February 1991, pg. 4-7).

Technically, Mexico requires import licenses for fresh potato imports. Although U.S. export statistics show that there is some trade with Mexico in fresh potatoes, the Mexican government has told U.S. officials that import licenses for fresh potatoes are not granted since domestic demand can be fully met by domestic production. Any question of access, and licensing requirements in particular, must be clearly negotiated as part of a free trade agreement.

B. Tariff Elimination Should Occur Over The Longest Possible Time Frame For Import-Sensitive Items Like Potatoes.

The Council supports the staged elimination of tariffs under a U.S.-Mexico FTA, similar to the process followed under the U.S.-Canada FTA. Tariffs on the most import-sensitive items should be reduced over the longest feasible time-frame to give domestic producers adequate time to adjust to influxes of imported product. Fresh and processed potato items should be considered import-sensitive and subject to tariff elimination over a ten-year or longer period.

Current U.S. and Mexican tariffs on potato items of interest are listed below:

Item	U.S. Tariff	Mexican Tariff* (percent)
Fresh:		
Table (H.S. 0701.90.00)	0.77/kg.	10
Seed (H.S. 0701.10.00)	0.77/kg.	10
Frozen Fries (H.S. 2004.10.00)	10%	20
Potato Chips (H.S. 2005.20.00)	10%	20

*In addition, Mexico assesses an 8% customs handling charge and a 15% VAT

III. FREE ACCESS ON BOTH SIDES OF THE BORDER WILL MEAN INCREASED U.S. IMPORTS OF BOTH FRESH AND PROCESSED POTATOES FROM MEXICO

It is expected that an elimination of the U.S. and Mexican tariffs on fresh and processed potatoes would result in increased trade across the borders, primarily in favor of Mexican-based growers, processors and exporters. While current trade in potatoes between the two countries is minimal, there has already been interest by U.S. companies to establish processing plants in Mexico where substantial savings can be gained on labor and other input costs.

Earlier this year, the Council opposed the request of the U.S. potato chip manufacturer PepsiCo, Inc. (i.e., Frito Lay) for duty-free treatment for U.S. imports of potato chips from Mexico under the U.S. Generalized System of Preferences ("GSP"). A decision on GSP treatment will be made on or before April 1, 1991. Frito Lay's main purpose in requesting GSP treatment (de minimus waiver) was to gain free access to the U.S. market for chips produced under low-cost conditions in Mexico. The general U.S. rate of duty for potato chip imports is 10%.

The elimination of U.S. tariffs on fresh and processed potatoes will encourage other U.S. companies to take their production south of the border where they can benefit from cheaper overhead costs. This will be especially true if the free trade agreement does not require harmonization of non-tariff trade barriers, subsidies, phytosanitary, inspection and certification standards. It is believed that several U.S. frozen fry processors are actively looking for processing opportunities in Mexico.

The U.S. industry is concerned about displacement in the fresh potato market as well. The fear is that as U.S. processing plants move their operations to Mexico, they will begin to source their fresh potatoes from Mexico, rather than from U.S. sources. Mexico has the ability to increase its potato production as domestic demand increases.

In 1990, Mexico planted approximately 85,000 hectares (215,000 acres) of potatoes, which yielded approximately 1.2 million tons of potatoes. Nearly 85% of this production was of the Alpha variety, used for processing. In addition to table potatoes, Mexico also produces over 200,000 tons of seed potatoes annually. Mexican growers have purchased seed potatoes from the United States and Canada in recent years to improve and expand their potato farms. Industry sources estimate that Mexico has the potential to plant an additional 400,000 acres of potatoes in the short term in the Mazatlan area.

As increased plantings and better technology yield increased production, Mexican farmers may be forced to look to export markets for their additional production. With the close geographic proximity to the United States, free access, and an existing consumer market, the United States offers the best outlet for Mexican exports.

IV. CONCLUSION

The Council strongly believes that the United States should conclude all efforts to negotiate an Uruguay Round agreement before actively negotiating a free trade agreement with Mexico. If the Uruguay Round negotiations fail, all areas of concern—tariffs, non-tariff barriers, phytosanitary issues, subsidies and certification

and inspection requirements—should be addressed in the free trade negotiations with Mexico. In the area of fresh and processed potatoes, unrestricted access and harmonization of standards should be sought before tariff elimination is negotiated. Moreover, for import-sensitive items like potatoes, tariffs should be eliminated in stages over a ten-year or longer period.

Respectfully submitted,

RONALD E. WALKER, *Executive Director,*
National Potato Council.

March 12, 1991.

STATEMENT OF THE NATIONAL SAFE WORKPLACE INSTITUTE

We are here today to express our hopes for the regional trade negotiations that may soon begin between the U.S., Canada and Mexico. The National Safe Workplace Institute is a 501(c)3 not-for-profit organization, funded largely by foundation and individual contributions, devoted to research and education on workplace safety and health issues. For the past two years we have carefully investigated occupational and environmental health issues in Northern Mexico. We have researched conditions in the border area because we felt that there was a startling need to improve occupational and environmental health conditions in that part of Mexico.

Evidence suggests that a trade pact that does not consider regional occupational and environmental health requirements may result in a disastrous situation for the people of this region—Canadians and Americans as well as Mexicans. A tragic outcome can best be avoided by negotiating a trade pact that ensures that Mexico develops effective occupational and environmental health programs that are fully and faithfully enforced.

The perspective that we present in this testimony is undoubtedly seen by some in stark ideological terms: free trade advocates versus protectionists. To some, we are seen as protectionists. Casting the debate in these terms suggests a purity of conviction that has little basis in economic or social reality. We are not here to kill expanded commerce with Mexico, which is truly in the region's interest. Rather, we are here to argue that there is a middle ground. We would like to see a trade pact that expands commerce while protecting the lives and dignity of people in Mexico, the U.S. and Canada. It would be penny wise and pound foolish, from our point of view, to negotiate an agreement that expands commerce while endangering the welfare of the people that commerce should benefit.

Our work has focused on foreign plants operating in the border area. These plants are known as maquiladoras. The vast majority are U.S.-owned although an increasing number are Japanese and German. In about two decades, the maquiladora industry has built 1,800 plants employing over 500,000 workers. Much of what we have to say in this testimony is based on what we know about this sector of the Mexican economy. While this is a limited view of Mexico, we also believe that it is an important view, one that reflects what will likely come in the future if we do not learn the important lessons that are there to be learned. In the very near future, we will issue a special report, *Crisis at our Doorstep: Occupational and environmental health implications for the U.S.-Mexico-Canada regional trade negotiations* that will further discuss our concerns about the maquiladora industry. In the meantime, we would like to share with the Committee and the Congress our concerns in the hope that we can have a more enlightened debate about this important issue.

FINDINGS

Before we get into the background of the maquiladora industry, there are a number of findings that we would like to share with the Committee. These include:

1. *Many U.S. employers operating in Mexico pay little attention to the same occupational and environmental health considerations that are important determinants of corporate behavior in their country.* Many of the few firms that inaugurate occupational and environmental health programs in Mexico quickly abandon those programs as a result of weak regulatory pressure.

2. *Conditions in the maquiladora industry are deplorable.* Plant conditions are poor. We found that workers are seldom given training, that machinery is not safeguarded, and that instructions on chemical hazards are nearly always written in English. Work-related injuries and illnesses are typically ignored and workers who complain are typically discharged.

3. *The maquiladora industry contributes to the social disintegration of Mexico's families and culture.* U.S. employers have a strong hiring preference for women and typically recruit workers from outside the border area. Evidence that suggests that

these patterns contribute to a migration from Central Mexico to the already crowded border area. Since men are often denied jobs, family life deteriorates as women become the primary breadwinners.

The conditions for exploitation are prime. About one million individuals enter Mexico's work force each year in an economy that generates far fewer jobs. These new labor market entrants have little or no leverage with their employers. Many plants operate with turnover rates of 20% per month which suggests both the harshness of the conditions and the willingness of employers to discharge individuals. Many of the conditions that are commonplace in Mexico are also illegal in the United States.

BACKGROUND

A continuing theme in industrial history has been a drive by manufacturers to maximize profits. Integral to this is a need to minimize costs. In the 1960s, many U.S. companies began seeking low regulatory and cheap wage environments to further this goal. At that time, workers were totally dependent on state laws for protection from unsafe and unhealthy work. Without question, there was great disparity in the level of protection that workers had in the North and the Midwest as compared to other parts of the U.S. The 1970 Occupational Health and Safety Act was passed, in part, to level the playing field, that is, to remove incentives for employers to locate in one state or another because of health and safety regulations.

In the 1980s, leveraged buy-outs and mergers put even more pressure on corporations to increase profitability. Many U.S. firms responded by transferring some of their operations to low regulatory and cheap labor environments in the newly industrializing countries (NICs) of the world. This is particularly disturbing as the business community in the NICs seeks to emulate the U.S. example, and thus, may perpetuate the occupational disease and injury tragedy. U.S. foreign policy must reflect its citizens' concern that employers be induced to run safe businesses whether they operate in the U.S. or overseas.

The Mexican border region is one area where many U.S. multinationals have chosen to relocate assembly operations. Since the maquiladoras are 90% U.S.-owned and export almost exclusively to the U.S., they merit special attention by Americans as we consider ways to expand regional trade.

THE MAQUILADORAS AND TRADE POLICY

The maquiladoras have existed since the mid-1960s when the U.S. Tariff schedule was adjusted to greatly reduce the import duties on U.S. goods that are shipped abroad for assembly and then re-imported into the U.S. Further encouragement was provided in 1970 when the Mexican government codified its Border Industrialization Program. This program offered incentives to foreign investors that were not available to domestic industry. Originally these incentives were restricted to export processing zones in the border areas, but since 1986 they have applied throughout the country. However, about 90% of the maquiladoras continue to operate in border communities. Please see Appendix I for a map of key border locations for maquiladora employers.

Since the 1960s, nearly 1,800 maquila plants have been established, employing 500,000 workers, of whom 425,000 are women. In 1986, one out of every 10 Mexican industrial workers was employed by the maquiladoras. Today, maquila products account for 50% of all U.S. imports under the 807 program of the U.S. Tariff schedule and for 25% of Mexico's total manufactured exports. In 1989, maquila employers generated \$2.9 billion in export earnings for Mexico, second only to the oil industry. There is very little evidence that the recession is slowing down the growth of the maquila industry. Indeed, we believe that a prolonged recession could further stimulate growth by encouraging plant relocation in order to reduce operating costs.

The occupational health risks faced by the maquiladora work force are considerable. The most obvious health risks are the result of work pace, poor work station design and exposure to toxic substances. Most maquiladora assembly plants have accelerated work processes 25% great than they would be in the U.S. The work day is also 50% longer, averaging about 12 hours per day. The maquiladora work force is composed mostly of women who are hired at about the age of 16 and are usually burnt out or crippled by the age of 25 from the frenetic work pace. In the vast majority of cases, an occupational injury or illness will economically devastate an individual already living at or near the poverty level.

Workers are known to be routinely exposed to dangerous levels of lead, methylene chloride—a known carcinogen—thinner, acetone, alcohol, and flux. One of the most dramatic dangers from chemical exposures in maquiladora plants has been to chil-

dren. An alarming number of retarded children have been born to mothers who worked in maquiladora plants during their pregnancies.

Further risks and mistreatment include: denial of information on chemicals used in the workplace; machinery that lacks safeguards to prevent severe injury; lack of preventive clothing and equipment; inadequate training; and intimidation of those who complain with threats of job loss or wage cuts. The maquiladoras generally cite greater dexterity and quickness as the reasons for their tendency to hire young woman. However, many reliable observers believe that these employers are also seeking to take advantage of a Latino culture which discourages women, and especially young women, from voicing concerns.

Occupational health conditions in maquila factories are likely to grow worse. Among the industries predicted to grow most quickly are: electronics; the cleaning, priming and painting of products; and chemical production. This trend towards more processes which use hazardous substances should concern health professionals, particularly since it comes at a time when a rapid influx of new U.S. firms is expected. Appendix II lists some of the chemical hazards commonly encountered in maquiladora electronic components industry alone.

Many argue that U.S. policies which encourage the proliferation of maquila operations in Mexico are a form of development assistance. They are wrong. The reality is that while maquiladoras have provided for added employment opportunities, their operations have often endangered the health of employees and the surrounding community. Furthermore, the transfer of technical expertise and management skills—a key component of most development endeavors—to the local work force is almost non-existent. The largely female maquiladora work force is in unskilled positions with virtually no opportunities for occupational advancement. Finally, since the maquiladoras do not purchase materials from local producers—only two to five percent of material inputs presently come from Mexico—their ability to foster off-shoot industries is limited. In sum, it is the multinational corporations, and not the Mexican work force, who benefit most from the maquila system.

THE FUTURE

A trade agreement between the U.S., Mexico and Canada would greatly encourage expansion of the maquiladora system. We are sympathetic with Mexico's massive unemployment challenge. Likewise, we are not insensitive to U.S. goals of reducing immigration, ensuring that bank loans are repaid and expanding access to energy sources. However, we insist that occupational safety, health, and environmental quality also be on the agenda when governments of the regional begin to negotiate a new regional trade pact.

Not only is maquiladora disregard for employee health disturbing, but it is disconcerting that gains in U.S. occupational safety and health policy may be offset by a trade agreement with Mexico that allows and encourages negligent U.S. employers to move their operations to Mexico and still export goods to the U.S. Employers who have remained in the U.S. must then compete with the maquiladoras at an unfair disadvantage, thereby increasing the pressure on U.S. employers to cut costs, including those associated with health and safety. In a free trade zone all employers should operate under similar regulatory constraints. Certainly, the recent passage of the Clean Air Act only adds to regulatory pressure on U.S. employers.

At least two international codes support our perspective on trade expansion with Mexico. For example, the General Agreement for Trade and Tariffs (GATT) contains language that permits limitations on imports from countries with poor labor practices. Likewise, the International Labor Office's Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy also supports such a move. This resolution states that the health and safety standards upheld by multinational corporations in all countries of operation should be those practiced in the country of strictest regulation. While some maquila employers embrace this resolution, the majority do not.

There are a few bright signs on the horizon, signs that give us encouragement. Recently, the Mexican state of Baja California and the University of California at Los Angeles entered into an agreement whereby UCLA will train occupational and environmental health inspectors in Baja. This agreement has been supported by the Mexican Ministry of Health. This agreement could become the nucleus of the transplantation of U.S. regulatory technology that is so crucial to the region's long-term growth.

Currently, the National Safe Workplace Institute is establishing a joint U.S.-Mexico Occupational and Environmental Health Committee. The Committee will be comprised of occupational and environmental health experts from both sides of the border that will focus on specific steps that can be taken to improve workplace

safety and health and environmental conditions in Mexico. This Committee will focus on health and injury surveillance systems, technical assistance, monitoring, academic exchanges and other techniques for addressing Mexico's occupational and environmental health requirements in a deliberate and pro-active fashion. To the extent possible, the Committee will look beyond what government can and should do to what employers, universities, international organizations, unions and other private sector elements can contribute. This Committee will be an independent body that will operate in the true spirit of international cooperation.

In closing, we believe that a narrow agreement that expands only commerce without appropriate occupational and environmental health stipulations would be harmful to regional interests. We anticipate that the following would occur:

- *In Mexico*, occupational and environmental health of people in the border areas will continue to suffer. People will die premature, unnecessary deaths with attendant consequences. The price paid by the people of the region will be enormous.

- *For U.S. state governments*, the cost of "industrial retention" policies will surely grow. States now are granting a variety of concessions to retain industry that is increasingly playing the maquila card. The concessions granted include tax relief, land use modifications, utility rate reductions, and other enticements.

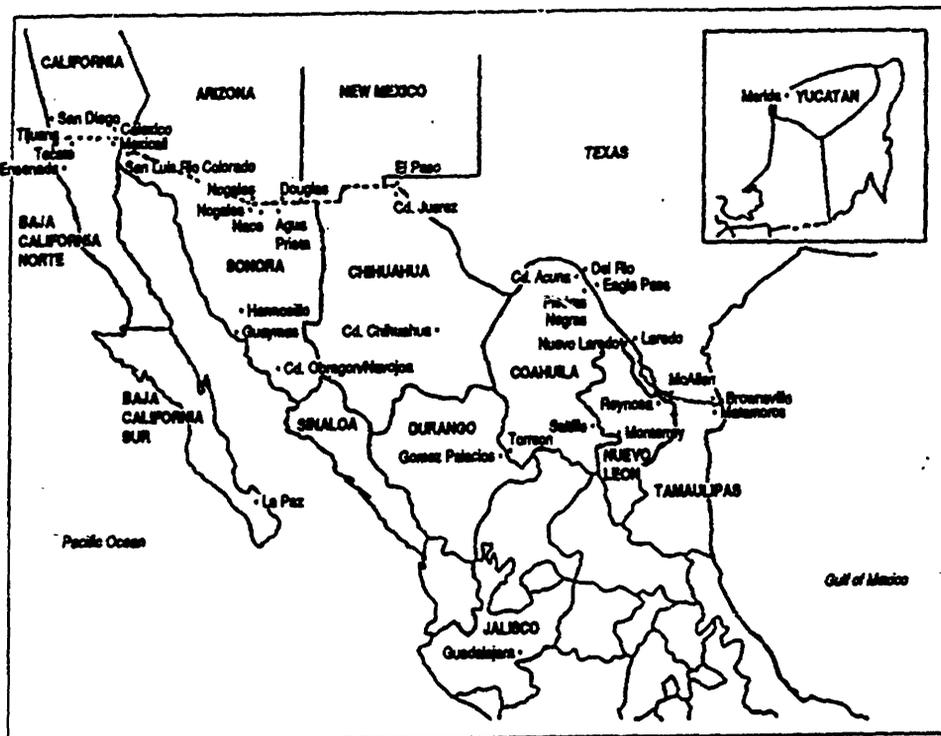
- *For the Federal Government*, we can anticipate that there will be pressure to relax existing occupational and environmental health standards. Indeed, this pressure may already exist in an implicit fashion. Moreover, we can expect that the U.S. will absorb much of the health care burden that is associated with occupationally and environmentally-related diseases.

We realize that there are and will continue to be enormous pressures on the Congress and the Executive Branch to see this regional trade negotiation in ideological terms. While such a narrow approach would be intellectually comforting, it will be harmful to the region's interests. We urge you to reject this approach and to join us in examining the course that we have shared with you in general terms today. We appreciate the privilege of being here today and thank you for this opportunity to share our views.

Attachment.

Appendix I.

Table 1.1
Maquila Plants in Mexico



City	Number of Maquilas	City	Number of Maquilas
1. Tijuana	530	10. Reynosa	57
2. Cd. Juarez	309	11. Piedras Negras	39
3. Mexicali	148	12. Cd. Acuna	36
4. Matamoros	89	13. Ensenada	33
5. Tecate	86	14. Torreon/Gomez Palacios	29
6. Nuevo Laredo	67	15. Agua Prieta	28
7. Nogales	65	16. Merida	28
8. Monterrey/NL	62	17. La Paz	16
9. Chihuahua	61	18. Other Cities	72
		Total	1755

Source: Prepared by NSWI, based on data from the Texas Center for Policy Studies.

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Appendix II.**Typical Hazardous Materials Used in Maquiladora Electronic Components Industry.**

Category	Materials Used	
Solvents	acetone trichloroethylene 2-ethoxyethanol toluene freons xylene 1,1,1-trichloroethane	isopropanol n-butyl acetate perchloroethylene
Acids	chromic acid nitric acid hydrogen chloride phosphoric acid hydrogen fluoride sulfuric acid	
Bases	ammonium hydroxide potassium hydroxide sodium hydroxide	
Gases	ammonia arsine boron trifluoride phosphine chlorine chlorosilanes	diborane silane
Metals	antimony arsenic barium beryllium nickel cadmium silver	chromium lead manganese
Other	asbestos plasticizers epoxy resins fiberglass specialty chemicals oxidizers	

Source: Compiled by NSWI and based on the composition of maquila industry.

STATEMENT OF THE NEWELL COMPANY

Introduction

This statement is presented on behalf of the Newell Company ("Newell"), based in Freeport, Illinois, and its Anchor Hocking Glass division ("Anchor Hocking"). Anchor Hocking manufactures and sells diversified product lines of glass beverageware, dinnerware, kitchen housewares, and other glass products through retail stores and wholesalers located in all 50 states. It has glass production plants located in Lancaster, Ohio and Monaca, Pennsylvania.

Of particular interest to Anchor Hocking are tariff measures on glass products that are used for home, kitchen, and table use, including ovenware, beverageware, servingware, storage containers, globes and shades, vases, and household glassware such as fish bowls, chimneys and banks.

Anchor Hocking assumes that the goal of the proposed Free Trade Agreement ("FTA") negotiations with Mexico and Canada is to achieve an agreement that is in the economic interest of the United States. While other industries may benefit from a U.S.-Mexico FTA, such an FTA would clearly be harmful to the U.S. glass industry, for the reasons described below. We appreciate the concern expressed by Ambassador Hills regarding the glass industry; when testifying before the Senate Finance Committee on February 6, 1991, in response to a question regarding which industries will be adversely and disproportionately affected, she said that ". . . fruits and vegetables and glass deserve a special look." Because of the certain adverse impact on our industry, we strongly support the exclusion of glassware in an FTA with Mexico. We also propose in this statement various mechanisms for addressing the differences between the United States and Mexico with respect to protection of the environment and internationally recognized worker rights.

1. The U.S. glass industry has suffered steady, severe declines over the past two decades.

Since 1978, more than half of the glass manufacturing plants in the United States have closed. More than 21,000 workers have lost their jobs, including over 5,000 who have received trade adjustment assistance as compensation for jobs lost due to imports. As a result of these downward trends, the domestic glass industry has undergone severe consolidation.

Excess capacity, declining production and operating losses have forced many plants to close over the past decade, including:

- Federal Glass, Columbus, Ohio, 1979;
- Corning Incorporated, Corning, New York, 1980;
- Jeanette Glass, Jeanette, Pennsylvania, 1982;
- Wheaton Glass, Milville, New Jersey, 1985;
- Anchor Hocking, Factory #2, Lancaster, Ohio, 1986;
- Anchor Hocking, Clarksburg, West Virginia, 1987;
- Corning Incorporated, Muskogee, Oklahoma, 1988;
- Owen-Illinois, Vienna, West Virginia, 1988;
- Corning Incorporated, Paden City, West Virginia, 1989.

As the International Trade Commission said in its February 1991 report to the Senate Committee on Finance on the impact of a U.S.-Mexico FTA, "The U.S. industry producing household glassware, including tumblers, stemware, ovenware, and ornamental products, experienced considerable restructuring during the 1980s. Overcapacity and stiff price and import competition forced the industry to reduce employment and close inefficient facilities."¹

¹ The Likely Impact on the United States of a Free Trade Agreement with Mexico, USITC Pub. 2353, Inv. No. 332-297 at 4-31 (Feb. 1991) (hereinafter "ITC Report").

2. The injury to the U.S. industry has been caused largely by imports.

a. Imports have steadily increased.

Exhibit 1 shows a marked increase in imports of glass products. In 1971 the import penetration ratio by value was between 10.1 percent and 11.2 percent. By 1987, the ratio had increased to 42.3 percent. In 1989, the most recent year for which complete statistics are available, import penetration had reached 45.5 percent.

The import penetration level for glassware is even higher than that of textiles and apparel (21.2 percent import penetration in 1989) or steel (17.9 percent import penetration in 1989), which are clearly import-sensitive and have received massive import protection from the U.S. government. See Exhibit 2.

The existing tariffs on glass products have eased the decline of the U.S. glassware industry, not prevented it. Even at duty rates as high as 38 percent on some products, imports into the United States continue to grow unabated, while U.S. consumption remains relatively stagnant. As shown in Exhibit 1, the value of imports increased over 13 percent between 1987 and 1989 while U.S. apparent consumption increased only 5 percent.

b. Congress has recognized the import-sensitivity of the glass industry.

Import-sensitive glass products are not eligible for the U.S. Generalized System of Preferences. The Trade Act has exempted all import-sensitive semi-manufactured and manufactured glass products from GSP eligibility since the GSP program was established in 1974, because of their exceptional sensitivity to import competition.

c. The President has recognized the import-sensitivity of the glass industry.

The impact of imports has been recognized time and time again by the interagency Generalized System of Preferences ("GSP") Subcommittee, which over the past 15 years has granted duty-free treatment to only one product request out of 158 filed by developing country producers of glassware.² In the past year alone, the GSP Subcommittee has denied GSP eligibility for: glass bubble bowls and glass globes and shades from Mexico requested by Vitrocrisa in the 1989 GSP Annual-Review; 17 tariff categories of glassware requested by Colombian producers as part of the Special Andean GSP Review; and 104 petitions on glass products filed in the 1990 GSP Annual Review, including 18 filed by Vitrocrisa.³

3. Mexico is uniquely positioned to benefit from the vulnerability of the U.S. industry -- particularly if tariffs are eliminated on exports to the U.S.

a. Mexican exports of glass to the United States are high despite current tariffs of as high as 38 percent.

As shown in Exhibit 3, Mexican exports of glass to the United States have increased substantially both in absolute and relative terms. Between 1984 and 1990, Mexican exports to the United States of consumer glass products increased 67 percent. Mexico's share of total U.S. imports of glass products under HTS category 7013 increased from 9 percent in 1984 to over 15 percent in 1990. If Mexico can increase its glass exports so substantially when the average tariffs are high (averaging approximately 22 percent for all consumer glass products),⁴ a tariff elimination would undoubtedly result in a flood of Mexican exports to the United States.

² The only product to receive GSP treatment pursuant to a petition request was 7013.10.10, glassware of glass ceramic. Two other tariff categories were designated by the President as GSP eligible at the outset of the GSP program: 7013.99.30, smokers' articles and perfume bottles fitted with ground glass stoppers; and 7013.99.35, votive candle holders. Executive Order 11,888, Nov. 26, 1975. U.S. producers did not oppose GSP eligibility for either of these tariff subheadings at the time of review.

³ The GSP Subcommittee is currently reviewing, as part of the 1990 GSP Annual Review, 16 petitions requesting GSP treatment for certain lead crystal products of HTS subheadings 7013.21.50, 7013.31.50 and 7013.91.50.

⁴ ITC Report, *supra* note 1, at 4-31.

b. Mexican producers have numerous advantages.

(1) Wage rates

Manufacturing glassware requires relatively unsophisticated technology. Labor content is high, conferring a comparative advantage on countries with low wage rates.

Non-published data maintained by the Bureau of Labor Statistics show that Mexican wage rates in the glass and glassware industry were less than one-tenth of U.S. wage rates in 1987, the most recent year for which glass industry wage rates are available for Mexico. Even comparing average 1989 hourly wage rates for all manufacturing industries, compensation in Mexico is only 16 percent of compensation in the United States (see Exhibit 4).

(2) Energy costs

After labor, energy is the most significant cost component in the production of glass. Given that Mexico maintains a two-tiered industrial pricing policy for petroleum products under which domestic industries are charged lower prices than prevailing world market prices,⁹ the Mexican glass industry enjoys an unfair competitive advantage over the U.S. glass industry. No matter how efficient the U.S. industry is, the Mexican industry will continue to have an unfair advantage so long as its energy costs are less than prevailing world market prices.

(3) Environmental and worker safety rules

In the United States, environmental and worker safety standards are high and their compliance is strictly enforced. In Mexico, such standards are weaker and their enforcement is lax. As a result, Mexican-based manufacturing operations have a distinct cost advantage over their U.S. counterparts because they do not have to provide as safe a workplace or make the extensive capital investments necessary to comply with stringent environmental standards. Absent tariffs to offset this advantage, imports into the U.S. of goods manufactured in Mexico would have a devastating effect on sales of U.S. goods, particularly on those products whose price must include substantial costs of compliance with stricter U.S. environmental and worker safety laws.

The United States glass industry is clearly a case in point. It has spent millions of dollars to comply with U.S. environmental and worker safety requirements. The effect of a United States-Mexican-Canadian FTA -- assuming weak Mexican environmental and worker safety rules continue -- would be to force the closure of U.S. plants meeting higher standards, only to be replaced by Mexican plants meeting far lower standards. Such a result is not in U.S. interests and should be avoided in the context of these negotiations.

Given the direct impact of environmental and worker safety regulations on the cost of U.S. goods and thus on their competitiveness, Mexico's lower environmental and worker safety standards clearly belong on the U.S.-Mexico-Canada negotiating table. Such costs are as much of a "trade issue" as tariffs, subsidies, and other matters that distort trade flows. The idea that Mexico's, or any country's, environmental problems are exclusively their concern and not the subject for trade negotiations is not only outdated, but in this case, dangerous given Mexico's proximity to the United States. The costs of maintaining the environment and providing a safe workplace must be tied to the price of the products whose production generates such costs. In Mexico, at present, they are not. This trade distortion must be remedied before freer trade with the United States is permitted in the products most affected by such distortions.

The effects of failing to link trade and environmental and worker safety concerns is illustrated by the maquiladora program. This program has indisputably provided thousands of jobs and millions of dollars in capital investment in Mexico.¹⁰ It has also provided access to an abundant and cheap labor force for countless U.S. industries

⁹ ITC Report, supra note 1, at 4-29; State of New Mexico Department of Energy, Minerals and Natural Resources, Comments on The Likely Impact of a Free Trade Agreement with Mexico on the United States (Nov. 26, 1990) (available in public inspection files at ITC).

¹⁰ Baker, "Along the Border, Free Trade is Becoming a Fact of Life," Bus. Week, June 18, 1990, at 41.

who have established manufacturing operations there.⁷ However, the rapid growth of the maquiladora program appears to have not only overwhelmed Mexico's limited resources allocated to enforce its environmental and worker safety laws, but also its capacity to deal with the problems associated with such industrial and population growth, e.g., proper waste (including toxic waste) disposal, provision of an adequate and safe water supply, sufficient roads, and housing, etc.⁸

Such problems are further exacerbated by the widespread failure of the maquiladoras to comply with existing Mexican environmental and labor laws.⁹ Many of these industries have apparently relocated their environmentally sensitive and labor intensive operations to Mexico where the costs of compliance with environmental and worker safety laws is significantly less than in their own countries due to a combination of lower standards and less enforcement.

As a result, the maquiladora program has created serious environmental problems for both Mexico and the U.S. states which share borders with Mexico.¹⁰ In addition, working conditions in the maquiladoras are substandard and pose serious health hazards for Mexican workers.¹¹

4. *Vitrocrista is a large, sophisticated, technologically advanced manufacturer of glass products.*

Vitrocrista, a subsidiary of Vitro Sociedad Anonima, is Mexico's largest glass producer and one of the foremost manufacturers of glassware products in the world. Vitrocrista manufactures diversified glass products ranging from relatively inexpensive beverage ware to upscale full lead crystal giftware and barware. The existence of the cost and other advantages of Mexican producers has enabled Vitrocrista to sell its products to customers in the United States at prices as much as 50 to 60 percent below Anchor Hocking's prices for comparable items, according to reports regularly received by Anchor Hocking from customers. Vitrocrista recently augmented its U.S. presence by acquiring Anchor Container Corporation (no relation to Anchor Hocking).¹²

5. *As U.S. glass tariffs go down, U.S. glass imports go up: this will be particularly true for imports from Mexico.*

a. *Prior experience: Israel and the CBI.*

Two examples vividly illustrate the result of tariff reductions on glass products. The volume of imports of glassware from Trinidad and Tobago, one of the Caribbean Basin Initiative (CBI) countries, increased from nothing in 1984 when the CBI took effect to almost half a million in 1990. (See Exhibit 3.) Since the entry into force of the U.S.-Israel Free Trade Agreement, imports of glassware products from Israel have surged more than 240 percent. (See Exhibit 3.) The U.S. glassware industry could not withstand the similar flood of imports that would certainly result from reductions in tariffs on glass products from Mexico.

b. *The ITC view: significant increase in U.S. household glassware imports.*

In its February 1991 report, the ITC stated:

The elimination of the duties on household glassware under an FTA would most likely lead to a significant increase in U.S. imports from Mexico. Although moderate demand and high supply elasticities characterize the household glassware market, duty elimination would likely have a much greater

⁷ Id.

⁸ See Kochan, "Maquiladoras: The Hidden Cost of Production South of the Border," reprinted in United States-Mexico Economic Relations: Hearings before the Subcomm. on Trade of the House Rep. Comm. on Ways and Means, 101st Cong., 2nd Sess. 232 (1990)

⁹ Id.

¹⁰ Id.

¹¹ Id.

¹² "Raid Across the Mexican Border," The New York Times, October 30, 1989.

impact on U.S. import levels because of the lower cost of Mexican glassware and the already developed channels of distribution for the product in the U.S. market. The expected growth in U.S. exports to Mexico would be more limited because of the dominance in the Mexican market of Vitro Crisa [sic] with its extensive distribution network, and the smaller size and purchasing power of the Mexican glassware market. In addition, Mexico's less developed infrastructure and marketing channels hinder development of an effective distribution system.¹³

Yet, even though the ITC acknowledges that an FTA would likely result in a substantial increase in Mexican imports of household glassware and only a limited increase in U.S. exports, it then concludes:

The expected increase in U.S. trade with Mexico in household glassware would have a negligible effect on the U.S. industry overall, because it represents a negligible portion of U.S. production. However, an increase in imports from Mexico could result in an adverse impact on U.S. producers of lower priced household glassware in which Mexican shipments are concentrated and U.S. producers' margins are low.¹⁴

Anchor Hocking certainly concurs with the last sentence of the ITC's conclusion. Because Anchor Hocking's production is concentrated in lower priced glassware products and because, even at the current duty rates, we are being undersold by Mexican imports, we know how devastating the impact will be on the U.S. producers of lower priced glassware if tariffs on imports from Mexico were to be reduced or eliminated.

However, Anchor Hocking does not believe that an across the board tariff reduction on household glassware would have a negligible impact on the household glassware industry overall. While Anchor Hocking's production is concentrated in lower priced merchandise, its production of moderate to higher priced merchandise is not insubstantial. Moreover, there are numerous producers in the U.S. glass industry, including the producers of hand-made glass, which manufacture moderate to higher priced products. These producers are also vulnerable to across the board tariff reductions because the glass industry in Mexico manufactures and exports glassware at all value ranges. In 1989, Vitrocrisa, which dominates the industry in Mexico,¹⁵ increased its exports by six percent, opened a factory outlet in California, and "... launched a new line of lead crystal products ... aimed at the top layer of the export market." (See excerpts from Vitrocrisa's 1989 Annual Report provided in Exhibit 5.) Vitrocrisa has targeted the U.S. market specifically, and not just in lower priced glassware products. Vitrocrisa's new line of lead crystal was "... designed specifically for the U.S. market."¹⁶ Its market penetration strategy reflects "... product line breadth and marketing backbone."¹⁷ "Simply put, Crise wants to be U.S. retailers' total glassware resource."¹⁸

If Vitrocrisa has been able, under the existing tariff structure, to make inroads into the U.S. market in not only the lower priced products, but also the higher priced products, then there is every reason to expect that an across the board reduction in tariffs would result in substantial increases of imports across all value ranges. Thus, the U.S. household glassware industry, as a whole, is likely to be adversely affected by the reduction or elimination of tariffs on all household glass products.

¹³ ITC Report, supra note 1, at 4-32.

¹⁴ Id.

¹⁵ Id. at 4-31.

¹⁶ Neiss, "Crise Makes Long-Awaited Entry into Crystal with Cien," Housewares, September 18, 1989.

¹⁷ Palmer, "Mexican Invasion: Crise Targets U.S. Turf," Housewares, November 10, 1986, at 140.

¹⁸ Id.

6. Anchor Hocking Proposals for the Negotiations.

a. An Exclusion for Glass.

As indicated above, we assume the U.S. negotiating objective is to achieve an agreement that advances the economic interest of the United States. From the perspective of the glass industry, an agreement that eliminates tariffs is not in our economic interest. While we understand the natural reluctance to exclude any items from the negotiating table, we note that Mexican negotiators do not hesitate to insist on exclusions when they advance Mexico's economic interest. See, for example, statements by Mexican Secretary of Commerce and Industrial Development Jaime Serra Puche that oil will be off the table, "even if it costs the agreement." The United States should be no less aggressive; if certain industries are excluded, we believe glass should be among them.

b. Link tariff cuts to enhanced Mexican protection of the environment and worker safety.

Ambassador Hills has stated that the Administration is concerned about Mexican environmental protection but wants to negotiate those issues separately from the FTA. But if the Administration wants higher, better enforced environmental rules in Mexico, why should it fail to use one of its foremost inducements -- the leverage of preferential access to the U.S. market -- in the negotiations? The following proposals would use that leverage to achieve Mexican improvements in the vital areas of environmental protection and worker safety:

- (1) *Obtain a satisfactory commitment by Mexico to take appropriate and timely steps to enact and enforce laws to (a) ensure internationally recognized worker rights, and (b) prevent deterioration of the environment as a result of increased economic and trade activity.*

The proposed negotiations with Mexico and Canada are trade negotiations, and are not the vehicle for achieving all objectives in our overall relationships with these countries.

However, it is not only appropriate, but necessary, to discuss in those negotiations practices that distort trade and cripple U.S. competitiveness. Mexico's lesser and inadequately enforced environmental standards not only jeopardize the environment, but also unfairly reduce the costs of Mexican competitors of U.S. firms complying with higher, rigorously enforced environmental standards. Likewise, with respect to internationally recognized worker rights, Mexican practices have not only permitted exploitation of labor in Mexico, but also resulted in job diversion from the United States and increased imports into the U.S. from Mexico. While these practices are objectionable in and of themselves, they are appropriate topics in the trade negotiations because they adversely affect American competitiveness, distort trade and imperil U.S. jobs.

Mexico is a developing country, and cannot be expected to adopt overnight the same laws that developed countries have enacted over time. However, there is no justification for continued inaction or insufficient action by Mexico, when it will benefit substantially from any free trade agreement with the United States and Canada. With the increased GNP and export opportunities that Mexico will reap as a result of such an agreement, it must responsibly take measures to prevent environmental degradation as a result of increased trade, and to comply more completely with internationally recognized worker rights.

- (2) *Request the U.S. International Trade Commission to identify those U.S. industries burdened by unusually high costs of compliance with environmental and worker safety laws.*

To expedite the liberalization of trilateral trade, the governments may be reluctant to tie too closely and rigidly the phase-out of trade barriers to Mexico's enhanced protection of the environment and worker safety. However, because such protection does affect trade directly and significantly, they must be tied. To identify the most appropriate linkage, the U.S. International Trade Commission should be asked to identify those U.S. industries that suffer the largest costs of compliance with environmental and worker safety laws. It is these industries that are likely to be most adversely affected by increased imports from Mexico unless Mexico better protects the environment and worker safety.

- (3) *Link reduced tariffs and improved market access to enhanced Mexico protection of the environment and worker safety in appropriate cases.*

Trade policy generally calls for a gradual phase-in of reduced tariffs and other trade barriers when needed to facilitate adjustment to increased import competition by import-sensitive industries. Such policy is (1) humane and (2) helps generate the necessary political support for freer trade despite some adverse economic effects.

For the same reasons, businesses (and their workers) burdened by unusually high costs of compliance with environmental and worker safety laws should be shielded from an onslaught of imports, until Mexico takes appropriate action to meet its responsibilities for environmental protection and worker safety. Those businesses identified by the U.S. International Trade Commission as disproportionately bearing such costs should be protected in the interim. Indeed, the linkage of trade benefits to enhanced protection by Mexico of the environment and worker safety would provide a significant inducement to expedite its efforts.

- (4) *Provide for regular, periodic reports on compliance with laws to protect the environment and worker safety in Canada, the U.S. and Mexico.*

The primary goal in these negotiations with respect to the environment and worker safety is to avoid the trade distortions that would result from inadequate protection by one member of a trilateral agreement. Once appropriate commitments to protecting the environment and worker safety are obtained, pressure needs to be maintained to ensure strict and faithful compliance with those commitments. A useful tool for this purpose is a requirement for regular, periodic reports on such compliance in each of the countries concerned.

Conclusion

The benefits which Mexico will reap as a result of the FTA should not be at the expense of the U.S. glassware industry, the environment, or worker safety.

The contraction of the U.S. glassware industry over the past two decades has been caused in large part by imports. The import-sensitivity of the glass industry has been continually recognized by the U.S. Government. Despite high tariff rates, imports of glass from Mexico are already high and still growing. In recent years, Mexico has ranked consistently among the top five countries exporting glassware to the United States. Because Mexico has a sophisticated, technologically advanced glass industry that enjoys advantages in wage rates, energy costs and environmental and worker safety rules, across the board tariff reductions will undoubtedly result in a flood of imports into the United States that could devastate the U.S. glassware industry. The adverse impact on the U.S. industry would be compounded because, as the ITC Report indicates, a concomitant increase in U.S. exports of glassware to Mexico is unlikely. Thus, if any industry warrants an exclusion from the U.S.-Mexico FTA negotiations, it is glassware.

Furthermore, it is in the economic interest of not only our own industry, but also the United States to include environmental and worker safety issues in the negotiations. Since Mexican practices in these areas distort trade and adversely affect U.S. competitiveness, it is not only appropriate, but necessary, to discuss them in the FTA negotiations.

EXHIBIT 1

IMPORT PENETRATION OF GLASSWARE¹
CLASSIFIABLE UNDER
TSUS 546 AND HTSUS 7013
(#US thousands)

	<u>1971²</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
1. Domestic Shipments	399,561	1,263,550	1,362,311	1,382,246
2. Interplant Transfers	39,540	452,989	575,339	552,344
3. Exports	25,538	59,450	66,822	85,765
4. Imports	<u>41,997</u>	<u>549,935</u>	<u>581,472</u>	<u>622,423</u>
5. Apparent Consumption (1-2-3+4)	416,020	1,301,046	1,301,622	1,366,560
6. Imports as % of Apparent Consumption (4/5)	10.1-11.2%	42.3%	44.7%	45.5%
7. Percent Changes: Apparent Consumption 1987-1989 = + 5.0%				
Imports 1987-1989 = + 13.2%				

SOURCES: Domestic shipments, interplant transfers, exports and imports are from Department of Commerce, 1971, 1987, 1988, and 1989 Current Industrial Reports for Consumer, Scientific, Technical, and Industrial Glassware: product codes 32291 and 32317, "Table, kitchen, art, and novelty glassware," covering all, and only, merchandise classifiable under the TSUS 546 items and HTSUS 7013 items.

¹ The import penetration ratio for glassware is calculated based on value because consistent quantity data are not available.

² Data for 1971 rather than 1974 (when import-sensitive glass products were exempted from GSP eligibility) have been used because complete data necessary to calculate import penetration for 1974 were unavailable. Because data for 1971 provided only an aggregate figure that included both interplant transfers and U.S. shipments of other handmade table, kitchen, art and novelty glassware, the possible range of import penetration was calculated using both zero for interplant transfers and the aggregate amount that includes interplant transfers.

EXHIBIT 2**1989 IMPORT PENETRATION: STEEL AND TEXTILES**
(Quantity in Net Tons)**STEEL:**

Product	Producers' Net Shipments*	Exports	Imports	Apparent Supply	Percent Imports to Apparent Supply
Carbon Steel	84,100,392	4,577,944	17,333,311	96,855,759	<u>17.9%</u>
Stainless Steel					
Tool Steel					
Other Alloy Steel					

SOURCE: American Iron and Steel Institute, Apparent Supply of Steel Mill Products (1989).

* The import penetration ratio of steel is based on quantity, which are the only data available.

TEXTILES:

Products	Producers' Shipments*	Exports (\$ millions)	Imports (\$ millions)	Apparent Consumption	Ratio of Imports to Apparent Consumption
Apparel	66,397	2,372	26,746	90,771	29.4%
Textile Mill Products	69,236	2,794	8,304	74,796	11.1%
Total Apparent Consumption	135,633	5,166	35,050	165,517	<u>21.2%</u>

SOURCES: Producers' Shipments: 1991 Industrial Outlook
Exports and Imports: U.S. International Trade Commission, Textiles Division

* The import penetration ratio for textiles and apparel is based on value.

EXHIBIT 3

**IMPORT COMPARISONS (BY QUANTITY) OF GLASSWARE
CLASSIFIABLE UNDER TSUS 546 AND HTSUS 7013¹
1984-1990**

	<u>1984</u>	<u>1990</u>
<u>Mexico:</u>	29,757,115	49,740,480
Percent Change: <u>67%</u>		
<u>Israel:</u>	25,450	86,871
Percent Change: <u>241%</u>		
<u>Trinidad/Tobago:</u>	0	449,015
Percent Change: Not calculable		
<hr/>		
<u>Mexico:</u> (Glassware Products valued over \$3.00)	320,841	742,614
Percent Change: <u>131%</u>		
<u>Mexico:</u> (Glassware Products valued above \$3.00 plus products that are not broken down by value)	3,657,034	16,917,004
Percent Change: <u>374%</u>		

SOURCE: U.S. Department of Commerce, IM 146 Reports.

¹ 1990 import levels do not include 70131010 and 70131050 which were not part of TSUS 546.

EXHIBIT 4

UNPUBLISHED DATA

HOURLY COMPENSATION COSTS FOR PRODUCTION WORKERS
GLASS AND GLASSWARE MANUFACTURING (US SIC 321-3)
16 COUNTRIES, 1975 AND 1979-89

PREPARED BY: U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS,
OFFICE OF PRODUCTIVITY AND TECHNOLOGY, SEPTEMBER 1990.

HOURLY COMPENSATION COSTS FOR PRODUCTION WORKERS IN U.S. DOLLARS
GLASS AND GLASSWARE MANUFACTURING (US SIC 321-3)

1975 AND 1979-89												
COUNTRY OR AREA	1975	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
UNITED STATES	6.83	9.97	11.02	12.27	13.31	13.95	14.13	14.60	14.95	15.26	15.68	16.13
CANADA	6.29	7.88	8.60	9.31	10.25	11.34	11.78	11.45	11.54	12.57	14.24	15.18
MEXICO	1.69	2.14	2.57	3.21	2.26	1.65	1.81	1.83	1.37	1.39		

HOURLY COMPENSATION COSTS FOR PRODUCTION WORKERS, INDEX U.S. = 100
GLASS AND GLASSWARE MANUFACTURING (US SIC 321-3)

1975 AND 1979-89												
COUNTRY OR AREA	1975	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
UNITED STATES	100	100	100	100	100	100	100	100	100	100	100	100
CANADA	91	79	78	76	77	81	83	78	77	82	91	94
MEXICO	23	21	23	24	17	12	13	13	9	9		

(1) INDUSTRY NOTES:
IRELAND, GLASS & CERAMIC PRODUCTS.

SEE SEPARATE APPENDIX FOR DEFINITIONS, METHODS, DATA LIMITATIONS, CURRENCY
EXCHANGE RATES, AND COUNTRY NOTES.

SOURCE: U.S. BUREAU OF LABOR STATISTICS, SEPTEMBER 1990.

International Comparisons
of Hourly Compensation Costs
for Production Workers
in Manufacturing,
1975, 1980 and 1983-89

SUPPLEMENTARY TABLES
for BLS Report 794
October 1990

U.S. Department of Labor
Bureau of Labor Statistics
Office of Productivity and Technology
October 1990

Table 1. Indexes of hourly compensation costs for production workers in manufacturing, 34 countries or areas, 1975, 1980 and 1983-89

(Index, U.S. = 100)

Country or area	1975	1980	1983	1984	1985	1986	1987	1988	1989
United States	100	100	100	100	100	100	100	100	100
Canada	91	85	90	88	83	83	85	90	103
Brazil	14	14	10	9	9	11	10	11	12
Mexico	31	30	13	14	16	11	12	14	16
Venezuela	32	35	-	-	-	-	-	-	-

Table 2. Hourly compensation costs in U.S. dollars for production workers in manufacturing, 34 countries or areas, 1975, 1980 and 1983-89

Country or area	1975	1980	1983	1984	1985	1986	1987	1988	1989
United States	\$5.36	\$9.04	\$12.10	\$12.51	\$12.96	\$13.21	\$13.40	\$13.65	\$14.31
Canada	5.79	6.37	10.88	10.99	10.00	11.00	11.95	13.53	14.72
Brazil	.07	1.38	1.24	1.07	1.13	1.47	1.30	1.60	1.72
Mexico	2.00	2.96	1.85	2.06	2.09	1.90	1.97	1.99	2.32
Venezuela	2.03	3.44	-	-	-	-	-	-	-

**1989 Annual Report Submitted
by the Board of Directors of
Vitro, Sociedad Anónima**

Sales and Earnings

Sales to the domestic market behaved similarly to the previous year as a result of an increase in sales volume which made up for the depressed prices.

Export sales, on the other hand, continued their vigorous diversification, making it possible for GRUPO VITRO's companies to have a presence, through their products, in a growing number of countries and in new markets. This strategy enabled us to practically maintain our export levels.

As a consequence of the sales price controls resulting from the Pact, operating profit registered a sensible reduction with respect to the previous year. Notwithstanding the benefit of non-recurring financial gains, net income decreased by 1%.

VITRO GLASSWARE

Despite the import tariff disadvantage existing in Mexico and the countries with whom we have trade relations, the Division achieved favorable results. Sales volume increased by 8% due to a timely change in marketing strategies.

Sales abroad continued their upward trend with 6% growth, representing 34% of the total sales of this Division.

The presence of our products continues to expand in the United States market. During the year, we opened a factory outlet in Vacaville, California.

The personnel of this Division deserves special recognition for having launched the new line of lead crystal products, known as Cien, aimed to the top layer of the export market. This product combines the use of advanced technology, innovative design, and new marketing practices, which will enable us to compete with products of worldwide renown.

Despite the loss of competitiveness of the peso against the yen and European currencies, exports to Japan and Europe continue to be successfully promoted.

Utilization of installed capacity in the Division was 73% compared to 70% of the previous year.

to Glassware

For more than fifty years, when the first of the Vitrocristal companies -Cristalería, S.A.- was constituted, our efforts have been aimed at meeting the needs of the houseware and gift markets with glassware, tableware and ovenware products, glass lighting parts, ornaments and decorative items, offering the consumer a wide range of quality products under the umbrella of our prestigious trademarks: *Cristal, Termo-cristal, Pyr-o-Rey, Forticristal, Pyr-o-Ware, Kristalox and Cufin*. An intensive and diversified network of distributors back-up our service level, enabling us to satisfy the needs of industrial clients and consumers, thereby consolidating our leadership in the majority of the markets we serve.

Continuing with our exporting tradition, we have increased our share in international markets. Our exports maintained their continued growth and represented 35% of our consolidated sales. Cristal Corporation, our sales and marketing company in the United States, continues to be one of the leading suppliers of glassware and glass lighting parts, tableware, ovenware, and industrial products made of borosilicate glass for the United States and Canadian markets.

STATEMENT OF THE NON-FERROUS METALS PRODUCERS COMMITTEE

I. INTRODUCTION

The Non-Ferrous Metals Producers Committee (NFMPC)¹ submits that any free trade agreement to be negotiated between the United States and Mexico should address carefully several important issues that affect U.S.-Mexican economic relations in the mining and metals sector. These issues include tariffs, country of origin rules, government subsidization, and investment restrictions. As the President has declared his intention to pursue a U.S.-Mexico free-trade area through negotiation of a broader North American Free-Trade Agreement (NAFTA) including both Mexico and Canada, the NFMPC submits that these issues must be addressed with careful consideration to both the current provisions of the U.S.-Canada Free-Trade Agreement (FTA) and the as yet unresolved problem of continued Canadian Government subsidization of its non-ferrous metals industry.

II. TARIFFS

A NAFTA should provide for the mutual elimination of U.S. and Mexican tariffs on the products of the copper, lead, and zinc industries and should do so through a phase-out schedule that recognizes the wide difference between the relatively high Mexican tariffs and the low U.S. tariffs. Exhibit A provides the current most-favored-nation (MFN) tariffs of the United States and Mexico for the major products and by-products of these industries.² All of the Mexican tariffs are at 10.0 percent ad valorem, except one at 15.0 percent ad valorem.³ In contrast, the highest U.S. tariff on any of the products concerned is 4.0 percent ad valorem. Furthermore, Mexico's exports of almost all of the relevant products are eligible for duty-free entry into the United States under the U.S. Generalized System of Preferences (GSP) program. In any phase-out arrangement, the Mexican tariffs should be phased-out on a faster schedule than the U.S. tariffs, reflecting the need rapidly to bring the high Mexican tariffs into parity with low U.S. tariffs.⁴

U.S.-Mexican general trade relations are large and important to each country. In 1989, the United States exported goods worth \$25 billion to Mexico and imported goods worth \$27.2 billion.⁵ Mexico is the United State's third largest export market. The United States is clearly the most important export market for Mexico, as the United States takes about 60 percent of total Mexican exports.

U.S.-Mexican trade in copper, lead, and zinc is also significant, as shown in Exhibits C and D. In 1989, the United States imported \$223 million of these products from Mexico and exported \$31 million of them to Mexico.⁶ The mutual elimination of tariffs could increase U.S.-Mexico trade in these goods in a mutually advantageous way.

III. COUNTRY OF ORIGIN

The NAFTA should incorporate the same "country of origin" rule with regard to copper, lead, and zinc products that was adopted in the U.S.-Canada FTA. That rule, if properly enforced, would prevent imports from being channeled into the United States through Mexico or Canada from a third country whose products do not qualify for preferential duty treatment under an FTA.

¹ The NFMPC is a trade association of U.S. producers of primary copper, lead, and zinc. The members of the NFMPC are ASARCO Incorporated, the Doe Run Company, and Magma Copper Company.

² Exhibit B provides the 1991 tariff rates for U.S.-Canadian bilateral trade under the FTA.

³ The Mexican tariff rates are current "effective" tariffs, not GATT "bound" tariff rates which are a uniform 50 percent ad valorem.

⁴ Under the U.S.-Canada FTA, U.S. tariffs on copper, lead, and zinc products are being phased out. The NFMPC has opposed the acceleration of the phase-out of the U.S. tariffs on imports from Canada of the products of the U.S. copper industry requested under Article 401(5) of the U.S.-Canada FTA. The acceleration of the phase-out of the tariffs on such products would be inappropriate in light of the prevalence of Canadian Government subsidy practices benefiting the Canadian non-ferrous metal industry.

⁵ Office of the U.S. Trade Representative, *1990 National Foreign Trade Estimate: Report on Foreign Trade Barriers*, "Mexico," p. 141.

⁶ U.S.-Canadian trade in non-ferrous metals is larger still. As shown in Exhibits E and F, U.S. imports of copper, lead, and zinc products amounted to \$1.1 billion in 1989, while U.S. exports of these products were valued at \$80 million.

IV. GOVERNMENT SUBSIDIZATION

A NAFTA must provide for increased discipline on subsidy practices that result in trade distortions. Foreign government subsidization is a particular problem for the U.S. metal mining and processing industry. Especially during periods of cyclical downturn in the market, government assistance programs have permitted uneconomic foreign producers to avoid curtailing operations and to shift the burden of adjustment to falling price levels from themselves to producers in other countries, such as the United States, that do not benefit from such subsidies.

The Mexican Government has had many assistance programs for its industries in the past, although it has reportedly begun eliminating various programs. The fact that such programs have benefitted Mexican exports to the United States is indicated by the numerous U.S. countervailing duty (CVD) orders issued in the past against imports from Mexico.⁷

While the current Mexican Government's market-oriented policies are clearly moving in a positive direction, there is no guarantee that they might not change in the future. Therefore, a NAFTA should explicitly provide for the elimination of Mexican Government export and domestic subsidy programs that affect trade with the United States. The FTA should similarly address the problems of natural resource "in-put" subsidies and "up-stream" subsidies. As the Mexican Government still maintains subsidy programs, the current recourse to the U.S. CVD and anti-dumping laws should be preserved. The fact that the United States was not successful in persuading Canada to agree to subsidy disciplines in the U.S.-Canada FTA should not be interpreted as a reason to exclude subsidy discipline from the goals of a NAFTA, but rather should be understood as a warning of the importance of achieving such discipline with Mexico within the NAFTA, lest the issue be permitted to linger as a trade problem as has been the case with Canada.⁸

The U.S. industry continues to be alarmed by the apparent persistence of the Canadian Government's willingness to provide subsidies to its non-ferrous metals industry even while the United States and Canada have been engaged in multilateral subsidy negotiations under the GATT. In addition, even two years after its formation, the U.S.-Canada FTA Working Group on subsidies has not yet begun serious work on a U.S.-Canadian subsidies agreement that would impose some discipline on Canadian subsidy practices. As recently as last year, major additional Canadian subsidies for the non-ferrous metals industry appear to have been under consideration by the Canadian Federal and provincial governments. For example, attached at Exhibit G is an article from an industry publication reporting that Hudson Bay Mining and Smelting Corporation is about to secure Canadian Federal Government and Manitoba Provincial Government financing for its \$170 million modernization and pollution control project for its Flin Flon, Manitoba smelter.⁹

U.S. administration officials have reportedly indicated that the NAFTA would not replace the U.S.-Canada FTA. Rather, it "sets the floor for commitments" and provides "an opportunity to improve and expand" the U.S.-Canada FTA.¹⁰ In this

⁷ At the beginning of 1989, there were 16 outstanding CVD orders involving Mexican products. U.S. International Trade Commission, *Review of Trade and Investment Liberalization Measures by Mexico and Prospects for Future United States-Mexico Relations*, Investigation No. 332-282, April 1990, p. 4-18.

⁸ Congress has specifically recognized the special sensitivity of this industry to the potential adverse impact of subsidized imports from Canada. For example, the Senate Finance Committee cited the non-ferrous metals industries as deserving special emphasis by the U.S.-Canada FTA Working Group to negotiate new subsidy rules and disciplines under FTA Article 1907. The report of the Senate Finance Committee states that in the Working Group negotiating with Canada, [s]pecial emphasis should be given to obtaining discipline on Canadian subsidy programs that adversely affect U.S. industries which directly compete with subsidized imports, including but not limited to, coal mining, oil and gas production, *non-ferrous metal mining and smelting*, agricultural production, fisheries, and forest products industries. Senate Finance Committee, "Approving and Implementing the United States-Canada Free-Trade Agreement," 100th Congress, 2nd session, Report 100-509, p. 41, emphasis added.

⁹ Pursuant to Section 409(b) of the U.S.-Canada FTA Implementation Act, the NFMPC, the Phelps Dodge Corporation, and Zinc Corporation of America requested the Office of the U.S. Trade Representative (USTR) to compile and make information available to the U.S. non-ferrous metals industry information under Section 308 of the Trade Act of 1974 regarding Canadian Federal and provincial government assistance to the Canadian copper, lead, and zinc industries. On February 13, 1991, USTR made available the information that it had compiled. The NFMPC is currently studying the information provided by USTR.

¹⁰ "Statement by United States Trade Representative Carla A. Hills," USTR, February 5, 1991, p. 11.

sense, the NAFTA provides an excellent opportunity to pursue the goal of discipline on Canadian Government subsidies that alluded the original FTA negotiations.

It is imperative that negotiations with Mexico not repeat the mistake of excluding subsidy discipline from the body of a NAFTA agreement itself. The benefits of a tri-lateral NAFTA market could be endangered if Canada does not eliminate its government subsidy programs. Mexico could have reason to object to free trade arrangements with Canada if the Canadian Government were to continue to insist on maintaining its system of governmental assistance programs. In summary, the NFMPC submits that under no conditions should a NAFTA be concluded with Mexico that does not provide for real discipline on Mexican Government subsidies.

V. INVESTMENT RESTRICTIONS

Foreign investors can effectively have 100 percent ownership and control of mining properties in the United States. A goal of NAFTA negotiations should be to assure equal status for U.S. investors in Mexico. The U.S.-Canada FTA generally affords national treatment to U.S. and Canadian investors in each other's country. A provision granting national treatment for investments in the non-ferrous mining and processing industry in Mexico should be a goal in the NAFTA negotiations.

In the past, Mexican law has severely limited foreign ownership of Mexican mining operations. However, in 1989, Mexico began a series of reforms to its foreign investment regulations, and in 1990 passed new legislation that takes significant steps toward liberalization of Mexico's restrictions on foreign investors in the mining sector.

Under the new provisions, the NFMPC understands that it is theoretically possible for a U.S. investor to hold 100 percent ownership of a Mexican metal mining and processing operation by means of a special "trust" (fideicomiso) mechanism, but only for up to 12 years.¹¹ A U.S. investor might hold 49 percent interest outright, but the remaining 51 percent would have to be held by a trust. The investor would hold beneficial rights with respect to the shares acquired by the trust, but a Mexican credit institution, such as a bank, would have to act as the foreign investor's trustee for that investment. During the thirteenth year of the trust, the foreign owner must sell the 51 percent share to Mexican interests. Reportedly one option is to sell these shares through the Mexican stock exchange.

These changes in Mexican investment law and regulations with regard to the mining sector are welcomed. However, in the context of the greatly expanded interactions between two economies that come with implementation of an FTA, U.S. investors in the Mexican metal mining and processing sector should be eligible to receive "national treatment," i.e., treatment no less beneficial than that available to investors who are Mexican nationals. Accordingly U.S. investors in these mining sectors should be free of the restrictions still placed on foreigners and both investment capital for mining projects and goods that are produced in them should flow according to the dictates of free market forces.

VI. CONCLUSION

A NAFTA including Mexico must address the major issues affecting trade and investment relations between the United States and Mexico. It should provide for the elimination of tariffs according to an appropriate phase-out schedule, establish a country-of-origin rule based on the U.S.-Canada FTA, provide for discipline on government subsidization, and permit U.S. investment in Mexican metal mining and processing on a national treatment basis. The U.S. experience with the U.S.-Canada FTA negotiations makes clear that all such issues should be settled within a U.S.-Mexico FTA and not left for later and separate negotiations.

Exhibit A.—U.S. AND MEXICAN TARIFFS ON THE PRODUCTS AND BY-PRODUCTS OF THE PRIMARY COPPER, LEAD, AND ZINC INDUSTRIES

Commodity	U.S. HS tariff category	U.S. MFN duty 1990	Mexican duty 1990 (percent)
LEAD:			
Ores and concentrates.....	2607.00.00.00.0	1.7 cents/kg on lead content*	10.0

¹¹ It appears that trusts for up to 20 years may also be possible in limited circumstances but only with numerous restrictions.

**Exhibit A.—U.S. AND MEXICAN TARIFFS ON THE PRODUCTS AND BY-PRODUCTS OF THE PRIMARY
COPPER, LEAD, AND ZINC INDUSTRIES—Continued**

Commodity	U.S. HS tariff category	U.S. MFN duty 1990	Mexican duty 1990 (percent)
Unalloyed Unwrought.....	7801.10.00.00.4	3.0% but not less than 2.3424 cents/kg.	10.0
ZINC:			
Ores and concentrates	2608.00.00.00.0	1.7 cents/kg on lead content	10.0
Unalloyed Unwrought.....	7901.11.00.00.2	1.5%	10.0
Zinc Oxide.....	2817.00.00.00.9	Free	10.0
COPPER:			
Ores and concentrates	2603.00.00.00.0	Free	10.0
Blister/Anode	7402.00.00.00.9	1.0% on the value of copper content	10.0
Refined			
Cathode	7403.11.00.00.5	1.0%	10.0
Wire bar	7403.12.00.00.4	1.0%	10.0
Billets	7403.13.00.00.3	1.0%	10.0
Other	7403.19.00.00.7	1.0%	10.0
Continuous	7408.11.60.00.7	4.0%	15.0
Cast Rod			
CADMIUM	8107.10.00.00.3	Free	10.0
BISMUTH, Unalloyed	8106.00.00.00.6	Free	10.0
ANTIMONY, Unalloyed	8110.00.00.00.0	Free	10.0
SULFURIC ACID	2807.00.00.00.1	Free	10.0

*Duty on only the lead content of the ores and concentrates

**Exhibit B.—U.S. AND CANADIAN TARIFFS ON THE PRODUCTS AND BY-PRODUCTS OF THE PRIMARY
LEAD, ZINC, AND COPPER INDUSTRIES**

Commodity	U.S. HS tariff category	U.S. duty 1991	Canadian duty 1990
LEAD:			
Ores and Concentrates*	2607.00.00.00.0	1.1 cents/kg	Free
Unalloyed Unwrought	7801.10.00.00.4	2.1% on the value of the lead content	Free
ZINC:			
Ores and Concentrates*	2608.00.00.00.0	1.1 cents/kg	Free
Unalloyed Unwrought	7901.11.00.00.2	1.0%	Free
Zinc Oxide	2817.00.00.00.9	Free	7.3%
COPPER			
Ores and Concentrates*	2603.00.00.00.0	Free	Free
Blister/Anode	7402.00.00.00.9	0.4% on the value of the copper content	Free
Refined			
Cathode	7403.11.00.00.5	0.4%	Free
Wire Bar	7403.12.00.00.4	0.4%	1.6%
Billets	7403.13.00.00.3	0.4%	Free
Other	7403.19.00.00.7	0.4%	
Continuous	7408.11.60.00.7	2.8%	3.2%
Cast Rod			
CADMIUM	8107.10.00.00.3	Free	Free
BISMUTH, Unalloyed	8106.00.00.00.6	Free	Free
ANTIMONY Unalloyed	8110.00.00.00.0	Free	1.6%
SULFURIC ACID	2807.00.00.00.1	Free	Free

*Report value only of stated mineral content

Source: Harmonized Tariff Schedule, 1991 United States-Canada Free Trade Agreement

Exhibit C.—U.S. IMPORTS OF LEAD, ZINC, AND COPPER FROM MEXICO

[Quantity and Customs Value, 1988-1990]

	1988		1989		January-November 1990*		TSUSA No.	HTS No.
	Short tons	Dollars	Short tons	Dollars	Short tons	Dollars		
LEAD:								
Ores and Concentrates.....	0.0	\$0	27.5	\$15,608	1,041.4	\$521,793	602.1011	2607.00.0020
Unalloyed Unwrought.....	31,970.9	\$20,227,000	17,227.5	\$11,051,597	15,218.9	\$10,821,011	624.0350	7801.10.0000
ZINC:								
Ores and Concentrates.....	0.0	\$0	18,086.4	\$9,114,000	25,065.1	\$7,271,592	602.2012	2608.00.0030
Unalloyed Unwrought.....	67,182.7	\$70,494,000	78,062.7	\$115,330,412	75,642.2	\$105,359,040	626.0200	7901.11.0000
Zinc Oxide.....	27,605.7	\$23,165,000	17,649.2	\$23,782,556	15,333.1	\$19,552,027	473.7600	2817.00.0000
COPPER:								
Ores and Concentrates.....	0.0	\$0	45,124.5	\$38,704,102	129,894.9	\$118,503,609	602.3013	2603.00.0010
Blister/Anode.....	1,050.2	\$1,937,000					602.3033	
Refined:	1,144.7	\$1,960,000	7,414.2	\$24,902,482	17,232.0	\$43,530,428	612.0330	7402.00.0000
Cathode.....	46.5	\$92,000	179.6	\$438,153	81.2	\$161,283	612.0640	7403.11.0000
Wire Bar.....		0.0	0.0	\$0	0.0			7403.12.0000
Billet.....			0.0	\$0	0.0	\$0		7403.13.0000
Other.....			1.7	\$3,492	0.0	\$0		7403.19.0000
Continuous Cast Rod.....	2,996.4	\$10,746,000	0.6	\$3,662	0.0	\$0	612.7260	7408.11.6000

*Note: Full year data for 1990 are not yet available

Source: Department of Commerce (Bureau of the Census).

Exhibit D.—U.S. EXPORTS OF LEAD, ZINC, AND COPPER TO MEXICO

(Quantity and FAS Value: 1989 and 1990)

	January-December 1989		January-November 1990*		HTS No.
	Short tons	Dollars	Short tons	Dollars	
LEAD:					
Ores and Concentrates.....	1,040.5	\$303,426	111.3	\$31,309	2607.00.0020
Unalloyed Unwrought.....	31.4	\$96,446	0.0	\$0	7801.10.0000
ZINC:					
Ores and Concentrates.....	526.4	\$759,347	279.5	\$211,149	2608.00.0030
Unalloyed Unwrought.....	26.7	\$56,770	0.0	\$0	7901.11.0000
Zinc Oxide.....	981.7	\$1,252,513	937.4	\$864,003	2817.00.0000
COPPER:					
Ores and Concentrates.....	8.5	\$7,720	1.9	\$3,975	2603.00.0010
Blister/Anode.....	117.1	\$173,933	213.1	\$333,152	7402.00.0000
Refined:					
Cathode.....	7,578.8	\$19,885,687	6,058.8	\$15,032,069	7403.11.0000
Wire Bar.....	252.8	\$570,943	22.9	\$35,960	7403.12.0000
Billets.....	0.0	\$0	2.8	\$3,846	7403.13.0000
Other.....	265.3	\$423,178	70.9	\$165,818	7403.19.0000
Continuous Cast Rod.....	2,447.5	\$7,462,070	1,773.0	\$5,463,109	7408.11.6000

*Note: Full year data for 1990 are not yet available

Source: Department of Commerce (Bureau of the Census).

Exhibit E.—U.S. IMPORTS OF LEAD, ZINC, AND COPPER FROM CANADA

[Quantity and Customs Value, 1988-1990]

	1988		1989		January–November 1990*		TSUSA No.	HTS No.
	Short tons	Dollars	short tons	Dollars	Short tons	Dollars		
LEAD:								
Ores and Concentrates.....	9,006.7	\$3,994,000	2,178.4	\$745,170	1,428.4	\$401,264	602.1011	2607.00.0020
Unalloyed Unwrought.....	101,160.8	\$66,569,000	40,796.9	\$29,108,382	44,239.1	\$33,299,234	624.0350	7801.10.0000
ZINC:								
Ores and Concentrates.....	3,937.1	\$657,000	21,637.4	\$11,081,002	18,450.1	\$6,982,349	602.2012	2608.00.0030
Unalloyed Unwrought.....	471,253.5	\$477,792,000	309,628.9	\$470,042,825	207,631.5	\$297,643,470	626.0200	7901.11.0000
Zinc Oxide.....	35,584.8	\$39,703,000	35,046.2	\$52,917,682	27,944.4	\$38,298,159	473.7600	2817.00.0000
COPPER:								
Ores and Concentrates.....	0.0	\$0	0.0	\$0	0.	\$0	602.3013	2603.00.0010
Blister/Anode.....	0.0	\$0	206.7	\$1,121,982	1.4	\$21,142	612.0330	7402.00.0000
Refined:								
Cathode.....	195,995.7	\$440,755,000	194,001.4	\$494,016,532	185,082.7	\$433,223,409	612.0640	7403.11.0000
Wire Bar.....			26.0	\$47,388	0.0	\$0		7403.12.0000
Billet.....			2,991.8	\$8,005,686	2,703.2	\$6,600,504		7403.13.0000
Other.....			2,294.6	\$6,355,012	1,188.1	\$2,965,512		7403.19.0000
Continuous Cast Rod.....	220.6	\$654,000	68.3	\$174,263	20.8	\$53,280	612.7260	7408.11.6000

* Note: Full year data for 1990 are not yet available.

Source: Department of Commerce (Bureau of the Census).

Exhibit F.—U.S. EXPORTS OF LEAD, ZINC, AND COPPER TO CANADA

[Quantity and FAS Value: 1989 and 1990]

	January-December 1989		January-November 1990*		HTS No.
	Short tons	Dollars	Short tons	Dollars	
LEAD:					
Ores and Concentrates.....	42,666.1	\$12,772,825	21,477.9	\$12,420,589	2607.00.0020
Unalloyed Unwrought.....	3,227.8	\$2,361,283	6,805.2	\$5,610,579	7801.10.0000
ZINC:					
Ores and Concentrates.....	47,145.8	\$26,843,081	88,884.0	\$89,478,152	2608.00.0030
Unalloyed Unwrought.....	203.1	\$376,144	419.0	\$657,544	7901.11.0000
Zinc Oxide.....	586.7	\$1,293,984	1,800.6	\$2,075,731	2817.00.0000
COPPER:					
Ores and Concentrates.....	12,123.8	\$18,452,520	17,248.1	\$20,944,570	2603.00.0010
Blister/Anode.....	3,473.4	\$7,641,267	2,924.0	\$6,764,239	7402.00.0000
Refined:					
Cathode.....	1,141.8	\$1,568,063	123.3	\$274,307	7403.11.0000
Wire Bar.....	2.6	\$3,488	86.9	\$228,654	7403.12.0000
Billets.....	1,798.8	\$2,446,250	1,148.5	\$3,559,071	7403.13.0000
Other.....	2,271.9	\$3,310,111	595.8	\$1,539,080	7403.19.0000
Continuous Cast Rod.....	1,130.0	\$3,588,233	0.0	\$0	7408.11.6000

* Note: Full year data for 1990 are not yet available

Source: Department of Commerce (Bureau of the Census)

12/11/90

Hudson Bay settles; plans \$170M upgrade

Union workers get wage hike, signing bonus

By MARTIN FARRICKER

NEW YORK—The path for a \$170-million cleanup and modernization project at Hudson Bay Mining & Smelting Co. Ltd.'s Flin Flon smelter and Snow Lake mining operations in Manitoba was cleared Friday with the signing of a labor accord with the United Steelworkers union.

The old labor pact at Flin Flon, where output consists of 82,000 tons of zinc and 63,000 tons of copper annually, had run out Sept. 30. The workers, who had remained on the job, agreed last week to accept "significant" wage and benefit increases, according to Peter Jones, vice president of operations at Flin Flon.

Under the new three-year contract, Jones said, workers will receive wage

hikes of 9.1 percent in 1991, 4.9 percent in 1992 and 4.6 percent in 1993, a \$500 signing bonus and "various benefits increases," including profit-sharing of 10 percent of the company's pretax earnings in 1992 and 1993.

Prior to the latest agreement, an average Hudson Bay tradesman received \$16.49 an hour while the comparable pay scale at most Canadian mining companies "currently is between \$18 and \$20 an hour," Jones said.

USW representative Robert Imrie said the contract passed by a 61-percent majority vote.

"Everyone's happy that he is going to get the increase before (start up of) the modernization," Imrie said. "There was (See HUDSON, page 3)

(Continued from page 1)
some question about whether workers would get what they wanted with the company, but with the contract signed they feel a lot better now."

Dale Powell, Hudson Bay vice president of human resources, said the labor agreement and the planned modernization, aimed at meeting tighter environmental restrictions by the Canadian government, "are not directly tied together."

But Powell added that the company has been "working to secure financing for the

project for some time" and expects the plan to be "finalized by the end of the month."

However, Hudson Bay more than six months ago reported it was "nearing completion" of arranging financing.

John J. Ellis, chairman and chief executive officer, in June said, "We expect to reach an agreement with the Canadian federal and Manitoba provincial governments to secure financing of a project to reduce emissions at our Flin Flon project."

"The biggest issue we're facing is meet-

ing a specific time frame to complete the project," Powell said, adding Hudson Bay must reduce sulfur-dioxide emissions from the Flin Flon smelter by 25 percent and cut particulate emissions by 40 percent before 1994.

Stephen Briggs, an analyst for Metals & Mining Research Service Ltd., London, said, "The smelter at Flin Flon is pretty dirty and it will cost a great deal of money to clean it up. I believe they are attempting to get financing from the Canadian government to help pay for the project."

Hudson Bay's Powell said the company

is continuing its efforts "to put financing together." A source at Inspiration Resources Corp., which holds a major stake in Hudson Bay, said the money could come from "several banking institutions, in addition to government sources."

The company did not say whether either the Flin Flon smelting or refining operations would be shuttered for an extended period during the project, in which case the company would have to ship the mines' output to alternative smelting operations or store concentrates, Metals & Minerals' Briggs said. }

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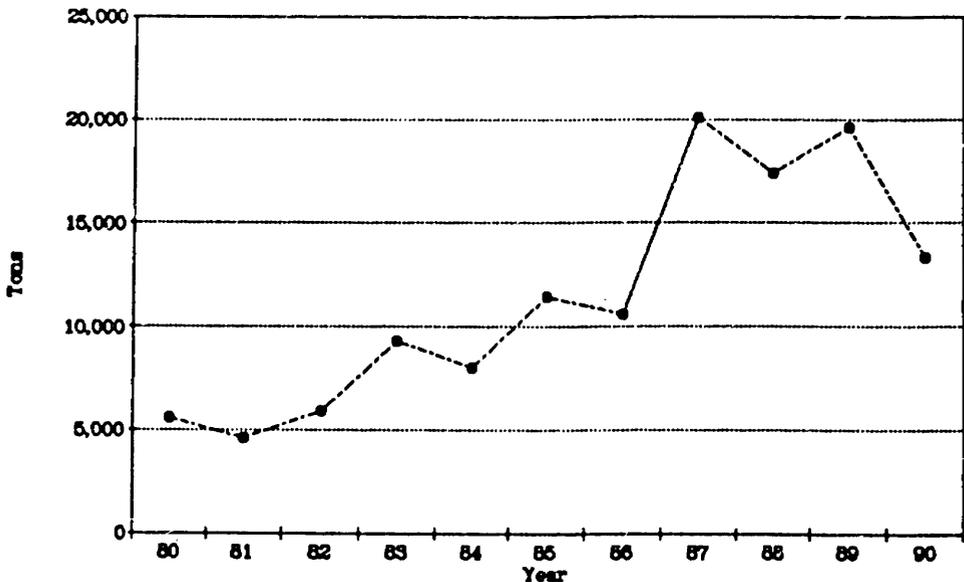
STATEMENT OF THE OKLAHOMA STEEL & WIRE CO., INC., MADILL, OK

Oklahoma Steel and Wire Company, Inc. has produced wire products such as fence panels and fencing for over 12 years and directly employs 175 people. OK Steel purchases inputs from both domestic and foreign steel producers. In order to compete with domestic and foreign producers of these wire products, it is critically important to OK Steel that these inputs be freely available at fair market prices. Furthermore, OK Steel imports raw materials and finished products from Mexico and attempts to export finished goods to Mexico. This experience qualifies OK Steel as particularly well-suited to provide the Committee with the practical business perspective of those affected by the broad economic policies issues under discussion between the U.S. and Mexican governments.

While these views are presented on behalf of OK Steel, we believe that they are representative of many industries. OK Steel has a keen interest in serving both the U.S. and Mexican markets. In this product line, Mexican wire products producers, with over 30% of the total import penetration, represent the primary competition. As the chart below demonstrates,¹ imports of Mexican wire products have increased dramatically in the past few years.

Mexican Wire Products Imports

Wire Mesh & Fencing 1980-1990



In fact, this surge in imports led the U.S. to amend the 1985 Voluntary Restraint Agreement ("VRA") with Mexico to include wire products in the coverage of that agreement. This coverage was continued in the recently negotiated steel VRA, although Mexico's quota for wire products was more than doubled.

The rapid increase in imports of wire products from Mexico might lead the Committee to conclude that OK Steel seeks protection from imports. Quite the contrary. OK Steel welcomes competition from the Mexican producers and asks only that the conditions under which this competition occurs are fair so that U.S. exports have the same opportunity to sell our products in Mexico as the Mexican producers have here in the U.S.

OK Steel shares the excitement expressed by many U.S. companies over the economic reforms initiated by the Government of President Carlos Salinas. We believe that *fair and open* trade creates business opportunities and business opportunities create jobs on both sides of the border. The elimination of tariff and non-tariff barriers to trade enables the healthy free market mechanism to act as the arbiter of commercial existence on the basis of overall competitiveness as opposed to non-market oriented protective devices.

¹ Due to the conversion from the Tariff System of the United States (TSUS) and the Harmonized System of Tariff Classification (HS), the data are not entirely consistent. Nonetheless, the trend clearly demonstrates a doubling of Mexican wire imports in the past decade.

As this Committee is well aware, Mexico has not always been open to imports from the U.S., or for that matter, any country. Until relatively recently, Mexico followed the classic export-driven economic development model based on import substitution policies. A recent International Trade Commission study notes that in 1982 and 1983, 100% of the value of Mexican imports were controlled through import licensing. By 1988, this percentage was reduced to 19.70% and, consistent with its GATT accession obligations, Mexico is in the process of dismantling its import licensing requirements. See USITC, *Review of Trade and Investment Liberalization Measures by Mexico and Prospects for Future United States-Mexican Relations*, Inv. No. 332-282, Publ. No. 2275, at 4-4, 4-5 (April 1990). Today, we are happy to acknowledge, the products of OK Steel face no such barrier to entry in Mexico.

That does not mean, however, that OK Steel has effective access to the Mexican market. OK Steel's exports face two different problems: first, effective rates of import duties and other charges effectively close the Mexican market; and second, Mexican producers have a huge financial incentive to export to the United States that is not reciprocated due to U.S. tax law. As we understand the goals of the proposed trade negotiations, only the former access barrier is confronted. In order to provide meaningful benefits to U.S. producers from a FTA, the latter problem must be addressed.

A SUBSTANTIAL EFFECTIVE RATE OF PROTECTION CURRENTLY PRECLUDES PRODUCTS FROM THE MEXICAN MARKET

With the elimination of non-tariff barriers such as import licensing, tariffs and other border charges became the primary obstacles to penetrating the Mexican market. By 1986, across the board tariff reductions were undertaken. Maximum tariffs were reduced from 100% to a bound rate of 50%. Applied rates were reduced further so that today Mexico imposes duty rates of 10% or 15% on the products produced by OK Steel.

A review and comparison of the current Mexican and U.S. tariff rates reveals that the differential between Mexican and U.S. duties imposed on wire products is substantial, ranging from 4.4% to 15% of the value of the product. Wire products are extremely price sensitive—a price difference of only a few percentage points caused by import duties often means the difference between making and losing a sale. For that reason, OK Steel welcomes the possibility of reducing tariff rates between the U.S. and Mexico to zero—when the costs associated with trade are reduced, both trading partners benefit. If import duty rates are equalized between the U.S. and Mexico, a significant and effective barrier to entry will be eliminated.

Mere tariff reduction, however, is not enough. In reality the effective rate of protection in Mexico is much greater for the following reasons:

1. Mexico's bound rate for these products is 50% ad valorem; thus, at any time Mexico could increase its tariffs to that level without any legal obligation under the GATT.

2. Mexico assesses a Customs Service Fee of 0.6% (0.8% on Sundays). A 1986 GATT Working Party found this practice to be inconsistent with both Article XI, the national treatment clause of the GATT, and Article VIII which requires that such fees "shall be limited in amount to the approximate cost of the services rendered and shall not represent an indirect protection to domestic products or a taxation of imports or exports for fiscal purposes." Later, a GATT Panel found that the U.S. customs user fee, when it was applied at 0.22%, was excessive; presumably a fee three or four times higher would clearly run contrary to GATT rules.

3. Mexico assesses a Municipal Tax (equivalent to a local import duty) of 3% of the Federal duties.

4. Mexico also collects a Value Added Tax (VAT) known as in Spanish as the IVA, of 15% on all wire products of interest to OK Steel. This tax is applied to the "normal customs value" of the good plus duties, the customs processing fee and the municipal tax.

As a result, the current effective rate of protection is not 10% or 15% but rather exceeds 33%. A simple illustration may assist the Committee in understanding this point:

CIF Value of steel export to Mexico.....	\$1,000.00
Federal Import Duty (15%).....	\$150.00
Municipal Tax (3% of duties).....	\$4.50
Customs Service Fee (0.6%).....	\$6.00
Subtotal.....	\$1,160.50
VAT (15%).....	\$174.08
Total.....	\$1,334.58
Total Mexican Taxes and Duties.....	\$334.58

Effective Rate of Protection \$33.46%

Each of these measures does not necessarily violate Mexico's international obligations—although the Customs service fee certainly appears inconsistent with GATT requirements. Rather, the cumulative effect of these duties, fees, taxes and surcharges is so great that the conditions of trade in galvanized wire, barbed wire, wire mesh and fence panels are inherently unequal between the U.S. and the Mexican markets. In other words, there is no level playing field in these products.

OK Steel strongly supports negotiations aimed at eliminating these barriers to free and fair trade between the U.S. and Mexico. If aimed only at the elimination of tariffs, however, the FTA would only partially reduce this effective rate of protection, because, as the following discussion indicates, the VAT imposed by Mexican authorities on U.S. exports to Mexico creates a substantial effective structural barrier to U.S. exports.

DISPARATE U.S. AND MEXICAN TAX POLICIES PROVIDE AN INCENTIVE TO EXPORT TO THE U.S. AND AN EFFECTIVE BARRIER TO EXPORTS TO MEXICO

On the other hand, Mexican producers have an incredible incentive to export to the United States. The VAT or IVA mentioned above is rebated upon export. In effect, therefore, a Mexican producer gets a 15% bounty just for exporting his product to the U.S. Under these circumstances, why should the rational Mexican producer sell in the home market when he can export to the U.S. and have even greater pricing flexibility?

The rub of the issue, however, is not the economic effect and the incentive to export created but rather that the Mexican practice is not only condoned but encouraged by the GATT. In this instance the exporter receives money from the government conditioned upon exportation—the classic definition of an export subsidy. According to a long-standing theory concerning the effects of indirect and direct taxation (taxes imposed on goods as opposed to taxes imposed on income), the non-excessive rebate of indirect taxes upon exportation is permitted under GATT rules.

This situation would not be disturbing if U.S. companies such as OK Steel enjoyed the same rebate possibilities. In fact, the theory behind the rebate of indirect taxes is quite simply one of tax neutrality. Exporters should not be placed at a competitive disadvantage by home market taxes. The rebate of indirect taxes is a "border tax adjustment" devised to permit exporters to enter the international market on a level domestic tax playing field.

The problem, of course, is that the U.S. does not impose indirect taxes (other than some excise taxes unrelated to this product) preferring instead to raise revenue almost exclusively through direct income-based taxes. As a result, the U.S. literally has nothing to rebate to exporters such as OK Steel. Virtually every other significant U.S. trading partner uses indirect taxes and GATT-legal rebates. Mexican producers, due to the VAT rebate, have an incentive to export to the U.S. precisely because the U.S. does not impose an indirect tax on products and imports. Since the U.S. producer's price already reflects the direct taxes imposed by the U.S. and the Mexican company has had this component of its costs removed, the Mexican company, assuming an otherwise similar cost structure, has significant pricing discretion.

Some might find it incongruous for a rational businessman to seemingly suggest new taxes. Quite the contrary. OK Steel argues simply for a rational system of taxation that does not penalize its exporters. The current U.S. tax policy of utilizing direct taxation and avoiding indirect taxes places U.S. companies interested in exporting at a competitive disadvantage. Thus, Mexico is not wrong in its VAT rebate—the GATT condones this practice. Perhaps the GATT rules are faulty—but there seems no interest in changing the distinction between direct and indirect tax rebates.

The answer, it seems, springs from the possibilities for the substitution of certain direct U.S. taxes with an alternative form of taxation based on indirect taxation associated with the revenue from the product sold, as opposed to the overall income generated by the enterprise. A debate on this issue has raged for years with many economists insisting that freely floating exchange rates eliminate any such discrepancy. This conundrum cannot be solved in the sterile, assumption-laden vacuum of theory. The simple business reality is that under the circumstances faced by OK Steel, Mexican wire producers are "paid" to export their product to the U.S. while U.S. products pay the very Mexican VAT that is rebated upon export.

Even if all tariffs and customs fees were eliminated in the context of the FTA, OK Steel would continue to face a 15% ad valorem barrier to its products when exporting to Mexico due to the Mexican VAT imposed on imports. OK Steel's Mexican

competitors, on the other hand, face no such barrier when exporting to the U.S. The way to level the playing field is clear—impose an equalizing tax at the border (a recapture of the Mexican rebate through a U.S. duty) or at the point of sale (an indirect tax or VAT applied to imports). For this reason, OK Steel views the recent discussion of the Business Transfer Tax as a step in the right direction.

CONCLUSION

As noted earlier, OK Steel does not begrudge the Mexican wire product producers a shot at our market. On the contrary, OK Steel welcomes competition under fair conditions. However, U.S. trade with Mexico in wire products lacks even a semblance of reciprocal access to their market. An FTA with Mexico will substantially eliminate these trade distorting practices and remove the barriers companies such as OK Steel face in exporting to Mexico. Before the U.S. permits unfettered access for Mexican wire products, however, the structural incentives encouraging Mexican exports to the U.S. market must be eliminated.

As these negotiations proceed, the participation of the Canadian representatives and the implications of the U.S.-Canada FTA must also be considered. As is often cited, a North American FTA would encompass the world's single largest market. The benefits to consumers and producers alike are significant: joint prosperity, economic efficiency and enhanced competitiveness. On the other hand, the recent implementation of the Canadian Goods and Services Tax (a 7% VAT by any other name) creates exactly the same incentives to export to the U.S., and hence the same threat, as the Mexican VAT.

It is time to recognize that U.S. trade policy is not distinct from tax policy. In an increasingly borderless commercial world, the U.S. tax structure unduly skews trade flows at the expense of American jobs and competitiveness. Congress should confront and remedy the inherent competitive disadvantage imposed on American exporters and take full advantage of GATT rules regarding border tax adjustments. This is not a question of Mexican and Canadian practices that inhibit imports, but rather a question of American tax practices that restrict exports. The U.S. cannot afford to be the silent player in a NAFTA where the other parties have significant incentives to abandon their domestic markets, export to the U.S., and thereby eliminate American jobs. It is time to recognize that a rational U.S. tax and trade policy should focus on efforts to export goods and services and not jobs.

PROCTER & GAMBLE Co.,
Cincinnati, OH, February 22, 1991.

Senator LLOYD BENTSEN,
Chairman, Committee on Finance,
U.S. Senate,
SD-205,
Washington, DC

Re: Hearings On Proposed Negotiation of A Free Trade Agreement With Mexico

Dear Sir: The opportunity you have provided to comment on the important benefits to the United States resulting from a Free Trade Agreement between this country and Mexico is very much appreciated.

Procter & Gamble encourages the Congress to provide "fast track" procedures for negotiation of a free trade agreement with Mexico. From the perspectives of our own business operations, we anticipate that we can make more efficient use of our manufacturing operations and reduce our costs in both countries. This will improve the values we offer to consumers as well as our profitability. To fulfill these opportunities, however, it is necessary that an Agreement be comprehensive and address issues such as investment requirements, price controls, intellectual property protection and differential technical standards.

While an agreement will benefit both countries, it is likely to have a more apparent impact in Mexico. This is simply a reflection of the ten-to-one difference in the level of consumer disposable income between the two countries. Nevertheless, reducing this discrepancy will provide important benefits to the United States. For example, the significant economic changes already made by the Salinas Administration have supported the rapid growth in our consumer products business in Mexico. An FTA will accelerate this growth.

Our Mexican sales are largely based on Mexican production, just as our U.S. business is based on U.S. production. This basic pattern is unlikely to change with a Free Trade Agreement. Nevertheless, our Mexican business uses substantial quanti-

ties of materials, equipment and services that are exported from the United States. Today, the exports to our 3,000 employees in our Mexican operations support approximately 1,500 jobs in this country.

These exports are already growing very rapidly, having increased by almost 100% in the past three years. This expansion should be accelerated by an FTA, since Mexican consumers will be able to buy increased quantities of our products.

Studies of the opportunities an FTA should create for our business indicate that it should the net number of U.S. jobs supported by our trade with Mexico to a total of 3,500 jobs, an increase of 133%. Most of these jobs will be with our suppliers rather than on our own payroll.

We are confident that this export growth will be experienced broadly by American business.

Overall, we expect that U.S. employment will grow as the result of an FTA with Mexico, particularly in the high-skill/wage sectors. It should be noted that existing U.S. duties on manufacture goods are already quite low for most industrial sectors. Therefore, in these sectors, the jobs that can transfer to Mexico in search of lower wage costs can do so today—if they have not already gone.

There are, of course, some sectors where high tariffs and import quotas have artificially supported production in the U.S. It will be important that these sectors be provided adequate opportunities to adjust through appropriate phase-in periods and safeguard provisions.

An FTA will also be very beneficial in the area of environmental protection. Mexico, faced with the need to improve its results in this area, is severely constrained by its low per capital income. When a substantial portion of a population is on the edge of day-to-day survival, longer term issues including environmental protection, cannot be fully addressed. Supporting actions that build Mexico's economy will strengthen their ability to work on this area. However, tying environmental advances—as necessary as they are—to limitations on achieving economic development will be counterproductive to both issues. A more constructive approach would be to include differences in environmental standards and enforcement in a general procedure for addressing differences in technical standards during the implementation process—a process that would be somewhat analogous to that used for accelerated tariff eliminations under the Canada FTA.

In summary, we are convinced that a Free Trade Agreement, while creating some interim adjustment costs, will, in the long term, provide only net benefits.

Very truly yours,

D.J. ELLIOTT, *Associate Director,*
International Trade.

STATEMENT OF RANK VIDEO SERVICES AMERICA, INC.

Rank Video Services America, Inc. ("Rank") has over the past few years advocated a permanent suspension on the duties imposed on certain magnetic videotape recordings; namely, those utilized with in-home VCR's. For the reasons explained in further detail below, these types of video cassettes have been subject to inequitable and anomalous treatment in the tariff schedules, solely due to the unprecedented and unanticipated increase in the home VCR market and the concomittant surge in demand for home-use video cassettes. Recognizing the need for an immediate response to this aberration in the tariff schedules, Congress enacted section 442 of the Customs and Trade Act of 1990, which provided for duty-free treatment of these video cassettes through 1992. The time has now come for a permanent resolution of this irregularity in the tariff schedules and the proposed U.S.-Mexico Free Trade Agreement is the ideal vehicle for the undertaking.

Section 442 of the Customs and Trade Act of 1990 suspended the Column one rate of duty on magnetic videotape recordings of a width exceeding 6.5 millimeters, but not exceeding 16 millimeters, in cassettes of U.S. origin, valued at not over \$7.00 per cassette, through 1992. (The temporary duty suspension is referenced in the Harmonized Tariff Schedule at Subheading 9402.85.24 and the otherwise applicable duty on the cassettes is currently referenced in the Harmonized Tariff Schedule ("HTS") at Subheading 8524.23.10). There was no opposition to the Section 442 duty suspension from any domestic producer. Further, there was no opposition from the Administration.

Section 442 corrected an anomaly in the tariff schedules, thereby preventing the imposition of a duty of approximately 39 percent on imports of pre-recorded magnetic video cassettes, and enabling U.S. producers to supplement their existing domestic capacity to meet current demand for these video cassettes. Furthermore, the passage of this provision rectified certain decisions by the Customs Service that were contrary to existing case law and contrary to prior administrative rulings which had the effect of denying duty-free GSP treatment to these video cassettes.

Background

1. Business Operations

Rank is a Delaware Corporation that is the successor-in-interest to Bell & Howell/Columbia Pictures Video Services (BHCP), a partnership in which Bell & Howell Company and subsidiaries of The Coca-Cola Company and Gulf + Western Inc. were partners. Rank is a contract duplicator: it obtains master video tapes of programs from program owners, duplicates the programs onto individual video cassettes, packages the cassettes, and sells the cassettes to the program owners. The programs include entertainment, theatrical, self-help, training and industrial programs. Rank currently operates two plants in the United States (Northbrook, Illinois and Garden Grove). Rank also operates a duplicating facility in Mexico through its 50-percent owned subsidiary, Duplideo, S.A. de C.V., which is located in Mexicali.

Rank's business incorporates three distinct industrial operations: the manufacture of plastic cassette shells; the production of blank cassettes; and the programming of these cassettes. Rank manufactures the bulk of the plastic shells it uses at its plant in Northbrook, Illinois; the rest are purchased from outside suppliers. When the shell manufacturing process is completed, the shells are shipped to the various other plants, including the one in Mexico, for production into pre-recorded video cassettes. The shells used in the Mexican facility are either manufactured by Rank or purchased from U.S. suppliers.

2. Tariff Treatment

Pre-recorded video cassettes, that is, "magnetic video tape on which pictures or pictures and sound have been recorded," had been classified under TSUS item 724.12, dutiable at 0.2¢ per linear ft. under Column 1 for countries benefiting from Most-Favored-Nation (MFN) treatment; at 1¢ per lin. ft. under Column 2 for imports from non-MFN countries; and also at 0.2¢ per lin. ft. for imports from Less Developed Developing Countries that received the benefits of accelerated staged duty reductions under the Tokyo Round of Trade Agreements. The 1988 Column 1 duty-rate of 0.2¢ per lin. ft. was staged down from 0.4¢ per lin. ft. in 1979. Under the Harmonized Tariff Schedule, which went into effect in 1989, the duty would remain the same (HTS 8524.23.10, which imposes a duty of .66¢ per linear meter). Video cassettes are eligible for duty-free treatment under GSP, the U.S.-Israel Free Trade Agreement, and the Caribbean Basin Initiative. Mexico is a designated "Beneficiary Developing Country" (BDC), imports from which may qualify for GSP treatment. Both motion-picture film (pre-recorded) and newsreels are duty-free.

Under the Nairobi Protocol to the Florence Agreement (Agreement on the Importation of Educational, Scientific and Cultural Materials, 17 UST 1835; TIAS 6129; 131 UNTS 25), as implemented by Pub. L. 89-651 and Pres. Proc. 5021 of February 14, 1983, blank and pre-recorded video cassettes were afforded duty-free entry into the United States from February 14, 1983, through August 11, 1985. After August 12, 1985, imports from MFN countries have been subject to the regular Column 1 duty rate, unless otherwise eligible for duty-free treatment under other authority. Although Pub. Law 100-418, the Trade Bill signed by President Reagan on August 23, 1988, provided for the extension of the Nairobi Protocol, that legislation in general excluded pre-recorded video cassettes from duty-free treatment if imported for commercial use.

As indicated above, generally imports of pre-recorded video cassettes are eligible for duty-free entry from Mexico under the GSP. Nonetheless, the U.S. Customs Service in 1987 took an unprecedented position in two rulings issued to Rank (dated May 20, 1986, and reaffirmed on April 20, 1987) which denied GSP status to certain pre-recorded cassettes manufactured in Mexico from non-Mexican origin cassette shells and bulk magnetic media. According to the Customs rulings, the video cassettes failed to satisfy the 35-percent "value-added" requirement prescribed in section 503(b) of the Trade Act of 1974 because the blank video cassettes, before they were programmed with movies, did not constitute articles produced in Mexico. The Customs Service reasoned that the process of making blank video cassettes from non-Mexican origin cassette shells and bulk magnetic media^{*/} did not "substantially transform" these materials into new articles produced in Mexico, and thus the cost of the shells and magnetic media cannot be counted toward satisfying the 35-percent requirement.

^{*/} Bulk magnetic media must be imported into Mexico because there is no domestic video tape manufacturing industry in Mexico.

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Prior to the enactment of Section 442, Rank's Mexicali facility had been operated at a mere 25 percent of capacity because, due to the position taken by the Customs Service, the facility could be utilized only to make cassettes for the U.S. market that qualify for GSP treatment without regard to the cost of component materials.

Section 442 of the Customs and Trade Act of 1990 mitigated the harsh effect of these rulings by affording duty-free treatment for qualified pre-recorded cassettes; however, as indicated, this provision expires December 31, 1992. It should be noted that the Administration gave its approval to the provision in the Customs and Trade Act of 1990 when the then-proposed legislation was amended to require U.S.-origin shells and a valuation of \$7.00 in order to narrow the scope of the bill as much as possible. These changes satisfied the Administration's concerns about benefiting countries that are not working with the United States in the Nairobi Protocol negotiations to remove tariff and other barriers to U.S. exports of audio-visual materials.

Necessity for Permanent Duty Suspension

As stated previously, the duty on pre-recorded video cassettes was assessed on the basis of the length of tape contained in the cassette rather than on an ad valorem basis. Obviously, the longer the program, the higher the duty, as illustrated in the following chart:

DUTY IMPACT ON PRE-RECORDED VHS CASSETTES

<u>Tape Length</u>	<u>Entered Value</u>	<u>Column 1 Duty</u>	<u>Ad Valorem Equivalent</u>
30 min./ (200 ft.)	\$2.40	\$0.40	17%
45 min./ (300 ft.)	\$2.45	\$0.60	24%
60 min./ (400 ft.)	\$2.70	\$0.80	30%
90 min./ (600 ft.)	\$3.30	\$1.20	36%
120 min./ (800 ft.)	\$3.80	\$1.60	42%

There are two fundamental flaws with the tariff structure for video cassettes. First, the applicable duty is extremely high on an ad valorem equivalent basis, reaching about 42% for a 120-minute video tape, which is approximately the length of a full-length movie. Duties this high are generally reserved for products from unfriendly countries subject to the Column 2 rates rather than friendly nations receiving MFN treatment. Because the video cassette industry anticipates profits of less than 10% on imports, the extraordinary duty would have rendered operations in friendly countries economically impossible if it were not for the enactment of Section 442 of the Customs and Trade Act of 1990.

More important, however, is the unintended and disproportionate effect of the duty on pre-recorded video cassettes imported for home use. As a general rule, imports under HTS Subheading 8524.23.10 consist of two different products, as reflected in the statistical annotations: (1) HTS Subheading 8524.23.10-40 ("Magnetic video tape ... [o]f a width not exceeding 16 mm, in cassettes") covering video cassettes for use in home video cassette recorders (VCRs), which contain 1/2 inch wide tape; and (2) HTS Subheading 8524.23.10-80 ("Other") covering "master" tapes of foreign television programs and foreign movies for broadcast by U.S. television stations or for duplication in the United States,

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which are generally one inch wide or larger, and 3/4 inch video cassettes for educational, institutional and industrial use.

Although video tape technology has existed since the early 1960's, only in the last four to five years, as the price of VCRs has declined significantly, has video tape been used in the home by consumers. From the early 1960's to the early 1980's, the great bulk of imports were either "master" tapes or 3/4 inch cassettes. Since then, imports of video cassettes for sale or rental to home users (HTS 8524.23.10-40) have increased as demand has grown, while imports for television broadcast, other commercial or educational display, and duplication have remained fairly constant. The dramatic increase in imports of video cassettes for home use is illustrated below:

IMPORTS OF PRE-RECORDED MAGNETIC VIDEO TAPE

<u>Description</u>	<u>Quantity (units)</u>				
<u>HTS</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
8524.23.10-40 (cassettes 16 mm and under)	235,044	192,997	655,217	1,028,210	1,642,198

(formerly referenced as TSUSA
724.1220 cassettes 5/8" and under)

Source: USITC data

The tariff rate of .66 cents per linear meter for all imports under HTS Subheading 8524.23.10 represented a glaring anomaly in the Tariff Schedules, since the same tariff burden was imposed on products with vastly different economic values. The value of a "master" tape of a television program ranges between about \$10,000 and \$1,000,000, depending on the program's popularity, and averages roughly \$50,000; the duty on such a "master" tape would be about \$12.00, or 0.024 percent ad valorem for the average 2-hour "master" tape. In contrast, a video tape of the same program imported for use in a home VCR is worth less than \$5, but would be subject to a duty of \$1.60, almost 40 percent ad valorem. If the tariff burden on video cassettes imported for home use were made proportionate to the tariff burden on "master" tapes on an ad valorem basis, the duty on video cassettes for home use would be virtually zero. The only explanation for this differential is that the home usage market for video cassettes has only recently experienced its growth explosion. Thus, there has been little opportunity to address the issue and to take lasting corrective action.

2. Need for Additional Sources of Supply

Rank, in conjunction with its Mexican partners, opened the Mexicali facility in 1985 to develop an additional source of supply for what it correctly perceived to be an expanding market for pre-recorded video cassettes for use in home VCRs. Over \$10 million was invested in plant and equipment in Mexicali. The Duplideo facility was chosen in part because of its proximity to technical trade schools that provide the training essential to the performance of many of the technical operations involved in the production of video cassettes. The plant was also located in Mexicali because the facility could produce both VHS-format cassettes for the U.S. market as well as Beta-format cassettes for the Mexican market.

As is well known, the significantly increased demand in the U.S. market for pre-recorded video cassettes for home display has been accompanied by a shortfall in domestic capacity. Rank does not have the capacity at its three existing U.S. facilities to meet anticipated demand over the next few years. Moreover, Rank cannot turn to other facilities located in the United States because duplicators must utilize their own plants to ensure that quality control standards and production and delivery schedules are met. Therefore, it is essential that Rank be able to operate the Mexicali facility at full capacity. As pointed out above, however, Rank will not be able to utilize the Mexicali facility to meet the demand for full-length movies if the high tariff burden is reinstated. If the duty is reinstated, Rank will have no alternative but to terminate its Mexican operations. The result will be that Rank will be unable to produce enough pre-recorded video cassettes to meet the rising demand for the product.

3. Correction of Inequitable Rulings Denying GSP Treatment

As explained above, the Customs Service in 1987 ruled that certain pre-recorded cassettes imported from Mexico may not be eligible for GSP treatment unless direct processing costs alone meet the 35-percent threshold prescribed in the GSP statute. Rank believes that the rulings are incorrect. The cost of cassette shells and bulk magnetic media imported into Mexico should count toward satisfying the 35-percent requirement because those materials are "substantially transformed" into blank cassettes in Mexico before they are used to make pre-recorded cassettes.*/ The Customs Service's determination that the production of blank cassettes does not constitute a "substantial transformation" runs counter to a long line of judicial authorities and even Customs' own prior administrative rulings. See unpublished ruling dated June 16, 1980, CLA-2:RRUCSC (063646) (bulk recording tape that was cut and wound onto pancakes was substantially transformed for GSP purposes); unpublished ruling dated June 30, 1980, CLA-2:RRUCSC (061909) (tape that was cut and spliced into pre-leadered pancakes and then wound onto cassette hubs was substantially transformed into a new and different article); See also Torrington Co. v. United States, 764 F.2d 1563 (Fed. Cir. 1985) (wire that was processed into needle swages and then into finished needles underwent two substantial transformations for GSP purposes); Belcrest Linens v. United States, 741 F.2d 1368 (Fed. Cir. 1984) (pillowcases made from pre-embroidered bolts of fabric were substantially transformed); Texas Instruments, Inc. v. United States, 681 F.2d 778 (Fed. Cir. 1982) (assembly of integrated circuits and photodiodes constituted substantial transformation for GSP purposes); Diamond Match Co. v. United States, 49 CCPA 52, C.A.D. 796 (1962) (inserting wooden stick into ice cream changes name, character and use of stick, i.e., would qualify as a substantial transformation); Cardinal Glove Co. v. United States, 4 CIT 41 (1982) (sewing together glove panels constitutes substantial transformation); Grafton Spools Ltd. v.

*/ It is undisputed that programming the blank cassettes with movies constitutes a "substantial transformation." Thus, the manufacture of blank cassettes from shells and magnetic media followed by the programming of the blank cassettes should satisfy the "dual substantial transformation" standard applied in determining GSP eligibility.

United States, 45 Cust. Ct. 16, C.D. 2190 (1960) (winding ribbon onto empty typewriter ribbon spools resulted in change of name, character and use of the spools, i.e., would constitute a substantial transformation).

Conclusion

For the reasons set forth above, Rank respectfully urges that Section 442 of the Customs and Trade Act be included in the proposed U.S.-Mexico Free Trade Agreement. The permanent suspension of this duty will cure the inequitable treatment of such video cassettes under the current tariff system and render moot the unjustified result produced by the Customs Service rulings on the GSP treatment of video cassettes.

STATEMENT OF CLARK W. REYNOLDS

INTRODUCTION

The United States has reached a turning point at the end of the twentieth century that is as critical and challenging as the one a hundred years ago. Today, because of increasing integration of the world economy, the Promethean potential of new technologies to deliver sustainable growth with social justice cannot be achieved by the solitary efforts of any single state, however progressive or powerful it may be. "United we stand/divided we fall" is a concept that now transcends borders.

As regional movements are taking place in Europe and Asia to facilitate cooperation in production, marketing, research and development, with political democratization and social pluralism, a new vision of interdependence in the Americas is beginning to emerge. It is increasingly recognized that the achievement of national goals calls for innovative transnational approaches capable of responding to the diverse needs of communities large and small, respectful of race, religion, and ethnic origin, and prepared to overcome disparities in income, productivity, and social welfare through negotiation rather than conflict. The new technologies make such a vision attainable.

This essay asks, in terms of the new paradigm of interdependence, what are the most appropriate means to maximize the benefits of all parties in North America. What dividends may be realized from increased integration of a continent-wide economy in the nineties? Is it possible to secure growth with equity for Mexico's 85 million people, starting from a per capita income level one eighth of the U.S. and Canadian averages, with positive increases for the northern partners as well? Aren't some major regions and social groups likely to lose in the process?

For societies as disparate as those of Mexico and the United States, economic space can be linked successfully only if the economic union allows a reinforcement of each nation's unique character. In addition, unequal power relations make the bargaining difficult. The benefits from economic integration must be large enough to permit compensation of losers by winners, and the political will must be present to compromise, so that those who might otherwise expect to lose from integration are offered hope for a better future. It will be shown that an "integration dividend" from trade and investment with Mexico offers the best hope of growth with equity for all of North America, provided that each of the partners is prepared to make the appropriate economic and social investments and political compromises.

THE TIMING OF NORTH AMERICAN INTEGRATION

The vision of this essay is long-term, looking forward to the next thirty years on the basis of reasonable estimates about the scope for agreement among the three North American partners. Given the unusual disposition to cooperate of each of the administrations currently in power, and the challenges they face in a world of accelerating change, the course of the region into the next century is likely to be set by policy decisions over the next two years. There are moments in history when great

opportunities present themselves. For North America this is such a time. This paper shows how sensitive wages, productivity, and income in the United States, Canadian, and Mexican economies are to the speed and scope of trade and investment liberalization. It argues that the size and distribution of benefits within and between the three countries are fundamentally linked to the pace of growth and adjustment in each.

The current U.S. deficit, recession, and involvement in the Persian Gulf war have serious implications for North American economic integration which go well beyond the short run. In many respects these problems illustrate the need for an integration process even though they place obstacles in the way of adjustment. The economic downturn of 1990/91 is quite different from previous recessions, since this is only in part a "demand recession" (a "Keynesian" shortfall in aggregate demand). It is also, and more importantly, a "structural recession." Such a recession reflects shortfalls in output and employment caused by changes in the pattern of domestic and foreign competition, technology, factor endowments, and tastes, rather than the level of aggregate demand per se.

In the current period, some factories are idle and workers laid off because of structural problems, including the loss of market shares to foreign competition, while other weaknesses in the economy are due to macroeconomic policies designed to reduce the fiscal deficit and tight credit markets which have a cumulative impact on expectations and aggregate demand. Recovery from a structural recession calls for policies that favor a revival of expectations generated by the prospects for improved productivity and competitiveness. The scope for restructuring provided by North American integration offers considerable potential for U.S. and Canadian production, since they are complementary to Mexico's needs for producer goods, technology, and intermediate goods and services.

The phenomenon of structural recession has become familiar to many developing countries in the face of greatly increased global competition. Mexico, for example, was forced by the debt crisis of the 80s to eliminate its fiscal deficits, reduce consumption, and restructure its economy in order to overcome stagflation and restore growth. No longer able to count on foreign borrowing or forced savings, and with its burden of debt only partly relieved by negotiation, Mexico had to rely on its own resources to restructure production away from highly protected import substituting industries to those better able to compete in the global market. Both macroeconomic adjustment and industrial restructuring led to an unprecedented eight years of recession in the eighties. For the United States, the process of industrial restructuring began slowly in the late seventies, along with attempts to reduce the unfinanced deficit through tight monetary policy. After high interest rates led to a major recession at the beginning of the eighties, the economy rebounded under the stimulus of defense spending and a consumption boom, fed by tax cuts, entitlements, easier credit, and the expenditure of capital gains. Though the era of "bipartisan Keynesianism" led to unprecedented fiscal deficits, debt-financed increases in aggregate demand helped to balance the negative (structural) impact of job losses and plant closings brought about by import competition.

U.S. trade deficits in the 1980s, rather than serving to weaken the domestic economy, were offset by the sale of American assets to foreign investors and external borrowing. (Since Mexico no longer had access to foreign debt, it was forced to bite the bullet of fiscal adjustment and industrial restructuring much earlier than the U.S. and at a much higher social cost in terms of wages and income foregone.) So responsive was the international financial system to U.S. credit needs, and so desirous were foreign savers to hold U.S. assets, that the dollar actually rose with the balance of trade deficit, turning the U.S. from a major creditor to the world's largest debtor in the course of a decade. Pressures to improve U.S. competitiveness were dampened by the strong dollar until action was finally taken to drive down its value. By the time the dollar eventually declined, the pace of U.S. industrial restructuring, though noticeable, had been seriously set back, while debt-led government entitlements and consumer spending had been allowed to reach levels that would be difficult to reverse without a major recession.

The irony of the early nineties is that the conversion of U.S. manufacturing, which began in earnest in the mid-eighties in response to dollar devaluation, is finally beginning to bear fruit. Exports are expanding and international competitiveness is being restored in many industries. The positive turnaround in productivity of U.S. manufacturing in the last few years is cited in a recent Commerce Department report (NYT, 2-5-91). But even as the negative impact of restructuring is beginning to be overtaken by the positive effects of more competitive investments, the recognition of the need for long-delayed reductions in fiscal deficits and the restoration of financial health are taking their toll on the economy.

Because of its recessionary impact, the pressure to undertake macroeconomic policy reform needed in the U.S. to produce a full-employment balanced budget has yet to overcome political opposition from both parties, since the public resists both increased taxes and reduced entitlements. As long as the fiscal deficit remains high and rising, the external balance will (by definition) have to remain negative and the dollar depressed, with continued vulnerability to the supply of foreign credit. This means that the requisite industrial restructuring will have to take place during a time of macroeconomic recession. Credit will remain tight (because of the dependence on foreign borrowing) and domestic demand weak, exacerbating the conditions for new investment. Here the stimulus of a Mexico-led integration boom can have an important impact on investor expectations in the U.S. and Canada. An export-led recovery, brought about by restructuring of the three economies toward greater competitiveness, will free potential savings of the region for new investments and increase deficit-reducing fiscal revenues.

This process will oppose the current jawboning in the U.S. to ease monetary policy as an anticyclical measure. Given the existing fiscal deficit and rising international interest rates, however, such an approach by the United States is bound to be counterproductive, especially in wartime and with a continued need to create an incentive to save the capital needed for restructuring industry and replacing a depleted infrastructure. Today the U.S. economy is threatened by stagflation almost a decade after Mexico faced similar conditions. A trilateral growth-with-restructuring program, led by domestic and foreign private investment, would be capable of sparking a turnaround in the fortunes of all three countries.

Hence the U.S. recession implies a need for more rather than less integration with Mexico. To the extent that the U.S. recession is "Keynesian" (due to demand shortfalls), recovery will depend on increased exports. Here Mexico's own growth potential, with its high elasticity of demand for U.S. capital and intermediate goods exports, could benefit the U.S. significantly to the extent that the free trade agreement improves investor expectations, spurring recovery and growth to the south.

On the other hand, the negative effect of a U.S. recession on the demand for Mexican exports to its major trade partner means that its non-oil deficit with the U.S., having already turned around, would continue to rise. For Mexico to permit growth to continue, despite the non-oil deficit, requires increased revenues from the current oil price windfall as well as new capital inflows. So far conditions are favorable, thanks to the effect on oil prices of the Gulf War and positive attitudes among investors about the effectiveness of Mexico's present economic policies, as Mexico's foreign exchange reserves have risen sharply in recent months despite a growing non-oil deficit. Improved expectations are leading to a return of domestic capital and prospects for greatly increased foreign investment. The approach of free trade negotiations with the U.S. and Canada means that for the first time conditions exist for Mexico to be a full North American partner rather than a mere supplier of raw materials, export assembly platform, or small but sheltered market for import-substituting industry.

To the extent that the U.S. recession is structural, it reflects the urgent need to restore U.S. competitiveness regardless of the cost. Plants are being closed, jobs terminated, and product lines drastically altered across the country and not just in the "rust belt." The negative impact of the early stages of restructuring will eventually be offset by the rising productivity of remaining firms and new investors, responding to the opportunities of technological innovation, skill-formation, and learning by doing. But this hasn't happened yet, and the first effect of restructuring is dislocating and dismal. However, postponement of partnership with Mexico because of the U.S. recession, and fear of competition from its lower cost labor and resources, has a high opportunity cost. Integration will hasten the end of the structural recession by speeding up the restructuring process. Furthermore, since the way out of demand recession is to improve business confidence and generate higher rates of saving, investment and employment growth, this will be stimulated by the greater potential for profits from regional integration and the increased competitiveness that integration affords for U.S. goods and service production.

The breakdown in the GATT Uruguay Round negotiations makes it all the more important to rely on regional agreements as a "second best" approach in the direction of ultimate global liberalization. The U.S. and Mexico have considerable potential for achieving gains from the removal of trade and investment barriers, both real and psychological, some of which are far greater than those between the U.S. and more distant partners. There is a woeful ignorance and prejudice in the U.S. (and other industrial countries) about the potential for Mexican sources of supply and market outlets. This acts as a barrier to gains from exchange, which could be

lowered by a formal accord, independent of its specific provisions, and to the relief of uncertainties about the long-term viability of the Mexican economy.

The Gulf Crisis underscores the need for greater regional security in terms of the availability of energy resources. While a trinational energy policy still remains hampered by fears of U.S. hegemony (not diminished by the role of oil in the present Gulf war), each country's long-term interests reveal a need for some degree of transborder energy integration, in the case of natural gas and electricity between the U.S. and Canada, and in the case of electrical power between the U.S. and the north of Mexico. The potential of hydroelectricity from Quebec alone offers considerable benefits to the U.S. Northeast.

The fact that the Gulf war will expend many lives on both sides and billions of dollars, and that the conflict is linked in part to the security of energy resources, oil prices, and rent-sharing between producer (Iraq/Kuwait) and consumer countries illustrates the rising cost of global production-sharing and market-sharing and attendant security problems. Such costs must be placed against the benefits of transport and communications technologies which facilitate global economic integration. The Crisis illustrates that the cost of maintaining a global Pax Americana, given the limited resources available, requires that each major power focus on the priorities of regional security while pooling resources for the provision of a global security umbrella that can no longer be afforded by individual states. While this need will almost certainly strengthen the role of the United Nations and other international security institutions, it will also call for new attention to the security of subregions including those of Europe, Asia, and the Americas.

Rising Canadian Federalism may become a matter of concern for regional investors in terms of possible changes in legal and institutional conditions within Canada but should present no problems for U.S.-Mexico economic agreements or for the incorporation of Canada into a North American agreement to which Quebec would almost certainly accede. Even with separatism (certainly not the most desirable outcome for the continent as a whole), separate deals with Quebec would still be possible and even easier than with a non-Quebec government that might be dominated by more protectionist interests.

Mexico's growing regional decentralization in terms of both economic and political processes increases rather than decreases the importance of achieving closer North American economic integration. Greater freedom of north-south trade and investment enhance opportunities at the regional level to take advantage of local comparative advantage without having to attain approval of the central government. For purposes of greater political pluralism, democratization, and functional federalism in each of the three countries, greater freedom of North American trade and investment offers considerable benefits.

The present U.S. recession appears to be slowing the growth of maquiladoras in Mexico (the so-called "border industries," though they are located throughout the country). Since such industries are almost completely linked to U.S. demand at present, they are highly vulnerable to its trade cycle. This condition indicates that for such enterprises, gains could be achieved by a more comprehensive integration to markets north and south, making production-sharing between the two countries less dependent on "marginal" conditions in one or the other economy. In addition, integration will further the objective of progressively increasing the domestic value added of such industries' market conditions (use of Mexico as a low cost assembly platform) and more integrated at all stages of value added.

Although greater production- and market-sharing increases the cyclical interdependence of the three economies, it also provides a cushion from cycles generated in the home market, as was the case in the non-maquila auto sector of Mexico, which was able to shift sales to the U.S. market during the 1980s recession in Mexico. And to the extent that North American integration increases the competitiveness of production in the three countries, there is greater scope for escaping from regional trade cycles by shifting sales to other regions.

It is important to note that in some respects Mexico begins the nineties in a stronger economic policy position than its neighbors. It has already paid the price of a drastic decline in real wages and incomes as a result of adjustments in the eighties, and by now circumstances for many are beginning to improve. However, most Mexicans have still to recover the living levels of 1980. The negative impact of delayed restructuring and demand recession in the U.S. on its own population (in the nineties) is likely to be much less severe than the 1980s adjustment was for Mexicans, especially in terms of real wages. But the U.S. may anticipate even higher levels of unemployment as well as acceleration in the shift of jobs from higher-wage manufacturing and permanent positions to lower-wage service occupations and temporary employment, with a further reduction in fringe benefits and job security.

As we have seen, the current U.S. recession is a reflection of the continuing need for fiscal reform and structural adjustment, and the same holds for Canada. Whatever the decisions about integration with Mexico, politically unpopular measures must be pursued. But Mexico offers an opportunity to its northern neighbors to speed up the structural adjustment process, at less cost in the long run and without the sacrifice of macroeconomic stability, because it provides a potential "integration dividend" as we shall see below. In this regard it is important to view integration of the three economies not as a zero sum game but as a dynamic process of transformation toward greater region-wide productivity, competitiveness, and accumulation, all of which are essential to the achievement of each country's social and economic objectives. The penalties for failing to act in the collective interest are either self-destructive autarchy (in an increasingly interdependent world market that is shifting toward Europe and Asia) or an uncoordinated opening to other regions that would entail greater instability, insecurity, and higher transaction costs, as well as vulnerability to more far-sighted development policies abroad. The "hollowing" of American enterprise through such measures could lead ultimately to the sacrifice of competitiveness and market shares, lower wages and profits, and less technological progress, along with the loss of economic and political power.

LESSONS FROM EUROPE AND JAPAN

U.S. firms must determine the line at which competition with foreign sources should be drawn, in terms of stages of value added. The most extreme case is the "hollow corporation," which locates only its headquarters (and dividend payments) in the U.S. but farms out all stages of production and value added to offshore suppliers. The other extreme is the fully protected "import-competing industry," which produces at high costs behind protective barriers and charges higher prices than the world market, thereby earning "protection rents" (Sometimes foreign firms will locate within the U.S. to benefit from the non-competitive profits generated by its import barriers and voluntary trade restrictions.) The American consumer pays the cost of such inefficiency, and the U.S. gradually loses its ability to compete abroad, with erosion in the balance of payments and gradual devaluation of the dollar (further increasing the cost to the consumer and to labor by erosion of the purchasing power of U.S. wages).

Decisions on where to draw the line, in terms of offshore accessing of part or all of value added, is heavily influenced by trade policy (related to the "levelness of the playing field"). As U.S. Department of Commerce trade specialist Ann Hughes commented to the author recently, "A well thought-through trade policy is the best industrial policy." For our major international competitors, philosophical commitments to GATT goals of global economic integration are accompanied by practical measures favoring enhanced regional trade and investment, often at the level of firm and industry. A joint approach to liberalization is helping to strengthen the markets of Europe and Japan, by creating favorable (and realistic) expectations about their own competitiveness and productivity potential. These expectations have a self-fulfilling character, creating incentives for higher levels of investment, savings, and capital inflows than would occur without regional integration. Moreover, such lessons indicate that a positive North American approach to the liberalization of trade and investment can be of critical importance to this region's ability to benefit from the movement toward global free trade, by responding to, as well as shaping, the dynamics of North American comparative advantage.

For Europe, regional integration is the primary goal for the nineties, as we can clearly see from EC92, German reunification, loans and debt relief for Eastern Europe, and the incorporation of Southern European and North African economies into the European system. In the Pacific, Japanese concessional lending, bank credit, technology transfer, and regional sourcing at rising levels added for Pacific Rim partners have been characterized as pursuit of a "flying geese" model that permits Asian economies to proceed in formation with Japan at the lead.

In both Europe and Asia, regional ties have outstripped growing trade and investment linkages with the U.S. and other OECD partners. For Europe and Japan there is less a balkanization of global production-sharing and market-sharing than a staged process in which regional ties are designed to enhance the power of local players in the global market. (Note that there are many fewer European and Asian ties to complementary economies in Mexico and the rest of Latin America than to low-wage countries in their own regions, except for the sourcing of raw materials and primary products.)

For North America, regional integration in the nineties is a means of enhancing the leadership and market power of Canada, Mexico, and the United States, in the face of the growing challenge from Europe and Asia and given the possibilities of

the new technologies. Through integration, the more developed partners (U.S. and Canada and selected industries in Mexico) are able to combine their research and development, product design, just-in-time accessing of intermediate inputs, education and training of labor, quality control, and management techniques with the staged sourcing of value added components from strategically located markets capable of providing complementary sources of labor, management, and raw materials at competitive—ie. lower—costs.

With the removal of trade and investment barriers, such markets will be able to take advantage of regional proximity, permitting lower transaction costs, scale economies, gains from learning by doing, scope for scale economies from the introduction of new product and process technologies, and a platform from which to penetrate more distant markets. In such a process, benefits from integration will accrue to Mexico as well, by permitting it to move up the value added ladder, offering the possibility of widening trade and investment linkages among its own subregions and with the markets of other economies in Central America, the Caribbean, and South America.

As wage, income, and productivity levels rise in Mexico, its production will shift to ever higher levels of value added, allowing sourcing from lower-wage markets. The three economies of North America will move forward together, bringing into the integration process a growing number of participants from the Americas and elsewhere. From such a process, the economies of North America and the Western Hemisphere will be in a better position to gain from trade with Europe, Asia, and other regions.

UNITED STATES-MEXICO TRADE PROSPECTS

There is considerable scope for gains from trade through integration between the U.S. and Mexican economies, based on past trends and future prospects of both countries (Reynolds and McCleery (1989). In the 1980s Mexico's export growth was favored more by U.S. demand growth than by market shares in the economy of its major trading partner. For most products (auto parts being an exception) the potential remains for enormous percentage increases for Mexico in the U.S. market without significantly eroding the share of other regions. On the other hand, in the face of a slowdown in U.S. growth, Mexico is almost certainly going to have to get a significant amount of its trade growth from the U.S. at the expense of competitors such as the Asian NICs.

U.S. exports to Mexico and the rest of Latin America are stronger in capital and intermediate goods than final goods or raw materials and primary products. These areas of trade suffered the most severe slowdown during the eighties and are likely to pick up the most during the nineties, especially to the extent that Mexico benefits from integration. Hence the U.S. will benefit disproportionately as Mexico's imports recover.

"One remaining bastion of U.S. competitiveness in capital goods, namely Latin America, has been hamstrung by the debt crisis and related cutbacks in investment . . . recovery in Latin America would have a disproportionately positive impact on U.S. trade in this vitally important area." (Ibid. p 119)

For the nineties U.S. export gains to Mexico and the Americas depend on the removal of obstacles posed by the debt and on new capital flows. For Mexico this will be facilitated by the profit potential from North American integration. Already in the late 1980s the improvement in the U.S. balance of trade was greater with respect to Mexico and Latin America than with the rest of the world. (Ibid. p 120). For the nineties the restoration of a U.S. balance of payments surplus must begin with Mexico and Latin America.

"Reduction in the U.S. deficit rests partially on an increase in exports to Latin America, . . . linked to and as fragile as the economic recoveries of high-debt countries in Latin America." (Ibid.)

"The two-year swing from a record (Mexican trade) deficit (with the U.S.) of \$4.8 billion in 1981 to a record surplus of \$7.5 billion in 1983 accounted for about 40 percent of the \$30 billion growth in the U.S. trade deficit over the same time period!" (p 128)

Mexico's trade with Canada (its 3rd largest export market) grew more than with all the rest of Latin America between 1979 and 1986. For Mexico its North American connection is more important than ever—the United States is its most significant area of trade growth. The favored groups of Mexican exports in the recent past (those with both volume and price gains) have been shrimp, beer, polyvinyl chloride, glass and crystal, steel bars and ingots, passenger cars, motors, electrical cables

(wiring harnesses), information processing machinery, and other machinery parts. (Ibid. pp 121ff). The best prospects for North American trade in the nineties are beer, steel, autos and auto parts (large and growing surpluses for Mexico), and high unit value commodities (minerals and agricultural products.) (Ibid. p 122)

On the import side, Mexico shows "stop and go" characteristics indicating its sensitivity to balance of payments constraints and capital inflows. Mexico badly needs intermediate and capital goods imports in order to recover and restructure along the lines of its dynamic comparative advantage. The windfall oil price dividend since last August has helped here, as we have noted above, even permitting the accumulation of foreign exchange reserves along with growth. If integration brings about, as expected, large capital inflows and if imports of consumer goods do not swamp the total, then Mexico should be able to sustain a rising rate of growth necessary to permit convergence with its northern neighbors.

Can Mexico compete with other NICs in a "bear" export market if one should emerge during the coming years? The conclusions of two years ago still hold, "for the time being, access to the U.S. market remains the crucial determinant of Mexico's export potential, credit worthiness, and development capability." (Ibid. p 128)

THE INTEGRATION DIVIDEND

What economic gains are likely to arise from North American integration? Conventional trade theory states that the wider the gap between economies resulting from barriers to exchange in goods and factors, the greater the benefits from removal of those barriers. But there is no a priori assurance that the distributional results of integration will be either balanced or equitable within or between countries. This will depend on political-economic and institutional elements related to the pattern of bargaining power and its evolution over time. The first step is to explore the potential for what may be called an overall "integration dividend" that might result from a U.S.-Mexico free trade agreement, given the present pattern of output, employment, and productivity and their recent trends in both countries—and in particular for their adjacent border regions.

The initial component of the integration dividend results from static adjustments in response to the removal of trade barriers, as initially scarce goods and factors in each country experience a cut in price while the abundant ones gain, and transaction costs are lowered between the two markets. As current endowments of labor, capital, resources, and technology are restructured in response to changes in relative prices, and as consumers benefit from lower cost goods and services, static gains from integration will be achieved by society as a whole. In the case of the European Community, such static gains were estimated to amount to about 5 percent of GNP including scale economies to existing firms through integration (Cecchini Commission report). Similar estimates have been made for the benefits from the Canada-U.S. Free Trade Agreement. Since U.S.-Mexico trade amounts to about \$60 billion, and there is considerable scope for scale economies among Mexican producers once they have secured access to the U.S. market, it is reasonable to expect that static gains from integration for all three countries could amount to from \$20 to \$100 billion. This amount is significant when placed against a Mexican GDP of \$200 billion.

However, given the fact that Mexico's current GDP is only 4 percent of U.S. levels (despite its population being one-third of the U.S. size), such static benefits from integration are modest by regional standards. The North American economy as a whole had a GDP of \$6 trillion at the beginning of the nineties, including \$500 billion for Canada (exceeding that of the European Community including East Germany). Integration gains of only 5 percent of North American GDP (\$300 billion) would exceed Mexico's GDP by half, indicating that present disparities in the regional economy will almost certainly cause even short-term effects of regional free trade to have an overwhelming impact on that country. Its structure of production and employment will be transformed, with major gains in income and productivity that will trigger conditions for even larger dynamic gains from integration. While the initial impact from a free trade agreement is certain to be more modest for the U.S. and Canada, the longer-term potential from continent-wide restructuring could launch North America into a new era of growth.

The "dynamic integration dividend" from North American integration with Mexico is capable of swamping the static gains for all three partners, particularly Mexico. The main reason is that the present productivity gap between the U.S. and Mexico, in terms of GDP (value added) per worker, is 5 to 1 (\$40,000 versus \$8,000 per worker in 1990 in current dollars which are worth one-third less than those of 1980, as used in Table 1 below.) The gap between the highest and lowest regions of Mexico is 3 to 1 (\$11,700 for Metropolitan Mexico City, extending into the State of

Mexico, compared to \$4014 for the South Pacific region that includes Oaxaca and Chiapas).

The large regional (and sectoral) disparities in output per worker within Mexico offer additional scope for major gains from productivity convergence, through foreign and domestic investment plus a continuing shift in employment from lower to higher productivity occupations, sectors, and regions. But such gains are not automatic, as we shall see below. They require major capital outlays including infrastructure expenditures if upward convergence is to be achieved. And the danger is that asymmetrical development, favoring those areas (such as the North) more accessible to the U.S., could exacerbate already wide regional inequalities as well as social and political problems within Mexico, just as they have already within the U.S. and Canada. A North American program of integration must be accompanied by regional integration policies in each of the three countries.

MEXICO'S LABOR ABSORPTION PROBLEM AND CONTINENTAL COMPLEMENTARITIES

Mexico's employed work force, which is now about one-third of its (young) population, will be rising as a share of the total as the population matures in response to decelerating birth rates and longer life expectancy. Since Mexico still has a very low share of women in its formal labor market by world standards, and many men are employed only during part of the year, one may expect much higher participation rates of both sexes as job opportunities and education levels improve. By the year 2000 the Mexican labor force will reach 35 to 40 million. How realistic is it to expect significant productivity convergence between Mexico and the U.S. by the year 2000 (in terms of average output per worker) if Mexico's work force increases at a rate significantly above total population growth (owing to the earlier demographic explosion)?

If Mexico's output were to grow at an average annual rate of 7 percent through the nineties (a ten-year doubling rate) it would reach \$400 billion by the turn of the century. Such a goal, while ambitious, is not impossible given the potential profits from integration. The net increase in capital stock required to accomplish this objective would average \$30 to \$40 billion per year over the course of the decade, rising steadily from between \$20 and \$25 billion at the outset to \$40 to \$55 billion at the end of the period, not including the cost of replacement of depreciating assets or investments in education and training.

Such levels would call for a net inflow of foreign capital averaging \$10 to \$20 billion annually. Given the relatively small size of the Mexican economy at the outset, this amounts to only one-third of a percent of U.S. and Canada GDP. If one adds the attractive potential of an integrated North American market to investors in Europe, Japan, and the Asian NICs, the required levels of investment are easily obtainable. The amount of required resource transfers into Mexico are dwarfed by the present U.S. Fiscal deficit and are much less than current expenditures on the Gulf War.

[Note: Since integration with Mexico will raise GDP in both the U.S. and Canada, the net capital flows southward will be more than reimbursed by their own shares of the "integration dividend." from convergence with Mexico. Although an increase in GDP of some \$200 billion over the next decade appears somewhat ambitious for Mexico, given its stagnation in the eighties, the figure represents only 3.3 percent of combined U.S.-Canadian GDP during the nineties (\$600 billion on average per year, assuming annual growth 2 percent) and is less than Japan's growth in the last 20 months.]

Despite the possibility of accelerated growth for Mexico through integration, given the large supply of labor in Mexico employed at bare subsistence wages and the certain growth of its job force over the coming decade, Mexican labor would not be absorbed fully without some migration at least through the year 2000. Moreover with increasing economic ties between Mexico and the U.S., a rise in real wages for low-skilled labor north of the border requires a tightening job market in Mexico with rising productivity capable of translating into higher real wages to the south. Slamming the door on Mexican migration would hurt production in the north, employment in the south, real wages in the south, and thereby real wages in the north, by increasing dualism in the binational labor market.

Fortunately, this does not have to happen. There are important complementarities between the demographics of Mexico (with its young population and rising participation rates) and the United States and Canada (with aging populations and the expectation of declining participation rates in coming years). Already the U.S. stands to lose more by closing the door to Mexican immigration than would Mexico, and it stands to gain from a managed immigration policy with Mexico over the next decade especially in the rising number of "non-tradable" service and other activities

that demand lower-skilled labor and which are difficult to mechanize (such as adequate health care for the aged).

The pressure of underemployed labor in Mexico, which will endure for at least another decade, will act on the region-wide economy in ways that must eventually be addressed, notwithstanding the preference of U.S. and Mexican policymakers to leave migration out of the current free trade negotiating framework. An earlier estimate of the static gains from integration between the U.S. and Mexico, based on a highly aggregative, computable general equilibrium model of the two economies, provided the following results. (Reynolds and McCleery 1989).

Omitting gains from scale economies and greater competitiveness of regional industry, assuming full employment (at initially very unequal wage levels) in both economies, and calculating only the marginal benefits ("efficiency triangles") from integration, the model estimates static gains from free trade between Mexico and the U.S., in the absence of investment liberalization, debt relief, or major new capital inflows amounting to \$5 billion per year for Mexico, against net losses of \$2.5 billion for the U.S., leaving a net region-wide gain of \$2.5 billion. (Ibid. p. 135.)

However, strict enforcement of the U.S. Immigration Reform and Control Act (IRCA) ("Simpson-Rodino" immigration bill) would have a much larger negative impact on the U.S. of minus \$10 billion, along with a loss of \$3 billion per year for Mexico in jobs and earnings foregone. For the U.S. the benefits from complementarities in labor markets and Mexican immigration are estimated to exceed the short-run (static) gains from trade liberalization. It is not surprising that some regional interests (e.g., California horticulturists) prefer liberal Mexican worker immigration policies to freer trade if it is posed as an alternative. A balanced approach would be to allow both to coexist, with the wage impact of trade liberalization providing a natural reduction in migratory pressures.

For Mexico the gains from trade liberalization, while greater than those from immigration, would be severely offset by a combination of freer trade and tighter migration policies. Alternatively, a combination of freer trade, debt relief (and greater capital inflows to Mexico), and continued modest levels of migration from Mexico to the U.S., would benefit both countries. "(A policy of) . . . tariff reduction and debt relief, in a general equilibrium context, would reduce migration (from Mexico to the U.S.) by almost 1.5 million . . ." (p 136) And U.S. Department of Labor projections of U.S. employment demand in the nineties, under any reasonable growth scenario, indicate a significant need for increased immigration, well above the levels that have been experienced from Mexico in recent years. That demand will have to be satisfied whether or not the sourcing is from Mexico.

While freer trade is certain to reduce the supply pressures from Mexico in the labor market, growth of both economies will be consistent with a sustained flow of workers from south to north for some time to come with rising real wages in both markets. (However, U.S. stagnation and the failure to significantly increase Mexico's capacity to absorb labor in its own industries, through export growth and domestic recovery, would lead to a reduction in U.S. wages at low skill levels for poorly educated youth, minorities, and other marginal workers.)

The model (McCleery 1988; and Reynolds/McCleery 1989) fails to incorporate, however, not only the static gains to both countries (and especially Mexico) from the reduction in non-tariff trans-border transaction costs, increasing returns, and increased industrial competition, but more important, the enormous dynamic effects enumerated in the previous section. If one adds these longer-term benefits from the "integration dividend," the potential gains rise into the hundreds of billions of dollars. Yet the model does illustrate the extent to which the U.S. is already receiving benefits from "silent integration" with Mexico through labor migration, especially in such crucial sectors as agriculture, services, and low-skilled manufacturing operations. For the U.S. these benefits are as large as the short-term (static) gains from freer trade. In dynamic terms, freer trade and investment flows between the two countries will provide a much greater increase in gains to both countries (and Canada), while reducing pressures for migration from Mexico through both supply and demand effects resulting from the relative growth of lower-wage employment south of the border.

Given Mexico's continued limitations on foreign borrowing, debt obligations, and fiscal constraints, as well as the need for know-how to penetrate U.S. and foreign markets and access the best technology, the integration dividend cannot be achieved without significant additional reductions in statutory and procedural barriers to foreign direct investment at every level, as well as an open-door policy to entrepreneurship and innovation. This process also calls for a crash program to provide adequate transport and communications facilities, at much higher rates than is now the case, in the form of new and improved roads, railroads, airports, ports, and a much

more dynamic and competitive telecommunications system. A massive effort in public and private education is essential, plus incentives for research and development, much greater access to foreign technology (with protection for intellectual property), and the freer immigration of skilled labor and management needed to bring about a transformation in Mexican production and productivity. The implication is that the true "integration dividend" from U.S.-Mexico-Canada free trade will result not from the static reallocation of resources and relative price changes that are certain to occur with greater liberalization, but from the dynamic response of new investment, permitting a convergence of the entire region to higher levels of productivity, competitiveness, and technological progress—a convergence that will permit rising rates of savings and investment and a more equitable distribution of the gains from growth.

WILL INTEGRATION LEAD TO CONVERGENCE OR DIVERGENCE?

In recent decades the productivity of Mexico's labor (including returns to capital, resources, technology, and entrepreneurship) first rose significantly and then decelerated, leading to virtual stagnation through much of the 1980s. The figures for 1970, 1980, and 1985 are presented in the following table. Earlier rapid growth associated with the postwar "Mexican miracle" had led to convergence between Mexico and the U.S., so that by 1970 the ratio between the two countries had fallen to 5 to 1. From 1970 to 1980 the ratio fell to 4.2 to 1. But from 1980 to 1985 it remained at that level and by 1990 was closer to the 1970 ratio of 5 to 1. Moreover the denominator is based on estimates of gainfully employed labor rather than the economically active population. Owing to the lackluster performance of Mexico during most of the eighties, productivity comparisons would be even more dismal by the end of the decade.

Table 1.—GROSS DOMESTIC PRODUCT, EMPLOYMENT, AND OUTPUT PER WORKER IN MEXICO AND THE UNITED STATES

	1970	1980	1985
Mexico:			
GDP (billion 1980\$).....	75.5	145.9	168.7
Employment (million).....	12.9	20.3	22.0
Output per worker (\$).....	5,600	7,193	7,680
United States:			
GDP (million 1980\$).....	2,060	2,680	3,058
Employment (million).....	73.0	88.8	95.2
Output per worker (\$).....	28,208	30,190	32,125
Productivity (output per employed worker):			
Mexico/U.S.x100.....	19.9%	23.8%	23.9%

AUTHOR'S NOTE: Estimates of output, employment, and total factor productivity by the U.S.-Mexico Project of the Americas Program, Stanford University, based on Department of Commerce figures for the U.S. and INEGI (National Statistical Institute) estimates for Mexico. Valuable assistance has been provided by Dolores Nieto and Matthew Carnes as well as important earlier work by Geoffrey Bannister. Details on methodology and results by region and sector are available from the author. Note that the estimates of Mexican GDP in 1980 dollars (originally estimated in constant pesos) are sensitive to the conversion factors employed. The 1980 totals in the table are based on the initial 1980 peso estimates converted by using World Bank (World Development Report, 1982) GNP estimates for that year, based on per capita GNP multiplied by the population estimate for 1980. The World Bank conversion from pesos to dollars is based on estimates of purchasing power rather than a strict exchange rate conversion. Use of the prevailing exchange rate would give a higher Mexican GNP figure for 1980, owing to relative "overvaluation" of the peso in that year resulting from the positive foreign exchange impact of the oil boom and extensive borrowing abroad. During the 1980s, the growth of Mexican Gross Domestic Product (GDP) was greater than the growth of Gross National Product (GNP) owing to the significant increase in net transfers abroad resulting from debt service payments (as the balance of trade reversed itself from strongly negative to strongly positive.) Hence the ratio of Mexican to U.S. GNP is slightly less than the GDP ratio indicated by the above estimates.

The regional differentials are even sharper between the least developed regions of Mexico and the U.S. (see Table 2 below). The narrowest gap in productivity is still between Metropolitan Mexico City and the U.S. rather than in the Border Region, despite the fact that linkages between the two countries have been most developed between the two border areas (the U.S. southwestern states of California, Arizona, New Mexico, and Texas and the Mexican border states of Baja Calif. N., Chihuahua, Coahuila, Nuevo Leon, Sonora, and Tamaulipas.) The following table shows estimates of output per worker in 1980 dollars for Mexico's Border Region (as defined above), Metropolitan Mexico City (including the State of Mexico), and the Rest of Mexico.

Table 2.—REGIONAL DISPARITIES IN OUTPUT PER WORKER: MEXICO AND THE U.S.

[Gross Regional Product per worker in 1980 U.S. dollars]

	1980	1985
Mexico:		
Border Region.....	\$8,331	\$8,500
Metropolitan Mexico City.....	10,255	11,257
Rest of Mexico.....	5,442	5,800
Total Mexico.....	7,193	7,680
United States:		
Border States.....	39,231	40,645
Total U.S.....	30,190	32,125

Sources: See Table 1; details available from author on request.

DISTRIBUTION OF THE INTEGRATION DIVIDEND

Throughout the postwar period, the gap in productivity narrowed within Mexico, though the 1980s were a time of slight divergence, not only between the two countries but within Mexico as the crisis and subsequent adjustment and restructuring took their toll. In per capita terms the gaps are even wider, as we have noted above, since Mexico's economically active population is only 30 percent of total population while in the U.S. the active population is 50 percent of the total. In distributional terms there is a danger that the dividend from linkages with Mexico could produce greater divergences within both countries, if the growth in investment and productivity is not sufficiently rapid. Under conditions of slow convergence, Mexico's large underemployed work force could act as a drag on real wages in both countries, so that the incomes of low-skilled workers in Mexico would lag behind the rate of productivity convergence, as marginal workers are forced to offer their services at bare subsistence levels. This has been the case over the past decade, at least until the last couple of years, owing to the severely low productivity in much of agriculture and urban informal activities, where the bulk of the work force remains employed. Simple general equilibrium models of employment and productivity indicate that if U.S. growth is slow and the adjustment between the two countries is unduly static rather than dynamic, wages of U.S. low-skilled labor will lag with integration (though the income of "yuppies," skilled labor, and property owners will rise). While there is not space within this paper to go into the sectoral details of Mexican employment and productivity in the 1980s (this is the subject of a forthcoming book by the author), suffice it to say that despite the considerable growth of maquiladoras, most job creation in the eighties took place in the low productivity urban service sector at falling real wages (at least until the last couple of years).

With rapid growth of the Mexican economy (which is only possible through opening to the broader North American market and major capital and technology inflows), and without closing the door on Mexican migration to the U.S. during the duration of the nineties, it is possible to anticipate a convergence in output per worker between the two countries that will translate itself into a rise in Mexican real wages. Moreover, the potential gains to capital in both countries will be impressive. This does not have to lead to worsening inequality in income, to the extent that worker savings, pension funds, and social security revenues are transformed into capital funds favoring the population at large ("peoples' capitalism"). It would instead enable workers to participate more effectively in the gains from growth through returns to investment as well as through higher real wages. The results would hold for the U.S. and Canada, as well as Mexico, if pension funds, institutional savings, and even social security revenues were transformed into true capital funds participating in the newly productive investments from North American integration and global trade liberalization. But in neither country are the financial and institutional savings reforms in place to accomplish such results. Capital market reform in both countries is of the greatest importance, so that potential savings captured by financial institutions, pension funds, and social security can be translated into real investment (and therefore into actual savings rather than into dissavings as now occurs).

There is doubtless a risk that without adequate provision for the translation of potential savings into actual investment, and without sufficient growth in the U.S. and Canada so that both countries can "run fast to stay in the same place or advance slowly" in terms of productivity growth, incorporation of Mexico's large and

growing supply of low wage labor could act as a depressant on real wages in some sectors of the northern economies. This would be particularly true if migration barriers were completely relaxed in the short run, or if the "integration dividend" were restricted to static rather than dynamic gains. Under such circumstances the fears of a number of critics of integration could be realized, at least in the short run, and the adjustment and dislocation costs could be considerable in both countries.

If much greater attention is not given to Mexico's low productivity agriculture (where most of its rural workers are employed) and to its own urban informal sector, including the mass of urban underemployed, there could be a widening of the productivity and income gap south of the border as well. Hence integration of the U.S. and Mexico requires immediate attention to transform Mexico's rural sector and, for the urban underemployed, to support small- and medium-scale enterprise (including "niche" enterprises capable of competing in the international market), as well as non-agricultural activities in the rural areas and small towns to widen the scope of productivity gains and to slow the rate of excessive migration to major cities. Pollution in the (subsidized) population centers is already having overwhelming detrimental effects on health conditions, longevity, and quality of life.

SUMMARY AND CONCLUSIONS

Since the present negotiating framework omits discussion of changes in labor migration laws but contemplates continued liberalization of Mexico's investment rules, there is some asymmetry in factor movements that is likely to accompany increased free trade, such that there will be greater scope for capital to move southward than for labor to move north. Hence the dynamics of convergence implicit in the "dynamic integration dividend" will favor investment located in Mexico. For those in the U.S., the question is to what extent the goods and services they provide, their labor and capital (including education and training), are "scarce" or "abundant" vis a vis Mexico. Highly educated skilled labor is likely to be even less abundant on a region-wide basis after integration than within the U.S. or Canada today. For Mexico it will be important to add scarce human capital to its large unskilled labor pool. For the U.S. and Canada, given the large and growing demand for non-tradable services and the high labor content of such activities, continued scope for immigration of Mexico's abundant and low-cost labor will be important to region-wide sharing of the benefits from growth.

The strategies pursued for negotiation of liberalization call for a trinational mechanism rather than a series of bilateral arrangements called the "hub-and-spoke" model by Wonnacott. Still, as that author admits, there are important asymmetries in the Mexican and Canadian treatment of major activities in the economy, such as ownership of energy and other natural resources (which in the present Mexican Constitution are reserved for nationals), access to agricultural land and coastal properties (also restricted by the Mexican Constitution), and social programs, including public health and entitlements. Hence whatever trilateral agreement is reached will not be able to ensure full integration of all areas of the economy or harmonization of all aspects of public policy. Nevertheless an "FTA approach" to North American integration is essential, since the continent represents a contiguous geographic region in which the greatest gains, as we have seen, will come from the dynamics of full exchange rather than from piecemeal bilateralism and sectoral pacts. Once this first step is taken, it is to be expected that a combination of the North American FTA will become a new "hub" in an evolving set of agreements in the Americas, until they eventually produce a hemispheric free trade area. Such developments are entirely consistent with the GATT objectives of global free trade and represent a step in that direction.

In the short run, however, there is bound to be the appearance of some trade diversion (and investment diversion) from a North American FTA. This will be in part a movement toward greater liberalization, since some of the partnerships between the U.S. and, e.g., the Asian NICs have been due to the excessive discounts for political and economic risk of possible linkages closer to home, including those with Mexico. To the extent that an FTA reduces such risk discounts and opens the eyes of investors to the opportunities at hand, the result will be trade and investment creation and not trade diversion. Some U.S. market shares, on the margin, may well shift from Asia and Europe to North American (and particularly Mexican and Canadian) sources. However, if the results are attributable to liberalization of a regional market that was subject to even greater repression before the FTA than was true for more distant partners, this cannot truly be considered trade diversion. Moreover, it is to be expected that the North American FTA will provide much greater opportunities (subject to careful application of rules of origin) for investors from outside

the region, as well as linkages between Europe and Asia and the widened North American market.

One area of considerable potential sensitivity is the threat of U.S. imposition of "political linkages" on trade negotiations with Mexico, or of a revival of Mexican nationalism and xenophobia as a pretext for the slowing of negotiations from that side of the border. In both cases, we have already seen efforts of this kind. Mexico is undergoing both political democratization and economic liberalization, and the pace of one or the other is not satisfactory to all observers either at home or abroad. It is a complex system of economies and societies distinct from the rest of North America—with a proud history of independent development notwithstanding its enormous social and economic inequalities. The problems of its internal political-economic integration, along with growing regionalism and fiscal federalism, are perhaps even more complex than those involving relations with its northern neighbors. After a major crisis of unbalanced budgets and state economic intervention, Mexico has finally achieved an impressive degree of macroeconomic stability. As its markets are opened to foreign competition, the political system is under pressure to liberalize as well. A paradox results: economic policy reform restores stability of expectations about the rules of the game, but political reform raises questions about who will govern in the years ahead. Closer ties to the U.S. permit political democratization to occur within the framework of a more stable continent-wide relationship, so that economic and political reforms can both take place consistent with a major new phase of investment and growth.

Due to the lack of in-depth knowledge of its "distant neighbor" north of the border, Mexico's vision of the U.S. and Canada is only beginning to improve. There are dark historical memories of economic exploitation and the loss of territory by force of arms. Until recently, prejudices have tended to triumph over informed judgment to the detriment of all partners. Yet the forces of "silent integration" have pushed the economies of Mexico and the United States increasingly together just as they have done with Canada and the United States. Ties are being built in all directions—investment, trade, migration, technology, and tastes—indicating the enormous gains from economic interdependence. What is needed is a more formal approach that permits integration to take place within a legal and institutional framework capable of protecting the interests of all three countries, respecting the differences of their unique cultures and supporting their highest values. For such a mechanism, agreement is by no means necessary on many underlying principles. What is needed is simply the assurance that the integration mechanism can further the scope of each partner to achieve its own goals, working out its own salvation without fear. This is a North American reflection of a global trend, since the pattern of international economic integration is taking on an increasingly regional character. The recent GATT experience, combined with the momentum of Europe 1992 and Japan's growing links with its Asian partners, indicate that even when global liberalization remains the ultimate objective, regionalism offers a practical step to the lowering of barriers in the direction of eventual globalism.

STATEMENT OF THE RUBBER AND PLASTIC FOOTWEAR MANUFACTURERS ASSOCIATION

My name is Mitchell J. Cooper. I am counsel to and am appearing in behalf of the Rubber and Plastic Footwear Manufacturers Association (RPFMA), the spokesman for the manufactures of most of the protective footwear and rubber-soled, fabric-upper footwear produced in this country. The names and locations of these companies appear in Appendix I.

For the reasons set forth below, RPFMA opposes the negotiation of a free trade agreement with Mexico to the extent that such negotiation encompasses either protective footwear or rubber-soled, fabric-upper footwear.

It should be noted that when the views of the private sector were solicited on negotiating a free trade agreement with Canada, this Association took no position. The situation regarding Mexico is, however, significantly different from the situation regarding Canada in one important respect: labor costs in Mexico are substantially lower than those in the United States, whereas labor costs in Canada are reasonably close to those in the United States. Rubber footwear is a highly labor-intensive industry and a meaningful advantage in labor costs is more likely than almost any other factor to determine a given producer's location. Tariffs—currently at 25% and 37.5% for protective footwear and ranging from 20% to in excess of 65% for rubber-soled, fabric-upper footwear—are the means by which a "level playing field" is approximated for rubber footwear competition from low labor-cost countries.

In the case of Canada, the Agreement which was negotiated recognized the import-sensitivity of rubber footwear and stretched the period over which tariffs would be eliminated to the ten year maximum. While the industry feels that it can adjust to Canadian duty-free competition over that period of time, the labor-cost differential in the case of Mexico is too large to permit any such adjustment. The publication *World Footwear*, in its March/April 1989 survey of Mexican footwear manufacturers, reported that as of January 1, 1988, the Mexican hourly minimum wage for a 48-hour week was the equivalent of about \$.516. The best information we have been able to obtain reveals an average hourly wage in the Mexican footwear industry of about \$.56 without fringes and \$.69 with fringes. The addition of other benefits brings the Mexican labor cost up to approximately \$.74 an hour.

In November 1990, the Bureau of Labor Statistics reported average hourly earnings of \$6.75 for rubber and plastic footwear employees in the United States; this is the most recent earnings figure currently available. Among domestic manufacturers who would be adversely affected by free trade with Mexico, many have average hourly earnings, including fringes, well in excess of \$10, or more than fifteen times the average in Mexico. When one considers that labor cost in domestic rubber footwear plants runs in excess of 40% of total cost, the incentive to shift operations to Mexico, were there to be duty-free treatment, becomes irresistible.

Mexico already has a well-established rubber footwear industry which could easily meet the needs of U.S. manufacturers. Consider the following data from the March/April 1989 world Footwear survey: The footwear industry in Mexico has about 500,000 workers with plants located principally in Leon, Guadalajara and Mexico City. The country claims to have more than 4,600 footwear manufacturers; of these, about 2,200 factories have fewer than 100 workers, 1,800 factories have between 100 and 300 workers, and 610 factories have over 300 workers. In 1988, Mexico produced some 245 million pairs of shoes of which 34.5 million were exported. Interestingly, the vast majority of Mexican exports—30.2 million pair—were rubber and canvas. During that year, Mexico imported about 15 million pairs of shoes of which only 3 million were fabric. Prominent among the Mexican manufacturers are three factories of Bata, a world-wide, state-of-the-art producer. These factories alone employ nearly 3,000 workers, and one of them produces more than two million pairs of tennis or similar shoes annually by the injection molded method.

The *World Footwear* survey concludes with the following language:

"Mexico is on the verge of becoming a major footwear exporter. It has upgraded its quality and it is improving its technology. Its wage levels are competitive, and it is actively seeking a share of the international market."

In its most recent Non-Rubber Footwear Quarterly Statistical Report, the International Trade Commission lists Mexico as the third largest exporter to the United States in 1989 of fabric-upper footwear with rubber or plastic soles. Those exports totaled 23,883,000 pairs (Appendix II). As for protective footwear, in 1989, Mexico was the seventh largest exporter to the United States with 178,000 pairs (Appendix III).

Illustrative of Mexico's ability to compete successfully in this market is a plastic, fleece-lined, over-the-foot boot introduced to the marketplace in 1988 by Kaysam, a New Jersey manufacturer. This boot was recently copied by a Mexican exporter. Volume discount stores in the United States retail the Kaysam boot at about \$19.99 and the Mexican boot at \$14.98. The volume wholesale price of the Mexican item is approximately \$1.75 per pair less than the Kaysam item. The Mexican boot currently takes a duty of 37.5%. Were a free trade agreement to eliminate that duty, the price differential between the domestic and Mexican boots is likely to be so great as to eliminate the domestic boot from the market place.¹

The rubber footwear industry in the United States is highly import-sensitive. In 1989, imports took 74% of the domestic market for footwear with rubber or plastic soles and fabric-uppers (Appendix IV) and 39% of the market for protective footwear (Appendix V). This is a relatively small industry whose production employment fell from 26,300 in 1972 to 9,000 in 1989; the figures for the first eleven months of 1990 show employment falling below the record low figure for 1989 (Appendix VI). The industry's plants are located principally in small communities where their employees would have difficulty in finding other work. The largest employer is the Converse plant in Lumberton, North Carolina. Other facilities with significant numbers of employees are in Wisconsin, Illinois, Maine (three plants), Mas-

¹ While we are not burdening the record with an introduction of physical exhibits of the two boots, samples of them are in the office of the undersigned and will be made available upon request.

sachusetts (two plants), New York (two plants), New Jersey (two plants), Pennsylvania, West Virginia and Georgia. Without exception, the companies who run these facilities are now beset by imports. For many of them a free trade agreement with Mexico would require the closing of domestic operations and the shifting of production to south of the border.

The enthusiasm which has been voiced at the highest levels of both the United States and Mexican Governments has provided momentum in the direction of free trade. The Administration is requesting that Congress deal with any free trade agreement resulting from negotiations with Mexico on a so-called fast track requiring action on an all or nothing basis. At the very least, we urge that Congress reserve unto itself the right to deal with any such agreement on a time schedule which would provide ample opportunity for testimony by affected industries and flexibility to amend the agreement in accordance with the weight of the testimony.

**APPENDIX I.—RUBBER AND PLASTIC FOOTWEAR MANUFACTURERS
ASSOCIATION (FEBRUARY, 1991)**

Converse, Inc., One Fordham Road, North Reading, MA 01864
 Draper Knitting Co., Inc., 28 Draper Lane, Canton, MA 02134
 Endicott Johnson, 1100 East Main Street, Endicott, NY 13760
 Frank C. Meyer Co., 585 South Union Street, Lawrence, MA 01843
 Franklin Plastics, 113 Prosaic Avenue, Kearney, NJ 07032
 Genfoot America, Inc., The Old South Building, 11th Floor, 294 Washington Street,
 Boston, MA 20108-4675
 Kaysam Corporation of America, 27 Kentucky Avenue, Paterson, NJ 07503-2597
 Kaufman Footwear Corporation, 700 Alicott Street, Batavia, NY 14020
 LaCrosse Footwear, Inc., P.O. Box 1328, LaCrosse, WI 54602-1328
 New Balance Athletic Shoe, Inc., 38 Everett Street, Allston, MA 02134
 Servus Rubber Co., Inc., P.O. Box 36, Rock Island, IL 61204-0036
 Tingley Rubber Corporation, P.O. Box 100, S. Plainfield, NJ 07080

APPENDIX II

Table 7.--Fabric upper footwear with rubber or plastic soles: 1/ Quantity of U.S. imports for consumption, by principal sources, January-September 1988-90, July-September 1988-90, and annual 1988-89

(in thousands of pairs)

Source	January-September			Per-centage change, Jan.-Sept 1990 from Jan.-Sept 1989	July-September			Per-centage change, July-Sept 1990 from July-Sept 1989	Per-centage change, 1989 from 1988		
	1988	1989	1990		1988	1989	1990		1988	1989	
China.....	45,305	73,226	95,868	30.9	15,487	18,196	15,641	- 14.0	62,362	95,251	52.7
Republic of Korea.....	31,939	25,414	26,104	2.7	9,902	6,755	6,343	- 6.1	40,378	33,840	- 16.2
Mexico.....	18,592	18,903	13,492	- 28.6	5,805	6,056	4,328	- 28.3	25,473	23,883	- 6.2
Taiwan.....	11,372	16,714	14,253	- 14.7	2,829	3,784	2,997	- 20.8	15,274	20,618	35.0
Thailand.....	3,163	3,199	4,964	55.2	900	342	1,356	153.0	3,808	3,835	0.7
Hong Kong.....	4,200	9,994	3,423	- 42.0	1,284	1,419	1,007	- 29.0	8,311	7,730	- 6.8
Philippines.....	364	353	835	136.3	245	45	214	375.6	506	318	- 36.8
Spain.....	662	902	604	- 24.2	130	173	129	- 25.4	752	1,073	42.7
Malaysia.....	182	344	409	18.9	21	87	88	1.1	226	346	53.1
Israel.....	34	136	216	58.8	32	90	81	- 10.0	140	164	17.1
Dominican Republic.....	284	188	90	- 16.7	281	61	77	- 26.2	312	197	- 35.9
Sri Lanka.....	1,080	450	557	21.4	370	89	65	- 27.0	1,195	529	- 55.7
Indonesia.....	51	211	559	164.9	50	0	35	0.0	214	315	47.2
Italy.....	105	209	137	- 34.4	54	43	22	- 48.8	129	256	98.4
Yugoslavia.....	14	8	25	212.5	10	0	18	0.0	14	8	- 42.9
Pakistan.....	0	8	14	75.0	0	3	13	333.3	0	47	0.0
France.....	131	184	55	- 70.1	29	49	11	- 77.6	174	196	12.6
United Kingdom.....	61	65	16	- 73.4	11	20	9	- 67.9	84	73	- 13.1
Japan.....	111	106	118	11.3	23	21	6	- 71.4	204	120	- 41.2
Portugal.....	11	17	8	- 52.9	1	0	4	0.0	37	18	- 51.4
All Other.....	667	708	487	- 31.2	242	183	23	- 87.9	853	1,068	22.9
Total.....	118,341	147,274	162,321	10.2	37,739	37,453	32,478	- 13.7	157,454	160,874	20.4
CBI total.....	492	381	174	- 54.3	388	161	77	- 52.2	810	627	- 22.6
EC total.....	982	1,483	918	- 38.1	233	312	181	- 42.0	1,190	1,731	45.5

1/ Includes footwear with fabric uppers and soles of rubber or plastics, such as sneakers, joggers, and certain casual shoes.

SOURCE: Compiled from official statistics of the U.S. Department of Commerce.

APPENDIX III

Table 10.--Protective footwear: Quantity of U.S. imports for consumption, by principal sources, January-September 1988-90, July-September 1988-90, and annual 1988-89

(In thousands of pairs)

Source	January-September			Per-centage change, Jan.-Sept 1989 from Sept 1988	July-September			Per-centage change, July-Sept 1989 from July-Sept 1988	1988	1989	Per-centage change, 1989 from 1988
	1988	1989	1990		1988	1989	1990				
Republic of Korea.....	5,626	1,990	2,018	1.4	1,300	1,117	940	- 13.8	4,248	2,824	- 48.6
China.....	891	1,070	1,660	55.1	333	475	341	13.9	1,276	1,452	13.8
Taiwan.....	902	1,213	824	- 33.0	480	624	325	- 47.9	1,242	1,484	20.3
Canada.....	347	490	342	- 21.8	153	292	267	- 8.6	433	828	82.8
Yugoslavia.....	269	260	260	0.0	163	127	148	16.3	435	327	- 25.2
Italy.....	44	64	93	48.9	28	43	84	100.0	71	96	35.1
El Salvador.....	126	172	98	- 47.7	109	117	82	- 29.9	193	196	1.6
Thailand.....	113	60	103	71.7	48	43	81	68.4	177	92	- 48.0
Malaysia.....	42	98	137	59.8	16	34	39	9.3	52	119	128.8
Mexico.....	68	134	99	- 61.7	25	131	49	- 62.6	113	178	56.6
Brazil.....	127	23	61	163.2	71	12	34	200.0	184	91	- 50.5
Hong Kong.....	213	145	92	- 36.6	96	49	34	- 26.5	226	166	- 26.5
Israel.....	18	23	39	36.0	7	10	12	20.0	32	38	18.8
Netherlands.....	27	11	13	36.4	0	1	1	0.0	32	11	- 65.6
Germany.....	24	27	29	7.4	13	7	7	0.0	40	28	- 30.0
All Other.....	160	239	115	- 32.3	69	166	29	- 88.0	200	115	- 42.5
Total.....	7,085	6,073	6,344	7.4	3,109	3,277	2,781	- 17.4	8,943	8,154	- 8.8
CBI total.....	124	270	90	- 66.7	109	215	82	- 61.9	153	324	113.1
EC total.....	187	181	172	- 5.0	65	103	114	8.6	251	226	- 10.0

SOURCE: Compiled from official statistics of the U.S. Department of Commerce.

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Appendix IV.—SHOES WITH RUBBER OR PLASTIC SOLES/FABRIC UPPERS (SIC 30210 10)

[Figures in Thousands of Pairs]

	Production	Exports	Imports	Consumption	Imports (percent)
1989.....	76,800	10,200	190,100	256,700	74.0
1988.....	76,700	900	157,700	233,500	68.0
1987.....	71,000	800	119,500	189,700	63.0
1986.....	57,900	1,000	99,100	156,000	64.0
1985.....	54,900	800	84,800	138,900	61.0
1984.....	64,516	1,120	107,685	171,865	62.7
1983.....	78,054	1,203	102,662	180,019	57.0
1982.....	92,896	1,367	99,032	194,398	50.9
1981.....	95,399	1,564	137,632	231,003	59.6
1980.....	97,516	1,694	120,746	216,207	55.8
1979.....	78,130	1,223	111,390	193,381	57.6
1978.....	79,278	644	172,700	253,683	68.1
1977.....	90,417	800	106,000	196,587	53.9
1976.....	115,354	700	115,400	234,471	49.2
1975.....	131,155	600	74,100	206,376	35.9
1974.....	146,500	1,010	67,352	210,838	31.9
1973.....	143,077	29	66,291	214,837	30.9
1972.....	159,399	105	58,020	217,314	26.7
1971.....	156,489	112	62,872	219,249	28.7
1970.....	144,276	129	49,726	193,873	25.6
1969.....	142,295	195	44,463	186,563	23.8
1968.....	152,257	239	49,200	201,218	24.5
1967.....	153,656	211	44,659	198,104	22.5
1966.....	157,491	167	35,060	192,384	18.2
1965.....	165,741	195	33,363	198,909	16.8
1964.....	162,151	225	29,063	190,989	15.2

Source: Compiled from official statistics of the U.S. Department of Commerce.

Appendix V.—RUBBER & PLASTIC PROTECTIVE FOOTWEAR (SIC 30210 20)

[Figures in Thousands of Pairs]

	Production	Exports	Imports	Consumption	Imports (percent)
1989.....	13,700	700	8,200	21,200	39.0
1988.....	13,800	700	8,900	22,000	40.0
1987.....	11,100	800	9,600	19,900	48.0
1986.....	12,200	500	10,700	22,400	48.0
1985.....	16,500	400	12,800	28,900	44.0
1984.....	17,734	296	16,010	32,830	48.8
1983.....	15,459	305	13,373	26,562	50.3
1982.....	13,920	386	11,103	24,611	45.1
1981.....	10,652	551	7,485	18,028	41.5
1980.....	14,473	653	7,548	21,552	35.0
1979.....	23,531	645	12,544	36,517	34.4
1978.....	28,893	514	13,444	36,130	37.2
1977.....	23,380	400	10,700	34,402	31.1
1976.....	17,261	400	9,600	26,800	35.8
1975.....	16,135	300	4,100	20,600	19.9

Official Government figures on rubber and plastic protective footwear were not compiled for years earlier than 1975.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Appendix VI.—PRODUCTION EMPLOYMENT (RUBBER AND PLASTIC FOOTWEAR)

(In thousands)

			1988	1989	1990
1973	26.3				
1974	25.3	January	9.8	9.0	8.8
1975	22.3	February	10.1	9.1	8.9
1976	21.6	March	10.2	9.1	9.0
1977	20.9	April	10.1	9.0	8.9
1978	21.0	May	10.2	8.9	8.9
1979	19.9	June	9.9	9.0	8.9
1980	19.8	July	9.0	8.7	8.4
1981	19.0	August	9.5	8.2	8.9
1982	16.2	September	9.3	9.3	8.9
1983	14.1	October	9.3	9.4	8.9
1984	14.0	November	9.3	9.2	*8.7
1985	10.9	December	9.2	8.9	
1986	9.2				
1987	9.4				
1988	9.7				
1989	9.0				

* Preliminary figure

Source: Bureau of Labor Statistics, U.S. Department of Labor.

STATEMENT OF THE SOFTWARE PUBLISHERS ASSOCIATION

The Software Publishers Association (SPA) is the leading trade association of the personal computer software industry and represents nearly 800 business, education, and entertainment software publishing companies. It is closely affiliated with the Business Software Alliance, or BSA, whose eight members include software producers, Aldus, Ashton-Tate, Autodesk, Digital Research, Lotus Development, Microsoft, Novell and WordPerfect. The BSA's mission is to protect the intellectual property rights of the software firms outside the U.S. In doing this, it seeks intellectual property protection for software, conducts public awareness and education campaigns to combat software piracy and brings copyright infringement litigation against software pirates. The BSA and the SPA appreciate the opportunity to submit this statement regarding the proposed Free Trade Agreement (FTA) with Mexico, the software industry's concerns with regard to current inadequate intellectual property protection within Mexico, and the implications of this for the proposed FTA.

Software piracy is an immense problem exhibited in two principal forms—through commercial pirates who copy software for resale, and by end users—such as businesses—who illegally copy software for use within their organizations. Worldwide piracy costs the software industry \$10-12 billion in lost earnings each year. This is an amount nearly equal to the \$12 billion the software industry contributes each year to the U.S. economy through foreign sales. Through the BSA and other joint and individual efforts, our industry conducts vigorous anti-piracy campaigns in most major markets in the world. But, we can only conduct an effective campaign where local law makes software piracy clearly illegal.

Current Mexican law is deficient for software publishers in several important respects. Penalties are woefully inadequate. The maximum criminal fine for infringement is 10,000 pesos, equal to about \$3.40 at current rates of exchange.

Present law provides an explicit exemption for "private" copying, and requires an element of "lucro" or "profit" in order for there to be infringement. Together, these two features persuade many legal experts and users that copying which is not done for resale (e.g. internal copying in a company, government office, or educational institution) is permitted. There is sufficient concern on this point that the industry has thus far been deterred from initiating enforcement action against an organizational end user for fear that an adverse judgment would cause what is already a very bad problem to become significantly worse.

A further shortcoming is the fact that computer software is not explicitly protected under the current statute. Although administrative action is generally recognized to have brought software within the ambit of copyright law (as a form of literary work), the absence of explicit protection perpetuates doubt among significant numbers of dealers and end users as to whether copying is really prohibited.

Software piracy in Mexico is pandemic and losses to U.S. software companies are extremely high. It is currently estimated that for every one legitimate software package sold in Mexico there are approximately eight illegal copies in use. In 1989, the Business Software Alliance estimated computer software industry losses in Mexico at a staggering \$80 million. Moreover, the size of the problem is growing quickly as Mexico is rapidly becoming more computerized. We estimate the losses to piracy in Mexico in 1991 will be at least \$100 million. The U.S. software and copyright industries, which add collectively over \$300 billion in value to the U.S. GNP, are gravely concerned about the danger posed by the unwillingness of Mexico, to date, to provide adequate and effective copyright protection.

Since 1988, the Business Software Alliance has been working with and supporting the efforts of ANIPCO, the software trade association in Mexico, to promote the passage of a stronger copyright law. ANIPCO's efforts clearly demonstrate that an effective copyright bill is in the interest of all copyright holders, not only the U.S. software companies. The BSA, through its member companies, has also maintained regular contact with the Office of U.S. Trade Representative (USTR) and the U.S. Department of Commerce on this issue.

A copyright bill was introduced in the Mexican Congress last spring which addresses each of the deficiencies in present law described above; it would provide explicit protection for computer software, make it clear that end user software piracy constitutes copyright infringement, and increase the penalties for copyright violations. Although the bill contains certain ambiguous language and does not impose adequately strong penalties, the U.S. software industry nevertheless supports this bill in its effort to seek immediate copyright reform.

Despite numerous promises and assurances to the U.S. government and representatives of U.S. and local software companies in Mexico that copyright reform was imminent, dating back as far as 1989, the Mexican government has thus far failed to implement reforms to its copyright law, leaving the computer software industry without fundamental tools needed to help curb the massive losses it continues to suffer. While we cannot be certain why legislation has not been approved, we have been informed by reliable sources that a couple of factors may be at work.

One analysis is that the Minister of Commerce took action to delay passage of the copyright bill in order to be able to present a more comprehensive package of intellectual property law legislation all at once. If this is so, it would seem to be fairly positive, as the completion of draft legislation on patents and trademarks is reported to have occurred this past December, opening the door to action on the package next congressional session.

Another analysis, more frequently heard and quite troubling, is that action on copyright reform was frozen at the instigation of the Minister of Commerce in order to use it as a bargaining chip in free trade agreement negotiations with the U.S.

The software industry in the United States has no reason to oppose a free trade agreement with Mexico, and indeed strongly supports the general principles of free and open trade which underlie such talks. But it would be unreasonable and cynical for the government of Mexico to enter such talks holding hostage a simple, straightforward, long-ready and long-promised piece of remedial legislation that will help the software industry do nothing more than try to curb the massive losses we currently experience from theft of our products and property.

In conclusion, the BSA and the SPA respectfully urge the members of this Committee, in considering the proposed FTA, to convey to your Mexican counterparts, USTR, and all of the officials involved in the interagency FTA process, the importance of Mexico's immediate fulfillment of its commitments to afford adequate protection to U.S. intellectual property, particularly copyright protection for computer programs. The assistance of this Committee—and that of the U.S. government as a whole—can make a critical difference as the Mexican Congress convenes in April for its brief spring session. That session will provide the Mexican government with a clear opportunity to adopt the fundamental copyright reforms that have been promised.

If the Mexican Congress enacts the copyright bill at this time, we applaud the Salinas government and will enthusiastically support efforts to further improve trade relations between our great nations. If Mexico once again fails to fulfill its commitment, we urge this Committee and others in Congress to carefully weigh the Mexican Government's repeated failure to provide fundamental and long-promised copyright protection for U.S. and foreign works in connection with its consideration of the benefits of a Free Trade Agreement and the appropriateness of fast-track negotiating authority.

In the event of Mexico's failure to enact such legislation, we would question the wisdom and propriety of entering into fast-track negotiations to achieve a Free

Trade Agreement with a country that has again refused to extend even minimally adequate levels of copyright protection to computer software.

STATEMENT OF DAVID J. STEINBERG

This statement is submitted in my personal capacity, not at the behest or on behalf of any person, organization or other entity interested in the subject of this hearing. My more than 40 years of professional concern with trade-policy issues includes most of my 11 years of U.S. government service, 13 years as chief economist (ultimately also executive director) of the committee for a National Trade Policy, Inc., and 15 years as president of the U.S. Council for an Open World Economy, Inc.

A longtime exponent of progressively freer and fairer international trade, I began outspoken advocacy of a definitive free-trade strategy in the mid-1960s—to the consternation of nearly all the self-styled “free traders” aware of the idealistic vision I persisted in articulating. The United States has never propounded a trade-policy objective so precise, so far-reaching. The free-trade initiative I had in mind, and still have in mind, would be multilateral—projecting the reciprocal programming of totally free and fair trade, in accordance with a realistic timetable, with as many developed countries as are interested in such a venture. Sooner or later, all would find it prudent to participate. There would be no exceptions for any products or practices, although different timetables could be drawn to accommodate differing problems of adjustment. The market access the participating countries provide one another should also be provided to developing countries without requiring equivalent reciprocity until the latter countries are capable of such commitments—but requiring general obligations to reduce trade-and-other barriers as rapidly as the economic development of these countries permits.

A bilateral free-trade pact (with one country), or pluralateral (with a few countries), would be consistent with this strategy to the extent that only one country or a few countries (beyond Israel and Canada, already party to so-called free-trade pacts with the United States) respond favorably to the U.S. invitation.

Applying these standards, I did not support the “free trade” agreements with Israel and later Canada. Recognizing, however, the special circumstances of the initiatives taken by these two countries led me to withhold outright opposition. It could be argued that Mexico, so close to us geographically and so important a trading partner, is another special situation deserving comparable attention. I believe, however, that the time has come—it came many years ago but the need grows with passing years—for the United States to raise its sights to a multilateral framework for negotiation of a free-trade compact worthy of the name. This means looking beyond not only a free-trade pact with Mexico but also a North American free-trade agreement (jointly with Mexico and Canada), free-trade agreements with individual South American, Central American and Caribbean countries or groups thereof, and even the projected “free-trade zone” from Point Barrow to the Strait of Magellan (the whole western Hemisphere, as envisaged by President Bush’s Enterprise of the Americas Initiative). The kind of trade strategy I propose surely deserves priority attention in the recently announced U.S. aim for a “new world order.”

Although committed to continued development of a multilateral freer and fairer international trading system, the United States appears to be drifting toward division of the world into trading blocs. Regional compacts already exist in some areas, the European Economic Community being the largest and best known. Exponents of U.S. negotiation of its own free-trade arrangements with selected countries see such blocs as building blocks toward a freer multilateral trading system. In the long run, this could eventually result. In the interim, however, the various trading blocs could become new foci of protectionism, involving economic and other costs too high to be acceptable, we should move resolutely to divert the European Community and other regional arrangements from such tendencies. Announcement of a definitive, multilateral free-trade strategy, getting it factored into policy decisions in western Europe and elsewhere, would stimulate progressively freer and fairer international economic relations in the short run, leading ultimately (much sooner than is currently appreciated) to a multilateral free-and-fair-trade charter.

Factoring this trade-policy premise into the decisions of American business and labor, and of all levels of government in this country, has tremendous potential for a wide range of U.S. policy objectives. Preparing the nation for free trade would require rapid, far-reaching progress toward many domestic reforms today considered urgent for other purposes as well—from education to productivity to the nation’s infrastructure to fiscal solvency and more. Stirring the nation to extraordinary efforts (to being “the best it can be”) in critical areas of national performance, the

multilateral free-trade strategy would, in a sense, be the moral equivalent of war. Other than a clear and present threat to our national security, nothing less than so dramatic a trade initiative seems capable of accomplishing so much.

A free-trade agreement with Mexico (one really deserving the name) may be politically unacceptable in this country without a U.S. domestic-adjustment strategy to backstop U.S. participation, such a domestic strategy, in turn, seems unlikely unless stimulated by a free-trade initiative much more dramatic than a bilateral approach to Mexico, or a North American proposal, or even a Western Hemisphere proposition. Moreover, how prudent in foreign-policy terms would it be to seek a free-trade agreement with Mexico and tell Chile or Taiwan or other countries that may be similarly interested to bide their time, suspending until some unspecified date their own readiness for such a pact with the United States? So-called "free trade" discussions are under way in some form with other Latin American countries, but these explorations beyond the discussions with Mexico do not meet the standards to which I attach so much importance.

I suggest that we forge our free-trade ideas in multilateral terms—across hemispheric lines—and proceed simultaneously with related economic-development initiatives concerning Mexico, Central America, Third World countries generally, indeed the American economy itself.

STATEMENT OF THE SYNTHETIC ORGANIC CHEMICAL MANUFACTURERS ASSOCIATION (SOCMA)

I. INTRODUCTION

The Synthetic Organic Chemical Manufacturers Association (SOCMA) is a non-profit trade association representing over 200 organic chemical companies, the majority of which have annual organic chemical sales under \$50 million. The members of SOCMA produce more than 5,000 synthetic organic chemicals which are primarily intermediates and finished chemicals for industrial use. They include dyes, pigments, flavor and perfume materials, surface active reagents, fire retardants, electronic chemicals, resins, plasticizers, rubber-processing chemicals and medicinals. The products of the organic chemical industry are essential to many other industries, including agriculture, textiles, paper, steel, automobiles, rubber, aerospace, defense and electronics. The United States is a major importer and exporter of organic chemicals and SOCMA members have a vital interest in a U.S.-Mexico free trade agreement. A current list of SOCMA members is attached to this statement.

II. OBJECTIVES

Bilateral free trade negotiations between the United States and Mexico must benefit both countries. The key element in the bilateral free trade negotiations between the United States and Mexico should be the elimination of trade distorting practices currently widespread in Mexico, and the concomitant expansion of U.S. chemical export opportunities into an open marketplace.

The chemical industry is one of the few U.S. sectors which continues to show a positive balance of trade on a world-wide basis. The chemical industry in the United States should not be penalized for this hard-earned success by disproportionate or inappropriate trade/tariff concessions. Indeed a U.S.-Mexico free trade and investment agreement must include all industrial sectors and should not be restricted only to the chemicals and allied products sector, part of that sector, or to a limited number of sectors, including chemicals and allied products.

Mexico must grant U.S. exporters fair access to markets without unreasonable barriers or conditions, in exchange for Mexico's retaining free access to U.S. markets. The basic trade laws of the two countries should be maintained.

The objectives of the negotiations must include not only the elimination of preferential Mexican chemical feedstock and energy policies and foreign investment restrictions, and improvement of the protection of intellectual property rights, but also the elimination of trade distortions caused by Mexican government ownership of natural resource raw material and chemical production facilities.

III. GENERAL PRINCIPLES GOVERNING THE NEGOTIATIONS

Transparency

The negotiations should be conducted in a transparent manner. The U.S. chemical and allied products industry must be an active partner in determining the negotiation agenda for issues which affect its interests. The U.S. government must discuss

proposals for an agreement with the chemical industry, and provide adequate and timely opportunities for industry advice and review, both before U.S. negotiating objectives are established and throughout the negotiations themselves.

SOCMA offers the services and expertise of its International Trade Committee as an information resource to the U.S. Government and Congress for advice and review in matters affecting the United States chemical industry.

Implementation

Implementation of any U.S. tariff reductions or other U.S. concessions must be contingent upon, and not granted before, Mexico's implementation of agreements reached during the negotiations.

After a transition period, Mexico should no longer be eligible for the benefits of the Generalized System of Preferences (GSP).

Dispute Settlement

Any agreement must contain an adequate and binding mechanism with time certain provisions to settle disputes on the implementation, terms and conditions of the agreement.

Compliance

Any agreement must specify deadlines for the fulfillment of its conditions. It should provide for automatic offsetting compensation to the extent of any delay if either Party does not meet its obligations on the agreed-upon schedule.

The agreement also should provide for the automatic reimposition of duties at MFN applied rates in the event of non-fulfillment of its conditions. In such case, or if the agreement is terminated by Mexico, the United States should not return the benefits of GSP to Mexico.

Standstill

Any agreement to negotiate a U.S./Mexico bilateral trade and investment agreement must incorporate standstill provisions committing each Party not to take any trade restrictive or distorting measures inconsistent with its obligations under the General Agreement on Tariffs and Trade (GATT), and not to take any trade measures of a nature or in such a manner as to improve its negotiating position.

Rollback

Any agreement to negotiate a U.S.-Mexico bilateral trade and investment agreement must incorporate rollback provisions committing each Party to phase out or bring into conformity, within an agreed time frame not later than the formal completion of the negotiations, all trade restrictive or distorting measures inconsistent with its obligations under GATT, the April 23, 1985 Understanding between the United States and Mexico regarding subsidies and countervailing duties, as extended, and the November 1987 Framework Agreement between the United States and Mexico, without requesting any concessions in exchange for elimination of these measures.

Existing laws, rules, regulations and decrees that are in conflict with the provisions of the U.S./Mexico bilateral trade and investment agreement should not be grandfathered.

IV. CONSISTENCY WITH THE U.S.-CANADA FTA

Inasmuch as a U.S.-Canada FTA is already effective, care must be taken in negotiations with Mexico that all provisions in any U.S.-Mexico FTA be consistent with those principles already agreed to by the U.S. and Canada. This requirement for consistency is in expectation of negotiations towards a North American Free Trade Agreement. SOCMA would not support any retreat from the principles of the U.S.-Canada FTA.

STATEMENT OF TEXAS CITRUS MUTUAL

This testimony is submitted on behalf of Texas Citrus Mutual, representing 500 citrus growers in the Rio Grande Valley of Texas. Responding to the invitation of Senator Lloyd Bentsen, Chairman of the Finance Committee, we submit this statement on the economic impact of a U.S.-Mexico free trade agreement upon the Texas citrus industry.

We appreciate the opportunity to file this testimony with the Finance Committee because we foresee that the free trade agreement will have significant impact upon

our industry. We are concerned that the negotiations with Mexico will proceed so quickly that many of our concerns will not be brought to the negotiating table.

BACKGROUND ON TEXAS/MEXICO CITRUS INDUSTRIES

At certain times in the past fresh oranges from Mexico have adversely affected our orange prices. Grapefruit imports from Mexico have not been a major factor in the past because of their heavy infestation of the Mexican Fruit Fly and a U.S. quarantine that places conditions on the entry of citrus and certain other crops due to the presence of the Mexican Fruit Fly. The current tariffs on citrus juice are a deterrent to the importation of citrus from Mexico but the tariff on fresh citrus is generally not considered to have much impact on imports. Most experts agree that the Mexican Fruit Fly is a very important factor that must be considered in the evaluation of the impact of a free trade agreement on U.S. citrus industry and in particular the citrus industry in the Rio Grande Valley in Texas.

Technology is on the horizon which is expected to provide control or an acceptable treatment for the Mexican Fruit Fly that will allow large amount of Mexican grown grapefruit and oranges to be shipped to the U.S. We know that Mexico is planting large new acreages of grapefruit and oranges. While the impact of Mexican fresh citrus on our market has not been substantial to date, in view of very large new plantings in Mexico and the likely development of new technology to deal with the Mexican Fruit Fly, there is serious concern among our growers about the impact of a free trade agreement upon our industry. Packing houses in our industry would likely benefit in the short run from importing more citrus from Mexico until our citrus production recovers from the recent freeze, but for the long run there is deep concern about the effect of a free trade agreement on our industry.

A FEW OF THE CONCERNS OF THE TEXAS CITRUS INDUSTRY

Citrus growers are concerned that the proposed agreement will have an adverse impact on citrus production in the Rio Grande Valley for the following reasons:

1. Mexico's lower wage rates will give them a substantial competitive advantage in harvesting costs. If a large portion of the citrus and vegetable production now located in the Rio Grande Valley shifts to Mexico, it will cause a dramatic increase in our high unemployment rate which is already one of the highest in the U.S. Local production and the jobs associated with that production could be lost almost immediately. Some new jobs would be available to repack and market the Mexican fruits and vegetables, but it would be a very long time before these jobs would be sufficient in number to replace the jobs currently available in the fields and packing houses.

2. A free trade agreement will put undue pressure on the U.S. to lower necessary standards and programs designed to protect the U.S. citrus industry from insects and diseases which are major problems for the citrus industry in Mexico.

3. If the proposed free trade agreement does not harmonize the respective environmental and labor laws and regulations for both countries, then Mexico will have a substantial advantage in the cost of doing business. Therefore, we believe strongly that issues related to the environment and to labor should be negotiated in the agreement or in parallel with the agreement.

We noted earlier that the current tariffs are not going to keep large amounts of fresh citrus from coming into the U.S. from Mexico. We would also like to point out that the snapback provisions in an agreement are also not likely to be effective in the case of citrus. One argument frequently used in support of the free trade agreement with Mexico is that snapback provisions can be used to protect specific industries from serious harm if problems develop. In this regard it is extremely important that this Committee, and others, understand the permanent nature of a citrus grower's investment in his orchard. Citrus production cannot be turned on and off like a faucet. It takes three to four years after an orchard is planted before it produces a commercial quantity of fruit to harvest. It normally takes six or seven years of favorable prices before a grower can expect to break even on his investment.

It would be very difficult for the U.S. to institute a snapback provision after the trees were already planted in Mexico. It is one thing to suggest to a farmer in Mexico that he needs to start growing a different annual row crop of some kind but quite another thing to suggest, in effect, that he needs to doze out all or a part of his citrus orchard.

We would like to focus on certain portions of the International Trade Commission (ITC) report, "The Likely Impact on the United States of a Free Trade Agreement with Mexico." On page 4-3 it states, "Mexican import licensing requirements, U.S.

marketing orders, and phytosanitary rules in both countries also limit bilateral trade." Clearly, an import license can be, and in the case of Mexico, has been, a major nontariff barrier. We do not believe, however, that U.S. marketing orders and phytosanitary rules should be included as if these two items are *unnecessary nontariff barriers*. There is a big difference between a license to do business and a requirement to meet reasonable standards for quality and to provide protection against insects and diseases.

A recent study by John Link with USDA's Economic Research Service made the following observation about the Mexican Fruit Fly problem in Mexico: "From Mexico's point of view, in fact, the fly may be the mightiest menace to the expansion of its farm exports under a free trade agreement."

Texas citrus has had periodic outbreaks of the Mexican Fruit Fly that has caused a problem in shipping fruit to California. We take the Mexican Fruit Fly very seriously ourselves and certainly hope that the fly problem in Mexico will be taken very seriously during the negotiations. There is strong evidence that we would have already eradicated the Mexican Fruit Fly from the Rio Grande Valley if we were not being reinfested from the fly itself or the fly larvae that is brought into the U.S. from Mexico. Some larvae come in on commercial fruit but the biggest problem is from fruit brought in by tourists or undocumented workers. The potential is definitely there for the Mexican Fruit Fly to be an even greater problem if the citrus imports from Mexico are increased. We do not consider the current restrictions on the movement of citrus from areas infested with the Mexican Fruit Fly to be an artificial trade barrier.

The new technology referred to earlier that may allow Mexico to control the Mexican Fruit Fly is a "two edged sword." It may keep the Mexican Fruit Fly present in Mexico from infesting our citrus orchards in Texas, but on the other hand if the new technology turns out to be successful then we can expect to see a very large increase in the amount of Mexican citrus exported to the U.S.

In view of the ITC's comments on marketing orders we believe the ITC may not fully understand the purpose and operation of our marketing orders. Marketing orders contain grade and quality standards that are absolutely essential to maintain the reputation of Texas grapefruit and oranges with the U.S. consumer. We do not apply a different standard to Mexico than we apply to ourselves.

Consumers generally cannot tell if a grapefruit is from the U.S. or from Mexico. If consumers buy fruit that later proves unacceptable it will affect their attitude about grapefruit in general. Through our TexaSweat citrus marketing program, growers have spent millions of dollars over many years to convince consumers that our grapefruit is the best. We are opposed to lowering our grading standards or the standards for grapefruit coming from Mexico. To do so would definitely jeopardize the excellent reputation of Texas grapefruit. The very future of the Texas citrus industry depends on maintaining our reputation for quality fruit in the marketplace.

Until recently most everyone has been telling us that the free trade agreement will be so great for the overall U.S. economy that those of us in sectors that will be negatively affected need to be willing to make sacrifices for the benefit of the nation as a whole. However, the recent ITC report points out that the benefit to the U.S. economy may be relatively small. The summary of the report states, "An FTA would benefit the U.S. economy overall, but for two major reasons the benefits relative to the size of the U.S. economy are likely to be small in the near to medium term. First, in spite of Mexico's population of some 88 million . . . its economy is much smaller than the U.S. economy. Second, with a few exceptions, both countries already have relatively low tariff and non-tariff barriers to trade with each other."

The ITC report also recognizes that growers in the U.S. in areas like the Rio Grande Valley are likely to experience losses in the production and processing of citrus and winter vegetables.

Brokers, importers and some growers in the Rio Grande Valley may benefit substantially from a free trade agreement because of increased business with Mexico. It remains to be seen, however, what the overall impact would be on our economy. Because the citrus acreage in Texas was substantially reduced by major freezes in 1983 and 1989, the economy is still in recovery. Thus, it is our contention that local production has a much bigger and deeper impact on the local economy than is commonly perceived. A free trade agreement with Mexico would deter growers from replanting, which, in effect, would slow the area's economic recovery.

CONCLUSION

Finally, we urge the U.S. negotiators to proceed with extreme caution on the free trade agreement. While many industries may well benefit from this agreement, the

potential impact upon the Texas citrus industry could be quite negative, if the negotiators do not consider the issues outlined previously.

Therefore, we urge that the potential negative impact on U.S. agricultural interests, especially the citrus industry in South Texas, be given special attention during the negotiation process.

Again, thank you for allowing us the opportunity to submit this testimony.

STATEMENT OF THE TEXAS-MEXICO LEGISLATIVE CONFERENCE

The possibility of a US-Mexico agreement is clearly emerging from the preliminary stages of discussion. To date, debate has sparked studies and investigations at all levels—government, academics, business associations, trade organizations, labor unions and environment groups. Just this week, the USITC transmitted to Congress its third preliminary study on the agreement for Congress. This study provides one of the first assessments of the likely impact of the agreement on US business sectors and regions. The oversight Committees have released the study, and copies will be available from the Commission as soon as they are printed. Before I continue, I must offer an important disclaimer and note that my comments reflect my personal opinions, and I do not speak on behalf of other members of the United States International Trade Commission or the Commission as a whole.

I use the word "possibility" of an agreement because, as we know, there are important procedural hurdles to be cleared in Congress before these talks can proceed. I want to mention these briefly.

Part of the question mark is extension of the "fast-track" provision for Congressional consideration of the agreement. As you know, under fast-track, Congress in its consideration of the agreement, would not be allowed to amend the final document agreed to by US and Mexican negotiators. It can only vote it "up or down." But, by law, the President has authority to propose implementing agreements on a "fast track" only if they are entered into before June 1, 1991. This "fast-track" implementation authority may be extended by Congress to trade agreements entered into after May 31, 1991 and before June 1, 1993, but only if certain conditions are met. First, the President must request extension of his authority by March 1, 1991. He must also comply with a series of steps required by law: Summarize for Congress the nature of agreements already negotiated and plans for their submission to Congress, solicit views of the Advisory Committee for Trade Policy and Negotiations, and provide a description of the progress in other negotiations and why such progress justifies the continuation of talks, and finally a statement of reasons why extensions are needed to complete the negotiations. Extension of "fast track" authority can be denied if either house of Congress adopts a resolution disapproving the requested extension before June 1, 1991.

The second related procedural contingency is that the President, once he has authority, must receive permission from Congress before he can negotiate a specific agreement on a fast-track basis. This past October the President requested Congressional permission to negotiate the US-Mexican agreement pursuant to fast-track. This request will automatically be approved unless the Senate Finance committee or House Ways and Means committee acts within 60 legislative days to formally disapprove the President's request to negotiate on fast-track. It is my understanding that, depending upon parliamentary procedures, this period will lapse by the end of February. But, of course, that permission will be meaningless without a formal extension of negotiating authority. [update to reflect Amb. Hills' testimony on 2/6/91]

In anticipation of the talks proceeding, the International Trade Commission has already completed two comprehensive studies for the House Ways and Means Committee on certain aspects of the possibility of a trade agreement. The first phase, completed in April, 1990, addressed recent trade and investment reforms undertaken by Mexico and the implications for the US. The study provides an overview of Mexican economic development, such as the recent trend toward increased industry deregulation and privatization, foreign investment reforms, strengthened Mexican intellectual property protection, and recent trade liberalization measures. A second phase was submitted to the Committee in October 1990. It reviews the prospect for future US-Mexican relations, and is essentially a survey of experts' views on various aspects of a possible trade agreement, such as appropriate issues to be included,

market access, diversity of the Mexican and US economies, and advantages and disadvantages of an FTA.¹

Last week the Commission completed a third study I referred to earlier entitled "The Likely Impact on the United States of a Free Trade Agreement With Mexico" based on a joint request of the Senate Finance Committee and the House Ways and Means Committee.²

The Commission was asked to provide (1) an overview of recent events significantly influencing US-Mexico economic relations; (2) a summary of the likely impact of the proposed free trade agreement with Mexico and the US economy; (3) a summary of the likely impact on the major US industries and other sectors that would be most affected; and (4) an indication of the regions in the US that would be impacted by the proposed FTA.

As a preliminary observation before I summarize the findings in the report, I would caution that this third study was prepared without a public hearing, questionnaires, or comprehensive field work and interviews; I consider it to be a rough estimate of the impact of any FTA, and find it serves more to highlight the emerging issues on the possibility of an FTA, than to provide conclusive answers. What is the likely affect of an FTA with Mexico on the US as a whole? Overall, the FTA will benefit the US by expanding trade opportunities, lowering prices, increasing competition, and improving the ability of US firms to exploit economies of scale. Over time, an FTA would probably increase Mexico's rate of growth and thereby increase the benefits to the US over time. However, the information developed in our study indicates that the benefits relative to the size of the US economy are likely to be small in the near to medium term for two reasons: *First*, the Mexican economy, in spite of a population of some 88 million, is much smaller than the US economy. Mexico's gross domestic product was \$187 billion in 1989, only 3.6 percent of US GDP. And, the relative importance of trade between Mexico and the US implies that the relative magnitude of effects would be significantly smaller for the US than Mexico. Mexico accounts for 6 percent of US imports and 7 percent of US exports in 1989; but, the US accounted for more than two-thirds of Mexico's exports in 1989. *Second*, both countries already have relatively low tariff and nontariff barriers to trade (NTB's) with each other. Many of the US imports from Mexico enter duty-free under GSP or at reduced rates under maquiladora production-sharing arrangements. Likewise, US exports to Mexico receive duty-free treatment in Mexico under the maquiladora program. And, Mexico has substantially reduced tariffs for most imports and requires fewer import permits, in addition to easing foreign investment regulations. Thus, most of the benefits of trade between the countries are being realized and thus, limit the potential benefits to the US of an FTA.

But, many of the current trade policies in Mexico have been adopted as a matter of administrative policy; the confidence of investors in Mexico's economy would be strengthened by codifying liberal trade and investment policies in an international agreement. And, as I note elsewhere in my comments, the framework of an agreement helps ensure that benefits will flow to the signatories of an agreement, rather than third countries.

With regard to the likely impact of an agreement on US labor markets, the information developed in the Commission's study shows that an FTA is likely to have little or no effect on employment levels in the US, but could cause some shifts in employment among occupations and could affect wages rates and the level of immigration from Mexico. I note that these conclusions are based on economic models, and as such, are subject to various interpretations. I would also caution that this analysis was not performed on a regional basis, where one would expect the impact on labor to be most evident. As an aside, I note that because of the relatively high wage levels in the US compared with Mexican labor rates, some contend this will cause a massive relocation of jobs to Mexico and will also depress wage rates in both countries. This may be true to some degree in the short term, particularly in some product sectors and regions. What this report does not do is assess the fact that jobs have been fleeing our country for years, and will continue to do so, with or without this agreement. An important consideration, it seems to me, is whether these jobs go to Mexico. There, under a permanent agreement, the US is more likely to receive

¹ "Review of Trade and Investment Liberalization Measures by Mexico and Prospects for Future United States-Mexican Relations. Phase I: Recent Trade and Investment Reforms Undertaken by Mexico and Implications for the United States," Inv. No. 332-282, USITC Pub. No. 2275 (April 1990) and "Phase II: Summary of Views on Prospects for Future United States-Mexican Relations," Inv. No. 332-282, USITC Pub. No. 2326 (October 1990).

² "The Likely Impact on the United States of a Free Trade Agreement with Mexico," Inv. No. 332-297, USITC Pub. No. 2353 (Feb. 1991).

the indirect benefits of a stronger, more stable labor force with higher levels of disposable income. If these jobs are relocated to other countries, such as the New Industrialized Countries in the Pacific Rim, it will be far less likely that the US will receive such benefits.

With regard to the likely impact on US trade with third countries, the Commission found that the increase in US-Mexico trade resulting from the reduction of trade barriers under an FTA would partly displace US trade with other countries, including Canada, and Central and South America, the Caribbean, and Asia. Some of this displacement will be limited by the fact that imports from these countries already benefit from GSP and the Caribbean Basin Economic Recovery Act. Nonetheless, the relative benefits of these tariff preference schemes to these third countries are likely to decrease.

A more important factor in trade with third countries will be whether the agreement allows third countries to circumvent US tariffs and other trade barriers by transshipping goods through Mexico to the US or by using Mexico as a base for processing or assembly for export to the US. As the Commission points out, it is evident that the nature and enforcement of the rules of origin will determine market access by third countries.

The likely impact of Canadian participation provides no particular surprise. The initial analysis suggests that the effects on the US of free trade with Mexico and with Canada would be similar, regardless of whether the US concludes separate bilateral agreements with Canada and with Mexico or reaches a trilateral agreement. What this study does not do, and I hope that future studies address, is assess the effects on trade between Mexico, Canada, and the US as a regional bloc and the rest of the world. Does the bloc as a whole receive some measure of benefits that does not occur otherwise?

Finally, the Commission found that an FTA with Mexico could have a greater impact on certain US industry sectors and regions than on the US economy overall. Generally, the strongest effect on US industry sectors would likely be where current barriers to trade and investment are high or where demand for each others' products and services is highly sensitive to price. Likewise, regions with a high concentration of such industries or where trade with Mexico accounts for a substantial portion of economic activity are likely to be disproportionately affected.

The Commission was specifically asked to look at the impact on the Southwest border region. Generally, because of the vital geographic and economic links of the region to Mexico, trade-related activities along the border will expand as US-Mexico trade increases under an FTA. However, there appear to be some areas of concern:

1. Mexico's maquiladora industry represents a large part of the regions' economic base. An FTA would reduce the incentive for maquila firms to locate near the border; there could be some incentive to locate closer to Mexican population centers away from insufficient border facilities and infrastructure. But, for some operations the lack of infrastructure in the interior may keep these plants at the border and close to existing border suppliers and services.

2. The elimination of US tariffs on the non-US value-added component of maquiladora exports would reduce the incentive to use US raw materials and components. Currently, US firms supply about 98 percent of the raw materials and components used by maquiladoras.

3. Retailing accounts for more than one-fourth of employment in the border region. Over one-third of retail sales in the region are to Mexicans. As US goods become more available in Mexico, there may be some reduction in current advantages for US retailers in serving Mexican consumers. This may be particularly true for smaller retailers. However, short-term losses would probably be offset in the longer term as retailers benefit from overall increased growth in the border region. I note that an agreement will help preserve an already established pattern of Mexican consumer behavior and assure US producers the opportunity to participate in the inevitable growth of the Mexican market and benefit from improved economies of scale as Mexican consumption increases.

4. Increased trade flows will raise the demand for trade-related activities long the border, including already strained transport systems, warehousing and other services.

5. Although agriculture constitutes only a small fraction of the region's economy, there is some concern that an FTA will reduce the availability of Mexican migrant labor on US farms in the region and strain already scarce water resources along the Texas border.

Another region of particular concern to the requesters of the study is the "Industrial Midwest." The auto and auto parts industry is particularly important to this region, but uncertainty about the effects of an FTA on this industry leaves uncer-

tainty about the effects on this region. It is possible the effects on the region could be slightly different from the national impact.

Analysis of industry sectors focused on the likely impact of an FTA on US trade with Mexico, Canada, and other countries and on production and employment levels in US industries. The analysis estimated the losses under an FTA (the likely increases in US imports and resulting decline in US production) and the gains (the likely increase in US output resulting from increased US exports to Mexico).

The key sectors we looked at were auto and auto parts, textiles, oil and petrochemicals, computers and electronics, steel, cement, glass, and agriculture sectors, such as grains, feed grains, and oil seeds; livestock, horticultural products, seafood, and alcoholic beverages, and services sectors, including banking, construction, transportation, and telecommunications. Our conclusions were that the agreement will likely have negligible effects on the domestic operations of 17 of the 19 sectors studied. It is expected to have a moderately negative effect on the horticultural products industry and will have an uncertain effect on the auto and auto parts industry.

For some sectors, such as grains, electronic equipment, machinery and equipment, steel, and textiles, trade gains or losses, although they are considerable in absolute terms, would likely have a negligible impact on production levels. This is because the expected gains or losses in US trade with Mexico would represent a very small share of these industries' domestic production.

The sector that would be most affected by an FTA with Mexico includes horticulture products, such as fresh and processed fruits and vegetables. On both sides of the border duties are high and NTB's limit bilateral trade. It is likely their removal would generate a significant increase in US imports and a moderate increase in US exports to Mexico. In particular, US growers of citrus crops and winter vegetables that are manually harvested are expected to experience losses in production, particularly in Florida, California, and other warm-climate states competing directly with products during the same growing seasons in Mexico. A survey of the public submissions in this investigation clearly shows an overriding interest in this sector.

Although other sectors suggested a negligible impact, it is also apparent that certain products within these sectors would likely be affected, such as the livestock industry, tuna industry and producers of inexpensive household glassware.

Removal of Mexico's relatively high tariffs on meats would likely result in a moderate increase in US exports of meat to Mexico. Likewise, the removal of US duties and Mexican export fees on feeder cattle would likely result in a moderate increase in US imports of such cattle. Farmers concentrated in the Southwest and South central states, where most of such imports would enter, could be most affected by this.

Removal of US duties on imports of canned tuna would likely lead to significant growth in US imports of Mexican tuna, and result in significant harm to the US tuna industry, particularly to the canner in California, and to a lesser extent, in Puerto Rico. US duties on household glassware average 22 percent ad valorem; their removal under an FTA would likely result in a significant increase in US imports of such glassware from Mexico, and could have an adverse impact on US producers of inexpensive household glassware. Export growth in Mexico could be limited because of the dominance in the Mexican market of Mexico's largest producer.

"Automotive products" is the only other sector on which the Commission did not make a "negligible impact" finding. This is perhaps the sector most discussed and the one which raises the most questions. The Commission concluded that at this time, the FTA will have an uncertain effect on the auto and auto parts industry. Mexico is a small, but rapidly growing supplier of autos to the United States. Unlike the other sectors we looked at, by far the most significant factors affecting US trade with Mexico in automotive products are important Mexican foreign investment restrictions, export performance requirements, local content rules, and import restrictions. Estimation of the impact of removal of these barriers is difficult. Also, the absence of any indication of the Big Three automakers' competitive strategies and plans for their Mexican operations under a future agreement made the likely impact unclear. We do know that US auto industry representatives view Mexico as a long-term, high-growth market for autos. They believe that the potential exists for the Mexican auto industry, with its low labor costs, to become an integral part of the North American auto industry.

This might be an appropriate point to note for your information that should these talks go forward, the Commission is required by law to report to the President on a confidential basis the probable economic effects of duty removal and if requested, the effect of removal of NTB's, on specific US industries. The Commission has already approved a series of public hearings tentatively scheduled for the week of April 8 to be held in Phoenix, Chicago, and Washington, DC. It is possible this more complete investigation will reveal more adversely affected industries.

Finally, I want to mention that the Commission staff has included as an appendix to this report a list and survey of government and private research and papers completed and in progress on the US-Mexican FTA which should be helpful. Also, the appendix includes a listing by sector of the public submissions received in this investigation.

It is likely that as the result of this preliminary report, further reports for Congress will explore some issues in more detail, such issues as the rules of origin, the benefits of a US-Mexico-Canada FTA once its in effect to the signatories as whole, and a more detailed look at the adequacy of the infrastructure in the US border area.

TEX-TUBE DIVISION, CYCLOPS CORP.,
Houston, TX, February 27, 1991.

Mr. ROGER B. SCHAGRIN,
CPTI,
Committee on Pipe and Tube Imports,
1112 Sixteenth Street, N.W.,
Suite 1000,
Washington, DC

Dear Roger: On behalf of Tex-Tube Division, I hereby submit our comments regarding the upcoming "Free Trade Agreement with Mexico."

Tex-Tube Division—Cyclops Corporation located in Houston, TX is one of the leading U.S. producers of light-wall ERW-HF line and standard pipe in sizes ranging from 2½" O.D. to 8½" O.D. The company has been in business for over 45 years and our products are utilized in crude oil and natural gas gathering, transmission, and distribution pipelines. In addition our products are utilized to transport refined petroleum products and various industrial applications such as piping in chemical processing plants. Tex-Tube Division supports the effort of the U.S. Government to gain a free trade agreement with the Government of Mexico in the broadest sense. However, our support of such an agreement would depend on the fairness of the agreement. In our thinking free trade implies free trade for both countries—Mexico and the U.S., not just for Mexico. To support the agreement, it would have to address the following points:

(1) *Tariffs (Tubular Products)*. Currently Mexico pays tariffs of .05% to 1.9% of product value when exporting line and standard pipe products into the U.S. Conversely, the U.S. producers currently pay a tariff of 15% of products value when exporting product into Mexico. Any free trade agreement effected should eliminate all tariffs on line and standard pipe products passing between the borders of the two countries from the first day of the inception of the agreement. At the very least the Mexican Tariffs should be reduced to the U.S. tariff value of like product from the agreement's first day. An agreement which reduces tariffs over a 10 year period, 10% a year, like the U.S.-Canadian Free Trade Agreement is unfair to the U.S. Producers. Ten year tariff phase out would not provide for fairness to U.S. Producers and would not be supported by Tex-Tube Division.

(2) *Tariffs (Flat-Rolled Steel Products)*. The United States currently has an inverted tariff system between flat-rolled steel products (our raw material) and tubular products. Currently the U.S. accesses a tariff of .05% to 1.9% on tubular products while flat-rolled steel products carry a tariff of 5 to 6%. The U.S. inverted tariff system encourages foreign producers to export tubular products (the value added product) and not the raw material for U.S. tubular producers (flat rolled steel). The tariff on flat rolled steel products should also be eliminated on both sides of the border, or at the very least be brought down to the level of the tubular product's tariff.

3. *Government Ownership and Subsidization of Mexican Steel and Pipe Mills*. In the United States all pipe and steel mills are privately owned and not subsidized by the U.S. Government. This is not the case in Mexico and should be addressed in the U.S. Mexico Free Trade Agreement. Any amount of money received from the Mexican Government by pipe and steel mills in Mexico should be added on to the cost of the product per current United States Trade Legislation. Again "Free Trade" should mean just that free and fair trade.

4. *Non-Tariff Barriers In Mexico*. (a) The principal end user of line and standard pipe products in Mexico is Pemex, the Mexican Government owned and controlled oil and gas entity. Although other users of our product exist, Pemex is

by far the largest buyer of line pipe in Mexico as they control the entire industry.

In the United States the oil and gas industry is owned and operated by private companies, who can freely make their own choice of whether to procure tubular products from domestic or foreign sources. The current practice in Mexico by Pemex tends to be that they purchase only from foreign sources product that cannot be produced in Mexico or is in short supply in Mexico. Line and standard pipe products in Tex-Tube's size range are produced in Mexico and therefore have not been purchased by Mexico except in situations of short supply. This practice by Pemex must be abandoned for free and fair trade to exist between the two countries. U.S. producers must be given the same opportunities in Mexico that foreign producers are given in the U.S. The buying decision should be made on attributes of quality, price and service not government influence.

(b) Another non-tariff barrier that exists in Mexico is that per the Constitution of Mexico no private ownership or participation in the Mexican Oil and Gas Industry is allowed by foreign companies. If the industry was open to investment by U.S. energy concerns the participation in the Mexican Market by U.S. tubular producers would be greatly enhanced. This access should be paramount to the U.S.-Mexico Free Trade Agreement. Mexico has proven oil reserves that double those of the U.S. This participation by U.S. concerns would also create more jobs and opportunities for the citizens of Mexico.

In summary Tex-Tube Division—Cyclops Corporation would support a U.S.-Mexico Free Trade Agreement that gives the U.S. producer the same opportunities in Mexico, that are extended to Mexican producers in the U.S. *Free and Fair Trade* for U.S. producers is all that we expect from the agreement. Any agreement that calls for anything less than equal opportunity would not be supported by Tex-Tube.

Cordially,

CARL G. FARNSWORTH, *General Manager.*

STATEMENT OF THE UNITED ELECTRICAL, RADIO
AND MACHINE WORKERS OF AMERICA

The economic integration of Europe and the emergence of so-called "trading blocs" around the world will have broad, long term consequences for this country's position in the world economy. We must prepare ourselves for a future which promises to be significantly different from the past. We believe it is time for a careful, fundamental reassessment of U. S. economic policy, both domestic and international, with an eye on securing our competitiveness in the world economy of the twenty-first century.

Unfortunately, the present Administration appears either unprepared or unwilling to undertake such a reassessment. Instead, it has reacted to the developments in Europe and the rest of the world with panic.

One sign of this panic has been the Administration's ill-advised rush into military involvement in the Persian Gulf. Another has been its peremptory abandonment of the GATT talks. Now comes with its request for "fast track" approval of a Free Trade Agreement with Mexico.

Without question, the world economy is undergoing great change. It is natural that this should produce anxiety in some quarters. In a recent interview, the former Finance Minister of Mexico, Jesus Silva-Herzog, described the panic in Mexico:

A year ago, everybody in Mexico rejected the idea of a free-trade agreement with the U. S. on grounds of disparity -- in per capita income, size of economy and degree of development. Today ... they see the challenges faced by individual nations as regional economic blocs begin to form in Japan and Asia, Europe, and North America. Not to join with other nations in trade agreements would be to risk marginalization, to remain spectators on the world scene.

The panic in Mexico over free trade is understandable: Mexico is a relatively small, underdeveloped country. But that a similar panic should overtake a nation as wealthy and as powerful as this one is little short of incomprehensible.

The threat to the U. S. is not sudden "marginalization" in the world economy. Rather, the threat is a continued long and steady erosion of our capacity to compete in world markets. And in terms of that threat, a Free Trade Agreement with Mexico -- as it is likely to be constituted at present - - can do considerable harm.

The Effects of an Agreement on the United States and on Mexico

Since the days of David Ricardo, a large body of economic theory has developed to demonstrate that the unfettered exchange of goods and services across national boundaries -- "free trade" -- can have a powerful stimulative effect on the economies at both ends of such exchanges. In other words, under the appropriate conditions, free trade can benefit all the parties involved.

In theory, free trade could stimulate the U. S. economy by opening up Mexico's domestic market to U. S. producers. Unfortunately, Mexico is a country burdened with a radically unequal distribution of wealth and an unemployment/underemployment rate that has approached 40% in recent years. Mexico's capacity to absorb significant increases in U. S. exports is on the whole quite limited.

Of course, Mexico could adopt social and economic policies designed to expand effective aggregate demand. An opposition leader, Cuauhtemoc Cardenas, has called for a free trade agreement accompanied by a Social Charter whose effect would be to stimulate effective demand in Mexico as well as harmonize social, labor, and environmental regulations on both sides of the border. But note that it is the opposition in Mexico that is calling for this. By contrast, the Administration of President Salinas seems committed to the same misguided theory of "trickle down" economics whose consequences at last are apparently being visited upon us. And its record of turning a blind eye both to human rights abuses and electoral fraud on a scale that has become an international scandal do not suggest an Administration intent on creating a vibrant consumer economy.

Furthermore, Mexico's debt burden has had a catastrophic effect on living standards there. In the 1980s -- often referred to as "the lost decade" in much of Latin America -- real wages in Mexico fell by about 60%. Thus, in addition to a major change in Mexico's social and economic policies, a radical reduction in its external debt will be required if the Mexican economy is to expand sufficiently to increase its ability to absorb U. S. exports.

Thus in terms of U. S. interests, a true free trade agreement would include provisions for substantially reducing Mexico's foreign debt and substantially improving the standard of living of the average Mexican worker.

Similar requirements apply to Mexico's interests in true free trade. In theory, free trade could stimulate the Mexican economy by opening up the U. S. domestic market to Mexican producers.

Mexico's initial competitive advantage in the U. S. would be price, due to Mexico's low wage rates. Significantly, countries which got their foothold in international trade through the export of cheap goods -- Japan, South Korea, and Taiwan and others -- changed their export strategy to higher priced, high value-added goods at the first available opportunity. If it wishes to escape being trapped in a marginal, "cheap goods" niche in the U. S. market, Mexico will ultimately have to follow the same path: expand investment in education and research and development and raise the standard of living of its workers. Indeed, Mexico's ultimate competitors in the U. S. market will not be the low-paid workers of Latin America and East Asia, but the higher-paid workers of the U. S., Europe, and Japan.

Unfortunately, financing such social policies requires domestic capital which Mexico does not presently have, primarily as a result of the debt crisis. And note that as long as its current debt burden persists, whatever Mexico earns by gaining better access to U. S. markets will be siphoned off to pay its debts, not to improve its export position. Again, reduction of Mexico's external debt is vital if it is to enjoy the benefits of true free trade.

In the light of all of this, the "free trade" agreement appears to be a misnomer. This suspicion is confirmed by the fact that beginning in 1986, Mexico abandoned its longstanding tradition of protectionism and radically reduced its tariffs -- by as much as 90% on a trade-weighted basis. Mr. Silva-Herzog puts the case quite baldly: "...the main interests of U. S. negotiators will probably not be trade, since Mexico is quite open already, but in removing investment restrictions in order to take advantage of our low labor costs."

The most likely outcome of an investment agreement will be that international capital will flow into Mexico. Normally, one would assume that such capital will flow into Mexico to produce for the Mexican market. But this has already been done. By the early 1970s -- nearly 20 years ago -- U. S. corporations already controlled the following proportions of major industries in Mexico:

Automobiles	57%
Rubber	76%
Mining	54%
Tobacco	100%
Food and Beverages	47%
Machinery	51%
Computers	88%
Chemicals	53%
Pharmaceuticals	86%

Given these levels of penetration by U. S. capital in Mexico, clearly the so-called "free trade" agreement is not just another case of promoting old-fashioned foreign investment. Rather, we believe its purpose will be to encourage U. S. investment in Mexico to create production facilities utilizing low wage Mexican labor as an export platform for the U. S. market.

The model already exists in the Maquiladora Program. Originally set up in 1965 to encourage foreign companies to build plants in Mexico, the program has grown to over 1,600 plants employing nearly 500,000 workers. In some quarters, it is referred to as a "spectacular success."

A maquiladora plant can import components from the U. S. duty free. The components are then assembled and shipped back to the U. S. where an import duty is levied only on the value added by the Mexican assembly operation, not on the full value of the manufactured article.

This arrangement is, of course, a travesty of the idea of free trade. It can be described more accurately as a clever gimmick in international corporate accounting designed to take advantage of low Mexican wage rates. In the last ten years, we have seen enough examples of the devastating effects of such "creative accounting": savings and loan balance sheets and leveraged buyouts being two of the latest examples. The maquiladoras are no exception:

1. The wage rates in the maquiladoras are substantially lower than Mexico's average manufacturing rate of \$.84 an hour.

(The U. S. average manufacturing wage in 1989 was \$10.71 an hour.)

2. At present there are over 1,600 maquiladora plants employing about 443,000 workers. About 85% of the plants are U. S.-owned. That represents a direct loss of over 375,000 jobs in the U. S. and probably an equal number lost indirectly through ripple effects. In our own Union, the number of jobs that have been lost directly to the maquiladoras number in the thousands. And we are only one union.

3. Through published reports and the direct experience of our staff and members, we can say that the general working conditions -- health and safety conditions in particular -- are extremely poor in the maquiladoras. Rarely is state-of-the-art production technology employed. And the communities and neighborhoods in which the maquiladora workers live almost universally lack the basic amenities: sewage, running water, adequate housing, public health services -- even paved roads in many cases.

4. By adjusting internal pricing policy, a U. S. owner of a maquiladora can shift the tax burden associated with a maquiladora operation from one country to the other to obtain the most favorable tax treatment. This is, of course, an invitation to a bidding war among governments in both countries to set the most favorable tax terms to the companies.

5. Relative to the entire U. S. economy, the number of companies that have relocated to the maquiladora corridor is small. But the effects have been pervasive. Companies now freely threaten to leave for Mexico when workers demand improvements in compensation or even show resistance to concessions. In every city and town in the U. S., wage rates are lower because of the maquiladoras.

6. In the Southern California furniture industry alone, over 40 plants recently moved to Mexico to escape that region's environmental control regulations. The pressure to relax U. S. regulations is obvious. (In the meantime, the plants, located just across the border, are polluting the atmosphere which then blows back into the U. S.)

The maquiladoras can be adjudged a "spectacular success" only in the light of a single, narrow, special interest: the immense profits that come from the ability to manufacture in a low-wage economy and sell in a high-wage market. Among those who are availing themselves of this success are the following leading maquiladora employers (as of 1986):

Zenith	18,000 workers
General Motors	13,000 (now 20,000)
General Electric	8,000
RCA	6,000 (now part of GE)
A. C. Neilsen	5,500
North American Philips	4,500
American Hospital	3,500

The macroeconomic costs to both societies are vastly greater than the superprofits these corporations gain through their maquiladora operations. Nonetheless, by most accounts the proposed "free trade" agreement will include a huge expansion of the maquiladoras, extending the maquiladora zone over the entire country and giving them full access to selling in Mexico's domestic market. As one Mexican proponent put it, "We won't even be using the word maquiladora in ten years."

The Long Term View

The maquiladoras are a symptom of something much deeper. It is the kind of short term thinking that causes some in this country to gloat that due to the "free trade" agreement with Canada, Canadian companies are relocating to Buffalo to take advantage of the cheaper (!) labor there.

In the long run, for both the United States and Mexico, maquiladora thinking promises not industrial resurgence but industrial decay. In 1986, James M. Kane, General President of our Union at the time, offered this testimony to the House Subcommittee on Economic Stabilization on the issue of maquiladoras:

The U. S. became a leader in industrial production because we had the highest, not the lowest wages in the world. The pressure of high wage rates forced American firms to use innovation rather than exploitation to reduce costs. In the United States we have traditionally beaten our foreign competitors who always had cheaper labor because technology gave us higher productivity. This productivity allowed us to have both the lowest prices and the highest paid workers. Economists acknowledge that the availability of cheap labor is generally the most potent barrier to technological improvements.

It is time to reassess what we are doing. In the 1990s, the United States will be making its final preparations to participate in the world economy of the twenty-first century. We believe those preparations should be made with a single, overriding goal in mind: the restoration of this country's ability to compete in world markets.

Our Union has been intimately involved in the economic life of the electrical and machine tool industries for over 50 years. In the last decade in particular, we have watched -- from the bottom, from the factory floor -- the effects of a mix of social and economic policies which have wreaked havoc on this country's industrial base.

1. We have learned little from the spectacular success of Japan's Ministry of International Trade and Industry. With one exception, we have ignored the obvious advantages of a federally-supported industrial policy. (In the case of that one exception -- the weapons industry -- the United States is the unchallenged world leader.)

2. The regressive policies of the last twenty years have widened income inequality at an unprecedented rate with little thought given to long-term effects on aggregate demand. So far, we have been spared the consequences of contracting effective demand -- but only at the cost of creating a time bomb in burgeoning consumer debt.

3. On the mistaken notion that attorneys and accountants are the true producers of wealth, we have ignored the needs of technical and engineering education. We have no plan to insure the availability of the human talent needed to design, operate, and maintain the production systems of the twenty-first century.

4. A nation may undertake deficit spending to finance its future. But to use deficits to finance a military buildup of dubious rationale and effectiveness is to squander it -- especially if the infrastructure needed to maintain that nation's economic efficiency is crumbling.

5. The nation's tax and investment policies have done little to encourage investment by our own capital markets in our own productive economy. We are farther than ever from encouraging the patient, long-term investment required to reestablish U. S. dominance in world markets. Instead, our financial policies have encouraged investment in takeovers and leveraged buyouts that merely reshuffle ownership of existing productive capabilities.

6. We have persisted in the belief that the key to competing in world markets is to drive down the wages of our workers -- in spite of all the evidence that wages and competitiveness rise together.

7. The labor movement has been assaulted in the mistaken belief that unions are obstacles to international competitiveness -- in spite of all of the evidence that unions are a constant prod on management to find new ways to increase productivity.

Even in the vague outlines so far presented, we can find no connection between these problems and the Administration's proposed solution of a "free trade" agreement with Mexico.

Therefore, we urge the Congress to support a Resolution of Disapproval with regard to the Administration's request for a fast track approval of its proposed Free Trade Agreement with Mexico.

STATEMENT OF THE U.S. HISPANIC BUSINESS BILATERAL COMMISSION ON THE FREE
TRADE AGREEMENT

[FREE TRADE AGREEMENT POSITION PAPER]

SUBJECT: Non-Tariff Barrier—"Providing for Free Marketing Through Equivalency of Meat Grading"

AUTHORS: Alejandro Silva

DATE: February 14, 1991

I. EXECUTIVE SUMMARY

Meat products slaughtered and processed in Mexico do not enjoy equal marketing opportunities in North American markets since USDA quality grades for these Mexican products are not permitted. A solution providing for USDA grading (or U.S. recognized grading) activities in Mexico is essential. Subsequently, a single North American carcass grading program is needed.

II. ASSUMPTIONS

USDA grades on beef products are an essential to the marketing of beef in the United States and other markets are the benchmarks by which retailers pay for meat. However, a 1982 legal opinion of the Agricultural Marketing Act of 1946 (AMA) denied USDA meat grading in Mexico. This opinion states that the AMA was intended to assist United States producers in the marketing of United States agricultural products; that this purpose is not met if USDA grading activities are carried on outside the United States.

USDA grading activities are presently being carried out on Mexican produce by United States Graders in Mexico.

III. ADVANTAGES

Domestic meat and meat products are sold in the United States with quality grading being an important aspect of its marketing and value. Without obtaining recog-

nized quality grading of its products, thus relieving this apparent non-tariff trade barrier, Mexican meat products cannot achieve competitive equality in the United States marketplace.

When USDA grading (or Mexican grading "equal to" United States grading) is carried out in Mexico, its products will be imported into the United States through Hispanic owned businesses without being value discounted. This will help extend Hispanic career and business opportunities, as well as political, educational, and other facets of Hispanic influence. This process will assist United States people and companies in becoming a more global country by experiencing the positive aspects of the growth of their relationship with Mexico and Mexicans. Both countries will grow closer as more people and companies from the United States learn more about Mexico (history, geography, etc.) and Mexican people (custom, culture, language, etc.)

Forces of the free market will create positive counter trade changes in both countries, including providing each country an ability to freely exploit its natural competitive advantages and opportunities. These include lowering of certain production and transportation costs due to competition and more efficient utilization of transportation and other assets.

The Mexico-United States relationship will also greatly assist in building stronger relationships with Central and South American countries and people, thus enhancing the changes for a hemispheric free trade environment. This will lead to a more stable and stronger economic and political situation within the hemisphere.

IV. DISADVANTAGES

There are no real disadvantages to free trade in the area of meat trade; only perceived ones.

While there may be some special interest groups which will adopt protectionist attitudes and positions for fear of "unfair" competition, even perceived disadvantages of free trade in meat products are few and considered relatively insignificant.

Some of the United States "special interest" groups include labor, segments of agriculture production, food processing, and the minerals exploration industry.

Mexican "special interest" groups include executives and skilled labor, financial, transportation and construction industries.

V. ASSESSMENTS/PROSPECTS

The prospects for free trade in the area of meat production and marketing is very strong. The Mexican infrastructure for the production, processing, and exportation of meat to the United States is in place. The Mexican Meat Inspection System is recognized as "equal to" that in the United States, permitting the exportation of meat. With continued efforts, and the support of the Mexican government and industry, the Mexican system will continue to gain credibility; more slaughter and processing plants will seek to be certified for export, and as the grading issue is minimized and resolved, the potential for free trade of meat products will be enhanced.

The special interest groups, earlier mentioned in Section IV, Disadvantages, should not be permitted to play a disproportionate role in the free trade agreement negotiations.

VI. CRITICAL FACTORS

The United States-Mexico Free Trade Agreement needs to be patterned after the United States-Canada Free Trade Agreement, and perhaps tied in with the latter. Also, it is imperative that all tariff and non-tariff trade barriers need to be eliminated over a short period of time (five years or less) so that there will be a complete flow of commerce on both sides of the United States-Mexican border.

This implies equivalency in systems, regulations, etc., relating to the inspection and grading of agricultural products, and in their transportation.

A policy position is needed from USDA which recognizes that the use of meat grading personnel outside the United States, to grade and apply US grade marks to carcasses of cattle does benefit United States producers in marketing these products. This should be done under the umbrella of the Agreement; that grading of carcasses will have the purpose of identifying the quality of products produced by members of the agreement. This would also be consistent with the present grading of produce in Mexico by United States grading personnel.

If the policy position cannot be obtained, specific legislation may need to be introduced and passed by the United States Legislature which would override the present legal interpretation of the AMA. This would need to provide discretion to

the United States Secretary of Agriculture to permit US grading personnel to travel outside the United States for the purpose of grading carcasses, applying the US grade markings, and assisting in the development of an "equal to" carcass grading program in Mexico. A single North American grading program should be the goal.

VII. PRIORITY ISSUES

The administration needs to clarify and monitor that assurances to remove barriers to free trade within a short time are realized; that these barriers will not "creep" back into the trade environment; and that there will be safeguards to guarantee that no new barriers are created.

A definite plan is needed for bringing equivalency for all systems, regulations, etc., which impact on free trade.

Preparation, interface and education of citizens and companies is needed with a goal of eliminating, or significantly minimizing, the lack of understanding which exists.

Both governments must clarify and monitor to insure that country politics will not disrupt the free flow of trade between Mexico and the United States.

SUBJECT: Legal Issues

AUTHORS: Professor Rodolpho Sandoval

DATE: February 14, 1991

I. EXECUTIVE SUMMARY

As the United States and Mexico begin to pursue seriously the development of a Free Trade Agreement to open the international doors of opportunity to each other, a legal frame work must be developed to support the international economic infrastructure necessary to develop free trade in the most efficient, and equitable manner. Whether the Free Trade Agreement becomes a reality beyond the present maquiladora program depends on several legal questions. These legal questions are discussed in this paper.

II. ASSUMPTIONS

The continuous success of the maquiladora program provides a strong basis for expanding the perimeters of trade between the United States and Mexico. The free trade proposal was submitted to Congress on February 14, 1987, by Congressman William Richardson (D-NM) entitled "The United States-Mexican Border Revitalization Act."

Therefore, there is an assumption in this paper that both the United States and Mexico are desirous of implementing an economic-legal infrastructure to embellish on the existing international trade. Economic interdependence, coupled with a close binational affinity between Mexico and the United States, have already created a spill-over effect whereby the domestic policies of one country often affect and are affected by the foreign and commercial policies of the other. Both countries, therefore, would benefit from a free trade agreement.

III. IMPLEMENTATION OF LEGAL INFRASTRUCTURES TO EFFECTUATE ADVANTAGEOUS FREE TRADE

The Free Trade Proposal is of great benefit to both the United States and Mexico since the proposed bill requires the use of labor and capital from both countries. Investors from both sides of the border will be allowed to invest in each other's country. The consequences of this manifestation will result in the development of greater investment markets. In addition, the captial formation and development of industry will encourage the employment of labor from both countries.

A Mexico-United States trade agreement would regulate and ideally, eliminate economic barriers between the two nations including tariffs, and non-tariff barriers such as laws or regulations that explicitly or indirectly impose discriminatory burden on goods and services of foreign origin.

IV. DIFFICULTIES IN DEVELOPING AND MAINTAINING A LEGAL INFRASTRUCTURE FOR FREE TRADE

First, there is some concern that, with Mexico's political system overshadowing its legal system, there is a tendency for a continual threat of unilateral changes to the rules of the game involved in United States-Mexico trade.

Secondly, the fact that the United States and Mexico have distinct legal systems (one functions under the common law and the other under the Civil Law Tradition)

present some challenging opportunities which will be more difficult to reconcile than the laws between the United States and Canada.

Third, there are no current mechanisms to resolve trade disputes and therefore some will have to be developed between the two countries whose culture, language, political, social, economic, legal and historical traditions are significantly different.

Fourth, the people of each country have a different view of the role of government in their daily lives. In fact, Mexican citizens expect more than their American counterparts in the way of service, financial aid and other support systems, from their government.

Fifth, Mexico like Canada, has a great concern with the maintenance of their national and cultural identity. Mexico has a national policy of fostering its cultural identity as distinct from the United States through its broadcasting industry which is to a great extent highly government regulated. This condition presents some difficulties to the implementation of rules with respect to the United States advertising commercials within the Mexican communication systems targeting Mexican consumers.

V. ASSESSMENTS/PROSPECTS

If the maquiladora program is any indication of the success of a Free Trade Agreement, the prospects for free trade are very good. The maquiladora program is currently Mexico's second largest source of foreign exchange and it is the most rapidly expanding industry in Mexico. Currently, the industry employs almost 250,000 workers in over 800 maquiladoras. It is estimated that by the year 2000 the program will generate over \$10 million in value added and employ almost one million workers.

Mexico is the third most valuable trading partner of the United States. United States exports to Mexico totalled \$13 billion, while Mexican shipments to the United States reached \$18.9 billion. Mexico is the largest source of all United States imports from co-production facilities abroad.

VI. PRIORITY ISSUES

Critical legal factors upon which the prospects are dependent for realizing free trade.

Many laws, regulations, and policies will ultimately need to be harmonized between the two countries in order to effectuate a free trade agreement. For example:

A. TARIFFS

The first, most obvious objective is to eliminate tariffs on the widest possible range of traded goods and services which continue to limit access and act as a major impediment to both markets.

B. NON-TARIFFS BARRIERS

Non-tariff barriers at both the Federal and the state levels effectively preclude many exports from entering the marketplace. These include quotas and minimum prices on imports and exports, sales and excise taxes, regulatory requirements on imports, customs duties and customs users fee. One question that needs to be resolved is whether anti-dumping and counter-veiling duty laws are considered non-tariff barriers.

The United States should also be assured of long-term access to Mexican energy supplies. This would require the end to current discriminatory practices towards energy exports to the United States.

C. FOREIGN INVESTMENT AND FINANCIAL SERVICES

Another major obstacle to the free trade agreement is the laws affecting the United States investment and financial services in Mexico. For example, will American banks be able to operate its banking services in Mexico on the same basis as a foreign bank, a Mexican bank or a United States bank? These are difficult questions because of past experiences with respect to the nationalization of banks by the Mexican Government.

The issue of expropriation of investors' holdings needs to be looked at very carefully in order to provide a sense of assurance to investors. In addition, investors must be assured via the trade agreement that neither party may prevent repatriation or transfer of profits, earnings or liquidations proceeds by citizens of the other.

D. TRADE IN SERVICES

Of particular significance is the strong interest of the United States to have Mexico financial services laws liberalized and made more accessible to the

American Financial industry. American firms would be interested in having the following financial services liberalized:

1. The prohibition against foreign firms offering financial advisory service to both individuals and institutions in Mexico.
2. Law affecting access to telecommunications, information networks and electronic services delivery systems.
3. Current laws restricting the operations of foreign securities firms and banks in Mexico.
4. Others would include: transportation services, production, distributions, communications, professional services, real estate, computer services, enhanced telecommunications, advertising, insurance, aviation, leasing, construction and engineering.

E. INTELLECTUAL PROPERTY

Mexico does not accord adequate protection to American ownership and copyrights. Americans would like to see rules negotiated in the Free Trade Agreement that would afford copyrights protection.

F. GOVERNMENT ASSISTANCE

Nations throughout the world provide subsidies to attract new investments, to maintain existing ones, to encourage exports, to redistribute industry geographically within their borders, to encourage research and development, and periodically to rescue or rejuvenate a failing industrial sector or company.

Subsidies exist in the United States, but they are more piecemeal and are less extensive at the Federal level than at the state level. The United States would like to insure that Mexican industry is not subsidized to the extent that free competition would be injured.

What about the industry that will be displaced as a direct result of the implementation of the Free Trade Agreement? Will there be some reserve legal rights to provide emergency relief to domestic industries injured by imports?

G. DISPUTE RESOLUTION MECHANISMS

The greatest dilemma with respect to dispute resolution mechanisms is the fact that Mexico and the other is the Civil Law Tradition. In the Common Law, laws are interpreted and extended by the court through the doctrine of precedent or stare decisis, while in the Civil Law Tradition in Mexico, the court is by in large functionary and administrative.

Moreover, while the Mexican Constitution, allows for a similar body like the U.S. Congress to promulgate laws, in reality, the president effectuates law through presidential decree thereby empowering him to effectuate economic and social policy.

Since there are presently inadequate mechanisms to resolve disputes, the question then becomes what kind of legal procedures and structures can be developed that might provide adequate assurance to both countries that any resort to trade remedies by either side are justified?

Therefore, it becomes imperative that some type of intergovernmental administrative entity be established to implement and monitor the agreement. Conceivably, the settlement of disputes could be left to those provided for under the GATT.

VII. PRIORITY ISSUES

In conclusion, the Congress should request the Administration to closely monitor, during the negotiation process, the legal aspects with respect to tariff, and non-tariff barriers including foreign investment law, trade services, intellectual property law and subsidies. Of particular significance and importance will be the dispute resolution mechanisms.

SUBJECT: Government Procurement

AUTHORS: Fernando Chavarria/George Munoz

DATE: February 14, 1991

I. EXECUTIVE SUMMARY

Government procurement, typically the domain of large corporations, is a window of opportunity to minority-owned small business through federally sponsored programs, particularly "set asides" and Section (8) a programs.

Small Mexican-American businesses that benefit from their MBE status, are ideally positioned, due to their cultural heritage and traditional links to Mexico, to

capitalize from the F.T.A. by joining forces with Mexican companies capable of supplying government contracts.

II. ASSUMPTIONS

Regulations regarding MBE's participation in Government Procurement should not restruct MBE's joint ventures with Mexican companies for the purpose of "set asides" or Section 8(a).

The existing requirements of 51% ownership and control may not be met if the MBE brings into the equation as equal partner an outside company. Such a situation would discriminate against the Mexican-American business sector which should be one of the prime beneficiaries from the FTA.

III. ADVANTAGES/DISADVANTAGES OF FREE TRADE

It is obvious that the main objective of the Free Trade Agreement from a macro point of view, is the expansion of bi-lateral and unrestricted trade for the benefit of all its members.

It is also known that benefits will not flow evenly across the board, but that certain sectors will benefit more than others and still others may even suffer. As economists would state, it is the "marginal" benefits that count.

Small business is generally skeptical about its ability to benefit from the FTA at all, and it is a justified fear. This sector is usually undercapitalized and technologically inept to compete against big corporations.

Unless the Mexican-American business is motivated with incentives that contemplate its reduced capacity to compete, it will find itself excluded from a process to which it is politically, socially and economically sensitive to.

It behooves to find a mechanism by which small Mexican-American businesses do not lose their MBE advantages when joining with Mexican companies in government supply contracts.

The Mexican manufacturing sector has in recent years experienced unprecedented growth as a result of a joint effort with the government to increase exportable production. The benefit has not only been in the balance of payments, but also in the Mexican's company ability to compete effectively in international markets with both price and quality.

Thus the linkage of a United States based Minority Business Enterprise with a competitive Mexican supplier creates the right combination for success for Hispanic-American owned business.

IV. PROSPECTS

Mexican-American MBE's should be able to retain their preferential status in bidding for government contracts with partial or total sourcing by Mexican companies.

To facilitate and promote their participation, the supply/demand process should be institutionalized through the assistance of SECOFI and the United States Department of Commerce which would monitor an information desk to provide leads and assistance to MBE's.

V. CRITICAL FACTORS

Preferential treatment to Hispanic-American MBE's may create conflict if other MBE's do not receive similar treatment, thus flexibility should probably apply to all.

VI. PRIORITY ISSUES

Coordination among the Small Business Administration, SECOFI and the United States Department of Commerce should take place to delineate a unified approach to facilitate Minority Business Enterprises preferential participation with Mexican suppliers in government procurement programs.

SUBJECT: Hispanic Print Media

AUTHORS: Tino Duran

DATE: February 14, 1991

I. EXECUTIVE SUMMARY

As president of the National Association of Hispanic Publications, the only organization of Hispanic publishers in the United States, and as publisher of two Spanish language community newspapers, I am honored to be asked to contribute to the

development of positions regarding the Free Trade Agreement between Mexico and the United States.

I should precede any opinions, however, by explaining that my situation is a unique one, and my opinions are influenced by numerous factors, among them that as a publisher of two Spanish-language newspapers I am in close contact with our readers, many of them recent immigrants from Mexico and other Americans of several generations who proudly hold on and perpetuate their Mexican-based Spanish-speaking culture.

Secondly, as a Mexican American I have always advocated relations of all impediments that divide us and Mexico.

Additionally, as president of NAHP I have share mutual concerns with publishers of similar publications from throughout the country. Representing the interests of the more than 350 Hispanic publications in the United States, I am influenced in no small way because these publications have common interests, and as publishers we acknowledge a responsibility to the more than five million readers we serve.

Finally, also a NAHP president, we work closely with the Asociacion Mexicana de Editores, a professional organization of editors and publishers of newspapers from throughout Mexico. Therefore, we are not entirely new to the changes, potential benefits and possible problems implicit in any free trade agreements accorded by our two nations.

II. ASSUMPTIONS

Free trade would greatly affect the manner in which Spanish-language print media operates in the United States. Free trade would also have a tremendous effect on our readers.

Any free trade agreement, first of all, would not be absolutely "free." We are not going to dissolve our national boundaries, so that also precludes a totally free border. However, for Hispanic media in the United States we can anticipated that there will be possibly important positive changes.

The print industry is subject to some controls, particularly in terms of the importation of items printed in Mexico and in the exportation of paper to Mexico, as I understand it. It is hoped that any relaxation of trade restrictions would include the elimination of these trade restrictions.

III. ADVANTAGES

Because of the economic disequilibrium of the two nations we can assume typically that it will be economically advantageous for Mexicans to benefit from the importation of technologically intensive products and of commodities that are scarce in Mexico, such as paper.

NAHP has been developing its relationship with the Mexican print industry for some time. We have a ten-point agreement that outlines how United States publications will work together with Mexican publishers for mutual benefit.

Additionally, many of our member newspapers are signing up for wire services from Notimex, the Mexican news wire service, many because the wire service has actively worked to make itself affordable to our publications and because the service has dramatically increased its staffing on the United States side. In a short time they have made themselves extremely competitive and very attractive to our publications and I suspect that soon both UPI and AP will find themselves competing in many areas with Notimex.

For Americans free trade might mean benefits from importing the labor intensive production of Mexican print shops. For the Hispanic print media this could translate into more cost-effective printing and binding in Mexico, for example.

IV. DISADVANTAGES

As for disadvantages, there are some. American print shops will find themselves competing with cheaper labor, for example. this will be particularly true along the border areas. Second, border area publications may find themselves competing with better staffed and more cheaply printed Mexican publications.

Economic forces will eventually root out the competitive players on both sides and bring them to the forefront. With no restrictions Mexican dailies might find themselves competing with state editions of United States newspapers. Likewise, the reverse may also come true. Certainly, there will be a market for less frequently published material on both sides.

The complexity of these possibilities is enormous, nevertheless. New laws will likely be written—at least on the United States side—regarding slander and liabil-

ity laws. Will Mexican publications be accorded mailing privileges enjoyed by American ones in the United States? Will the reverse also be the case?

What is most obvious, however, is that for cultural and linguistic reasons Mexicans are an obvious market for Hispanic publications and vice-versa. Mutual cooperation agreements and joint ventures are certain to emerge. Binational publications are a certainty that only time will hinder in becoming major media influences.

The question of how Hispanic participation can be assured is the most difficult question to determine. It is imperative that Hispanics not be excluded from the process but I fear that there is little we can do formally or legally to assure the participation of Hispanic publishers and journalists.

V. ASSESSMENTS

Overall, I would only conclude that barring the development of other options, we shall have to rely on our own initiatives, our own qualifications and especially our own imagination and aggressiveness to assure an equitable role for ourselves in the future that a free trade agreement will bring.

SUBJECT: The United States-Mexico Free Trade Agreement: Investment Opportunities

AUTHORS: Professor Rodolfo Sandoval

DATE: February 25, 1991

EXECUTIVE SUMMARY

The purpose of this paper is to provide an in-depth summary of major business investments in the Mexican economy via a free trade agreement between the United States and Mexico.

The first section introduces some key terms and issues necessary in order to understand the relationship between barriers of trade and investments. Background information relevant to investment opportunities is also presented.

The next section introduces specific investment opportunities. These opportunities include those available in five key Mexican states, the tourism industry, and investment possibilities for the Austin—San Antonio area.

The final section concludes by affirmation of the viable investments that the Free Trade Agreement between the United States and Mexico will afford.

I. FREE TRADE AGREEMENT OVERVIEW

Terms

When most people think about the proposed free trade agreement between the United States and Mexico, they immediately begin to compare the negotiations with the European community and the common market; this is a misnomer. Free trade by definition is international exchange between nations or states on an unrestricted basis. Free trade as defined by Presidents Bush and Salinas is:

“ . . . a process of gradual and comprehensive elimination of trade barriers between the United States and Mexico, including: the full, phased elimination of import tariffs; the elimination of import tariffs; the elimination or fullest possible reduction of non-tariff trade barriers, such as import quotas, licenses, and technical barriers to trade; the establishment of clear, binding protection for intellectual property rights; fair and expeditious dispute settlement procedures; and other means to improve and expand the flow of goods, services, and investment between the United States and Mexico.”

In contrast, a common market is the consolidation of governing bodies under a single unified system. A common market addresses political and economic issues concerning national sovereignty. Based on the definitions of free trade and a common market, it is clear to see that what is happening in the European community is not the same as what is happening between the United States and Mexico. The United States and Mexico will each retain their independent sovereignty. The only thing at issue is the bilateral reduction of tariff and non-tariff barriers to trade between the two countries.

The other terms that are important in terms of understanding a Free Trade Agreement are tariff and non-tariff barriers. A tariff is a duty or tax on merchandise coming into or going out of a country. Tariffs pose significant barriers to the unrestricted flow of goods and services because the foreign product will cost more to purchase; trade is therefore discouraged.

Non-tariff barriers include things such as quotas, licenses, and standards. The following is an explanation of some of the more prevalent non-tariff barriers.

- **Quotas:** restrictions on the total quantity of imports into a country. There are two types of quotas:
 - Absolute**—these quotas limit the quantity of goods that enter a country in a specific period. Once the quota is filled, no more goods are allowed.
 - Tariff-Rated Quotas**—permit a specific quantity of imports into a country at a reduced customs duty rate.
- **Licenses**—are permits to sell products in another country.
- **Standards**—are used to determine if a product meets quality specifications.

It can be concluded that these barriers are widely used in consideration of the following three facts:

1. Mexico's tariffs when weighed by imports, now average about nine percent.
2. The United States currently controls the import of textiles via absolute quotas.
3. Mexico has import license requirements on a number of products, including requirements on 59 percent of the value of United States agricultural exports to Mexico. However, in recent years they have dramatically reduced these requirements to just 330 out of the approximately 12,000 items in the tariff schedule.

These barriers have been an instrumental reason why there has been under investment in Mexico's economy.

Issues

Two very important issues that the free trade negotiations have centered around is (1) Intellectual Property Rights, and (2) reduction in tariff and non-tariff barriers.

Intellectual Property Rights (patents, etc.) have been a concern for potential investors. There are many recorded cases of Mexican companies infringing on the Intellectual Property Rights of United States companies. "The result is a loss of income for those United States companies as well as tax revenue for the government." The Uruguay Round's agenda includes discussion concerning the effective enforcement of these rights; the current objective is to assure investors that their rights will be protected.

The reduction of tariff and non-tariff barriers has caused mixed feelings from both sides. In general, the United States labor groups are against any reduction in tariffs or quotas, while Mexico's unions are for an even greater reduction. Mexican business leaders are for an even greater liberalization of quotas. Quota liberalization translates into increased exports of some Mexican products, and financial well-being for some Mexican companies. The difference in views towards liberalization of tariffs and/or reduction of quotas is based on the perceived benefits or damages that may come about as a result of free trade.

The above discussion of terms and issues relating to the free trade agreement between the United States and Mexico is important in relation to investment opportunities. A working knowledge of the terms and issues provides a clearer understanding of why investments have been impeded. It is also clearer that the liberalization of quotas and the reduction and eventual elimination of tariff and non-tariff barriers translates into increased exports/imports, increased opportunities, and increased financial well-being for the United States and Mexican companies.

Background

After years of economic and political isolation, Mexico is starting to look like one of the best places to do business. Under former President Miguel de la Madrid, the country began a reformation process that set a new direction for its economy and for businesses that operate in Mexico. Two way trade between the United States and Mexico has risen 75 percent since 1986.

The dramatic explosion in trade is primarily the result of Mexico's substantial liberalization of trade regulations and a growing awareness on the part of United States firms that there are new opportunities in the Mexican marketplace.

The regulatory provisions for negotiating a free trade agreement are set forth in the Omnibus Trade Act of 1988. On June 10, 1990, Presidents Bush and Salinas agreed to a preliminary consultation to determine if free trade negotiations should continue; Carla Hills and Jaime Serra were commissioned to make the determination. On August 8, 1990, they reported that trade negotiations would be beneficial to both countries.

Mexico is the United States' third largest trading partner, after Canada and Japan.

**TOP UNITED STATES MARKETS; UNITED STATES DOMESTIC AND FOREIGN MERCHANDISE EXPORT,
1989 (F.A.S. VALUE)**

Country	\$ Billions
Canada.....	78.6
Japan.....	44.6
Mexico.....	25.0
United Kingdom.....	20.9
West Germany.....	16.9

Source: Paul Dacher, "Mexico: The Demand is Great For Products made in U.S.," Business America, Oct. 8, 1990, p. 9.

Mexico supplied six percent of total United States exports and accounted for seven percent of total United States exports. These statistics show that by far, the United States is Mexico's most important trading partner.

II. INVESTMENT OPPORTUNITIES

Most challenges to management in the 1990's must be considered global because the underlying realities driving business are global. Mexico is becoming an increasingly important market for investments from United States companies. This is due in part to Mexico's open markets, cheap labor, and a government that finally seems capable of delivering both political and economic security. Mexico has come a long way "from the anti-foreign business policies that dominated the political landscape under President Jose Lopez Portillo." Under the leadership of President Carlos Salinas de Gortari, restrictions have been replaced with regulations. These new regulations have and will continue to open up an array of investment opportunities.

Regulations

The following is a list of three of the most important newly issued regulations of the Foreign Investment Law:

1. The Regulations of the Law to Promote Mexican Investment and to Regulate Foreign Investment were issued by presidential decree and were published in the Diario Oficial de la Federacion on May 16, 1989, in effect as of May 17, 1989.
2. The National Commission of Foreign Investments (CNIE) issued General Resolution Number 1, which is divided into three rules, and General Resolution Number published in the Diario Oficial on June 21, 1989, in effect as of June 22, 1989.
3. Transitory Article Six of the Regulations contains an important feature setting forth a three year period counted from May 17, 1989, authorizing non-Mexican investors to purchase shares in already established companies, notwithstanding that such investors aggregate participation exceeds 49 percent of the capital of the corresponding company.

These Regulations have liberalized approximately two-thirds of the economic activities constituting Mexico's gross national product. Various activities are now open to majority non-Mexican ownership without prior approval from the National Commission of Foreign Investment. There are some economic activities that are still restricted to Mexican capital, wholly or in majority (i.e. 51 percent or more). However, non-Mexican investment may not participate in certain activities still reserved exclusively for the Mexican state or Mexicans, such as banking, oil, radio and television and land transportation.

III. MEXICAN STATE INVESTMENT OPPORTUNITIES

The National Program for the Promotion of Industry and Foreign Trade of Mexico (Spanish acronym PRONAFICE) is used by Mexico's thirty-one states to develop policies and generate investment opportunities. Since the competition to offer foreign investment incentives and proposals have increased, individual Mexican states are trying to generate opportunities for themselves.

There are five Mexican states which have successfully penetrated foreign markets and are representative of the economic security that is developing in Mexico. These states and their economic advantages are presented below:

Michoacan (The Door to the Pacific Market)

Specializing in foreign trade is the strategy for industrial promotion of the state of Michoacan. There are two new highways that are being constructed which will

provide access to Mexico City and Guadalajara. It will also port access from Alamanca to the port at Lazaro Cardenas.

The importance of this project is represented by the fact that 70 percent of the industrial production of Mexico is concentrated in the metropolitan area of Mexico City, and 15 percent in Guadalajara. Now with a better port in Lazaro Cardenas, transportation to Vancouver, San Francisco and Panama is possible, making it the door to the Pacific.

Nuevo Leon (Land of Investment Opportunities)

The initiative to invest in Nuevo Leon is exemplified by its industrial restructuring and decentralization. Grupo Alfa, Visa, and Vitro, which are located in Monterrey, are three of Mexico's leading industrial companies.

Nuevo Leon offers advantages to investors, principally to those who want to promote and project their businesses in the international market. Its geographic location and industrial resources permit the state to be one of the principal exporters for Mexico, exporting to the United States, Europe, the East and Latin America.

Queretaro (Heart of Mexico)

This state has a promotion program entitled "Target Queretaro in the very heart of Mexico." The program promotes Queretaro as being easily accessible to all areas.

Its excellent geographic location, in the heart of the country, makes it the axis of the transportation routes. There are 1,287 kilometers of paved roads, the most important being the Via Construction No. 57 and the Panamerican Road, which link the state with the border cities of Ciudad Juarez and Piedras Negras, continuing to El Paso and Laredo in Texas.

Quintana Roo (Natural Resources of the Caribbean)

This state has extensive natural resources, which they use to promote themselves. These resources include timber, clay and plaster, limestone deposits, and numerous marine species (i.e. lobsters, tuna, red snapper, etc.)

The jungle of Quintana Roo is characterized by its precious timbers; mahogany and red cedar. Because of proper development the tapping of these resources has been outstanding in the generation of jobs and value added to the state.

Veracruz (Richest in the Country)

This state is called the richest in the country because it has a variety of resources such as raw materials and a developed infrastructure. Veracruz is located at the heart of the internal and external market of the Gulf of Mexico.

Two of the main reasons for the success of industrial development in Veracruz are: investments made by the Federal Government and the availability of a capable labor force. Along with this, the private sector has continued to support and strengthen its investment in Veracruz, particularly in secondary petrochemicals, metal-mechanics, and capital investment.

The opportunities and advantages that each of these states offers proves that the Mexican market is strong for all types of investments; each state has something unique and different to offer. Mexico is indeed engaging in a new economic era.

IV. SPECIFIC MARKETS

The Mexican government has enacted a number of new regulations to help promote not only tourism into Mexico but also investments in tourism. Under the new investment regulations, foreign investors may now own up to 100 percent in hotels and restaurants. By generating over 2.7 billion in 1988, tourism was Mexico's second largest source of foreign currency. Of the 5.7 million people who visited Mexico last year, the vast majority were American. Investments in tourism are viable because it attracts large amounts of foreign exchange.

It is easy to understand why Mexico is such a popular vacation spot for American tourists. Mexico has a rich traditional heritage that boasts ancient traditions and numerous cultural events. Mexico has 11,000 kilometers of coastline and a wide variety of tourism resorts. Mexico currently has over 66,000 restaurants and over 7,721 hotels and motels.

United States investment in Mexico in the tourism sectors currently stand at \$111.7 million in assets and is estimated to have created more than 1,000 jobs. These figures are so significant that the United States and Mexico have signed a bilateral tourism agreement in recognition of the importance of tourism to both countries. Another move that signifies the importance of tourism is the offering of a series of

one-day investment seminars by the Secretariat of Tourism of Mexico (SECTUR). These seminars will be instrumental in the following ways:

1. Personal contacts will enable participants to discuss possibilities for investments, form business associations, and develop effective marketing strategies.
2. Participants will be informed about relevant issues on transportation negotiations, hotel planning, and investment opportunities.
3. Interested investors will be able to explore alternatives in developing private and public incentives and to seek information on additional funding sources.

These seminars are offered from September 20, 1990 through March 1991, and will be held in New York, Illinois, Georgia, Texas, California and Florida.

Another potential market for investment opportunities is the Austin-San Antonio area. Austin and San Antonio are two adjacent regions that have received enormous publicity in recent years because of recent economic developments and new business ventures. These two cities are important because agriculture, wholesale and retail trade, and manufacturing are expected to advance at rates above the average of the overall economy.

The Greater Austin-San Antonio Corridor is the preferred site for companies doing business with Mexico and maquiladoras; this is because of its strategic location, international air service, outstanding interstate highway system and mainline rail service by Southern Pacific and Union Pacific, the higher education system, and the growing high-tech activity.

A Greater Austin-San Antonio Corridor Council has been developed with the main focus being increasing trade with Mexico. The council is a 200-member organization composed of various private, government, university, and research organizations. An international conference on tourism is scheduled for May 31 through June 1, 1991 in San Antonio and a major economic and business development conference is scheduled to be held in Monterrey sometime early this year. Greater Austin-San Antonio Corridor Council Executive Director Greg Davenport aptly concludes:

"Mexico needs to incorporate world class technology into their manufacturing and industrial systems. When American companies can be assured of protection of their technology, the high-tech expertise in the Greater Austin-San Antonio Corridor will become a very important resource for Mexico and the maquiladora manufacturers."

V. CONCLUSION

There are some very strong arguments in both favor of and against the proposed free trade agreement between the United States and Mexico. The underlying questions that need to be answered are whether or not free trade will help both countries sell more goods and services to each other and if it will enable the countries to combine economic resources efficiently. Based on the various investment opportunities that have been discussed, the answers to these questions is a resounding yes.

The restructuring of Mexico's investment laws, and various agencies (PRONAFICE, etc.) has helped to open up a wide array of potential investment opportunities. As the free trade talks progress these opportunities will become more apparent.

SUBJECT: The United States-Mexico Free Trade Agreement and the Maquiladoras

AUTHORS: Professor Rodolpho Sandoval

DATE: February 25, 1991

I. EXECUTIVE SUMMARY

Since inception in 1965, the maquiladora industry has evolved to become the dominant mechanism for foreign trade and investment between the United States and Mexico, outside the petroleum industry. Originally developed as a Mexican initiative to create new jobs and improve the balance of payments, it has grown under a set of circumstances that have made the arrangement economically and politically favorable to the interests of both countries.

The newly proposed free trade agreement between Mexico and the United States will establish new possibilities for joint trade ventures outside the strictures under which the maquiladors industry grew and flourished. Whether these new alternatives will result in abandonment of a totally new framework for conduct of trade between for conduct of trade between the two countries remains to be resolved.

This paper will examine some of the factors that affected the rate of growth of the maquiladora industry, and the likely impact of the proposed free trade agreement on this favorable climate.

Growth of the Maquiladoras

The maquiladora industry, often referred to as the in-bond industry, began in 1965 as an initiative of the Mexican government. The program was designed to encourage the establishment of manufacturing plants in a 20-kilometer strip along Mexico's northern border for the processing of foreign export. Under this program, all necessary machinery, materials, and production parts were afforded duty-free import into Mexico.

United States industries seeking the favorable labor rates offered by the maquiladora program also were granted relief under United States Tariff items 806.30 and 807.00. These tariff provisions permit the duty-free importation of the remanufactured goods, charging tariffs only on the value-added portion attributable to the foreign labor input.

During the 25 years of its existence, the maquiladora program has experienced many changes that have expanded its scope beyond the original concept of a border production-sharing experiment. Responding to the economic opportunities presented in the United States and world economics, the Mexican government has liberalized the policy on inland plant locations and domestic importation of maquiladora production. In 1972, the permissible zone was expanded to encompass economically depressed areas in the interior of Mexico. In 1983, the domestic sales prohibition was changed to allow, under certain restrictive conditions, the sale of up to 20 percent of an in-bond plant's production in Mexico. In 1989, the production importation allowance was further increased to 50 percent in exchange for two to four percent local content requirements. In hope of encouraging more Mexican company sales to the maquiladoras, the government also began waiving the value-added taxes on products involved in these sales.

The maquiladora program has its detractors on both sides of the border. United States critics—primarily organized labor—are fearful of the impact of low-cost Mexican labor on the United States job market. Mexican opponents point to the fostering of economic dependence on the United States as detrimental to the long-range interests of Mexico.

Judged on an economic basis, the program has been enormously successful. Within two decades the industry moved into second place as Mexico's prime source of foreign exchange. In 1989, almost on-fourth of all United States-Mexico trade took place under this program. The maquiladoras now represent nearly 1800 manufacturing plants employing more than 440,000 workers (Figure 1). These quantified achievements do not reflect the secondary gains that were hoped for in the transfer of technical and managerial skills to the Mexican economy. While undeniably more difficult to measure, this transfer effect has not been realized to any great extent due to the relative isolation of the maquiladoras from the remainder of the Mexican economy.

Figure 1.—MAQUILADORA PLANTS

Year	No of Plants	Total Employment	Value Added*
1970	120	20,327	81
1975	454	67,214	454
1980	620	119,546	773
1985	789	217,544	1,300
1990**	1,800	440,000	***

Notes

*Millions of Dollars

**Approximate numbers for 1990

***Not Available

Source: K. Fatimi, *U.S.-Mexican Economic Relations* (1988)

The Free Trade Proposal

Mexico's proposal for a free trade agreement with the United States has been compared to the policy reversals that have recently occurred in the Soviet Union and Eastern Europe. That appraisal was based on the long standing political objectives designed to distance Mexico economic policy might have led to a different conclusion. United States trade with Mexico increased by one-half between 1987 and 1989 following tariff reductions brought about by Mexico's joining the General Agreement on Tariffs and Trade.

The maquiladora industry is but one element in the Mexican trade liberalization programs that have more recently resulted in the privatization of major govern-

ment-owned enterprises, the liberalization of foreign investment rules, and the renegotiation of Mexico's \$100 billion foreign debt. Apparently, spurred on by the emergence of Eastern Europe, Mexican president Salinas has struck a determined path to a competitive world economic policy for his country.

The culmination of Mexico's decisive move was President Salinas' August 21, 1990 letter to President Bush requesting the two nations begin negotiating a free trade agreement. On June 11, 1990, the two presidents issued a joint statement indicating their commitment to broadening and strengthening economic relations and directing that preparatory work be undertaken to initiate the necessary negotiations. President Bush officially notified Congress on September 25, 1990, of his intent to enter into free trade agreement negotiations with Mexico. That notification began the 60-legislative days time period (5 to 10 calendar months) during which Congress can disapprove "fast-track" consideration of the trade agreement. Disapproval of this authority is thought to doom the prospects of achieving an agreement.

The Commerce Department has announced its areas of greatest interest in these negotiations are the elimination or substantial reduction of trade barriers in an agreement covering goods and services, intellectual property rights, and investment. Issues to be negotiated include tariff reductions, market compatibility, subsidies, dispute settlements, compliance, rules of origin, safeguards, balance of payments, environment, and treatment of sensitive industries.

Despite some dramatic differences between Mexico and Canada, it is likely that any trade agreement with Mexico will draw heavily on the United States-Canadian Free Trade Agreement model. This is especially true in light of an announced intent to include Canada in the talks, with a goal of negotiating a tri-lateral agreement. The objectives outlined for the Canadian agreement, including the elimination of all barriers to trade in services, and the liberalization of conditions for mutual investment, sound nearly identical to those put forth for the Mexican agreement.

The Canadian agreement has provided few surprises during its first year. It provided only a modest increase in the volume of trade between the world's largest trading partners. Due to the bureaucratic complexity of administering the provisions of such an agreement, the Canadian experience has reinforced the importance of guaranteeing adequate mechanisms for the resolution of bilateral trade disputes.

But the pre-agreement conditions in Canada were markedly different than those of Mexico. Canada share a common language, similar wage scales and a comparable judicial system with the United States. There was nothing comparable to the maquiladora along the Canadian border prior to initiation of the United States-Canadian agreement.

Agreement Features Affecting the Future of the Maquiladoras

There are several factors that influenced the growth and structure of the maquiladora industry that will be affected by the provisions of a free trade agreement. Some of these factors may act as an impetus to expansion of trading procedures based on the maquiladora model, while others may provide a rationale to substitute alternative mechanisms for implementing an open trading arrangement. In the absence of strong incentives to change, the maquiladora industry affords a proven structure for continuing profitable exchange between the two countries. But even those conditions which historically restrained the expansion of the maquiladora industry might, when removed, also provide an incentive for avoiding the legally restrictive organizational structure of the maquiladora.

Intellectual Property Rights and Patents

Despite the fact that the specific features of a trade agreement have not been fully developed, one of the key elements on the United States' list of goals to achieve during negotiation is provision for adequate protection of intellectual property and patents. This lack of protection under existing Mexican law is particularly important to the pharmaceutical industry, which seeks to recoup major developmental costs in the sale of its final product. The absence of this protection may have been partly responsible for the disappointing integration of the maquiladora operations into other Mexican commerce.

Unless adequate provisions for patents and other intellectual property rights are adequately provided for in the final negotiated agreement, there will be a tendency to prolong the protective mechanisms afforded by the more isolated maquiladora arrangement. However, since this has been designated as such a visible priority goal by the United States, it is difficult to envision a final agreement that does not provide for this protection. Therefore, this factor will weigh against continuation of the assembly-mode maquiladora setup in favor of more integrated production investments.

Availability and Cost of Labor

The primary reason for the creation and growth of the maquiladora industry was to provide access to cheap labor for a county whose labor costs had become non-competitive with those of emerging underdeveloped countries. The maquiladora arrangements was often justified to its opponents as an alternative to the complete offshore relocation of domestic operations.

There are numerous indications that there are serious strains being placed on the continued unlimited availability of cheap labor in maquiladora operations. The trend toward greater equalization of labor costs on both sides of the border is an inevitable result if Mexico is to attain its goals in this agreement. Equanimity of wage scales is unlikely to be achieved in the foreseeable future, but marginally efficient producers may continue to feel pressure to find ways of off-setting rising labor costs.

President Salinas' economic policies appear to be having a positive impact on the state of the Mexican Economy. However, there are several factors driving up the cost of labor. The inflation rate, although down from recent years, continues to be high by United States and European standards (Figure 2). The effect of these high inflation rates has been somewhat off-set by the recent devaluation of the Peso.

Figure 2.—INFLATION RATES MEXICO

Year	Percent
1987	160
1988	52
1989	20
1990	25-27

Source: *Business America*, 10 (Oct 8 1990)

Unemployment, also high by United States standards, continues to present a favorable picture to potential employers. At 18 percent, however, it is the lowest that it has been in a decade.

The maquiladora has contribute substantially to both the decline in unemployment and the pressures to increase the wage scale. There are indications that the pinch is currently being felt by maquiladora operators and that this condition will continue with or without a free trade agreement. Originally intended to relieve the high unemployment of male workers in the border area, the maquiladora industry instead attracted a largely female work force entering the job market for the first time. As the manufacturing operations became more complex, the work force gradually shifted to a greater balance between males and females. At the same time, the operations required a greater number of trained employees that was difficult to maintain in the border areas. The number of workers employed by maquiladoras increased from 156,000 in 1983 to over 440,000 in 1990. Facing increasing strains in hiring along the border, the maquiladora began to recruit from the interior regions.

The dislocation of a large number of workers to the border areas has not been entirely successful, and operators are beginning to feel the increased training costs and other labor costs associated with high turnover rates. Faced with shantytown living conditions and long commutes to and from the border area, dislocated workers are showing their dissatisfaction by vacating their jobs. Some companies report 75 to 100 percent annual turnover rates for new hires.

Increased competition for semi-skilled labor will continue to put strains on the competitiveness of manufacturing costs. This is presently more acute in the border areas, where the majority of the maquiladora are located. For this reason, when opportunities arise in the interior under a free trade agreement, there will be economic incentive for a gradual shift away from the border maquilador operations in favor of more desirable job markets.

Geographic Restrictions on the Location of Maquiladoras

The Mexican government long ago lifted its restrictions that tied maquiladora operations to its border zone. Under the original program, maquiladoras were restricted to a 20-kilometer distance inside the Mexican border, but in 1972 the permissible area was expanded to include inland locations, except for the industrial centers of Mexico City and Monterrey. Despite this new authority, more than ten years later, 90 percent of the 594 existing plants remained located in the 20-kilometer zone.

Despite the labor problems already mentioned, the border location does provide a more convenient location for the movement of goods and proximity to those who maintain a United States base. Also, once located, manufacturing plants are expen-

sive to move. But the border region is experiencing significant problems that limit its ability to support continued expansion and detract from its appeal for new investment. These problems point to a basic inability of the Mexican infrastructure to support an operation of this scale. Frequent power failures, low water pressure, an over-congested and aging transportation system, poor telephone service, poor roads, and lack of suitable housing have all had an effect on productivity and cost of operation.

There are already signs of some movement away from the border, with the largest maquiladora operation—the Ford Plant—located 175 miles south of the border. Poor border conditions are likely to continue to influence the location of new plants created as a result of opportunities afforded by the Free Trade Agreement. These new plants will serve as an attractive alternative to currently dislocated maquiladora workers and will further weaken the competitive position of maquiladora operators.

A free trade agreement will remove the last of the restrictions tying the maquiladora industry to the border. Like previous relaxations of location regulations, the free trade agreement will not create a mass exodus to the interior. However, it will act as long-term inducement to the gradual shift of investment away from the traditional maquiladora setup.

The original design of the maquiladora program was obviously intended to both protect existing Mexican manufacturers and, at the same time, encourage the input of locally produced material into the maquiladora operations and provide for a beneficial interface with the Mexican industrial system. Despite continued refinement of the regulations regarding the extent of permissible integration of maquiladora operations, the technology transfer goal of the program has not been met. Maquiladora plants continue to buy 97 percent of their parts from United States sources, and sell very little of their final production inside Mexico. Maquiladora management is reported to feel that Mexican industrial production is expensive, lacks quality control, and suffers from unreliable delivery schedules.

The isolation of maquiladora operations has been suggested to be the greatest impediment, outside government protectionist policies, to the transfer of technology between the maquiladoras and the rest of the Mexican economy. The Free Trade Agreement will have a direct impact on removing some of this isolation by permitting full United States ownership of Mexican subsidiaries and creating a "psychology of permanence" not found in the existing maquiladora arrangements. Removal of trade barriers may also increase the demand for United States capital goods, similar to the United States' experience with the European community. This will tend to upgrade the quality and competitiveness of Mexican production.

The maquiladora industry is likely to play a major role in the intermediate integration of the Mexican industrial output by providing an established market for new parts. These parts will be produced deep inland for final assembly at existing border locations. However, as relationships mature under the rules of the Free Trade Agreement, the boundaries reflecting ownership and location of all these operations will blur and the legal umbrella of the maquiladora arrangement will become unimportant.

Conclusions

Ironically, the maquiladora program is in danger of becoming the victim of its own success. In a very real way, it established the groundwork which proved that relaxation of trade barriers could be beneficial to both the United States and Mexico. This has led to a tripling of trade in the four years since the major tariff concessions were implemented. The new Free Trade Agreement will strip away even more of the restrictions to which the maquiladora successfully adapted.

The proposal for a Free Trade Agreement may be just in time to relieve some of the pressure being felt by continued expansion of the maquiladora industry. The border locations of the maquiladora plants are presenting increased impediments to maintaining the size and competitive price advantage of an expanding work force. Alternative opportunities already presented by gradual tariff reductions are placing strains on the maquiladora wage structure and attracting Mexican workers to more desirable work environments inland. At the same time the Mexican infrastructure is finding it harder to support further industrial expansion in the border area.

The changes brought about by a Free Trade Agreement will remove the basis for the existence of the unique legal structure of the maquiladora. However, the physical structure created by the maquiladoras will continue to provide a vehicle for trade between the two countries. The large base of trained maquiladora workers and the United States investment in plant and equipment will not be immediately transferable to locations elsewhere in Mexico. There may even be logistical reasons why much of this investment will remain in the border areas. The objectives of the

free trade arrangement, however, provide overwhelming incentives for further expansion of industrial production in a manner that provides greater integration than the existing maquiladora industry is able to accomplish.

UNITED STATES INTERNATIONAL TRADE COMMISSION

SUMMARY
of
USITC Inv. No. 332-297

The Likely Impact on the United States of a
Free Trade Agreement with Mexico

NOTE: This is the Executive Summary of the full USITC investigation. More detailed analysis and explanations of statements in this Summary, including important citations, are found in the full report.

Call the USITC Office of the Secretary at (202) 252-1000 after February 7 for information about public availability of the full report, The Likely Impact on the United States of a Free Trade Agreement with Mexico (Investigation No. 332-297, USITC Publication 2353, February 1991). When and if the report is released by the Senate Finance Committee and the House Ways and Means Committee, the Commission will distribute copies to those on its mailing list. In addition, copies may be obtained by calling (202) 252-1809 or from the Office of the Secretary, U.S. International Trade Commission, 500 E Street SW., Washington, DC 20436. Requests for copies can also be faxed to (202) 252-2186.

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EXECUTIVE SUMMARY

Introduction

The idea of the United States and Mexico entering into a free trade agreement has evolved from a distant goal to a serious possibility in a relatively short time. Less than 5 years ago, Mexico was mired in debt and committed to a highly interventionist economic policy that discouraged imports and limited foreign participation in the Mexican economy. In recent years, however, Mexico has reduced state intervention in the economy and opened its market to foreign goods, services, and investment. Mexico also entered into a series of trade negotiations with the United States. Largely as a result of these events, two-way trade between the United States and Mexico has grown significantly.

Negotiation of a free trade agreement (FTA) is now the primary mechanism being considered for expanding bilateral trade and investment between the United States and Mexico. On June 10, 1990, President Bush and Mexican President Salinas de Gortari endorsed a comprehensive bilateral FTA as the best means to strengthen economic relations and meet the challenges of international competition. Subsequently, Canada, which already has an FTA with the United States, requested participation in the negotiations. On September 25, 1990, President Bush formally requested Congress to allow the use of the so-called fast-track procedure for negotiating an FTA with Mexico and to explore the possibilities of Canada joining an agreement. It is anticipated that the Congress will have to disapprove the use of the fast-track procedure by spring 1991 or else it will be approved automatically. However, the authority granted the President to use the fast-track procedure expires on June 1, 1991 and would have to be extended to apply to any agreement. A decision on Canadian participation will probably be made soon.

The Commission analysis suggests that an FTA with Mexico will benefit the U.S. economy overall by expanding trade opportunities, lowering prices, increasing competition, and improving the ability of U.S. firms to exploit economies of scale. Since these gains are likely to outweigh the costs, the U.S. economy will probably gain on net. However, there are likely to be some shifts in production so that certain U.S. industries—such as horticultural products—will be disproportionately affected by an FTA.

The relative importance of the bilateral trading relationship between Mexico and the United States and the relative sizes of the two economies imply that the relative magnitude of effects of an FTA would be significantly smaller for the United States than for Mexico. Mexico is the United States' third-largest trading partner, after Canada and Japan, but it accounted for just 6 percent of U.S. imports and 7 percent of U.S. exports in 1989. In contrast, the United States accounted for more than two-thirds of Mexico's exports in 1989. Mexico's gross domestic product (GDP) of \$187 billion in 1989 was only 3.6 percent of U.S. GDP.

Likely Impact on the U.S. Economy Overall

An FTA would benefit the U.S. economy overall, but for two major reasons the benefits relative to the size of the U.S. economy are likely to be small in the near to medium term. First, in spite of Mexico's population of some 88 million, as discussed above its economy is much smaller than the U.S. economy. Second, with a few exceptions, both countries already have relatively low tariff and nontariff barriers to trade with each other. A sizable share of U.S. imports from Mexico already enters the United States either free of duty unconditionally, under the Generalized System of Preferences (GSP), or at substantially reduced effective rates under maquiladora production-sharing arrangements. Similarly, many U.S. exports to Mexico are afforded duty-free treatment in Mexico under the maquiladora program. Since 1985, Mexico has significantly reduced tariffs and the number of products subject to import permits. Mexico has also liberalized the administration of its foreign investment regulations. The relatively low barriers already allow most of the benefits of trade between the two countries to be realized and therefore limit the potential benefits to the United States of an FTA.

Many observers believe that Mexico's economy will grow rapidly in the coming years because of its recent economic reforms, whether or not an FTA is adopted. If Mexican growth is forthcoming, Mexico will become a larger trading partner of the United States and the increased trade will benefit the United States. The United States is likely to be the single largest foreign beneficiary of such growth, since it is by far Mexico's most significant source of imports and investment capital. The United States accounted for over 70 percent of Mexico's imports in 1989, and for some 63 percent of all accumulated direct foreign investment in Mexico.

An FTA would probably increase Mexico's rate of growth and thereby increase the benefits to the United States over time. For example, an FTA is likely to increase both domestic and foreign investment in Mexico. By codifying liberal trade and investment policies in an international agreement, heretofore adopted only as a matter of administrative policy, a United States-Mexico FTA would increase the confidence of investors in Mexico's economy. An increase in investment in Mexico would raise wage incomes and employment in Mexico, increase GDP growth, increase foreign exchange earnings, and facilitate the transfer of technology. In so doing, it would increase Mexico's demand for U.S. exports and benefit the United States. Nevertheless, for many years the effects would probably still be fairly small relative to the size of the U.S. economy.

An FTA with Mexico could have a greater impact on certain U.S. industries and regions than it has on the U.S. economy overall. The strongest effects on U.S. industries would likely be where current barriers to trade and investment are high or where demand for each others' products and services is highly sensitive to price. Regions with a high concentration of such industries or where trade with Mexico accounts for a substantial portion of economic activity are likely to be disproportionately affected.

Likely Impact on U.S. Labor Markets

An FTA is likely to have little or no effect on employment levels in the United States, but it could cause some shifts in employment among occupations and could affect wage rates and the level of immigration from Mexico. An FTA is likely to decrease slightly the gap between real United States wages and Mexican wages of both skilled and unskilled workers combined, but a greater share of the wage adjustment would occur in Mexico than in the United States. As wage differentials between the United States and Mexico narrow, the incentive for migration from Mexico to the United States will decline. Real income for U.S. skilled workers and capital service owners is expected to rise. Preliminary analysis indicates that the real income for unskilled workers in the United States is likely to decline slightly, although some plausible scenarios suggest that it could actually increase. Total real income in the United States would increase because of the trade creating effects of the FTA.

Likely Impact on U.S. Trade with Third Countries

The increase in United States-Mexico trade resulting from the reduction of trade barriers under an FTA would partly displace U.S. trade with other countries, including Canada and those in Central and South America, the Caribbean, and Asia. The fact that some of these countries already benefit from U.S. tariff preference schemes such as the GSP and the Caribbean Basin Economic Recovery Act (CBERA) may limit the amount of displacement. Moreover, only some of this displacement is expected to result in a loss of welfare associated with trade diversion—a shift from a lower cost supplier to a higher cost supplier. Since the displacement itself is expected to be small, it should have only a minor negative effect on the U.S. economy. It should be noted, however, that the U.S. market is vital to many countries and exporters. The relative benefits of tariff preference schemes, such as the GSP and the CBERA, to these third countries are likely to decrease. Some U.S. trading partners are concerned that any loss in sales to the United States as a result of a United States-Mexico FTA could hurt foreign suppliers.

Some U.S. producers have expressed concerns that a United States-Mexico FTA could allow third countries to circumvent U.S. tariffs and other trade barriers by transshipping their goods through Mexico to the United States or by using Mexico as a base for processing and export to the United States. The nature and the enforcement of the rules of origin in the agreement will determine the degree to which third countries will be able to access the U.S. market by these means.

Likely Impact of Canadian Participation

Following the United States-Mexico decision in June 1990 to actively pursue negotiations toward a bilateral FTA, Canada requested participation with a view to negotiating a North American FTA. Two-way trade between the United States and Canada totaled some \$163 billion in 1989, more than 80 times as great as Canada-Mexico trade of \$2 billion. Canada hopes that a trilateral FTA would preserve its access to the U.S. market under the United States-Canada FTA. Canada wishes to avoid a loss to Mexico of U.S. trade and investment, which might occur should the United States become the sole North American locus with duty-free access to all three markets. Though small, Mexico has reportedly emerged as a competitor for Canada's share of U.S. markets for some products, such as autos and auto parts. Among other things, Canada would also like FTA negotiations to address tariffs, rules of origin, textiles and apparel, intellectual property rights, standards, dispute settlement procedures, and longer term questions such as future energy flows. In many of these areas the United States and Canadian economies are already closely aligned.

Canada's interest in a trilateral FTA also rests on its desire to participate in any North American dialogue on trade. Canada wants to be a part of any process that may eventually broaden market access to Central and South America. Although Canada hopes to gain from trade with Mexico in the long run, most analysts foresee relatively small short-term benefits because of the size of current Canada-Mexico trade.

Initial analysis suggests that the effects on the United States of free trade with Mexico and with Canada would be similar regardless of whether the United States concludes separate bilateral agreements with Canada and with Mexico or reaches a trilateral agreement. The only major difference would be that under separate bilateral agreements U.S. trade with both countries would be slightly greater than under a trilateral FTA because Mexico and Canada would maintain barriers on trade with each other.

U.S. trade with Canada is likely to decrease as a result of displacement by goods produced in Mexico under either the bilateral or the trilateral scenario. However, this decrease in U.S. trade with Canada would probably be slightly greater under a trilateral FTA.

Likely Impact on U.S. Regions

Southwest Border Region

The Southwest border region of the United States is vitally linked both geographically and economically to Mexico. As United States-Mexico trade increases under an FTA, trade-related activities along the border will also expand. However, an FTA could hurt other segments of the U.S. border economy.

- Mexico's maquiladora industry represents a large part of the region's economic base. An FTA could lead to an expansion of maquiladora production in Mexico, but would reduce the incentive for such firms to locate themselves near the border. However, incentives for investment to move closer to Mexican population centers in the interior and away from border infrastructure bottlenecks could be matched by incentives to remain along the border, such as proximity to existing border suppliers and services. Major maquila industries include electronics, automotive products, and apparel.
- Reportedly, U.S. firms currently supply about 98 percent of the raw materials and components used by maquiladoras. By eliminating U.S. tariffs on the non-U.S. value-added component of maquiladora exports to the United States, an FTA would tend to reduce the incentive to use U.S. raw materials and components.
- Retailing accounts for more than one-fourth of employment in the border region. Over one-third of retail sales in the U.S. border region are made to Mexicans. An FTA would tend to reduce some of the current advantages for U.S. retailers in serving Mexican consumers. However, any short-run losses would probably be offset in the longer term as retailers benefit from overall increased growth in the border region. Smaller U.S. retailers could be more vulnerable to Mexican competition than larger retailers.

- An FTA will increase United States-Mexican trade and thereby raise demand for trade-related activities along the border, including transport, warehousing, and other services. Additional pressure will likely be placed on already strained border transport systems and entry facilities.
- Agriculture constitutes only a small fraction of the region's economy. Generally speaking, the problems and opportunities created by a United States-Mexico FTA are not centered in the border region. However, there is some concern that an FTA with Mexico will reduce the availability of Mexican migrant labor on U.S. farms in the region and strain already scarce water resources along the Texas border.

U.S. Census Regions

The Commission's sectoral analysis indicates that a United States-Mexico FTA will likely have negligible effects on the domestic operations of 17 of the 19 industries studied. It is expected to have a moderately negative effect on the horticultural products industry and will have an uncertain effect on the auto and auto parts industry. Based on these expected effects, as well as the regional concentration of the horticultural products industry and the expectation that an FTA would probably have a positive but small effect on the economy overall, it is unlikely that an FTA would have a significant positive or negative effect on the economy of any U.S. region.

The Industrial Midwest

The auto and auto parts industry is particularly important to the East North Central region, or "industrial midwest," but uncertainty about the effects of an FTA on this industry leaves uncertainty about the effects on this region. Although it is unlikely that the effects in the auto and auto parts industry would be great enough to affect significantly the economy of the region, the effects in the East North Central region could be slightly different from the national average.

Likely Impact on Major U.S. Industries

Although Mexico has liberalized its trade and investment policies in recent years, barriers to trade and/or foreign investment remain in industries such as agriculture, automotive products, energy products, banking, and transport. The removal of these Mexican trade and investment barriers, as well as U.S. barriers, under an FTA has the potential of creating additional trade between the two nations in affected industries. However, it is possible that U.S. investments and export opportunities in Mexico arising from an FTA will be limited, at least in the short term, given the underdeveloped state of Mexico's infrastructure.

The Commission analyzed the likely impact of an FTA with Mexico that removed United States and Mexican trade and investment barriers, for 19 key manufacturing, services, and agricultural industries.¹ The analysis focused on the likely impact of an FTA on U.S. trade with Mexico, Canada, and other countries and on production and employment levels in U.S. industries. The evaluation was based on (1) a quantitative analysis of relationships between expected changes in import and export prices due to removal of tariffs and NTBs and the resultant changes in U.S. import and export levels of affected industries; (2) interviews with experts in industry, trade, government, and academia; and (3) a qualitative analysis of nonprice factors such as investment restrictions that may influence the development of U.S. trade in particular industries. The analysis estimated the losses under an FTA (the likely increases in U.S. imports and resulting declines in U.S. production) and the gains (the likely increases in U.S. output resulting from increased U.S. exports to Mexico).²

¹ Some of the industries covered in the analysis were identified by the House Ways and Means Committee and the Senate Finance Committee in their joint letter to the Commission requesting the study. Other sectors were added by the Commission staff.

² The quantitative analysis was used to assess trade and production impacts at the national level and not at the regional level. To conduct a rigorous and systematic analysis at a regional level would have required a different modeling approach and a different set of data not readily available. A qualitative analysis was conducted on the basis of the geographic concentration of the U.S. industries. It was assumed that the impact would be proportional to the regional distribution of the industry's domestic operations.

In carrying out the quantitative analysis, the Commission used the effective rate of duty on U.S. imports from Mexico, rather than the nominal rate, to account for the relatively large amount of trade that enters duty free under the GSP or at reduced duties under the maquiladora program. Under this production-sharing program, U.S. components enter Mexico duty free for processing or assembly and the finished or semifinished goods enter the United States on a preferential basis with only the value added in Mexico subject to duty.³

The Commission also made two key assumptions in its analysis. First, it assumed that Canada would participate in the negotiation of an FTA, thereby resulting in a North American free trade area. Second, it assumed that the rules of origin adopted under an FTA with Mexico would be similar to those under the United States-Canada FTA.⁴ In addition, the Commission was unable to factor into the analysis any changes in tariffs and NTBs that can be expected from the Uruguay Round negotiations, because of the remaining uncertainty over the results of the Round. However, to the extent that the Uruguay Round reduces tariffs and NTBs, the additional effect of an FTA with Mexico will be less pronounced.

The estimated quantitative effects of an FTA on the covered industries are reported in three qualitative categories: negligible, moderate, or significant in either a beneficial or adverse direction. Estimates are provided for adjustments in the short term, defined as adjustments within 1 year, and in the long term (those that would occur within 5 years).

The results of the Commission's analysis show that an FTA with Mexico may have moderate to significant effects on U.S. trade with Mexico in many of the industries covered. However, these trade gains or losses, though considerable in absolute terms for industries such as grains, electronic equipment, machinery and equipment, steel mill products, and textiles and apparel, would likely have a negligible impact on production levels in most of the U.S. industries, both overall and regionally. This is because the expected gains or losses in U.S. trade with Mexico would represent a very small share of these industries' domestic production. The industry that would be most affected by an FTA with Mexico is horticulture. In addition, several subsectors of the covered U.S. industries such as the tuna industry and producers of inexpensive household glassware would likely be affected. The analysis also shows that an FTA with Mexico would likely have a negligible impact on U.S. trade with Canada in almost all the industries. The impact on U.S. trade with other third countries would also be negligible, except for horticultural products and tuna. The results of the Commission's analysis for each industry are briefly discussed below.

Agriculture

An FTA is expected to affect significantly the level of U.S. trade with Mexico in agricultural products. Mexico is the second-largest foreign supplier to the U.S. market for these products after Canada, and the third-largest U.S. export market after Japan and the Soviet Union. About 60 percent of the agricultural imports from Mexico enter free of duty. The remainder are dutiable at a trade-weighted average of 7 percent ad valorem. Mexico's trade-weighted duty on U.S. agricultural goods averages 11 percent. Also affecting U.S. agricultural trade with Mexico are NTBs, such as U.S. marketing orders, Mexican import-licensing requirements, and both countries' phytosanitary rules.

Horticultural Products

Mexico is by far the largest foreign supplier, and the seventh-largest U.S. export market for horticultural products such as fresh and processed fruits and vegetables. Duties imposed by both the United States and Mexico are relatively high. NTBs such as U.S. marketing orders, Mexican import-licensing requirements, and phytosanitary rules in both countries also limit bilateral trade. The elimination of tariffs and NTBs under an FTA would generate a significant increase in U.S. imports from Mexico and a moderate increase in U.S. exports to Mexico. Mexican producers are able to supply the U.S. market with many of the same

³ U.S. imports from Mexico under the maquiladora arrangement are dutiable under subheadings 9802.00.60 and 9802.00.80 of the Harmonized Tariff Schedule of the United States (HTS), formerly known as the 806.30 and 807.00 provisions.

⁴ The rules of origin under the United States-Canada FTA are used to determine whether goods traded between the two nations are eligible for preferential duty treatment under the FTA. In general, to be entitled to such treatment, goods must be made wholly in one or both FTA nations or, if the goods contain third-country materials, the materials must have been transformed in one or both FTA nations in a manner that is physically and commercially significant to effect a change in tariff classification in the HTS.

products grown or processed in the United States at much lower costs. This is particularly true for citrus crops and winter vegetables that are manually harvested. U.S. growers of these products are expected to experience losses in production, particularly growers in Florida, California, and other warm-climate States who compete directly with products during the same growing seasons in Mexico. U.S. processors of these crops are also expected to experience production losses. An FTA with Mexico would also likely cause a decline in U.S. imports from Latin American nations that tend to export the same type of products as Mexico.

U.S. producers of temperate-climate products and certain processed products such as canned potatoes and dried beans are likely to benefit moderately in the long term from an opening of the Mexican market. In the short term, however, the underdeveloped channels of distribution and the unequal distribution of consumer income in Mexico may limit U.S. export potential.

Grains and Oilseeds

About two-thirds of U.S. agricultural exports to Mexico consist of grains and oilseeds, for which the United States is the world's largest exporter. Both countries maintain import quotas on grains and oilseeds, although the U.S. quotas apply only to peanuts. Tariffs generally average less than 10 percent ad valorem in Mexico and less than 2 percent in the United States. Both countries also maintain extensive government-support programs for farmers that affect trade in these products. An FTA that eliminates these barriers would likely result in a significant increase in U.S. exports, particularly of corn, sorghum, and soybeans. However, the expected export growth would represent a small share of total U.S. production of grains and oilseeds. U.S. imports of these goods from Mexico would only be negligibly affected, because of Mexico's poor endowment of arable farm land suitable for such crops.

Livestock

Mexico is a major U.S. trading partner in livestock (i.e., cattle, swine, sheep, and lambs) and meat derived from such animals. Mexico supplies all but a small part of U.S. imports of feeder cattle and is the second-largest export market for U.S. meats. U.S. tariffs on imports of feeder cattle average about 1.5 percent ad valorem. Mexico also currently charges a fee on its exports of cattle, of 5 percent ad valorem. Mexican tariffs on U.S. meats range from 10 to 20 percent.

Removal of Mexico's relatively high tariffs on meats under an FTA would likely result in a moderate increase in U.S. exports of meats to Mexico. Similarly, the removal of U.S. duties and Mexican export fees on feeder cattle would likely result in a moderate increase in U.S. imports of such cattle. The expected growth in imports might benefit the U.S. cattle feedlot subsector, but could harm the cow-calf subsector, which produces feeder animals. Farmers concentrated in the Southwest and Southcentral States, where most of the imports enter, could be most affected. In addition, U.S. imports of Mexican meats might also increase under an FTA, especially now that U.S. restrictions on such shipments have been lifted for several Mexican meatpacking plants.

Fish and Fish Products

Mexico is the third-leading supplier of U.S. imports of edible fish and fish products. Most of these imports from Mexico enter free of duty, with the exception of canned tuna. U.S. imports of canned tuna packed in oil are subject to a duty of 35 percent ad valorem and imports of tuna packed in water are subject to a tariff-rate quota of 6 percent on those under quota and 12.5 percent for those over quota. In addition, U.S. trade with Mexico in fisheries products, especially tuna, is affected by disputes over territorial rights and the killing of dolphins during tuna harvest.

The overall impact of an FTA on U.S. imports of Mexican fish and fish products would likely be negligible. However, removal of U.S. duties on canned tuna would likely lead to significant growth in U.S. imports of Mexican tuna. The expected import growth would likely result in significant harm to the U.S. tuna industry, particularly to the cannery in California and, to a lesser extent, the canneries in Puerto Rico. However, an FTA that increases U.S. access to Mexico's 200-mile fishery zone would likely lead to a moderate increase in U.S. production of frozen tuna.

Alcoholic Beverages

An FTA would likely spur U.S. exports of alcoholic beverages to Mexico. These exports have grown rapidly since 1985, in response to Mexico's reduction or elimination of many of its duties and NTBs. This trend is expected to continue under an FTA, as Mexican duties are further reduced and distribution arrangements in Mexico improve. The likely impact of an FTA on U.S. imports from Mexico is expected to be negligible, primarily because U.S. duties on alcoholic beverages are already low.

Automotive Products

Mexico is a small, but rapidly growing supplier of autos to the United States. During 1985-89, U.S. imports of autos from Mexico rose at an average annual rate of 34 percent to almost 143,000 units, valued at \$1.3 billion. The auto industry in Mexico is owned by five foreign producers, the Big Three U.S. automakers, Nissan, and Volkswagen, which assembled 641,000 autos there in 1989. U.S. trade with Mexico is also expanding rapidly in auto parts, with U.S. imports rising by 14 percent annually, to \$3.6 billion, and U.S. exports advancing by 16 percent annually, to \$3.4 billion. The auto parts industry in Mexico comprises several hundred firms, with U.S.-owned auto parts firms playing a major role in the industry. The industry, along with the electronics industry, generates more value-added in Mexico's maquiladora sector than any other industry.

The most significant factors affecting U.S. trade with Mexico in automotive products are Mexican foreign investment restrictions, export performance requirements, local content rules, and import restrictions. Automakers in Mexico must maintain trade surpluses. For each dollar's worth of autos that automakers import into Mexico during 1991, they must earn \$2.50 in foreign exchange from auto exports. Mexico currently limits auto imports to 15 percent of total Mexican auto sales and prohibits imports of autos with engines less than 1.8 liters until the 1993 model year. Mexico also limits foreign investment in the auto parts industry to 40-percent equity participation, with some exceptions. In the maquiladora sector, full foreign ownership is permitted provided that at least 80 percent of the output is exported. In addition, Mexico requires at least 36-percent Mexican content in the value added in the country by automakers and auto parts producers.

These trade and investment restrictions in Mexico, coupled with other economic and political factors, have significantly influenced the evolution of the Mexican automotive products industries and, at the same time, currently limited their integration into the greater North American automotive products sector. Because the auto market in Mexico is small and diverse, automakers in Mexico produce a relatively diverse number of models—at low volume levels—to meet consumer preferences. Consequently, the auto plants primarily serving the Mexican market are marked by relatively low operating efficiencies. Their output currently averages less than half the standard output of modern plants around the world.

Thus, the most significant impact of an FTA in automotive products could come from liberalization of the above-referenced Mexican barriers to trade and investment. However, the likely impact of an FTA with Mexico on the United States in automotive products is difficult to determine without knowledge of the Big Three automakers' plans for their Mexican operations. It is also difficult to assess the impact of an FTA with Mexico on U.S. trade in automotive products with Canada, given the highly integrated nature of the Big Three U.S. automakers' operations in the United States and Canada. Other auto producers have not announced their manufacturing strategies in the event of an FTA with Mexico. U.S. auto industry representatives view Mexico as a long-term, high-growth market for autos. They also believe that the potential exists for the Mexican auto industry, with its low labor costs, to become an integral part of the North American auto industry. The pace of integration would likely quicken if an FTA removes Mexico's NTBs. An FTA would likely encourage the Big Three to restructure their Mexican operations to increase their specialization, thereby achieving economies of scale and, in turn, enhancing their competitive position vis-a-vis Asian and European producers.

Cement

Mexico is a major supplier of cement to the United States, especially in the southwestern and southern border and coastal regions where it has captured 11 percent of the market. All but a small part of U.S. imports from Mexico are supplied by CEMEX, the largest cement

producer in the Western Hemisphere, which also maintains extensive operations in five U.S. border States. U.S. imports from Mexico, totaling \$118 million in 1989, already enter free of duty, although they are subject to U.S. antidumping and countervailing duty orders. By contrast, U.S. exports to Mexico, totaling a much smaller \$2 million, are dutiable at 10 percent ad valorem.

An FTA with Mexico would have no impact on U.S. imports of cement from Mexico, but would lead to a significant increase in U.S. exports to that nation. The expected export growth would, because of the regional nature of the cement market, benefit U.S. producers located near the United States-Mexican border. However, the expected export growth would represent only a negligible portion of U.S. shipments, both overall and for the regional industry.

Chemicals

U.S. trade with Mexico in chemicals, marked by a surplus of \$1.6 billion in 1989, is affected by Mexican restrictions on foreign investment and inadequate protection of intellectual property rights. The Constitution of Mexico prohibits foreign investment in production of basic petrochemicals, for which the United States is the world's largest producer, and of a few secondary petrochemicals. In pharmaceuticals and specialty chemicals, the lack of intellectual property rights protection has discouraged foreign investment in Mexican production.

An FTA that removes Mexican restrictions on foreign investment and protects intellectual property rights would likely spur U.S. investment in Mexico for the manufacture of high-technology products and generate moderate growth in U.S. exports. Such investments would likely stimulate a complementary increase in U.S. exports of chemical intermediates for the production of high-technology products, since such intermediates are not made in Mexico. The long and costly startups associated with the construction of chemical production facilities, however, would delay any investment-related impact on trade in the short term. The removal of Mexico's duties, though averaging a rather high 15 percent ad valorem, would not by itself lead to a noticeable increase in U.S. exports to Mexico, because of the importance of existing supplier-customer relationships in purchasing decisions. An FTA would likely result in a negligible increase in U.S. imports of Mexican chemicals because U.S. duties average a relatively low 4 percent ad valorem.

Electronic Equipment

An FTA with Mexico would likely result in a negligible increase in U.S. imports from Mexico. U.S. trade with Mexico in electronic products, totaling \$8 billion in 1989, takes place mostly under the maquiladora program. The nominal U.S. tariff on Mexican electronic goods averages 5 percent ad valorem, although some duty rates are as high as 15 percent. The effective trade-weighted duty averages only 2 percent, given the large portion of the trade that enters at reduced duties under either the maquiladora or GSP programs.

U.S. exports to Mexico, on the other hand, would likely grow moderately in the short run and significantly in the long run. Mexican duties on electronic goods average an estimated 16 percent. The difference between U.S. and Mexican duties partly explains the different growth that can be expected, as does the significant need and demand in Mexico for modern equipment, such as in the telecommunications area. Elimination of Mexican "buy national" policies and local content rules would also serve to expand the market in Mexico for U.S. exports. U.S. producers of telecommunications apparatus, office machines, and other advanced-technology equipment for use in Mexico's infrastructure would likely benefit the most.

Energy

The United States is a major market for Mexico's energy products, such as crude petroleum and refined petroleum products. It is also a major source: almost half of Mexico's demand for refined petroleum products and 90 percent of its total imports of natural gas are supplied by the United States.

United States and Mexican duties on energy products are relatively low and, thus, their removal under an FTA would likely have a negligible effect on bilateral energy trade. The major deterrent is Mexico's constitutional ban on U.S. and other foreign investment in its energy sector, operated solely by the national oil company, PEMEX. Assuming that an FTA does not open the Mexican energy sector to U.S. investment, opportunities for trade expansion would remain limited.

Glass products

Mexico is an important U.S. trading partner in glass products, ranking as the United States' fifth-largest foreign supplier and the third-largest export market. Most U.S. imports of glass products from Mexico enter duty free under the GSP. The major exception is household glassware, for which U.S. duties average 22 percent ad valorem. Mexico's duties average 20 percent for all glass products. The removal of these duties under an FTA would likely result in a significant increase in U.S. imports of household glassware from Mexico. Although the expected import growth would likely have a negligible impact on the overall U.S. industry, it could have an adverse impact on U.S. producers of inexpensive household glassware. In addition, the expected import growth is likely to be greater and more immediate than any potential increase in U.S. exports to Mexico, which are limited because of the dominance in the Mexican market of Mexico's largest producer. The lack of an effective distribution system for U.S. products and the smaller size and purchasing power of the market in Mexico also limit U.S. sales prospects.

Machinery and equipment

The machinery and equipment sector is expected to remain a key element of U.S. trade with Mexico, given that nation's need for capital goods to modernize its production and infrastructure base. An FTA that results in the removal of Mexico's import-licensing requirements and duties of 10 to 20 percent ad valorem, coupled with Mexico's improved prospects for economic growth, would likely lead to a moderate increase in U.S. exports of machinery and equipment to Mexico. The expected export growth would likely benefit U.S. producers of major household appliances and capital goods such as machine tools and general industrial equipment. The potential for U.S. export growth also exists in farm and construction machinery and in food processing, plastics injection molding, and pollution control equipment.

The removal of U.S. duties under an FTA would likely result in a negligible increase in U.S. imports of machinery and equipment from Mexico. The trade-weighted U.S. duty on imports of Mexican machinery and equipment averages only 3.35 percent ad valorem. Moreover, the expected increase in imports from Mexico would likely be concentrated in low-valued, low-technology products such as general components and home appliances. In the long run, and assuming that an FTA does not result in the equalization of wages and health, safety, and environmental standards, U.S. firms may accelerate the process of producing more finished machinery and equipment in Mexico.

Steel Mill Products

Mexico has been one of the largest markets for U.S. exports of steel mill products (steel), accounting for about 17 percent of all such exports in 1988 and 10 percent in 1989. Mexico's steel exports to the United States have been limited to less than 1 percent of apparent U.S. steel consumption since 1985 under a voluntary restraint agreement (VRA) scheduled to expire in March 1992. U.S. tariffs on steel range from 0.5 percent to 11.6 percent ad valorem and Mexico's duties range from 10 to 15 percent.

An FTA that removes tariffs, coupled with the expiration of the VRA, is likely to result in a moderate short-term increase in both U.S. imports from and U.S. exports to Mexico. The long-term impact is likely to be more significant as new market opportunities are pursued and trading relationships develop. The expected export growth is likely to be concentrated in non-flatrolled products for construction applications (e.g., structurals and wire products), certain tubular products for energy applications, and in higher value sheet products for use in autos and appliances. The projected increase in imports from Mexico is likely to consist of products currently subject to relatively high U.S. tariffs, such as high-value specialty steels, and also price-sensitive products such as plate, bar, rod, wire products and certain tubular products. The trade shifts likely to occur under an FTA are small relative to overall U.S. trade and

production. Thus, they are expected to have a negligible effect on the U.S. industry and on U.S. trade with other foreign suppliers.

Textiles and Apparel

U.S. trade with Mexico in textiles and apparel primarily occurs under the maquiladora program. U.S. and Mexican duties in this sector are relatively high and U.S. imports of Mexican products are subject to quantitative limits under the Multifiber Arrangement. U.S. duties average 15 percent ad valorem for textiles and apparel. However, the effective trade-weighted rate is only 6 percent. Mexican duties average from 12 to 18 percent for textiles and 20 percent for apparel.

Elimination of duties and quotas under an FTA would give further impetus to U.S. imports of textiles and apparel from Mexico, which grew at an average annual rate of 19 percent during 1985-89. The expected import growth would likely displace some U.S. production and third-country imports of lower cost apparel and textile products, notably those from the Caribbean Basin. However, the overall impact on the U.S. industries would be negligible, given that the trade with Mexico is small relative to U.S. output. An FTA would also result in a significant short-term increase in U.S. exports of textiles and apparel to Mexico, which rose by 25 percent annually during 1985-89. The projected export growth would likely be concentrated in components for use as inputs in maquiladora operations producing garments and other textile products for export to the United States. In the long term, the growth of U.S. exports to Mexico would likely moderate as the Mexican textile industry becomes more developed.

Services

U.S. trade with Mexico has traditionally been limited primarily because of Mexican limitations on foreign ownership and other restrictive NTBs. An FTA, coupled with recent Mexican efforts aimed at privatizing and liberalizing several services sectors, would likely lead to an increase in investment and export opportunities in Mexico for U.S. firms. However, since trade in services with Mexico is minuscule relative to U.S. output of services, the overall economic impact on U.S. services sector will be negligible.

In banking, U.S. exports of services to Mexico would likely expand at a moderate rate if an FTA removes Mexican restrictions on foreign investment and if Mexico continues to revitalize its financial services industry. Similarly, if the existing NTBs in insurance are removed (especially those limiting non-Mexican companies to 49-percent ownership), the likely impact would be a significant increase in U.S. investment in the Mexican insurance sector, which would likely lead to a moderate increase in U.S. exports.

Construction services currently play a minimal role in United States-Mexico trade. This is mostly due to Mexican regulations restricting foreign participation in construction projects to a minority role in joint ventures and to U.S. immigration laws that restrict the movement of unskilled labor across the border. Under an FTA, U.S. construction firms will continue to benefit from their competitive advantage in projects requiring advanced design techniques and highly skilled construction management teams. Additionally, free movement of labor, if permitted under an FTA, could benefit both U.S. and Mexican firms by lowering labor costs. In the long term, if labor shortages develop in the United States, Mexican firms might then have an advantage in projects in the United States that require large numbers of unskilled workers.

U.S. trade in transportation services (excluding tourism-related transportation) with Mexico is limited because of numerous trade and investment barriers. Changes in the transportation sector resulting from an FTA would largely depend on revisions in U.S. State and Federal regulations and Mexican regulations that restrict participation on both sides. An FTA would likely have the most effect on motor carriers, which haul most of the domestic cargo in Mexico and most of the cargo that moves between the United States and Mexico. Although U.S. imports of trucking services from Mexico are likely to increase significantly, the overall effect on imports of transportation services would probably be small.

While an FTA would probably have little impact on the U.S. telecommunication and information services sector, the recent sale of TELMEX will appreciably change the Mexican telecommunication sector. Development of Mexico's telecommunication services sector has been constrained by restrictive regulations and an underdeveloped infrastructure. The change in ownership and subsequent expansion and improvement of the network should result in an increase in telecommunications-based and related services that will lower costs, bring in foreign capital, and lead to an increase in demand for U.S. telecommunications software. An FTA in services would complement these changes in the domestic Mexican telecommunications market and significantly increase exports of U.S. information and data-processing-based services. Since approximately 90 percent of current trade is dominated by basic services i.e., telephone calls, the overall increase in U.S. exports will be negligible.

STATEMENT OF THE UNITED STATES MANUFACTURERS OF CERAMIC TILE

My name is Robert J. Kleinhans. I am the Executive Director of Tile Council of America, Inc., of Princeton, New Jersey, which is the trade association of American ceramic tile manufacturers. Tile Council's twenty-two regular members produce some 70% of the ceramic tile made in America today. Our associate members are suppliers of equipment and raw materials to the industry.

I am very pleased to take this opportunity to comment on President Bush's proposal to begin bilateral free trade negotiations with Mexico. While our industry certainly does not oppose free trade negotiations, we are concerned that such negotiations must cover a range of important issues beyond mere bilateral tariff cuts. While Mexico has made some progress in recent years, there are still very substantial structural problems in the Mexican economy and industry which, we believe, must be eliminated or effectively neutralized before the United States agrees to reduce its tariffs on imports from Mexico. I will address each of these in my testimony today.

I. SUMMARY

The American ceramic tile industry is not inherently opposed to free trade negotiations with Mexico under Congressional "fast track" procedures. But any agreement with Mexico must eliminate, or effectively neutralize, at least the following types of trade-distorting activities:

- Subsidized loans and grants. These have been already found illegal under existing U.S. countervailing duty law.
- Natural resource subsidies in the form of preferentially-priced fuel and electricity.
- Subsidized transportation for exports, most commonly by truck, within Mexico.
- Inadequate protection of worker rights, including the right to organize and to earn a living wage.
- Inadequate protection of worker health and safety.
- Inadequate environmental protection, including the widespread release of untreated toxic waste.

In addition, any agreement should contain a rule of origin similar to that in the present U.S.-Canada free trade agreement, requiring that any product eligible for preferential tariff treatment must have been fabricated entirely in the country of origin.

II. THE AMERICAN CERAMIC TILE MANUFACTURING INDUSTRY

The American ceramic tile industry consists of about fifty manufacturers, plus a large number of small "handicraft" tile makers, located throughout the United States. (Exhibit A) This industry, for decades, has faced a pattern of unfair and trade-distorting practices by foreign governments and manufacturers, and has been expressly recognized as an import-sensitive industry by Congress and successive Administrations. Import penetration -- the ratio of imported ceramic tile to American-made ceramic tile sold in this country -- has risen steadily to about 56%. (Exhibit B) However, despite the fact that imports have captured more than one-half of the market, the American ceramic tile manufacturing industry remains viable and competitive, and has made very substantial investments in state-of-the-art technology and manufacturing facilities. This industry is certainly capable of competing with any foreign manufacturer on a level playing field.

III. U.S.-MEXICO TRADE IN CERAMIC TILE

Historically, Mexico has been a major source of U.S. ceramic tile imports, and also has been a major export market. However, from 1980 until it became a GATT signatory, Mexico imposed an embargo on all ceramic tile imports from the United States. While that embargo has, at least officially, now been lifted, U.S. exports of ceramic tile to Mexico remain at depressed levels. The Mexican ceramic tile industry also is heavily subsidized by the Government of Mexico. As a result, not only do imports from Mexico receive "bounties or grants" in violation of U.S. countervailing duty law, but also Mexican ceramic tile manufacturers have been induced to construct substantial excess manufacturing capacity, far in excess of Mexican domestic demand. As a result, there is a very substantial bilateral trade deficit in ceramic tile.

U.S. imports of ceramic tile from Mexico are increasing at a rapid rate, even without a free trade agreement. In the five years from 1986 through 1990, annual U.S. imports of ceramic tile from Mexico nearly tripled, from 30.7 million square feet to an estimated 85.1 million square feet. Mexican ceramic tile accounted for 14.4% of all U.S. ceramic tile imports during the first three quarters of 1990, up from 6.3% of U.S. imports in 1986. During 1990, Mexican ceramic tile was imported at a rate more than 20% over 1989 levels. Ceramic tile from Mexico undersells American ceramic tile by a significant margin, even including freight, insurance, and duties; and also undersells ceramic tile imported from most other countries.

In dollar terms, during the first nine months of 1990, U.S. exports of ceramic tile to Mexico were valued at \$516,003, while U.S. imports of ceramic tile from Mexico were valued at \$40.1 million. This amounts to a ceramic tile bilateral trade deficit with Mexico of some \$39.6 million over nine months, or \$52.8 million on an annualized basis.

IV. SPECIFIC OBJECTIVES OF A MEXICO FREE TRADE AGREEMENT

We submit that, before U.S. tariffs are reduced, any free trade agreement with Mexico must achieve the following specific objectives.

A. Eliminate Subsidized Loans and Grants

The U.S. Department of Commerce has determined that Mexican ceramic tile manufacturers continue to receive illegal bounties and grants in the form of tax subsidies and illegally

subsidized loans. The countervailing duty order against ceramic tile from Mexico, originally entered in May, 1982, initially found that these subsidies were granted at the rate of 15.84%. Subsequent determinations in administrative review proceedings confirm that these illegal subsidies are still being provided today. Any FTA must provide for the elimination of such subsidies. It is not sufficient just to continue the present countervailing duties. That would allow Mexican ceramic tile makers to continue to receive government subsidies for their domestic market, and would deprive American manufacturers of the opportunity to compete on equal terms in Mexico. The United States should insist that Mexico abolish all trade-distorting subsidies, including "domestic" as well as "export" subsidies, so that the American industry can have full access to the Mexican market.

B. Eliminate Natural Resource Subsidies

The Government of Mexico for years has provided natural gas -- the fuel almost universally used in ceramic tile manufacturing -- fuel oil and electricity to Mexican plants at preferential prices that amount to only a small fraction of the fair market price. Although this government practice has exactly the same economic effect as a cash subsidy, the U.S. Government to this point has not imposed countervailing duties against such "natural resource subsidies," and they continue to provide Mexican ceramic tile manufacturers with an enormous unfair cost advantage. This trade-distorting advantage must be effectively eliminated before U.S. tariffs are reduced. This could, we submit, be accomplished by insisting that the free trade agreement cover trade in energy in all its forms and prohibit all discriminatory energy pricing. This would not require the Government of Mexico to give up "sovereignty" over its energy resources. The Government of Mexico could continue to own the energy resources as long as it was committed to sell them on truly equal terms to all U.S. and Mexican buyers.

C. Eliminate Subsidized Transportation

Ceramic tile from Mexico is most frequently delivered to the United States by truck. There are numerous instances when Mexican exports to the United States, especially including ceramic tile, have been delivered to the U.S. border for a low or nonexistent freight charge. The Mexican transportation and trucking industry must be placed on a competitive market footing as a pre-condition to any FTA. This is particularly important to the U.S. ceramic tile industry, which hopes to expand its exports to Mexico. U.S. manufacturers must be entitled to pay the same shipping price as Mexican manufacturers.

D. Protect Worker Rights, Health and Safety

Working conditions in Mexico are vastly inferior to those in the United States, particularly in the manufacturing industries. While it is to be expected that wages in developing countries are lower than those in the United States, a distinction must be drawn between competitive low wages and wage rates that are depressed because the workers are not allowed to organize or exercise basic rights. Any FTA must guarantee Mexican workers the same basic rights available to U.S. workers. Similarly, workplace safety and health protections must be guaranteed to Mexican workers on the same basis that they are guaranteed to American workers. It is not in the interest of either the United States or Mexico to conclude a free trade agreement that permits the exploitation of Mexican employees.

E. Protect the Environment

Especially in manufacturing industries, environmental protection is often neglected in Mexico. Mexican ceramic tile manufacturers, among others, are guilty of dumping toxic waste into the environment and of generating unacceptable levels of air and water pollution. Any FTA should require adequate environmental protection in Mexico as a pre-condition of U.S. tariff reductions. As in the case of worker rights, health and safety, failing to address these issues in the FTA will create a powerful economic incentive for environmental abuse in Mexico at the expense of American jobs and prosperity.

F. Establish a Proper Rule of Origin

Any FTA with Mexico must include a rule of origin that will ensure that only ceramic tile fabricated in Mexico is eligible for preferential tariff-treatment. Tile Council submits that the same rule of origin included in the U.S.-Canada free trade agreement should apply to any U.S.-Mexico free trade agreement. Such a rule would require that, to qualify for national treatment, ceramic tile must be transformed from one 2-digit HTS classification to another. Simplistically, the country of origin is deemed to be the country where the tile body is manufactured. This rule would prevent third-country ceramic tile manufacturers from shipping pre-fabricated tile bodies to Mexico for finishing and packing (which sometimes can result in substantial value added). This kind of two-country manufacturing process already occurs without a tariff incentive. Thus, a fairly strict rule of origin is necessary to prevent abuse of tariff concessions.

V. CONCLUSION

The ceramic tile industry faces some of the more difficult problems involved in U.S.-Mexico free trade negotiations. This is a fairly capital-intensive industry in which Mexican manufacturers historically have undersold their U.S. competitors due to a combination of government subsidies and questionable employment and environmental practices. Also, Mexico has a history of tariff and non-tariff barriers that exclude American tile from the Mexican market. All of these issues must be addressed in order to create a fair and level playing field on which U.S. and Mexican ceramic tile manufacturers could compete fairly. If these problems are fully addressed in the FTA, then Mexico offers a potential market for U.S. ceramic tile exports, and the economic welfare of both countries will improve. However, if any FTA does not address these problems, the result will be a massive transfer of investment and jobs from the United States to Mexico.

Thank you for this opportunity to testify and present the views of the American ceramic tile industry. We would be glad to respond to any questions.

For further information contact:

Robert J. Kleinhans
Tile Council of America, Inc.
P.O. Box 326
Princeton, NJ 08542
(609) 921-7050

EXHIBIT A

PROFILE OF U.S. CERAMIC TILE MANUFACTURING INDUSTRY

Number of Producers	129 1/
Employees	10,000 1/
1989 Shipments	\$671,861,000 2/

Principal U.S. Manufacturers

<u>Name</u>	<u>Headquarters</u>	<u>Plants</u>
American Olean Tile Co.	Lansdale, PA	Lansdale, PA Jackson, TN Olean, NY Lewisport, KY Quakertown, PA Fayette, AL
American Marazzi Tile, Inc.	Sunnyvale, TX	Sunnyvale, TX
B & W Tile Co., Inc.	Gardena, CA	Gardena, CA
Claycraft Company (The)	Columbus, OH	Columbus, OH Upper Sandusky, OH
Color Tile Supermart, Inc.	Ft. Worth, TX	Ft. Worth, TX Melbourne, AR Cleveland, MS
Continental Clay Company	Kittanning, PA	Kittanning, PA
Crossville Ceramics	Crossville, TN	Crossville, TN
Dal-Tile Corporation	Dallas, TX	Dallas, TX
Dura Ceramics Inc.	Sun Valley, CA	Sun Valley, CA
El Paso Brick Company	Sunland Park, NM	Sunland Park, NM
Endicott Tile, Ltd.	Fairbury, NE	Fairbury, NE
Epro, Inc.	Westerville, OH	Westerville, OH
Firebird Tiles	Berkeley Hqts, NJ	Berkeley Hqts, NJ
Florida Brick & Clay Co., Inc.	Plant City, FL	Plant City, FL
Florida Tile Div., Premark Int'l, Inc.	Lakeland, FL	Lakeland, FL Lawrenceberg, KY Shannon, GA

1/ Source: USITC, Report to the President on Inv. Nos. TA-503(a)-20 and 332-290, USITC Pub. 2289 (June 1990) at Digest No. 6907.90.00 . 2.

2/ Department of Commerce, Current Industrial Reports Series M32-D (December, 1989)

- 2 -

<u>Name</u>	<u>Headquarters</u>	<u>Plants</u>
GTE Products Corporation	Portsmouth, NH	Portsmouth, NH
Huntington/Pacific Ceramics, Inc.	Fort Worth, TX	Fort Worth, TX
K.P.T. Inc.	Bloomfield, IN	Bloomfield, IN
Kraftile Company	Fremont, CA	Fremont, CA
Laufen International, Inc.	Tulsa, OK	Tulsa, OK
London Tile Co.	New London, OH	New London, OH
Lone Star Ceramics Co.	Dallas, TX	Dallas, TX
Stoneware Tile	Richmond, IN	Richmond, IN
Mannington Ceramic Tile	Lexington, NC	Lexington, NC Mt. Gilead, NC Mt. Vernon, TX
Metropolitan Ceramics Division of Metropolitan Industries, Inc.	Canton, OH	Canton, OH
Monarch Tile Manufacturing	Florence, AL	Florence, AL
Pee Dee Ceramics, Inc.	Marion, SC	Marion, SC
Quarry Tile Company	Spokane, WA	Spokane, WA
Seneca Tiles, Inc.	Attica, OH	Attica, OH
Stonelight Tile Company	San Jose, CA	San Jose, CA
Summitville Tiles, Inc.	Summitville, OH	Summitville, OH Minerva, OH Morganton, NC
Tecnics Ceramics, Inc.	New York, NY	New York, NY
Terra Designs, Inc.	Dover, NJ	Dover, NJ
Texeramics Inc.	Mineral Wells, TX	Mineral Wells, TX
The Tileworks	Des Moines, IA	Des Moines, IA
U.S. Ceramic Tile Co.	East Sparta, OH	East Sparta, OH Houston, MS East Sparta, OH
Universal Quarry Tile	Adairsville, GA	Adairsville, GA
Wenczel Tile Company	Trenton, NJ	Trenton, NJ
Wenczel Tile Company of Florida, Inc.	Tampa, FL	Tampa, FL
Western Quarry Tile, Inc.	Monrovia, CA	Monrovia, CA
Westminster Ceramics Inc.	Bakersfield, CA	Bakersfield, CA
Whitacre-Greer Fireproofing	Waynesburg, OH	Bascom, OH
Winburn Tile Manufacturing Company	Little Rock, AR	Little Rock, AR

Principal Handicraft Tile Makers

The following is just a partial list of American businesses actively involved in the production of handcrafted ceramic tile. This list does not even attempt to include the hundreds, if not thousands, of local artisans and ceramicists who produce handcrafted tile for their local markets. Following this list are some catalogues of handcrafted ceramic tile made in the United States.

<u>COMPANY</u>	<u>LOCATION</u>
Architectural Accents	Basalt, CO
Barbara Beal Studios	Torrance, CA
Clayworks Studio	Austin, TX
Counter Point Tile	Santa Fe, NM
Decoratta Ornamental Tile	Silverdale, PA
De Muth Tile	Napa, CA
Design Tiles	Mifflinburg, PA
Designs in Tiles	Foster City, CA
Epro, Inc.	Westerville, OH
Firebird Tiles	Berkeley Heights, NJ
Fireclay	San Jose, CA
Ron Goeke Studios	Trenton, NJ
Handcraft Tiles	Milpitas, CA
Joe McCarthy Tiles	Greenfield, MA
McIntyre Tile	Healdsburg, CA
The Meredith Collection	Canton, OH
M.E. Tile	Calumet City, IL
Moravian Tile	Doylestown, PA
New England Tile	Volatic, NY
Pevabic Pottery	Detroit, MI
Ron Peake Studios	Holland, IN
Sharon Lane	Santa Rosa, CA
Stone Haus Pottery	Pensacola, FL
Stonelight	San Jose, CA
Summitville Tiles, Inc.	Summitville, OH
Terra Designs, Inc.	Dover, NJ
Timeless Tiles	Shrewsbury, NJ
Totten Harnden Tileworks	Seattle, WA
Westminster Ceramics	Bakersfield, CA

Source: Tile Council telephone interviews, April, 1990.

JANUARY 1991

HISTORICAL ANALYSIS OF ALL TILE
1975 Through Third Quarter 1990

(Measured in Thousands of Square Feet)

Period	Domestic Shipments ^{1/}	U.S. Imports ^{2/}	U.S. Exports	Total Consumption ^{3/}	Import Penetration ^{4/}
1975	256,116	91,752	2,009	345,859	26.5%
1976	277,210	136,072	3,199	410,083	33.2%
1977	264,992	217,898	5,548	477,342	45.6%
1978	301,710	253,897	5,802	549,805	46.2%
1979	312,795	291,577	6,688	597,684	48.8%
1980	297,635	255,412	7,942	545,105	46.9%
1981	287,509	254,658	11,151	531,016	48.0%
1982	295,693	225,780	11,829	509,644	44.3%
1983	334,335	297,498	10,008	621,825	47.8%
1984	337,047	448,405	8,337	777,115	57.7%
1985	369,975	507,429	6,126	871,278	58.2%
1986	440,130	485,877	6,055	919,952	52.8%
1987	462,021	514,162	6,860	969,324	53.0%
1988	488,253	511,312	9,513	990,052	51.6%
1989	510,227	637,075	27,130	1,120,174	56.9%
YEAR-TO-DATE 1990	360,840	442,337	6,921	796,256	55.6%

- 1/ Due to discrepancies in Commerce Department data, the All Tile domestic shipments for 1975 do not equal the sum of all Mosaic, Glazed and Unglazed Ceramic Tile.
 2/ Represents imports of consumption.
 3/ Calculated by subtracting exports from the sum of domestic shipments and imports.
 4/ Represents imports share of consumption.

SOURCE: U.S. Department of Commerce, Series M 32D, IM 145X, IM 145, EM 546, EM 522 and FT-410.

JANUARY 1991

ANALYSIS OF ALL TILE IMPORTS, BY COUNTRY
1981 Through Third Quarter 1990

1/

(Measured in Thousands of Square Feet)

Country	1981	1982	1983	1984	1985	1986	1987	1988	1989	YEAR TO DATE 1990
Argentina	42	318	753	760	842	2257	5275	7841	8455	5758
Brazil	6617	4401	14252	24526	36505	35807	36141	34790	38427	25039
Canada	762	4620	1242	551	428	1542	2626	4000	2325	1163
Chile	0	0	0	0	99	25	21	613	2600	1380
Colombia	17	78	197	584	1219	2459	2873	4616	4622	3229
France	1733	1300	1425	1820	3579	2145	2346	1195	2880	1996
Israel	23	263	224	165	675	312	129	282	476	959
Italy	100337	93533	130755	210702	240006	228350	243044	243512	305343	195238
Japan	52221	45730	51595	67598	80268	52729	41967	36660	48339	28144
Korea	21467	17638	13683	15092	9112	14654	13583	17030	13153	6172
Mexico	32243	22547	30036	39740	30986	30780	45617	58638	70748	63788
Portugal	267	2077	730	1040	1385	1877	2075	1901	2298	1661
Spain	19664	18186	27697	43453	45221	48898	58420	58336	77608	62968
Sri Lanka	824	364	981	2030	1526	7017	5739	4516	3192	1491
Switzerland	8	28	320	997	1978	1751	961	229	1130	1093
Taiwan	102	385	2835	10246	14658	14826	14572	7711	2534	3159
Thailand	157	143	734	4601	7029	7963	9324	13339	18109	17167
Uruguay	0	0	652	3929	6220	5754	5009	4248	5600	3181
Venezuela	0	0	13	208	1881	7250	3255	3917	8295	9438
West Germany	8131	8534	9837	12260	16506	9774	7348	5040	6671	4328
Other	10046	5635	9538	8133	7307	9705	9466	7374	10480	4985
TOTAL	254661	225780	297499	448405	507429	485875	509791	515787	637075	442337

483

1/ Represents imports for consumption.

SOURCE: U.S. Department of Commerce, IM 145.

STATEMENT OF THE VALMARVEST ASSOCIATION

THE ECONOMIC RIGHTS PROBLEM: A PROPOSAL TO ADDRESS IT.

Differences between the polity of Mexico and that of the United States are very real, deep and wide. These differences can be surmounted, and they should, but it would be very risky and expensive to ignore them in the framing and negotiation of a Free Trade Agreement with Mexico.

A difference of great concern is unequal accountability before the Law. In principle, Mexico has pretty decent Laws; if they were evenly enforced, it would be safe to do business or invest down there. But they are not enforced evenly; ordinary people have to abide by them (and foreigners are ordinary people), but the power elite enjoys impunity. Besides ruling the whole central and local Government machinery, the power elite controls all business of consequence. Accordingly, a foreigner doing business or investing in Mexico will most likely deal with people who can encroach on his economic rights with impunity, even to the extent of seizing his assets in unfettered disregard of all laws and contracts.

Progressive leaders within the ruling PRI Party are well aware of this problem and wish to cure it. Indeed, the platform approved at the latest Party Congress contains a plank vowing "to fight all impunity and foster a culture of legality", but there is a wide gap between this avowed goal and everyday Mexican reality. It is all too common in Mexico for businessmen and investors to be ensnared in a culture of illegality.

It is imperative to address this problem in the negotiations of the Free Trade Agreement. To this end, we propose that the Agreement be made contingent on the following measures:

- The creation of a Mexican National Economic Rights Commission, having the purpose and charter of dealing with complaints of Economic Right abuses. This Commission would be a Mexican body under full Mexican jurisdiction, involving no encroachment whatsoever on Mexican sovereignty.
- The creation of a bilateral U.S.-Mexico Office of Economic Rights, which may be optionally used by citizen of either Country as a vehicle for submitting complaints to the Mexican National Economic Rights Commission. The Office would have no jurisdiction over any actions taken by the Commission in connection with any Economic Rights complaints; however the Commission would be required to provide the Office

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20 Corporate Park, Suite 290, Irvine, CA 92702

with periodic reports on the progress of the cases submitted through the Office's agency. The Office would be in turn required to publicize such reports to the Mexican and American press and to the respective complaints' originators.

Clauses embodying these measures would put an end to the current lack of equal protection under Mexican Law, which discourages the expansion of trade, business and investment activities in Mexico. There is no reason to expect objections to such clauses by the Mexican Government. The recent creation of the Mexican National Human Rights Commission, promptly instituted by President Balinas upon the voicing of Human Rights complaints, is a favorable precedent. The above noted plank in the recent PRI Party Congress platform is another positive precedent. That same platform also states that "an effective defense of (Mexico's) sovereignty in the international environment can be achieved only if full exercise of rights and democratic practices are assured within the Country", a clear indication that the current proposal will not be viewed as an encroachment on Mexican sovereignty.

MEXICAN ECONOMIC POLICIES: PLUSSES AND MINUSES

From 1914 through 1946 Mexico was governed by military men, typically inclined toward a command economy and hostile to business. In the 1930's, in particular, socialist ideology prevailed and most of the economy was put under government control. This trend was reversed by Gen. Avila Camacho, the last of the military Presidents, who recoiled from socialism and encouraged the expansion of private enterprise. His civilian successors built upon his policies. In the sixties, 60% of the Mexican economy was in private hands, and the Country experienced considerable economic growth. But in the seventies the trend shifted again to widespread state control, inspired this time by greed rather than ideology: nationalization handed the power elite control of all business, but it destroyed the incipient prosperity of the sixties, and caused sharp economic polarization.

Mr. Balinas' rise to power has changed the economic climate for the better. His Administration has returned several state companies to private hands, and plans to return still more, but oil and energy are being excluded from privatization. It has also reduced import tariffs and restrictions, but for now the reduction is of little significance, since the market for imports is very limited in Mexico. Mr. Balinas appears determined to move the Mexican economy toward free market practices, but he has not yet departed from some of the command economy policies he inherited from his predecessors.

One such policy is the Economic Stabilization and Growth Pact implemented in 1988. It is an "agreement" by Labor and Business to salary and price controls. The agreement is far from

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spontaneous; its signatories have openly stated that they were coerced. The pact has ushered modest economic growth (mainly fueled by export), but severely curtailed the purchasing power of the common people (by about 40% under the previous De La Madrid Administration, and a further 16% under the Salinas Administration thus far). At the latest pact extension, last November, Labor "agreed" to an 18% raise in the minimum salary, well below the inflation rate, Business to a prices freeze, in the face of increases in the cost of energy and other Government-controlled services. The pact is a hallmark of command economy, and a restraint of free domestic trade. By continuously eroding the purchasing power of salaries, it fans the threat of social unrest.

To contain social unrest, the Mexican Government is pouring more money into the "Pronasol" welfare program, which gives free tortillas and subsidized milk to lower income people, and finances scattered pork barrel projects. The opposition calls it a vote-buying scheme, a charge that the Government obviously denies. Even if the vote buying aspect is cast aside, it is undeniably a program that tries to buy the acquiescence of the poor to policies that make them poorer yet.

Piddling salaries and increasing fiscal and regulatory pressure are driving more of small business underground. Attempts to enforce the law on the underground sector often backfire, as happened recently in a Mexico City neighborhood, whose entire population took to the streets to protest raids on underground merchants. The Government had to relent. The underground economy may be a path out of starvation, but it certainly does not make for an attractive market.

Though short of giving a full picture of Mexico's economic policy, the elements presented above depict its nature. It is a policy of making the Country into a pool of cheap labor. That helps with exports; the Mexicans hope it will also make for a strong lure to foreign investment. Thus far, the lure has worked only in the Maquiladoras sector, which is sheltered from Economic Rights abuses because it is quasi-extraterritorial, and exposed to scrutiny from across the nearby border. But even with more cheap-labor-induced investment the Mexican economy would stay weak, still offering modest market opportunities for American goods and services. To make the economy grow, the purchasing power of the masses has to be improved; it is instead being depressed.

The mixed record of Mr. Salinas' economic policies stems not so much from lack of reformist intent as from the inertia of the system, and the fact that his clan is small, though made of bright, highly educated men. Clans are all important in Mexican politics; to broaden support for his Government, Mr. Salinas had to be content with placing his men only in the cabinet posts that deal with the economy, leaving the political posts to members of other clans. But then, most of his

T h e V A L M A R V E S T A s s o c i a t i o n
20 Corporate Park, Suite 290, Irvine, CA 92702

cabinet members have no strong loyalty to him or each others that puts a dent in his authority over cabinet and Party.

After the reformist wave of 1989, the Party's old guard has regrouped, trying to protect, with renewed intransigence, its privileges, and the impunity before the Law that shores them. Mr. Salinas has not turned his back on reform - he pushed a reformist platform at the recent Party Congress - but he is being forced to come to terms with his Party's apparatus. That may well be the reason why he has not shed the command economy yet, and keeps pursuing a cheap labor policy, which suits the power elite just fine, but runs counter to American interests, as it tends to drain jobs away without opening a sizable market to American goods and services.

If Mexican economic policies promoted instead diffuse entrepreneurship and investment, prosperity would spread and the great potential of the Mexican market would be unlocked. A balanced North-American Common Market could then be created that would lead to a better allocation of resources and production facilities, much to the benefit of both Mexico and the U.S. But as long as in Mexico there is no equal accountability before the Law nor equal protection under the Law, entrepreneurship and investment are deterred, mass poverty prevails, and the Mexican market stays weak. Reliable guarantees of Economic Rights in Mexico, therefore, are the first step needed in order to allay inconsistencies between Mexican economic policies and the goals of the proposed Free Trade Agreement. In addition, in negotiating the Agreement, no effort should be spared to encourage the Mexican Administration to shed the remainders of the command economy and remove barriers to free trade within Mexico, not just at the border.

A FEW WORDS ABOUT THE VALMARVEST ASSOCIATION

We are an Association of 117 small investors in a tourist project in Mexico. Our property has been virtually seized, in brazen violation of Mexican Law, by a cabal of large companies (including Bancomer, the second largest Mexican Bank and a Government Company) and powerful individuals (including a very influential PRI politician, Mr. Aviña Batiz). The purpose of our testimony is to prevent the Free Trade Agreement from becoming a vehicle for luring American businessmen and investors into similar costly and demeaning traps. We want to warn that in Mexico such traps are sprung not just by small fly-by-night outfits, but also by large, nationally established companies. We assert that cases like ours must be taken into account in the negotiations of the Free Trade Agreement, but categorically stress that we are not seeking redress or assistance from this Honorable Committee, nor from the U.S. negotiating team, in connection with our Mexico ordeal.

STATEMENT OF VITRO, S.A. AND ITS SUBSIDIARIES

I. INTRODUCTION

This statement is submitted on behalf of Vitro, S.A., of Monterrey, Mexico and its subsidiary companies, in support of the negotiation of a Free Trade Agreement with Mexico. Vitro, S.A. has evolved from a small, family-owned glass container manufacturer, founded in 1909, into a fully integrated manufacturing group. Today, by virtue of its acquisition of Anchor Glass Container Corporation of Tampa, Florida, Vitro is both a Mexican and a U.S. manufacturer. Additionally, Vitro, S.A. has been both an importer of Mexican products into the United States and an importer of U.S. products and materials into Mexico. Exports of glass products by Vitro's subsidiary companies represent only part of Vitro's total production, and, more importantly, only a very small part of the total U.S. market for float glass, automotive glass, household glassware, and containers. It should be emphasized that the Mexican market remains the focus of Vitro, S.A.'s activities, and accounts for, and will continue to account for, the overwhelming majority of its sales.

In discussing glass, it is important to bear in mind that there is no single, monolithic glass industry in the United States or in Mexico which covers float glass, automotive glass, household glassware and glass containers. These markets in the United States are completely separate, each with their own manufacturers and customers with different problems and concerns. A discussion about the impact of a Free Trade Agreement with Mexico with respect to these industries will be meaningful only if each is studied independently. Even if float glass, automotive glass, household glassware and glass containers from Mexico were designated as unconditionally duty free at the time a Free Trade Agreement enters into effect, the impact on the relevant U.S. industries would be minimal. This is primarily due to the fact that in each case the U.S. industry, whether measured in terms of production, capacity, or sales, dwarfs the Mexican industry. The relatively small production capacity of the Mexican industries in question, as well as the existing commitments of these Mexican industries to longtime customers in the Mexican market, essentially ensures that imports from Mexico will play a relatively small role in the U.S. market, and will not adversely affect U.S. producers in these market segments.

It is important to bear in mind that the elimination of U.S. import duties, either immediately or over time, by virtue of a bilateral (or trilateral) Free Trade Agreement, will be limited to imports from a single country—Mexico. Further, because only imports from Mexico will be affected by a Free Trade Agreement, any increases in imports from Mexico as a result of the reduction or elimination of import duties need not come at the expense of the U.S. industry, even in cases where the U.S. market is alleged to be mature. Imports from Mexico in many instances—especially in the case of household glassware—will come at the expense of other imports with which Mexican products will be able to compete for the first time.

II. FLOAT GLASS

All float glass manufactured in the United States is currently produced by five manufacturers: PPG Industries, Inc. ("PPG"), the largest producer of float glass in the United States and the third largest in the world; AFG Industries, Inc.; Ford Glass Division; Guardian Industries; and Libby-Owens Ford. (A new company, U.S. Glass Corp. of Brighton, Michigan, has begun construction of a 400,000 square-foot float glass plant in Pennsylvania which is scheduled to go on stream this year. See Glass Industry, August 1990 at 4.) These five companies currently meet approximately 95 percent of the total demand for float glass in the United States, and are filling an increasing percentage of the demand abroad, as well. The remaining 5 percent of the U.S. market is serviced by imports from the rest of the world.

Imports of float glass, both from Mexico and the rest of the world, play a small but important role in the U.S. float glass market. Total U.S. demand for flat (including float) glass, excluding automotive glass, was 3,452 million sq. ft. in 1989. See Glass Magazine, May 1989 at 95. Imports of unprocessed float glass from Mexico totaled just under 22 million sq. ft., representing only about 1.0 percent of U.S. demand in 1989. In fact, total U.S. imports of float glass account for less than six percent of the U.S. market. At the same time, U.S. exports of float glass are increasing steadily. Imports of float glass from Mexico therefore cannot be said to present a threat to U.S. producers.

Moreover, Mexican imports serve a niche in the market which would otherwise be undersupplied. The U.S. industry produces primarily thin float glass of 6mm or less ("commodity glass") which comprises at least 90 percent of the market. By contrast, the Mexican industry exports mainly heavy float glass. U.S. production of heavy

float glass is minimal, and sporadic. Float glass imported from Mexico, therefore, does not compete with the product which dominates the market, i.e., commodity (thin) float glass, and fills a demand which is not met adequately by U.S. producers.

The domestic float glass industry will remain relatively insulated from import competition due in part to the much greater cost of capital to Mexican float glass producers which, in this capital-intensive industry, significantly offsets any advantage derived from the lower cost of labor in Mexico, which accounts for only a very small portion of the cost of float glass production. Further, Mexican companies no longer derive advantage from lower energy costs, as the disparity between natural gas prices in the United States and Mexico has all but disappeared. See *Foreign Investment Barriers Or Other Restrictions That Prevent Foreign Capital From Claiming The Benefits Of Foreign Government Programs*, ITC Inv. No. 332-268 (August 1989) at 2-1. The Mexican float glass industry also faces significant competitive disadvantages in the U.S. market due to higher transportation costs (including a very inadequate road and rail system), a very unsophisticated, and costly, communications system (there are less than one-tenth the number of telephones per capita in Mexico than in the United States), and other, similar infrastructure deficiencies. Mexican producers also incur the cost of importation, which their U.S. counterparts do not.

It is important to note that the Mexican producers must first satisfy demand in the Mexican market for float glass, which limits both their actual and potential export capacity. New construction in the Mexican market is expected to increase over the next few years, and any increase in capacity of float glass production (which will also replace existing capacity for sheet glass) is very likely to be absorbed by demand within Mexico. Since costs are lower for Mexican producers when they sell in Mexico, they prefer to sell in Mexico if the demand is there.

The U.S. float glass industry is not only dominant in the United States, but is also an industry leader worldwide. The Mexican industry is simply dwarfed by comparison. Controlling approximately 95 percent of the U.S. market, the U.S. float glass industry will suffer no adverse effects if a Free Trade Agreement with Mexico is negotiated, and would suffer no adverse effects if Mexican float glass were immediately made unconditionally duty-free.

III. AUTOMOTIVE GLASS

Market for fabricated automotive glass is divided into two sectors: the original equipment market (OEM) and the automotive glass replacement (ARG) market. In both cases, imports from Mexico play a very small role in the U.S. market. Moreover, because automotive glass from Mexico is already duty-free under the GSP program, designation of these products as unconditionally duty free at the time the Agreement goes into effect will not create a situation different from that which already exists today, and will not result in significant new exports of Mexican automotive glass to the United States.

The OE market is served by the major U.S. automotive glass manufacturers—PPG, Ford, Chrysler, and LOF—which produce glass for sale to motor vehicle manufacturers for use as original equipment in new vehicles. These U.S. companies are the world leaders in the development of new high-technology glasses which have allowed automobile designers to incorporate significantly greater amounts of glass into new models, which will lead to higher sales of glass in the OE market. The same U.S. companies which serve the domestic OE market also play a very significant role in the ARG market, since they are positioned as the only possible producers of "original equipment" replacements for the automotive glass which they produced for use as original equipment in new vehicles. PPG Industries is, in fact, the acknowledged price leader in the ARG market.

Producers who sell only in the replacement market typically purchase float glass and fabricate it into automotive glass. Obviously, the OEM producers have a distinct advantage over the second tier producers with respect to sales in the replacement market, since replacement "original equipment" commands a significant price premium over the generic replacement parts sold by the second tier producers. In fact, as sales of replacement glass have increased, independent installers have increasingly been replaced by distributors and installers owned by the automotive glass manufacturers themselves, who are expanding their distribution systems to include the retail level. This trend away from independent installers and toward manufacturer-owned installation outlets favors the continuing ascendancy of larger manufacturers of automotive glass, who can afford to acquire these facilities.

In light of the dominance of the U.S. automotive glass producers, the role of Mexican producers in the U.S. automotive glass market will continue to be limited by their capacities and geographical locations in the United States. According to a July 1990 U.S. International Trade Commission Report ("Conditions of Competition Be-

tween U.S. and Mexican Fabricated Automotive Glass in the U.S. Market," ITC Investigation No. 332-286), Mexico's share of total U.S. consumption of fabricated automotive glass has remained both small and stable over the past several years. Mexico's share of the market was 6.0 percent in 1987 and 1988, then fell to 5.8 percent in 1989. Significantly, Mexico lost market share even as imports from other countries, such as Canada, gained market share.

Automotive glass currently enters the United States duty-free from Mexico under the GSP program. There is, therefore, no need to speculate as to the impact of according duty-free treatment to the product from Mexico under a Free Trade Agreement, since such treatment has been accorded to Mexican automotive glass for many years, with no adverse effect on the U.S. industry. Under these circumstances, the immediate grant of unconditionally duty-free treatment to Mexican automotive glass under a Free Trade Agreement would not cause an increase in Mexican imports.

IV. HOUSEHOLD GLASSWARE

Although imports play a significant role in the U.S. household glassware market, imports from Mexico do not. In 1989, Mexico exported glassware valued at \$21.1 million to the United States. According to U.S. Census Bureau data, in 1989, total U.S. imports of household glassware were valued at \$513 million, and domestic shipments were valued at \$1.38 billion. Mexico's exports of glassware to the United States gave that country a 1.1 percent share of the U.S. market, and a 4.1 percent share of the import market. As the U.S. International Trade Commission noted in its report to Congress on the impact of the U.S.-Mexico Free Trade Agreement, Mexico's share of the market represents "a negligible portion of U.S. production." Inv. 332-297, USITC Pub. 2353 (February 1991) at 4-32. The Commission's report therefore refutes claims made repeatedly by the domestic household glassware industry that imports from Mexico have been a major cause of decline in the U.S. industry.

Mexico's share of the U.S. market is clearly too small to cause any injury to the domestic household glassware companies. As explained in more detail in the accompanying submission to the Trade Subcommittee of the House Ways and Means Committee by Vitrocristal and Crisa Corporation, the U.S. household glassware industry has not been injured by Mexican imports in the past, and will not be injured in the future. We would further note that U.S. household glassware producers have taken advantage of opportunities now available in the Mexican market, and have begun to establish a significant presence in the Mexican market. There is no reason to exclude glassware from a Free Trade Agreement, and, given the extremely high tariffs presently imposed by the United States on certain household glassware (up to 38 percent), very good reasons exist to include these articles in any Agreement.

V. GLASS CONTAINERS

Imports play a very small role in the U.S. market, accounting for only approximately 4 percent of U.S. apparent consumption. See U.S. Department of Commerce Report M32G (90)-6 (June 1990). Imports from Mexico make up about 25 percent of total U.S. imports, or about 1 percent of U.S. apparent consumption. There is no reason to expect any increase in imports from Mexico should glass containers be designated as unconditionally duty free under a Free Trade Agreement, inasmuch as this would not change the tariff treatment to which glass containers are currently subject. All glass containers entering the United States from Mexico today are either already unconditionally duty free, or GSP eligible. Although already duty-free, glass containers from Mexico play a relatively minor role of in the U.S. import market. Consequently, the U.S. container industry is very unlikely to be adversely affected by a Free Trade Agreement with Mexico, and those glass containers which are not currently unconditionally duty free should be made so at the time of implementation of a Free Trade Agreement.

VI. CONCLUSION

There is no single monolithic glass industry in the United States. The float glass, automotive glass, household glassware and glass container industries are all distinct sectors of the economy, with different companies involved in each, and with each responding to a different set of variables. A Free Trade Agreement would not, therefore, affect these industries in the same way or to the same extent, and the impact of an Agreement should be determined separately for each. These products all play a very small role in the U.S. market, and, due to the relative sizes of the U.S. and

Mexican glass industries, the Mexican companies are not in the position to harm the domestic industries. Therefore, we would urge that float glass, automotive glass, household glassware and glass containers from Mexico be designated as unconditionally duty free at the time of the implementation of a Free Trade Agreement between the United States and Mexico, or, at a minimum, be accorded accelerated duty reductions.

STATEMENT OF VITROCRIISA CRISTALERIA, S.A. DE C.V. AND CRISA CORPORATION ON THE U.S.-MEXICO FREE TRADE AGREEMENT

The following comments present the views of Vitrocristalera, S.A. de C.V. of Monterrey, Mexico, and Crisa Corporation of Plano, Texas on the Free Trade Agreement to be negotiated between the United States and Mexico. Vitrocristalera is a Mexican manufacturer of household glassware. Crisa Corporation is an importer of household glassware from Mexico. Vitrocristalera and Crisa Corporation submit that a Free Trade Agreement would not be detrimental to the household glassware industry in the United States.

MEXICAN HOUSEHOLD GLASSWARE PLAYS A VERY SMALL ROLE IN THE U.S. MARKET

While total imports of household glassware into the United States do play a significant role in the U.S. glassware market, the same cannot be said for imports of household glassware from Mexico. It is critical to remember that total import figures and market share *do not* reflect Mexico's share of the glassware market. U.S. total apparent consumption of household glassware in 1989 was valued at approximately \$1.89 billion, with U.S. shipments valued at \$1.38 billion, and total imports valued at \$513.4 million. See U.S. Commerce Department Current Industrial Report MA32E (September 1990) and Report IM146. In 1989, Mexico exported glassware valued at \$21.1 million to the United States, giving that country a *1.1 percent share of the U.S. market, and a 4.1 percent share of the import market*. Mexican imports of household glassware therefore play a very minor role in both the U.S. market as a whole, as well as within the import market alone.

Moreover, the U.S. market for glassware is growing (apparent domestic consumption increased from \$1.88 billion in 1988 to \$1.92 billion in 1989), providing all participants with new market opportunities. Domestic shipments of household glassware grew from \$1.36 billion in 1988 to \$1.38 billion in 1989. The domestic industry is therefore sharing in the expansion of the market for household glassware. It is also interesting to note that U.S. household glassware companies are also increasing their presence abroad. U.S. exports of glassware have increased steadily over the last five years. Between 1988 and 1989, U.S. exports increased 78 percent—from \$66.8 million to \$85.7 million.

While Mexican imports of household glassware play a very small role in the U.S. market, imports (most of which come from the United States) play a significant, and rapidly increasing, role in the Mexican market for household glassware. Imports today account for over 20 percent of the Mexican market for these products. U.S. producers have, therefore, clearly made significant headway in penetrating the Mexican market.

In its Report on *The Likely Impact On The United States Of a Free Trade Agreement With Mexico*, the U.S. International Trade Commission acknowledges the very small role Mexico plays in the import market in the United States. In fact, Mexico's share of the market is described by the Commission as representing "a negligible portion of U.S. production." *Id.* at 4-32. Given this finding, the claim made by the U.S. household glassware industry that imports from Mexico have been a major cause of decline in the U.S. industry is simply incorrect.

HOUSEHOLD GLASSWARE IS NOT IMPORT SENSITIVE

The domestic household glassware industry has, on many occasions, claimed that Congress has found the glass industry to be "import sensitive." As Vitrocristalera and Crisa Corporation have repeatedly pointed out, the U.S. glassware industry has not been designated as "import sensitive" by Congress or the President. The claims of the domestic industry are apparently based on a section of the GSP law (Section 503(c) of the Trade Act of 1974, 19 U.S.C. §2463(c)), which provides that articles in the enumerated "categories of import sensitive articles" may not be designated as GSP-eligible by the President. One of these categories encompasses "import sensitive semi-manufactured and manufactured glass products." The plain language of this section provides only that glass articles *found to be* import sensitive are ineligi-

ble for GSP eligibility, not that all glass articles are import sensitive. Had Congress believed all glassware to be import sensitive, it would simply have made all glassware ineligible for inclusion in the GSP program, which it did in the case of textiles, watches, footwear, and other items. Since Congress did not do this, it is clear that Congress did not consider all glassware to be import sensitive, and intended any determination of import sensitivity to be made on a product-by-product basis. Indeed, the Commission, in its February 1991 Report on the Free Trade Agreement, found that most imports of glass products into the United States enter duty free under the GSP program. The repeated efforts of the domestic glassware industry to convince its audience that the law states otherwise reflects a deliberate attempt to misconstrue the clear language of the statute. Household glassware was included in the U.S.-Canada Free Trade Agreement, and should be included in any Free Trade Agreement negotiated between the United States and Mexico.

A FREE TRADE AGREEMENT WILL NOT CREATE A FLOOD OF IMPORTS FROM MEXICO

A Free Trade Agreement would not necessarily lead to any significant increase in imports of household glassware. The argument that a reduction in tariffs would lead to increased imports has been made in the past with respect to products of other glass industries and has not proven to be accurate. For example, at the time glass containers became unconditionally duty-free, the domestic glass container industry argued that the removal of tariffs would cause a flood of imports. This anticipated "flood" never occurred. The domestic industry also argued in the 1989 GSP Annual Product Review that the addition of heavy float glass to the list of GSP-eligible articles would cause a significant increase in imports. Imports of heavy float glass from Mexico have, in fact, declined. These examples refute the contention that granting duty-free status to a product will lead to an increase in imports.

Members of the domestic household glassware industry have repeatedly claimed that the experiences of the U.S.-Israel Free Trade Agreement and the Caribbean Basin Economic Recovery Act demonstrate that imports will increase under a Free Trade Agreement with Mexico. References to import increases under these particular arrangements are very misleading. In both cases, glassware imports prior to the effective date of the Agreements were virtually nonexistent, and increased only after the respective arrangements became effective. Consequently, there was a tremendous percentage increase in overall exports of these glass products, although absolute amounts remained very low. There were certainly no "import surges." In fact, in recent years imports under these programs have actually declined.

Moreover, it is very important to distinguish between the exercise of negotiating a Free Trade Agreement with Mexico and that of negotiating tariff reductions in the context of the Uruguay Round or providing benefits under the GSP program. The negotiation of a Free Trade Agreement with Mexico provides a unique opportunity to reduce tariffs solely as they apply to a single trading partner. The tariff reductions being contemplated will have a much lesser impact on the U.S. industry than would tariff reductions granted on an MFN basis, or under the GSP program. We would respectfully submit that in the case of a Free Trade Agreement with Mexico, unconditional duty-free treatment, even if accorded to glassware articles immediately, would have little impact on the U.S. industry. This conclusion was also reached by the Commission in its recent Report to the Congress on the likely impact of a Free Trade Agreement on U.S. industries. Mexican producers do not have any significant competitive advantage over U.S. producers.

Mexican producers do not enjoy any significant competitive advantages over their U.S. counterparts, and what few advantages they have experienced in the past are rapidly eroding. The differential between the cost of natural gas in Mexico and the United States, which was significant in the early 1980s, has been rapidly narrowing, and is no longer of any significance. See *Foreign Investment Barriers or Other Restrictions that Prevent Foreign Capital from Claiming the Benefits of Foreign Government Programs*, ITC Inv. No. 332-268 (August 1989) at 2-1. Mexican household glass producers cannot be said to have any significant advantage over U.S. producers in terms of energy costs, and, in fact, Vitrocrisa believes that it is now paying more for energy than U.S. glassware manufacturers.

Significant efforts are also now being made to implement environmental controls. In Mexico, Vitrocrisa and many other responsible industrial companies have already invested large sums of money on equipment to reduce pollution. Vitrocrisa is in the process of installing pollution control equipment for its furnaces. Vitrocrisa has already installed a dust collector system in mixing rooms, acoustic installations on compressors, hydrochloric acid neutralizing systems for residual water, and a dust collector system in the oven loading areas. Vitrocrisa has established a department charged exclusively with responsibility for environmental concerns, especially

those relating to pollution. In addition, as noted above, Vitrocrisa uses natural gas (at times supplemented by electricity) in its glass operations, which is essentially pollution free. This approach should be compared with that of U.S. glassware companies, many of whom use fuel oil, which creates significant environmental hazards. The Mexican household glassware producers do not enjoy an advantage over their U.S. counterparts in terms of pollution control.

Any competitive advantages which Mexican producers might have in the U.S. market are outweighed by the very significant disadvantages with which they must contend. Being located in a developing country, Mexican manufacturers do not benefit from the sophisticated transportation and communication infrastructure available to U.S. producers. This imposes substantial additional costs on Mexican producers which U.S. producers do not face. Additionally, the much larger size of the U.S. market allows U.S. producers to run much larger production lines, enabling them to take advantage of economies of scale, and to offer a much greater variety of products to their customers than Mexican producers are able to offer.

More importantly, investment to maintain and upgrade manufacturing facilities, and for continued research and development, comes at a much higher cost in Mexico than in the United States. Currently, the cost of money in real terms in Mexico is 15.52 percent, while in the United States the same cost is 3.74 percent. This makes capital development much more expensive in Mexico.

This higher cost of money also imposes significant burdens on Mexican producers because inventory turnover is much slower in Mexico than in the U.S. market, which imposes further financial costs. This is compounded by the fact that the payment terms in Mexico are much more lenient than in the United States. Payment terms of 50-60 days are the norm, and it is not uncommon to extend terms of payment up to 120 days (and in some cases, 6 months) for customers. In the United States, by comparison, U.S. household glassware companies can require that letters of credit be posted for payment at the time of delivery.

CONCLUSION

Given the extremely small share of the U.S. market currently accounted for by imports of Mexican household glassware, the relatively small size and limited production capacity of the Mexican industry, and the Mexican industry's longstanding and continued commitments to its customers in the Mexican market, we respectfully submit that the elimination, or reduction, of import duties on household glassware from Mexico under a Free Trade Agreement would not significantly affect the U.S. household glassware industry. Lower duty rates, and eventual duty-free treatment, will only help in part to offset the many competitive disadvantages faced by Mexican household glassware producers in the U.S. market.

We agree with the Commission, which found that the overall impact of a Free Trade Agreement on the household glassware industry in the United States will be "negligible." Suggestions by the U.S. industry that household glassware should be excluded from any Agreement negotiated should be rejected out of hand. The contemplated Free Trade Agreement is to be comprehensive, and should cover all product sectors, especially those, such as household glassware, where the overall effect of such an Agreement will be "negligible."

EDITORIAL/OPINION

Is Mexico Ready for an FTA?

By CHRISTOPHER WHALEN

The Bush administration's optimism about the economic benefits for Mexico of free trade obscures enduring political and economic problems that still hinder Mexico's recovery from a decade of crisis.

While President Carlos Salinas de Gortari embraces economic reform in broad terms, his government remains wedded to policies that render real growth and true trade liberalization with the United States difficult, if not impossible.

Higher oil prices during 1990 rebuilt Mexico's foreign currency reserves to nearly \$9 billion as of December. While large dollar reserve figures may seem impressive, the \$9 billion today covers less than three months' worth of imports, compared with the 12 months of cover \$14.6 billion provided in August 1987.

Moreover, "net" oil exports are declining (imports of gasoline and fuel into Mexico exceeded \$2 billion last year) and are expected to reach zero in 10 years.

Despite the serious medium-term implications of overvaluation of the peso and declining oil exports, the Mexican government has managed to attract foreign capital and investment. Salomon Brothers notes that total capital inflows were \$8.395 billion in 1990. But glowing appraisals from securities brokers must be taken with a few grains of salt.

Much of the "stability" apparent in Mexico since 1988 is the result of price controls that hide continued double-digit inflation, new foreign loans and widening trade deficits — the same lethal combination that created economic crisis in 1982.

Confusing domestic wage and price controls and an officially managed currency regime, has both encouraged and been made possible by a surge in foreign capital flows: multilateral loans, private borrowings and long-term investment capital, in that order of significance.

In fact, all of Mexico's debt reduction brought about by the Brady plan has been offset by new sovereign and state sector borrowings. The nationalized banks and Pemex, the oil monopoly, have issued a torrent of new debt. Pemex alone has incurred almost \$2 billion in new debt since 1988.

New loans and investment require real growth, and exports in excess of imports to assure repayment, not to mention servicing existing debt. Projections for a current account deficit of \$29 billion in 1991 (excluding oil exports) raise real questions as to whether the economic policies of the Mexican government are sustainable.

The "privatization" of state-owned companies has received great attention from investors. Yet some analysts concerned about the prospects for growth remain skeptical.

Roberto Salinas of the Mexico City Center for Free Enterprise Research notes that "The 778 companies divested so far represent less than 15% of the government's assets,

even excluding Telmex, the national telecommunications company, steel mills and the banks." The largest and least efficient state companies remains untouched.

Privatization generated \$1.5 billion in proceeds and cost savings since 1988. But Mr. Salinas, the economist, cautions: "Benefits to date are negligible, compared to the \$700 million in subsidies needed to finance the state sector in the first quarter of 1990 alone... subsidies reached \$1.6 billion in the first six months of last year."

Compounding the cost of state subsidies is the reduced competitiveness of Mexican exports due to the overvalued peso. Mexican exports have not kept pace with the surge of imports following "liberalized" restrictions on foreign goods. Consumer goods from South Korea, Japan and the United States all are attracted to Mexico's large open market.

The high inflation differential between the United States and Mexico

is a growing problem. The cost of electricity, natural gas and other government-controlled inputs have been rising at double-digit rates since 1988, while the peso has been devalued at a mere 3% to 4% rate annually. Maintaining, let alone expanding, export markets is becoming impossible.

Still, the stable if overvalued peso is seen as the single greatest success of the Salinas government. It has convinced some investors, Mexican and foreign, to bring money back into the country. But Mexican export industries, workers and consumers are paying a high price for this political victory.

Prices for sugar, tortillas and rice has risen three to fourfold since December 1987, while wages have been adjusted upwards just over 100%. The purchasing power of Mexican workers has continued to erode, even beyond the 50% loss suffered during 1982-1988.

To its credit, the Salinas government in 1990 restrained inflation to an official rate of 30% by limiting the country's supply growth to "only" 40%. But there are troubling signs that easy money and inflation are being used again as a political device to stimulate the economy as important midterm elections near.

Recent estimates show Mexico's money supply growing as fast as 60% to 70% in 1991. Privately, Mexican businessmen worry about a resurgence in demand-led inflation when the pesos now being pumped into the economy are spent to buy goods and services, many of them imported. This will strain the country's limited foreign exchange reserves and create a currency crunch like the one that so badly hurt Mexico a decade ago.

Christopher Whalen is a political and economic consultant based in Washington.



SUBMITTED BY THE WHALEN COMPANY, INC.

STATEMENT OF WIRES WASHINGTON

SPECIAL ANALYSIS

DRIVE FOR U.S.-MEXICO FREE TRADE AGREEMENT MASKS CONTINUING PROBLEMS IN MEXICAN ECONOMY: Official optimism about the potential benefits of a free trade agreement (FTA) with Mexico that underlies the Bush Administration's initiative tends to obscure many political and economic problems involved in meshing the two economies. The Mexican government portrayed, with some success, a fairly "rosy" economic scenario in its campaign to attract badly-needed foreign investment since 1988. But potential investors need to take a hard-nosed look at some fundamental factors that will affect the course of economic development in Mexico during the 1990s.

- *Dependency:* Despite some considerable change already underway in Mexico, the country remains economically tied to the larger U.S.-Canada economic system. With the prospect for a less-than-ebullient U.S. market for Mexican goods in the near-term, many Mexican observers worry openly that as in past U.S. recessions, Mexico may suffer a severe downturn in 1991-92. Indeed, some would argue that the country's economy is already in a recession, despite government statistics showing "growth."

- *Payments imbalance:* Much of the prosperity apparent in Mexico is the result of new multilateral loans, private sector borrowings, and some inflows of long-term investment capital—in that order of significance. Projections for a current account deficit of \$20 billion in 1991 (excluding oil exports), however, raise substantial questions as to whether the economic policies of the Salinas government are sustainable.

- *Privatization:* The biggest misconception about the "new" Mexico is privatization. The government of President Carlos Salinas de Gortari has sold hundreds of state-owned firms since 1988, including two airlines and the Cananea mining group. Most recently, shares have been sold in the national telephone monopoly, known as TELMEX. *Yet even with this superficially impressive uproar, more than 80 percent of the assets that were under the control of the state in 1987 are still in government hands.* Subsidies to support inefficient state-sector industries cost Mexico over \$3.3 billion in 1990.

- *Inflation:* The government's wage and price controls, combined with a tough fiscal austerity program, have brought visible inflation under control—at least relative to the 1987-88 hyperinflation. Official figures show inflation at 30 percent for all of 1990, but some observers say the actual figure would be above 50 percent without government controls.

While the proposed FTA has ignited great hopes on both sides of the border, many of the problems that existed in Mexico in 1988 remain today. Increasing trade through an FTA is potentially beneficial, especially for Mexico, but should be viewed in the context of pressing concerns.

THE POLITICS OF FREE TRADE

For Washington, an FTA would mean increased access to Mexican markets and perhaps wider opportunities for investment. A number of American and foreign companies already have plants in Mexico, and others are actively looking at potential opportunities as well. An FTA would also provide the framework for arbitrating disputes and regularizing commercial flows between the two countries.

Representatives of organized labor, however, argue that the FTA would be an "economic and social disaster" for U.S. workers. United Auto Workers President Owen Bieber criticized U.S. automakers for endorsing an FTA and warned that it "would result in a rash of plant closings and massive layoffs across the U.S. as employers shift their operations to Mexico to take advantage of low wages in that country."

Such fears may be overblown. The U.S. International Trade Commission, which has been conducting an ongoing survey of the likely effects of an FTA, says that the immediate benefits are likely to be positive, but rather small, in part because the Mexican economy represents less than five percent of total U.S. output. But the ITC's latest report concedes that "real income for unskilled U.S. workers is expected to decline slightly."

Increased exports of Mexican oil are also mentioned as a possible gain for the U.S., but there are a number of practical and political factors that suggest that such prospects are exaggerated. Growing domestic demand for oil may force Mexico to become a net importer of energy before the end of the decade, according to government sources. In any event, for political reasons the Mexicans do not seem eager to

increase the concentration of their oil exports beyond the 50 percent level already purchased by the U.S.

For Mexico, negotiating an FTA would be the major political achievement of the Salinas government, presenting tangible evidence of progress for the ruling PRI to take to Mexican voters during this year's mid-term elections and in the 1994 general elections. The Salinas government hopes that an agreement would open export markets in the U.S. and create new jobs through foreign direct investment. Some Mexican observers, however, disagree with this optimistic outlook and accuse the government of using the FTA to disguise government corruption and continued PRI mismanagement of the economy.

Cuahtemoc Cardenas, the left-wing opposition candidate who won the 1988 election in Mexico but was denied the right to assume the presidency because of institutionalized electoral fraud, argues that the trade pact, as currently proposed, will do Mexico more harm than good. He told an audience in New York last week that foreign investors are currently "sharing in the corruption with the government," essentially benefitting from Mexico's cheap labor while turning Mexico "into a chemical waste dump for U.S. and Canadian companies."

On February 8th, Cardenas told a packed luncheon audience hosted by the Americas Society that "the current negotiating framework is not adequate for moving forward," and said flatly that "any agreement is not better than no agreement." He believes that an FTA should include full labor mobility and increased wages and improved working conditions for Mexican workers, revised rules on foreign investment, and full attention to environmental concerns.

In a comment that took many bankers and investment managers in the audience by surprise, Cardenas indicated that many of the privatization deals done to date have been rife with insider dealings and corruption, and stated unequivocally that a future Cardenas administration would "revise" the deals done so far. He also restated his position that Mexico cannot continue to service its foreign debt and also prosper economically.

Mexico's economic and political situation remains highly fluid and uncertain despite the optimism generated by the start of negotiations over the FTA. The Salinas government has done more in areas such as controlling government spending and drug prevention than the past three Mexican governments combined, but the progress made so far amounts to inches in a battle of yards.

In areas such as protection of human rights, electoral fraud, protecting private property rights and fighting government corruption, Mexican society still has a long way to go before its economic, social and judicial institutions are truly democratic, not to mention compatible with those of the U.S. and Canada. Moreover, the macro-economic imbalances that caused Mexico to default on its foreign debt in 1982 and generated hyperinflation for a number of years still remain below the surface, hidden by a surge in new loans and investment.

THE ECONOMY

As the U.S. economy continues to slow, Mexican factories and workers are also feeling the crunch. The number of new maquiladoras, export-oriented assembly plants, grew just six percent in 1990, down sharply from the explosive 23 percent average annual growth from 1986 through 1989. Ford, which recently announced a new \$700 million investment in its Mexican assembly capacity, was at the same time forced to idle its Hermosillo vehicle operation for several days due to "a lack of orders."

"There is clearly a deterioration in cross-border trade, services and even the maquiladoras," Mexican economist Rogelio Ramierez de la O told WIRES last week. Ramierez, who heads Escanal, a respected economic consulting group in Mexico City, worries that "how the U.S. economy performs this year will be a major factor affecting the Mexican economy."

Higher oil prices helped Mexico tremendously in 1990, allowing the government to build its foreign currency reserves to near \$10 billion as of December, according to official sources. A front-page analysis in the January 17, 1991 edition of *El Norte* in Monterrey reported that higher world oil prices during the last six months of 1990 pushed gross petroleum export revenues to \$8.8 billion, the highest annual figure since the peak of \$15.6 billion in 1982.

Even these additional revenues from oil exports, however, have not been sufficient to balance the huge surge of imports into Mexico that has occurred since the government "liberalized" protectionist restrictions on foreign products. Clothing from Korea, television sets and other consumer goods from Japan and the United States, and millions of tons of foodstuffs are all attracted to Mexico's large market and overvalued peso.

Domestic exporters are gradually being priced out of export markets due to the huge inflation differential between Mexico and its major trading partner—the United States. Without some change in the government's economic policies, Mexican workers stand to lose their jobs to foreign competition, creating a politically explosive situation. Indeed, it is precisely this aspect of government economic policy that plays into the hands of the Cardenas-led socialist/nationalist opposition.

When a Mexican factory has its domestic costs for inputs such as electricity, natural gas and other government-controlled commodities rising at double-digit rates, but the peso is only being devalued at a three to four percent rate annually, maintaining, let alone expanding, export markets gradually becomes impossible. As a result of the substantially overvalued currency, a large non-oil balance of trade deficit is draining badly needed foreign currency earnings, while there are signs that inflation may again be growing out of control, despite officially sanctioned price controls.

Wildly optimistic projections of 1991 oil revenues exceeding \$29 billion (based on \$60 per barrel world oil prices) that were widespread in the Mexican press before January 16th quickly came down to earth following the collapse of petroleum prices after the Start of the Gulf war. Gross oil exports, *not including imports of gasoline and diesel fuel*, are expected to reach \$8.4 billion in 1991, while the "net" figure will be closer to \$6 billion because of Mexico's growing dependence on imports of refined energy products. In fact, the Mexican oil monopoly, known as PEMEX, admitted last year that the oil-rich country could be a net-importer of energy before the end of the decade.

In the table below, the trade, capital account and non-oil current account deficits are illustrated. The final total reached is the "net" figure including oil exports, while the ex-oil number represents the actual trade deficit in non-energy products.

BALANCE OF PAYMENTS

(In billions)

	Trade	Capital	Ex oil	Total
1990	(3.0)	(13.0)	(16.0)	(5.5)
1991	(6.0)	(15.0)	(20.0)	(11.0)

Source: Exara, Mexico City.

These sobering numbers illustrate the central inconsistency in the Salinas Administration's economic plan: it is entirely dependent upon increasing inflows of capital to balance a gradually widening trade imbalance, even as oil exports are falling due to a lack of new investment in the country's oil industry.

CRUCIAL CAPITAL INFLOWS

The appearance of modest economic revival in Mexico is due in large part to massive inflows of capital since 1988. This "capital" has come from three major sources: loans from multilateral agencies such as the IMF and World Bank, private debt issuance by Mexican companies, and direct investment from private sources.

Since the so-called "debt reduction" deal was reached between Mexico and its creditor banks, new loans to Mexico by multilateral agencies, commercial banks and other sources have totaled more than \$15 billion. *All of the reduction in principal outstanding brought about due to the Brady Plan has been more than offset by new sovereign borrowings.*

More importantly, the annual interest payments required to service the debt are growing as grace periods on new World Bank, IMF and other multilateral and sovereign loans expire. In addition, the hard currency requirements of new obligations made by private Mexican borrowers are also straining the country's limited hard currency resources. Because of the creation of new debt and other new hard currency obligations to foreigners, Mexico's unfavorable balance of payments is a great concern.

In the international stock and bond markets, both private companies and state-owned entities such as PEMEX have issued a torrent of new debt instruments (PEMEX alone has incurred almost \$2 billion in new debt since 1988). According to a December 20, 1990 report from Salomon Brothers, total capital inflows to Mexico were \$8,395 million in 1990, which "represents 3.6 percent of Mexico's GDP and suffices to cover the nation's projected current account deficit of \$4.5 billion nearly two times."

Private foreign and domestic investors have aggressively bought shares and government debt on the Mexico City stock exchange or "bolsa," as well as high yielding short-term bank debt, pushing the Mexico City index up almost 75 percent over the past year—albeit in local currency terms (in dollars the index is down slightly since the start of 1991). "The market is convinced that change will occur in Mexico," notes Ramirez, who echoes the optimism of many other close observers of the Mexican financial scene. "The major danger at present is that confidence may falter and capital flows could dry up."

First and foremost, new loans and investment require future income to assure repayment. The major source of these earnings should come from (1) internal domestic growth brought about as a result of reforms and privatization and (2) export earnings. In both cases, however, present government policies and, more important, the political realities of Mexican society, have retarded progress in each of these key areas (see below).

So far, the influx of capital into Mexico, in the form of both loans and new debt, has more than made up for Mexico's basic trade imbalance, and it continues because of the perception that sheer necessity will over time force a rationalization of the Mexican economy. But there could be significant detours and setbacks along the way, as illustrated by the halting, corruption-ridden privatization effort and the political factors that lie behind the disappointing results.

THE PRIVATIZATION MIRAGE

Privatization is perhaps the greatest myth in the "new" Mexico. The Salinas regime has received great praise from the international community over the pace of its economic reform to date, particularly the divestiture or "privatization" of money-losing state-owned companies. To date nearly 800 companies have been sold or liquidated, according to government claims. However, some Mexican analysts believe that the Mexican privatization effort is more image than reality.

"Behind the impressive numbers lie less than impressive accomplishments," notes Roberto Salinas de Leon, Academic Director of the Center for Free Enterprise Research (CISLE) in Mexico City. "The 778 companies divested so far represent less than 15 percent of the government's assets (not including TELMEX, the steel mills and the banks), while other state companies remain untouched. Most of Mexico's state sector will not be privatized in the near-term, and even the sale of the banks this year seems in doubt."

Salinas notes that the savings obtained from Mexico's privatization program have generated \$1.5 billion in proceeds and cost savings. However, he cautions that this considerable progress is only a small step toward addressing a far larger problem. "The amount of savings realized by privatization to date is negligible compared to the \$700 million in subsidies needed to finance the losses of the remaining state sector firms in the first quarter of 1990 alone," he notes. "Indeed, matters have gone from bad to worse during 1990 as transfers to the state sector reached \$1.6 billion in the first six months of last year."

The Mexican government has not yet moved to privatize many of Mexico's largest state-sector companies because to do so would mean idling thousands or even millions of Mexican workers. Companies sold to date have been either profitable concerns such as the airlines and TELMEX, or special situations like the Cananea mining group, where the deal was won at a lower price than that offered by other groups by a Mexican-led consortium with extensive political connections in the current government. Indeed, in order to make TELMEX attractive to foreign buyers, Mexican phone rates have repeatedly increased, over 200 percent in 1990 alone, making TELMEX the most expensive provider of telephone service in the world.

One company currently under consideration for sale is the Las Truchas steel complex on Mexico's Pacific coast. Built with loans from the World Bank and billions in oil revenues, Las Truchas is a technological white elephant in search of a buyer. In a recent commentary, Mexican economic analyst and author Luis Pazos highlighted government disclosures that \$9 billion out of \$12 billion invested in the plant over the past decade "disappeared," rendering a sale all the more difficult.

Millions of Mexican workers employed by state-sector monopolies in food production and distribution, electricity, steel, fertilizer and railroads, in addition to many smaller enterprises, benefit from a massive form of political patronage that the government is loath to dismantle by allowing true free-market competition. While it might make more sense to sell the least profitable enterprises first, in political terms the Mexican reform effort makes perfect sense.

THE POLITICS OF INFLATION

Just as many inefficient state companies have been left outside of the privatization effort, likewise the Salinas government's overall economic policy is geared toward achieving one goal: favorable results for the PRI during this summer's mid-term elections, as well as in 1994 when the presidency is again contested. With elections approaching, there are signs that the government is falling into old habits: using easy money to stimulate the economy, risking serious problems with inflation later in 1991 and beyond.

A major requirement for earning political support is maintaining economic "stability," specifically maintaining the value of the peso exchange rate versus the dollar. As one senior U.S. official noted: "The Salinas government has both a political and egotistical devotion to maintaining the relative stability of the peso against the dollar. To go back on this pledge would mean destroying the public confidence accumulated since 1988, but would also represent a personal defeat for Salinas."

The peso has been kept artificially strong against the dollar since the start of the so-called anti-inflation pact shortly after the election of President Salinas in 1988. Despite the continuation of double-digit inflation in Mexico during 1987-90, which has seen consumer prices rise 123 percent, the peso has fallen against the dollar by less than 30 percent.

Prices for electricity, telephone service and basic foodstuffs, all of which are controlled by government monopolies, have more than doubled over the past 12 months, while taxes—what Mexican business people refer to as "fiscal terrorism"—are proliferating. An electric bill for a standard Mexican home can run into hundreds of dollars per month, in a country where the average income is one-tenth of that in the U.S. A January 21, 1991 story in *El Norte* described bills from the electricity monopoly of 1.5 million pesos—well in excess of \$400 per month. Annual property taxes on the most popular automobile, the Volkswagen bug, were recently doubled to over a million pesos—roughly \$300.

A number of businessmen and financial analysts interviewed by WIRES in late January attribute Mexico's trade imbalance to the government's unwillingness to see the country's true underlying inflation reflected in the value of the peso. This has undermined the competitive position of Mexican exporters and hurt the earnings of some of the largest private-sector companies. Business leaders also predict that the country will inevitably see a resurgence of hyperinflation when the pesos now being pumped into the economy are spent to buy goods and services, many of which are purchased with precious hard currency.

Pro-government analysts, however, disagree with this analysis and argue that falling interest rates and inflation, especially compared with the triple-digit rates of 1987-88, allow the government to expand the money supply. Jonathan Heath of MACRO in Mexico City, an economic consulting group, believes that the relative reduction of inflation has increased the willingness of Mexico's citizens to hold cash, rather than keep their money in high-yielding bank deposits, and that this change translates into increased demand for money, thus allowing an expansion of the country's money supply.

In essence, economists such as Heath believe that the effects of lower interest rates—namely a lower "velocity" in the turnover of pesos—allows Mexico to use monetary ease to fuel economic growth without risking the return of hyperinflation. Joe Cobb, economist with the Joint Economic Committee in Washington, however, believes that the Mexican government is mistaken if it thinks that such a policy will not eventually lead to future price increases.

"The Mexican money supply expansion is not inflationary *this year*," he says, "but like anything that is demand-driven you get a building effect that goes very suddenly from being a minor trend to a major surge in prices. They will get away with the policy for a brief period of time, six months or even a couple of years, but when the market figures out what is going on, the demand for money in Mexico will plummet, velocity will skyrocket, and the country again could be facing triple-digit inflation."

To the credit of the Salinas government, last year Mexico's equivalent of M1 expanded at a rate of 38.8 percent, and inflation slowed accordingly, even if less than the government actually claims. But with mid-term elections approaching, the government has since last October reversed its inflationary stance and has embarked on a major monetary expansion. CISLE, for example, projects that M1 could grow as fast as 60-70 percent in 1991, implying that the government's projection of 15 percent inflation may be overly optimistic.

POLITICAL OUTLOOK: AFTER SALINAS

In the 1994 election, far-left nationalist leader Cardenas will again be running. His family's name appears on a street or plaza in virtually every city and town in Mexico. As one prominent Mexico City journalist observed: "Imagine you are an average Mexican worker in 1994. The economy has stumbled badly after the Salinas price controls and currency program have been discarded, ending with a sudden devaluation of the peso. On the voting ballot you see unfamiliar names of candidates for the PRI and the conservative PAN—people you have never heard of. Then you see Cardenas, a name synonymous with nationalism, prosperity and Mexican pride. Who do you vote for?"

Cardenas uses a powerful mixture of nationalism and basic populist arguments to appeal to Mexican workers and peasants, who collectively comprise 90 percent of Mexico's 85-plus million people. His charges that the government is "sharing the corruption" with foreign investors, and that Salinas has allowed real, inflation-adjusted wages to fall to provide "slave labor" for foreign companies, will appeal to a large segment of Mexico's labor unions and struggling urban population who are already suspicious of government ties to foreign business interests.

Because Mexico's corrupt ruling party is unable—and unwilling—to carry out truly meaningful economic and political reforms, or contest most elections without resorting to massive ballot rigging, chances are that the changes that have been made will be undermined and eroded because they did not go far enough. Reactionary elements on the left will argue that the Salinas reform was a mistake, and that continued statism and protection for Mexican industries are the only alternative to restore prosperity and "dignity" to the nation's economy.

Free trade with the U.S. represents a great opportunity for both Mexico and the United States, but unless greater attention is paid to economic and political pressures in Mexico—pressures arising from basic problems that remain largely unresolved—a sudden economic shock similar to the 1982 bank seizures and currency devaluation could cause a crisis of confidence that will shatter the cautious but substantial optimism which currently prevails in Mexico.

BARRON'S
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Depleting Asset

Trouble Ahead for Mexico's Oil Monopoly

By CHRISTOPHER WHALEN



WITH Iraq's invasion of Kuwait, the possibility of tapping Mexican oil supplies has again risen to the top of many minds in Washington. President Bush, himself a former player in the Mexican oil business, requested and received an additional 100,000 barrels per day of crude exports from the Mexican government, a concession that caused a political uproar in Mexico City.

The modest size of the increase in crude sales to the U.S. is no slight to Bush. The Mexican state oil monopoly, known as Pemex, cannot maintain, let alone boost, current output levels. A Pemex report released earlier this year predicts that even with "massive" new investments from abroad, Mexico will be a net importer of crude by 1997.

This disclosure should shock casual observers of the petroleum industry as well as holders of Mexican stocks and Pemex debt. Surely, with 50 billion barrels of "proven" reserves, Mexico should be a major exporter in the next century and beyond. But despite borrowing nearly \$100 billion from abroad and squandering almost as much in oil revenues over the past two decades, four governments in Mexico City have allowed oil production capacity to

decline to the point of near collapse.

On the surface, Mexico's energy outlook should be bright. The dollar value of oil exports in 1989 totaled \$7.28 billion, up almost 25% from the previous year. Pemex has begun to rationalize its production operations into different operating groups. Natural gas is now gathered rather than simply flared. And perhaps most notably, Pemex has de-unionized its engineers, eliminating the socialist seniority system that placed incompetent officials in management positions.

President Salinas has ordered Pemex to raise output. Discussions are under way with foreign joint-venture partners about production of secondary petrochemicals, a major departure from the protectionism of the past 60 years. But while petroleum has quietly been made an explicit part of U.S.-Mexico trade talks, allowing full foreign participation in developing and producing Mexican oil still seems a distant possibility.

More significant than any change in Pemex operations to date or in the future is the fact that declining investment in exploration and equipment has forced production down from three million barrels a day in 1982 to the official 2.5 million

Pemex's motto, "to the service of the nation," is ironic: 75% of revenues go to Mexico's treasury.

b/d today. Pemex projects that total output will drop further to 1.5 million b/d by the year 2000.

Pemex oil export earnings represented 31% of the hard-currency flowing into Mexico last year. Price increases due to the Middle East crisis will, of course, help in the near term. This temporary surge in revenues, however, is a mere blip in a long-term decline in production. And falling crude output is only part of the problem.

Domestic demand for petroleum products in Mexico is advancing by roughly 7% annually, according to Raphael Quinjano, formerly Pemex's liaison to Washington. Some reports suggest that gasoline consumption is growing as fast as 12% this year. Even at the lower rates of growth, domestic consumption will exceed total Mexican output of crude and refined product by the end of 1996.

All this means that Mexico can't exploit higher world prices by selling more oil. Still worse, it is increasingly vulnerable to rising costs for imported energy. For example, Pemex imported 6,000 b/d of gasoline in 1988, but last year purchases soared to the equivalent of 77,360 b/d, at a cost of \$900 million per year in scarce dollars. Moreover, imports of fuel oil in 1989 amounted to 190,439 b/d, up 17% over 1988, at a cost equivalent of \$1.2 billion per year (conversions at 2,900 pesos per dollar).

The inability of Pemex to satisfy domestic demand—as well as the country's desperate need for hard currency through increased oil output—stems at least in part from the fact that new capital expenditure by Pemex has fallen by over 75% since 1980. As a result, the company recorded a deficit in refined products of just over \$1 billion in 1989.

Part of the problem is that Pemex is at once a welfare agency and an oil company. Compare, for example, its 170,000 employees (not counting contractors, etc.) to the 27,000-man work force of a similarly sized company such as Arco. Pemex doesn't have first call on export revenues for developing new oil wells, refining capacity and other capital investments, or even to service external debts, because the insatiable needs of the state for revenues come first. Beyond immediate employees, Pemex's revenues support jobs and subsidies for millions of other Mexicans.

"To the service of the nation" is the corporate motto of Pemex, and what this means to the company's creditors is that more than three-quarters of revenues are diverted annually to the Mexican Treasury or the pockets of corrupt government officials. (All revenues actually pass through the Mexican Treasury before reaching Pemex.) In 1989, Pemex generated 35,440 billion pesos in revenues (roughly \$13.4 billion), but 29,418 billion pesos went to the Ministry of Finance in taxes. The company was permitted to retain 11,049 billion pesos of its total tax bill last year, but this represented a 6% decline in real terms from 1988.

According to Roberto Salinas de Leon of the Center for Free Market Studies in Mexico City, less than 1% of "net" Pemex revenues that remain after transfers to the Mexican Treasury are invested in new capital equipment. Anyone familiar with the huge investments generally required for sustained oil

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production will recognize that running a petroleum company on a "current" basis for any length of time is a recipe for disaster.

Pushing government demands on oil revenues is the burgeoning trade and current-account deficit, which poses an immediate threat to the still-infant economic reform effort in Mexico. Despite higher oil revenues, merchandise trade is expected to run billions in deficit in 1990 (1989's trade gap was \$3.5 billion) while the overall current account is widely projected to fall to a deficit of \$3 billion-\$6 billion, in large part because the much-heralded inflow of "flight capital" has not materialized to nearly the degree first anticipated.

To offset the growing dollar outflow from the Mexican Treasury to purchase food and other consumer goods such as gasoline, and to maintain payments on the remaining \$90 billion in sovereign debt, Pemex and other state companies have once again begun to borrow in the international capital markets through the issuance of bonds, by some estimates as much as \$1 billion of new money in the past 12 months.

One recent \$228 million deal led by Citicorp featured "future credit card receivables" for Mercury Bank & Trust Ltd., an affiliate of BanComer S.A., Mexico's second-largest commercial bank. Luckily for the Securities and Exchange Commission, the paper was "offered and sold outside of the United States." Pemex's most recent debt issue was a \$150 million three-year Eurobond deal led by Swiss Bank Corp., which came at par yielding 11.625%, or 3.5 percentage points over U.S. Treasuries. Compared with 4.9 percentage points over the curve for Chase Manhattan Corp.'s two-year "Dutch auction" subordinated notes, a cynic might call the yields on the Pemex deal a bit stingy, but it was "largely pre-placed," according to one broker in the underwriting group. A syndicate manager at another underwriter quipped that "this is the sort of deal where you sell the bonds and immediately destroy the evidence. I don't even have a prospectus."

From a high of \$22 billion in 1982, Pemex has paid down its overall foreign debt to approximately \$16 billion. It is noteworthy, however, that just as its net energy exports are falling, the least efficient energy company in this hemisphere has

begun a new borrowing program, and there is every reason to believe that much if not all of the proceeds of this new debt is going directly to the Mexican Treasury. Yet investors have been eager to buy public and private bond offerings from Mexico's state companies because they have redeemed their debt securities at par in recent years, at least since 1958. The mystique of Mexican oil is an added attraction.

A Sept. 22 issue of the Euro-market weekly International Financing Review reported that the \$150 million raised by the latest Pemex bonds "will be used for extraction in the oil-rich Campeche Sound area." Bonds denominated in German marks, Austrian schillings and U.S. dollars have been issued by Pemex, apparently with the understanding that they are secured by the company's oil exports or reserves. This is especially amusing since an outside, independent audit of Pemex's oil reserves and assets has not been conducted since 1977.

The truth is that investors probably did not think to ask about details like collateral; they assume that oil revenues,

The last independent audit of Pemex's oil reserves and assets was held in 1977.

or some segregated source of foreign exchange, backs the bonds. Yet the fact that banks in Europe and the U.S. have purchased these securities based upon such an implicit "understanding" that Mexico's oil exports provide security, is of more than passing interest.

First, Mexico's "net" energy exports will be minimal by mid-1993, raising significant questions as to the possibility of timely redemption of paper currently being issued. Second, existing oil exports have already been pledged as security on other loans, such as the multi-billion-dollar trade-financing facility led by Bank of America. Quite simply, neither today nor at any time during the 1980s was there enough oil to cover all of the outstanding foreign claims on Pemex.

Since the early 1980s, Bank of America and roughly 50 other banks (originally as many as 80) have provided short-term credit facilities to Pemex (BOA officials refused to comment for this article). The BOA facility ranges between \$2 billion and \$4 billion, and is intended to finance self-liquidating trade transactions. It has frequently been used as a functionally unsecured overdraft facility, according to Federal Reserve sources.

The question of posting valuation reserves against the Mexico trade facility has not until recently raised official concern in Washington because of the explicit understanding that the 1.5 billion b/d of crude exports by Pemex is security for the loan. But realizing the "dynamic" nature of Pemex's financial situation, federal bank supervisors in New York recently approached BOA and other banks in the syndicate to suggest that perhaps it might be "prudent" to post valuation reserves against these short-term loans—especially in view of the fact that Pemex's debt issuances in the past year clearly exceed the collateral available. Attorneys for the government-owned Mexican company quickly "came out of the woodwork" in the words of one federal official. They argued, quite correctly, that forcing banks to post reserves might hurt the market perception of Pemex—and this just as the company was busy issuing debt.

Pemex's growing hard-currency liabilities are just part of the \$10 billion in new dollar debt from the World Bank and International Monetary Fund, among others, incurred by Mexico since the abortive July 1988 "debt reduction" agreement. Rising interest payments and energy imports, and falling oil exports, are some of the reasons that Elmo Alanís Gomez, president of the Mexican Foreign Trade Council, recently told reporters that "there will be cash-flow problems in 1991."

Friends of Mexico's peculiar brand of authoritarian socialism will doubtless feel compassion as the source of 40% of the country's hard currency earnings gradually disappears over the next few years. But at the end of the day, the real joke may be on institutional investors who naively purchased new Pemex bonds simply because the old paper was redeemed at maturity. Holders of Mexican paper should remember that bonds issued before 1930 were

written down twice before the recent era of full redemption began in 1959. There is for each generation of bankers, after all, a first time for everything. ■

Christopher Whalen is senior vice president of Whalen Co. Inc., a Washington consulting firm.

Mexico — America's Next Iran?

By Christopher Whalen

DURING his speech on "enterprise for the Americas," President Bush called Cuba the lone holdout in "a resurgence of democratic rule" in the hemisphere. But Mexico, where honest elections have not been held in more than 30 years and political repression is growing, should be added to the list of countries resisting the global trend toward freedom.

Washington tolerates one-party rule in Mexico because the probable result of free elections — a left-wing, nationalist government — is unacceptable. The Bush Administration prefers the familiar "stability" of the increasingly authoritarian party known as the Institutional Revolutionary Party to a duly elected government.

President Bush's support for President Carlos Salinas de Gortari comes from practical concerns. First, Washington fears that a left-wing government would repudiate Mexico's debts, provoking a financial crisis. Large U.S. banks would be forced to turn to the Fed for support when the markets reacted to a default.

Second, the leading opposition figure, Cuauhtemoc Cardenas, opposes a trade agreement, especially involving expanded foreign participation in Mexican industries. He views foreign investment not as salvation but as a repetition of past foreign exploitation, and sees trade talks with the U.S. as a self-serving betrayal by a party that has mortgaged Mexico's future to

Christopher Whalen is an international trade and financial analyst.

bankers in New York, London and Tokyo.

Washington also believes, perhaps incorrectly, that Mr. Cardenas might seek changes in existing investments, including border assembly plants where low labor costs give U.S. businesses a competitive edge. Better wages and working conditions would decrease Mexico's attractiveness for U.S. companies.

U.S. liberals, who previously supported Mexico's vocal anti-U.S. posture, now view President Salinas not as a reformer but as the head of an oppressive, reactionary Government allied with U.S. business.

Americas Watch, a human rights organization, recently issued a lengthy indictment of Mexico in which it claimed that officially sanctioned violence is "an institutionalized part of Mexican society."

Acts of murder and intimidation against journalists and political candidates before and during the Salinas administration are catalogued in gruesome detail. Americas Watch suggests that Mexico's so-called anti-drug campaign is actually used to attack Government critics.

The weakness of Mr. Bush's "stability" strategy is that it assumes that Mexico's people accept continued tyranny. Despite oratory about reform, Mexico under Mr. Salinas is more dependent on U.S. support than ever. Thus, Washington shares responsibility for increasing repression south of the border.

World Bank loans, Fed and Treasury credits, Commodity Credit Corporation subsidies and Export-Import Bank guarantees show that Mexico is merely a U.S. client state. Mexico's foreign capital needs and overall indebtedness have grown since the July debt-reduction agreement. A

chronic current-account deficit (\$5 billion to \$8 billion this year) financed by short-term debt is bleeding Mexico dry.

Americas Watch said electoral fraud remains widespread, and it raised old questions about whether Mr. Salinas truly won in 1988. Opposition leaders say he lost to Mr. Cardenas by 2 to 1, but the P.R.I. was accorded a miraculous 50.7 percent margin by the party-run Federal Electoral Commission, which still won't release the official vote count.

Ironically, Mr. Salinas has pushed

President Salinas is no democrat.

through electoral "reform" legislation that will block opposition coalitions from competing in future elections. The law increases legal obstacles to establishing political parties and strengthens official vote-rigging mechanisms.

Javier Livas, an ex-P.R.I. member who is vice chairman of the Mexico-United States Institute, in Washington, declared at a news conference that the election law "is in no way democratic," and argued that "reform of the system is impossible so long as the P.R.I. is in power."

Many in the U.S. are unaware of Mexico's authoritarian side. They believe public relations hype portraying Mr. Salinas as a democratic reformer in the image of Mikhail S. Gorbachev who welcomes investment and is

pushing to expand private participation in Mexico's centralized economy. In fact, Mr. Salinas, like Mr. Gorbachev, is the leader of an entrenched statist regime that owes its very existence to economic control.

The proposed sale of nationalized banks is a case in point. Ownership stakes will be limited to a maximum of 5 percent, and the Government will retain a veto over board appointments, forcing investors to tolerate de facto state control over management decisions. Stock without voting rights is really a loan.

Mr. Salinas offers foreign and domestic interests a bigger, albeit non-voting, role in financing Mexico's economy but without reducing P.R.I. control. Indeed, the party's real goal is to persuade foreign investors to finance continued P.R.I. rule over the economy while denying basic democratic freedoms and the right to run a business free of Government interference.

Washington may view the choice between Mr. Salinas and the opposition as a matter of prudent U.S. self-interest. But, based on what Mr. Bush ultimately decides, 90 million Mexicans will live under tyranny or freedom. Or Mexicans may finally cast aside their legendary patience and take to the streets in major cities in an explosion that will make the 1968 riots in Tlatelolco look mild by comparison. Mexico might well become America's next Iran.

President Bush says he wants to see a Mexico "with a common commitment to democracy" develop into a full partner with Canada and the U.S. The way to start the process is to demand international supervision of the 1991 and 1994 elections — the next major elections — as a condition of further financial assistance. □

STATEMENT OF THE WORK GLOVE MANUFACTURERS ASSOCIATION

I. INTRODUCTION

The Work Glove Manufacturers Association (WGMA) is a trade association of U.S. producers of work gloves of all types. Its membership represents the majority of domestic producers of work gloves, nearly thirty producer companies and twenty-eight supplier firms. WGMA member companies manufacture work gloves made of fabric, leather, coated fabric, rubber, plastic, and fabric-supported rubber and plastic for hand and product protection and infection control. These products have been developed for industrial, consumer and medical applications.

WGMA members have legitimate concerns about an FTA with Mexico. Domestic producers of work gloves believe that the FTA will stimulate additional U.S. imports of work gloves from Mexico; they also believe there will be no corresponding improvement in access to the Mexican market for U.S.-made work gloves under the FTA. WGMA members are also concerned about the problem of transshipment through Mexico of Asian-origin work gloves. Moreover, WGMA members have reason to believe that Asian work glove producers will add new manufacturing capacity in Mexico to reap the benefits of the FTA; this new production capacity will augment currently existing capacity. It will not be a replacement of such capacity as some have suggested.

II. THE WORK GLOVE INDUSTRY IS IMPORT-SENSITIVE

The domestic work glove industry's ability to weather the impact of additional imports from low-wage, developing countries has reached its limit. This is a fact acknowledged by Congress and the Executive Branch.

The import sensitivity of the domestic work glove industry has repeatedly been recognized by Congress, which specifically excluded work gloves from certain U.S. trade preference programs. Most work glove imports are exempt from duty-free treatment when imported from beneficiary countries of the Generalized System of Preferences (GSP). Similarly, work gloves were among a short list of products that were excluded by name from duty-free treatment under the Caribbean Basin Initiative.

The import sensitivity of this industry has also been recognized by the Executive Branch, which accorded work gloves the longest phase-out period (10 years) under the U.S.-Canada Free Trade Area. In addition, numerous quota actions on textile gloves have been taken pursuant to the Multifiber Arrangement (MFA).

The treatment of work gloves in these programs demonstrates that additional incentives for foreign countries—particularly low-wage, developing countries—to export work gloves to the U.S. must be avoided.

III. U.S. IMPORTS OF WORK GLOVES AND OTHER INDICATORS

The treatment of work gloves in the GSP, CBI, and MFA programs is well founded, considering the dramatic increases in work glove imports that have occurred over the years. Looking at a time span that covers the period between 1979 and 1989, all economic indicators show a pattern of decline for this industry:

- Total imports of work gloves grew by more than 2,000 percent between 1979 and 1989.
- Domestic shipments of work gloves and mittens, excluding rubber, fell by more than 30 percent during this period.
- U.S. employment declined by 27 percent since 1982.

These trends continued unabated in 1990.

The fact that domestic producers have lost sales to imports is clear. In addition, as imports have been rising, their average unit values have been falling. This puts severe downward price pressures on domestically-produced products, and seriously erodes domestic producers' ability to sustain current levels of production. The net effect of these import pressures has been declines in U.S. production, employment, and the industrial base.

IV. USITC FINDS THAT U.S. IMPORTS OF MEXICAN APPAREL WOULD INCREASE UNDER A U.S.-MEXICO FTA WITHOUT CORRESPONDING GAINS FOR U.S. PRODUCERS IN THE MEXICAN MARKET

As the Committee is well aware, earlier this month the U.S. International Trade Commission (ITC) issued a report on *The Likely Impact of a Free Trade Agreement with Mexico*, which found that there would be a slight overall net economic benefit to the U.S. economy from a U.S.-Mexico FTA; however, there were some sectors that

would clearly lose under the proposed FTA. Apparel was one of them. The Report found that:

It is likely that U.S. imports of textiles and apparel from Mexico would continue to increase significantly under an FTA. The elimination of U.S. duties and existing quotas would encourage additional investment in Mexican export-oriented production. This investment could come from U.S. firms wanting to increase their competitive position in the U.S. market, and from third-country producers whose current exports to the United States are limited by quota/and or who may be facing rising production costs at home.

With respect to the prospect of improved access to the Mexican market for U.S. apparel producers the Report found:

U.S. exports of finished apparel to Mexico are relatively insignificant. They are not expected to gain a large share of the Mexican market, because of Mexico's labor-cost advantage and because of the limited incomes of most Mexican consumers.

Thus, under the proposed FTA, U.S. work glove producers will face the prospect of rapidly growing imports from yet another low-wage, developing country. These imports will be encouraged by (1) preferential duty rates under the FTA, and (2) the relocation to Mexico of third-country producers, who will reap the benefits of the FTA. In the case of work gloves, these third-country producers will be the large Asian work glove suppliers who already have the vast majority of the U.S. work glove market.

Will there be any offsetting gains for domestic work glove producers under the FTA? If the ITC report is accurate, it is unlikely.

V. CONCLUSION

WGMA members are very worried about the prospects of an FTA with Mexico. We are not optimistic that an FTA between two countries so far apart on the developmental scale is feasible or practical. WGMA is also concerned that market access will be a one-way proposition under the FTA: Mexico has a long history of non-tariff barriers, which impede access to the Mexican market. WGMA is not confident that such practices can be "negotiated" away under an FTA.

A good example of such a practice was the sudden appearance recently of new and onerous labelling requirements for U.S. textile products, which were alleged to be "administrative" in nature, but caused major disruptions and delays for U.S. producers trying to get product into Mexico. Such actions are not the hallmark of a country ready to enter into a "free-trade" agreement.

WGMA asks the Congress to proceed with caution on the FTA. There is no reason why the U.S. must rush into an agreement with Mexico before having a full appreciation of the effects of such an arrangement on American firms and workers. Moreover, the U.S.-Mexico FTA will clearly set the pattern for other FTAs with Central and Latin American countries.

In conclusion, Congress must be fully aware that its approval of the FTA negotiations may ultimately lead to a much-diminished ability on the part of U.S. producers to continue to make work gloves and many other manufactured goods in the United States once an FTA with Mexico is implemented.

