Fair Trade or Free Trade? Understanding CAFTA

An educational briefing packet

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What is CAFTA, and why is it important?

By the Washington Office on Latin America; for more information contact Vicki Gass or Gabi Kruks-Wisner at (202) 797-2171

The **U.S.-Central America Free Trade Agreement** (CAFTA) is a trade agreement that is being negotiated between the United States and five Central American countries: Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. Negotiations to include the Dominican Republic are also under way.

Fast Track Negotiations

Negotiations for CAFTA began in January 2003, shortly after the U.S. Congress approved a bill to confer Trade Promotion Authority (or "Fast Track") to the White House. The Bush Administration, through the office of United States Trade Representative (USTR), has aggressively pursued the CAFTA negotiations on a very short timeline. Whereas the North American Free Trade Agreement (NAFTA) took more than seven years to negotiate and the Free Trade Area of the Americas (FTAA) has been under negotiation for almost a decade, CAFTA negotiations are scheduled to be completed in one calendar year. **The final round of CAFTA negotiations are expected to take place the first week of December 2003 in Washington, D.C.** CAFTA has strategic importance for the Bush Administration because it is widely perceived as a test of Washington's trade policy in Latin America and as a stepping-stone to the FTAA.

Labor, Agriculture and Jobs: Contentious Issues

While for the most part the five Central American governments involved in the negotiations have supported CAFTA (often in the face of great opposition from parliaments and civil society groups in their countries), several contentious areas have emerged in the negotiations, including **the impact of CAFTA on labor standards in Central America** (a major rallying cry among U.S. Congressional offices concerned by international workers' rights), and **the impact of trade liberalization on agriculture.** In particular, some Central American governments have taken hard negotiating positions on the terms of liberalization of sensitive agricultural products such as **corn, rice, beans and dairy**. The **U.S. sugar industry** is similarly concerned by CAFTA, and has lobbied the U.S. Congress against the agreement. **U.S. textile states**, such as North Carolina, have also come out against the agreement, fearing loss of jobs to the booming Central American *maquila* sector. Other states that lost jobs or suffered under NAFTA have expressed skepticism over whether CAFTA will be good for the U.S. or Central America.

Civil Society Concerns

Civil society groups in both Central America and the U.S. have raised vocal concerns regarding CAFTA. **Some groups oppose CAFTA completely, while others have called for a moratorium or an extension of the negotiating timeline in order to address civil society concerns**. In Central America, marches and protests reaching almost 100,000 people have denounced CAFTA. In the U.S., coalitions of development, human rights, labor and religious organizations have come together to protest lack of transparency in the negotiating process, and express concerns that CAFTA will represent a step backwards for human rights, development and democracy in Central America. **Labor and agriculture**, mentioned above, have been two of the primary civil society concerns. Groups have also lobbied on other less politically salient but important issues, such as **development needs in Central America, investor rights under CAFTA, and the gender and environmental impacts of CAFTA**

This packet, compiled by the Washington Office on Latin America, describes some of the key issues and perspectives that frame the debate on CAFTA. A coalition of organizations have contributed materials.

Central American Development: the Impact of Trade Liberalization in the 1990s

By InterAction; for more information, contact Vincent McElhinny at vmcelhinny@interaction.org

Trade Liberalization is already occurring in Central America. Tariff levels have dropped and imports have surged dramatically in the 1990s. In the region's poorest country, Nicaragua, the average tariff has dropped from 43.2% to 5% in less than a decade. But has development followed? This is a question we must ask in light of the negotiations for CAFTA, which promises to codify and accelerate the process of liberalization.

Export Growth - Exports more than doubled in the 1990s (from $5 to $15 billion), but imports rose even faster. An increased reliance on remittances and migration is required to finance the Central American trade deficit.

Economic Growth - Growth has been relatively stagnant, compared to the 1970's growth rate of 6% (2.7% per capita). In the "lost decade" of the 1980s growth averaged only 1%; in the 1990s growth rose to 4.1% (1.8 % per capita), but has been flat since 1997 and well below the East Asian average of 7% for last three decades (IDB 2002).

Foreign Direct Investment (FDI) - On average, Central American countries have seen an increase in FDI of $375 million per year (1998-2000). However, this investment was driven largely by privatization and was biased toward construction rather than productive fixed investment and domestic savings, which remain far below levels necessary for sustainable development. Few forward and backward economic linkages were created. The use of local inputs remains minimal in export oriented investment (i.e. in *Maquilas*).

Productivity - Total factor productivity rates have actually fallen in Central America over the past decade, especially in the agricultural sector (IDB Research Dept, 2002). Total Factor Productivity Growth 1991-2000 has been disappointing for Costa Rica (+0.2%), Guatemala (- 0.5%), El Salvador (- 0.85%), Nicaragua (-1.6%) and Honduras (- 1.95%).

Competitiveness - Central American countries rank close to last on the World Economic Forum's Growth Competitiveness Index (High: Costa Rica = 43; Low: Honduras = 76, out of 80 countries.)

In sum, increased dynamism and diversification in Central American exports in the 1990s have not jumpstarted the Central American economies. Growth, in turn, has not increased fast enough to significantly reduce poverty and inequality, create jobs, or stem environmental degradation. Liberalization has instead been associated with rising levels of criminal violence, social and political instability and the hollowing out of democracy.

Poverty - Trade liberalization has failed to lower poverty - the principal Millennium Development Goal. Relative poverty in the region is 55%; 2 of every 3 Central Americans in rural areas are poor.

Inequality - Trade liberalization has increased income inequality in the region, even in Costa Rica. Central America has sustained one of the highest levels of income inequality in the world, with a Gini coefficient of 0.55. Trade has also failed to diminish the gap between Central America and the North, or between rural and urban areas. Central America, in terms of GDP per capita, lost ground relative to the U.S. over the past 25 years.

Jobs - 600,000 Central American jobs have been permanently lost to the coffee crisis out of a rural labor force of 5 million. The *maquila* sector has leveled off at 400,000 jobs. The only increase in employment has been in the informal sector.

Hunger - In Central America, indices of malnutrition -- measured by average weight and height -- have increased in Nicaragua, Honduras and Costa Rica. The World Food Program 2002 Report states that 8.6 million Central Americans (1 in 4) continue to suffer from hunger or food insecurity.

The Downsizing of the Central American State - In the view of the IDB (2002), the shrinking state has crippled its capacity to carry out its basic functions, such as enforcing the rule of law, collecting taxes and promoting the health and education of people entering the work force.

Weak State Fiscal Authority - Central American capacity to collect taxes remains far below expected levels relative to similarly developed countries. The IDB shows that Central Americans should be collecting about 15% of their GDP in taxes, while the actual level is about 10% of GDP. Despite a decade of reforms, the 1990s have seen public investment levels remain well below (-25 to -60%) expected levels.

Debt - Massive bailouts of a failing financial sector and rising internal and external debt have wiped out the HIPC debt forgiveness gains in Nicaragua and Honduras. After a decade of capital accounts liberalization, Central America has accumulated nearly $10 billion in unsustainable, additional debt.

Education not Growing Fast Enough - Central America continues to underinvest in education, spending about 2.4% of its GDP on education, while the IDB estimates that the region should be spending at least 4%. As a result, the education gap between Central America and the rest of the world is growing.

Weak Rule of Law, Crime and Violence - Social Violence has reached epidemic proportions, now approximating the worst political violence of the civil war years in several countries.[1]

Hollowing out of Democracy -- The fragile process of democratization is threatened by the non-democratic formulation of development policies (like trade liberalization) and the lack of any perceived economic payoff after nearly a decade of reforms. *Latinobarometer* surveys of Central America report an alarming deterioration in support for recent political and economic reforms.

- 58% are unsatisfied with the performance of their respective market economies
- 68% say that privatization has been a bad idea
- 80% believe that corruption has increased
- 50% say that democracy does not function in the region
- 85% of Central Americans have little or no confidence in their political parties

Migration & Remittances: Recent studies have shown that increased labor mobility would generate greater financial benefits for poor countries than free trade. Four of the five countries increasingly rely on migration and remittances as a *de facto* social policy and to cover an expanding trade deficit with the U.S. The primary export for Central America has become labor. Some 200,000 - 300,000 Central Americas attempt to migrate to the U.S. through legal and illegal means every year. Macroeconomic stability is now and will continue to be dependent upon the $5 billion sent home annually from the U.S.

[1]Juan Luis Londono, Alejandro Gaviria, and Rodrigo Guerrero (2000) *Asalto al Desarollo: Violencia en America Latin*a. IDB; Latinobarometer, 2002

Sources:
IDB & World Bank Country Strategies, Program Evaluations; Agosin, Manuel, Roberto Machado and Paulino Nazal (November 2002) "The Economies of Central America and the Dominican Republic: Evolution and Long Term Challenges," IDB Sector Study RE2-02-001; World Bank Development Indicators (2003); Latinobarometer (2002); Salazar-Xirinachs José M. and Jaime Granados (May 2003) "The United States-Central America Free Trade Agreement: Opportunities and Challenges"

Transparency and Participation in the Negotiations

By Catholic Relief Services; for more information, contact Kathy Selvaggio at (410) 951-7449

What are civil society's concerns about transparency and participation in CAFTA?
Civil society organizations in both Central America and the United States share many of the following concerns:

Timeline: The six participating governments plan to conclude CAFTA negotiations by December 2003; this compressed schedule does not allow sufficient time for public debate, consultations, impact analyses, or information sharing.

Access to the text: The six governments have agreed not to release the CAFTA negotiating text to the public. In the U.S., the text is classified as sensitive to national security and foreign policy, which exempts it from the Freedom of Information Act. Without access to the text, concerned stakeholders cannot evaluate the potential social, economic and environmental impacts of proposed positions and offer feedback or alternative models.

Access to information: At the Costa Rica negotiation session, held January 27-31, the U.S. and Central American negotiators signed a confidentiality agreement stating that they will not reveal the agenda of meetings, nor the substance of agreements reached without the unanimous consent of all negotiating teams.[1]

Participation and representation: During the monthly negotiation rounds, some civil society groups have been granted limited access to the sessions through the "adjoining room": a room in which only government selected and accredited representatives of civil society can gather to be consulted by negotiators.

Public outreach: In the U.S. and Central America, the governments have hosted official and unofficial meetings between trade negotiators and the public. However, to date, the business community has been given higher priority. The Central American governments are responsible for all public outreach in their countries. Through National Action Plans, they have determined how often, when, where and how they will engage and outreach to their citizens. For some Central American governments, consultation and engagement with the public is a new practice. Thus far, the schedule of events and speakers have not been made readily available or communicated to the public. The scale of citizen-led CAFTA protests suggests that the governments are not doing enough to respond to the public's criticisms and concerns about CAFTA.

Input and feedback in the U.S.: In November 2002, the USTR stated that plans were underway to intensify consultation with the American public and Congress.[2] To date there have been only three additional requests posted on the Federal Register for public feedback/engagement on CAFTA. As of May, five months into the negotiations, USTR had convened only three meetings with the Congressional Oversight Group. In addition, USTR also accepts letters addressing concerns about CAFTA. However, it is not clear what mechanism is in place to respond to civil society concerns submitted to the USTR.

The rushed deadline and lack of access to the text mean that civil society groups have limited opportunity to provide substantive feedback and input. The overall absence of information on the negotiating positions, agreement text, dates and locations of public outreach events, results of impact studies, and feedback on comments and concerns have left civil society groups and social movements still very much in the dark about CAFTA. Furthermore, the rush to conclude the negotiations by December leaves very little time to focus on issues of transparency and participation: public education, consultation, and feedback require significant time and innovative strategies.

Recommendations

In the words of the USTR, "free trade is about freedom, and a U.S. Central America FTA will further strengthen nascent democracies and economic reforms through basic building blocks for long-term development, such as…open and transparent governance."[3] If this is truly the case, CAFTA negotiators should lead by example by upholding democratic processes, ensuring participation and transparency, and listening to and representing the interests of their citizens.

The timeline for the negotiation should be slowed down considerably. Mechanisms for civil society input and participation in Central America and the U.S. must be intensified and accessible to a larger, more representative audience. Briefings in the U.S. and Central America should be well advertised, open to the public, broadly representative, held in different cities/villages, and provide opportunities for public debate. In the U.S., the USTR should release the negotiating text and its positions, and more actively engage the Congressional Oversight Group and concerned civil society groups in regular briefings and dialogues.

[1] CAFTA briefs complied by the CISPES Office in San Salvador
[2] http://www.interaction.org/development/idv.html
[3] **http://www.ustr.gov/regions/whemisphere/camerica/2003-01-08-cafta-facts.PDF**

Stronger Labor Provisions Needed in CAFTA

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Reason #1: Chile/Singapore Model Won't Fix Deeply Flawed Labor Laws

In negotiations to conclude a U.S.-Central America Free Trade Agreement, the U.S. Trade Representative is proposing labor chapter text that is virtually identical to the labor chapters of the Chile and Singapore Free Trade Agreements. The Chile/Singapore model was inadequate even for Chile and Singapore. In the context of Central America -- where laws fall far below international standards and governments and employers are actively hostile towards unions -- this model will encourage rampant labor rights violations.

Central American Labor Laws Violate International Standards

The labor laws of the CAFTA countries do not come close to meeting international standards, and have been repeatedly criticized by the UN's International Labor Organization (ILO) and the U.S. State Department.

In **El Salvador and Nicaragua**, workers fired for union organizing have no right to be reinstated, and the only remedy available is a minor fine—a small price to pay to keep factories union-free. In **Guatemala and Honduras**, fines for anti-union discrimination are so low that they do not effectively deter the practice, and courts hardly bother to enforce the fines.

Costa Rican law allows "solidarity associations" to represent workers in place of unions. In practice, employers establish solidarity associations to avoid recognizing legitimate, independent unions.

El Salvador's officials take advantage of the law's overly formal union registration requirements to deny legal recognition to legitimate trade unions.

In **Guatemala**, more than half of all the workers in an entire industry must agree to form an industrial union, presenting an insurmountable barrier to the formation of industrial unions. In export processing zones, where workers routinely shift from plant to plant and cannot organize effective unions at the plant level, this restriction essentially denies workers their right to form unions at all.

In **Nicaragua**, the large number of small unions active in the agricultural sector make effective bargaining impossible without federation involvement. Yet Nicaraguan law bars federations and confederations of unions from playing a role in collective bargaining.

Onerous procedural and voting requirements make it nearly impossible to ever call a legal strike in **Costa Rica, Honduras and Nicaragua.** In **Guatemala**, workers can be held individually liable for damages resulting from a strike and face criminal penalties for striking.

CAFTA Proposal Would Not Require Needed Labor Law Reforms

The labor provisions of the Chile and Singapore agreements, if adopted in CAFTA, would not require Central American countries to revise their labor laws to meet international standards. Instead, <u>the labor chapter would only require enforcement of the flawed set of laws that already exist.</u> The administration claims that Central American countries will be required to improve their labor laws before CAFTA comes into effect. But to date, USTR has not declared what improvements must be made, and has not outlined any enforcement mechanisms.

CAFTA Proposal is Weaker than Existing Workers' Rights Conditions

U.S. unilateral trade preference programs, such as the General Agreement on Preferences and preferences under the Caribbean Basin Initiative, allow for the withdrawal of trade benefits if steps are not taken to meet international labor standards. This is a higher standard than that found in the Chile and Singapore agreements. If the Chile/Singapore model is applied to CAFTA, <u>employers and governments will enjoy more freedom to deny workers' rights than they currently have under our trade preference programs.</u>

Reason #2: Chile/Singapore Model Won't Remedy Enforcement Failures

The ILO and U.S. State Department have repeatedly criticized the CAFTA countries for not only failing to bring their labor laws into compliance with ILO standards, but also for failing to enforce those laws they already have on the books.

> **Delays and obstruction are common in Central American labor ministries.** In El Salvador, labor inspectors do not follow proper procedures and erect obstacles to union registration. Costa Rican inspectors simply certify violations by given deadlines, but fail to file charges. In Nicaragua the process for calling a legal strike is so drawn-out that there have been only three legal strikes since 1996. The State Department has called Guatemala's labor inspection system "ineffective, inadequate, and corrupt."
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> In some cases, **labor ministries not only ignore violations, but are themselves complicit in violations of the law.** The Costa Rican Labor Ministry has provided information about newly formed unions to employers who used the information to blacklist union members. In Honduras, labor inspectors have sold the names of workers seeking to form a union to employers who targeted the workers for retaliation. In one case in Nicaragua, the Labor Ministry granted an employer's request to fire most of the workers seeking to form a union when the employer cited "economic" reasons. The Ministry then denied the union's request for certification because they lacked the minimum number of workers required by law.
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> **The judicial branch is also guilty of systematic enforcement failures.** The State Department reports that collective bargaining has diminished in Costa Rica as a result of workers' inability to get efficient judicial relief when they are fired for union organizing. Enforcing judgments against employers in El Salvador and other countries is often difficult, if not impossible. In Honduras, courts rarely require employers to reinstate employees fired for union activity, though they have the legal right to do so. Guatemala's court system is particularly dysfunctional, allowing employers to delay proceedings and defy legally binding court orders.

Even basic efforts to improve enforcement have too often failed because of lack of political will on the region.

CAFTA Proposal Would Not Fix Enforcement Problems

The Chile and Singapore agreements require countries to effectively enforce their own laws, but the penalties for non-enforcement are very weak. A country that fails to enforce labor laws is required to pay a fine to improve labor rights enforcement, and the fine therefore ends up back in the country's own budget. There is no guarantee that the fine will actually be used to ensure effective labor law enforcement, since trade benefits can only be withdrawn if a fine is not paid. <u>If a country pays the fine to itself, but uses the money on unrelated or ineffective programs and enforcement problems continue unresolved, no trade action can be taken.</u> Under these rules, enforcement failures, collusion and corruption in the region are bound to persist.

Technical Cooperation Proposals are not Sufficient

The U.S. Trade Representative claims that a technical cooperation program will help improve labor law enforcement in the region, making up for any weaknesses in CAFTA's rules on worker rights. While a strong technical cooperation program is essential, <u>the current track record gives no hope that increased cooperation alone will change deep-seated indifference and hostility towards workers' rights.</u> No amount of assistance will create the political will to improve workers' rights in Central America if trade benefits cannot be withdrawn from countries that violate rights.

A Better Way

The Chile/Singapore labor provisions will not work in CAFTA.. Central American unions, international human rights and development groups, and other experts on the region have called for a different kind of trade model that will truly protect workers' rights. The Bush Administration should work with Congress to develop rules for CAFTA that require governments to respect the rule of law, root out corruption, and fully and effectively enforce workers' rights in order to receive trade benefits. Any trade agreement that falls short of this standard must be rejected.

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Trade and the Rural Sector

By the Washington Office on Latin America; for more information, contact Vicki Gass or Gabi Kruks-Wisner, (202) 797-2171

Who farms in Central America?

The Central American agricultural sector is comprised of small, medium and large-scale producers, and by a large number of landless laborers and farm workers. Agriculture continues to be central to the well-being of significant portions of the population. In Guatemala and Nicaragua, agriculture employs 60[1] and 44[2] percent of the economically active population, respectively. In Costa Rica, the only middle-income country in Central America, 21 percent of the population is employed in agriculture.[3]

The two poorest groups in Central America consist of indigenous people and women, many of whom reside in rural areas. One third of the rural poor in Latin America are indigenous, and eight to ten million rural households are headed by women.[4]

Poverty is concentrated in rural areas.

Despite economic growth in Latin America, rural poverty has increased during two decades of trade liberalization. Sixty-four percent of the region's rural population lives in poverty, compared to 59.9 percent in 1980.[5] Sixty percent of Central America's poor live in rural areas.[6]

Official support for the rural sector has declined significantly over the last two decades. International development assistance to rural areas has dwindled, and structural adjustment programs in the 1980s and 90s have also resulted in reduced investment in rural infrastructure, technology, financial services, and human capital in Central America. The productivity of Central American farms has suffered as a result.

What will CAFTA mean for Central American farmers?

Rural Central America is dependent on a few, key export crops and is highly vulnerable to the volatility of international markets. For example, a world crisis in coffee production has led to farm bankruptcy and has displaced hundreds of thousands of workers in Central America (the World Bank estimates that 600,000 coffee related jobs have been lost in Central America). Trade liberalization, without safeguards for small farmers and the agricultural sector, will make Central America more vulnerable to downturns in the global economy.

Under CAFTA, Central American farmers will compete against highly subsidized production in the U.S. and elsewhere in the developed world. Changes in U.S. farm policy, beginning in the 1990s, have eliminated programs to regulate agricultural production and pricing. The result has been a precipitous drop in commodity prices and a decline in farm income worldwide. Proponents of this deregulation argued that the lower prices would be good for U.S. exports. However, only a very few agro-export corporations have been able to increase their exports, while the majority of U.S. farmers struggle to survive. The impact for developing world farmers has been devastating, as large corporations "dump" commodities at well below the costs of production. Under CAFTA, Central America will be required to reduce tariffs, subsidies and other supports that protect key agricultural sectors. Central American farmers will not be able to compete on this uneven playing field.

In Mexico, the real price paid to farmers of corn in Mexico fell by 45.2 percent between 1993 and 1999.[7] This drop is attributed in large part to the opening of the Mexican market under NAFTA to U.S. and Canadian corn, which is subsidized and sold at low cost, displacing Mexican producers. Small and medium producers in Central America fear the same fate under CAFTA.

Agriculture, Trade and Food Security

Small farmers are concerned by the potential impact on the production of basic foods such as corn, rice and beans, should Central America be forced to compete with U.S. imports under CAFTA. These products, as they are the staples of the local diet, are essential for food security and generate significant rural employment.

Alarming rates of malnutrition have been recorded in rural areas of Central America. A September 2002 World Food Programme report estimates that 8.6 million people in Central America live in a "drought corridor" where they are at risk of hunger. Further liberalization of staple agricultural products will contribute to worsening rates of malnutrition, as small and medium producers are unable to compete and rates of farm failure and rural unemployment rise.

Toward a Fair Trade Agreement.

Trade can be good for rural development, but only if the rules of trade protect the most vulnerable sectors of the population.

Even the playing field. The U.S. Trade Representative (USTR) should cease to push a "do as we say, not as we do" approach in Central America. A fair trade agreement should not apply a double standard for U.S. and Central American agriculture. As U.S. farmers and exporters continue to receive high levels of subsidies, internal support, and technological assistance, USTR should not push Central American governments to eliminate mechanisms that protect farmers and key agricultural sectors. Moreover, U.S. and international farm policies should be restructured to support higher prices for farmers worldwide.

Protect Food Sovereignty. Food sovereignty consists of the right of all governments to define their agricultural and food policy in order to promote public health and food security. Trade agreements should recognize the need for policy flexibility, particularly with regard to food. Central American governments should have the right to employ measures to protect local agriculture, such as excluding key crops from trade negotiations, applying import controls, and providing internal support to small and medium producers. Trade agreements should exclude sensitive, staple crops, such as corn, rice and beans. These products are essential to nutrition in the region and provide the lion's share of farm employment.

Promote rural development. A trade agreement should include mechanisms to support equitable development within a trading block, including policies and funds to promote rural development (such as programs to provide rural infrastructure, technology, financial services, land distribution, health and education). Rather than sign a trade agreement that increases the rights of foreign investors, as is proposed under CAFTA, a fair trade agreement should allow governments the policy flexibility to address development needs and to link investment to development goals. The European Union, for example, provided support and allowed special and differential treatment for the less developed countries of Spain, Portugal and Ireland, allowing them to develop to a level where they were able to compete within the European market. The U.S. ought to take a similar approach to trade relationships in the Western Hemisphere, and ought to promote international development policies that will allow Central American countries to become true partners in trade.

[1] World Bank, "Country at a Glance," http://www.worldbank.org.

[2] Centro Internacional de Agricultura Tropical, "Rural Sustainability Indicators: Outlook for Central America," August 2002.

[3] World Bank, op cit.

[4] International Fund for Agricultural Development, "Regional Strategy Paper: Latin America and the Caribbean," March 2002.

[5] Ibid.

[6] Centro Internacional de Agricultura Tropical, op cit.

[7] Public Citizen, "Down on the Farm: NAFTA's Seven Year War on Farmers and Ranchers in the U.S., Canada, and Mexico," June 2001.

U.S Farm and Trade Policy

By the National Family Farm Coalition, contact Kathy Ozer at (202) 543-5675

Since the North American Free Trade Agreement (NAFTA) went into effect in 1994, family farmers in the United States, Canada and Mexico have suffered from declining prices and the loss of traditional markets. Trade liberalization policies have been accompanied by changes in U.S. farm policy, which has become increasingly "export oriented" over the last decade. Programs in the U.S. to encourage land-set asides and to regulate agricultural production have largely been eliminated since the passage of the 1996 Freedom to Farm Act and the 2002 Farm Bill. In the past, price-floors (guaranteeing a minimum price to farmers) were tied to land-set aside requirements, thereby encouraging farmers to produce less than full capacity. Today, farmers in the north and south are forced into all-out production for survival. As a result, production has increased and agricultural prices have fallen in the U.S. and worldwide. In the U.S., government payments to farmers and agribusiness keep the system afloat, but many small farmers—despite the payments—are forced to abandon their families' heritage of producing food and taking care of the land.

CAFTA will not benefit small farmers

CAFTA proposes to further liberalize agricultural trade between Central America and the U.S., which will have devastating effects for Central American farmers and is unlikely to benefit small and medium U.S. farms. Large corporations and exporters are likely to take advantage as the U.S. gains market access in Central America, with little benefit to family farms in the U.S. New market access for Central American farmers will be limited to non-traditional exports, for example in flowers, benefiting only a small portion of the sector.

Important facts about U.S. agriculture:

Only three agribusiness firms control 82% of the world grain trade.

Over 73% of the nation's farms share only 6.8% of the market value of agriculture products, while 7.2% of farms, including giant feedlots, receive 72.1% of the market value of products sold. These figures illustrate the growing shift towards large operations controlled by large agribusiness.

During the first seven years of NAFTA, Archer Daniels Midland's (ADM) profits increased from $110 million to $301 million, while Cargill's net earnings from 1998 to 2002 jumped from $468 million to $827 million. ADM and Cargill are two of the main agribusinesses that control corn trade.

Since 1984, the real price of food has remained constant, while the price farmers receive has fallen by 38%. In 1999, farmers received 21 cents on the dollar from food products, compared to 10 years ago, when they received 32 cents. These numbers demonstrate how consumers, taxpayers and farmers are paying the price so that agribusiness can earn record profits.

U.S. Responsibility

The citizens of the United States need to regain control of farm and food policy to create a sustainable family farm system and ensure a safe and healthy food supply. The National Family Farm Coalition has proposed a new farm bill: "The Food From Family Farms Act." This bill would establish fair farm prices; create a food security reserve so that bountiful crops won't depress markets; establish conservation set-asides to avoid wasteful over production; and create loans to help farmers adopt sustainable farming practices. Most importantly, The "Food From Family Farms Act" promotes trade cooperation based on the principle of food sovereignty—the right of every nation to devise farm and food policy ensuring food security in keeping with its traditions and need for sound social and environmental policies.

Investor Rights or Human Rights?

By Washington Office on Latin America and Action Aid; for more information, contact Vicki Gass at (202) 797-2171

The investment rules in CAFTA will be similar to those included in NAFTA and the proposed Free Trade Area of the Americas (FTAA). Many of the proposed investor rights will conflict with the obligations of states as duty bearers to fulfill the basic rights of their own citizens, and undermine the ability of states to pursue their own national development plans. According to UNCTAD, "free trade agreements today are often also free investment agreements"[1] under which foreign investors are able to operate unencumbered by conditions on their investments.

Investment for Development?

Proponents of CAFTA argue that improved investment rules will attract greater Foreign Direct Investment (FDI), leading to increased economic growth and per capita income. While there is little doubt that FDI can play an important role in enhancing social development, the question is: under what conditions? Several studies on the experience of NAFTA indicate that FDI can actually be harmful unless national policies strategically use FDI to promote and protect priority sectors. Ten years after the implementation of NAFTA, it is estimated that over 90% of the Mexican banking market is in foreign hands and the largest share of FDI, 62.9%, is geared to the export- manufacturing sector.[2] In this sector, foreign-owned export companies import materials from their parent company for assembly in the developing country and later re-export the products. This type of industry has few links to the rest of the economy and can actually depress local industries. In Mexico, workers saw the real value of their wages drop by 18% between 1993 and 1999. And for the newly unemployed, the promise of new jobs created by NAFTA promoters has not been fulfilled.

Investor Rights or Human Rights?

The proposed investment provisions in CAFTA are potentially devastating. Governments will not be able to determine how to use foreign investments for development purposes. Instead, investments will be left to the dynamics of the market and will be based on profit maximization principles. To the extent that investment rules are modeled after those in NAFTA and the FTAA, there are five potential areas in CAFTA that will directly impact development and human rights:

National Treatment:

National treatment is a provision that stipulates that foreign investors be treated at least as well as domestic investors. That is to say, governments will not be able to discriminate against foreign investors, but must give them consideration equal to that which domestic companies receive. Governments would have a one-time opportunity to negotiate which sectors should be exempted for national treatment, but thereafter would not be allowed to protect emerging strategic sectors or assist minority groups. Governments would be unable to support nascent domestic industry or to require foreign investors to act in a socially responsible way.

Lack of Performance Requirements:

Performance Requirements are obligations required of foreign investors to help create forward and backward linkages within a country's economy. Such obligations include requiring investors to purchase supplies locally, employ specific populations (i.e. youth or women), or transfer a determined amount of technology to a sector. CAFTA, as currently proposed, will prohibit the use of performance requirements, again reducing a government's ability to determine and implement national development strategies.

Lack of Capital Controls:
Traditionally most governments have used various types of macroeconomic regulations and controls to regulate the flow of foreign investments, particularly short-term speculative capital flows. Too much capital flowing into or out of a country at one time can have adverse effects on national economies. However, the agreement on investment that most analysts expect to see in CAFTA will limit a government's ability to impose regulations on foreign investors.

Investor-State Dispute Mechanisms:
Modeled on the highly controversial Chapter 11 in NAFTA, the dispute settlement mechanism in CAFTA would allow foreign corporations to sue signatory governments for perceived violations of their rights and loss of potential profits. Arbitration for these disputes takes place in secret tribunals and often results in costly compensation paid by cash-strapped and indebted governments. Under proposed rules, professional standards that have a perceived profit-reducing impact on foreign companies (such as public interest laws, national licensing, certification standards, or government contracting rules used to raise pay and protect workers' rights) could be weakened or challenged with lawsuits by foreign investors.

Liberalization of Services Markets:
Similar to the General Agreement on Trade in Services (G ATS) being negotiated at the World Trade Organization, the proposed CAFTA agreement will require developing countries to allow foreign corporations to compete in their domestic services markets, including such essential public services such as water and electrical utilities, and public health and education. This will limit the control of local and national governments over essential public services that are fundamental to meeting people's basic rights, and risk the forced privatization or deregulation of these services. The results could be cuts in services, increased fees and limited access to public health care, education and water for citizens.

Recommendations for Policy

Stronger policy language in trade agreements that protect economic, social, and cultural rights is needed. Such policy options include:

The rights established under international human, labor and environmental conventions and agreements should take precedence over investor rights.

Governments must maintain the policy flexibility and autonomy they need to pursue their countries' development goals and to regulate in the public interest.

Governments must be able to restrict the types of assets that foreign investors can acquire, specify the structure of ownership and lay down requirements for the future operations of foreign investors (such as employment of local workers, use of local materials and export requirements).

Trade agreements must allow for performance requirements in order to support emerging sectors or meet community development goals, create forward and backward linkages with local economies, and encourage skills and technology transfer.

CAFTA must restrict the use of national treatment in order to allow domestic industries to compete at an international level. Essential public services should be exempt from "national treatment" standards.

Governments must maintain the sovereign right to rule out foreign investment proposals that do not adhere to national development policies or that pose a threat to health or the environment.

Developing country governments must be able to impose capital controls to protect their economies and citizens from destructive flows of speculative investment in times of economic crisis.

Any trade agreement should reject investor-state lawsuits and require foreign investors to work within the laws and court systems of the host country. Disputes between countries should be resolved in an accountable and transparent manner, and with the participation of all affected parties.

[1] United Nations Conference on Trade and Development, "FDI Policies for Development: National and International Perspectives." 2003 World Investment Report. Page xvii.
[2] Arroyo Picard, Alberto et al, "Balance of Free Trade Agreement in Mexico: Lessons for the Free Trade Area of the Americas negotiations," Mexican Action Network on Free Trade, pages 42-48, December 2001.

The Gender Impact of CAFTA

By the Center of Concern/ International Gender and Trade Network; for more information, contact Farah Nageer at (202) 635-2757

The potentially devastating and far-reaching gender implications of CAFTA have, to date, remained largely untouched by trade negotiators on both sides. This is not to say, however, that CAFTA's potential impacts on the region's women are unknown or insignificant.

Agriculture and Gender

Central American negotiators are concerned about increased imports of heavily subsidized U.S. agricultural products that threaten to flood their markets if the free trade agreement is implemented. Agriculture liberalization under CAFTA will have far-reaching impacts on the region's women, who are the primary care-givers responsible for ensuring proper nutrition and health for their families and those responsible for household food security. The 2002 World Food Program Report stated that 1 in 4 Central Americans continue to suffer from hunger or food insecurity.

As people are forced to move from rural to urban areas in order to find employment, many women in Central America will be left with no option but to seek work in *maquilas* - export oriented factories notorious for poor working conditions and exploitative working environments.[1]

Investment and Gender

The U.S. is pushing Central American governments to further liberalize their investment rules and increase investor rights under CAFTA, in order to attract more foreign direct investment (FDI). This focus on the quantity rather than the impact of investment will undermine Central American governments' ability to regulate FDI for sustainable development and the protection of the human rights of all its citizens.

As such, governments will be challenged to provide protection and benefits to the countless women workers who are employed by foreign companies and who are often paid less than the legal minimum wage, and who face physical, verbal, and sexual abuse, age discrimination, and have little job security.

CAFTA will lead to the expansion of the region's *maquiladora* factories. Central America's clothing and textile industry is one of the most developed in the region; most of the clothing produced in the region takes place in Export Process Zones where foreign companies hire mostly women aged 15-25 at low wages and under poor working conditions.

Services and Gender[2]

In Central America, social movements have worked hard to prevent the privatization of essential services, including healthcare and electricity. These victories are threatened by CAFTA, under which service sectors may be opened to foreign investment and privatization. Public services as well as other essential low-cost services may no longer be accessible or affordable to those who need them the most. Poor women, many of whom are single heads of household, will be especially hard hit.

Privatization will also threaten the job security of service workers, many of whom are women. For many women, public service jobs are among the most secure and offer the most benefits, including healthcare. These government jobs could be subject to privatization and foreign competition, and therefore made less secure.

Intellectual Property Rights and Gender

CAFTA's intellectual property (IP) rules limit compulsory licensing of CAFTA countries and could severely limit the parallel importing abilities of these countries. This would make it difficult for the region's governments to obtain cheaper drugs to meet the public health needs of their citizens.

Pharmaceutical corporations and genetic-research firms are very interested in intellectual property rights under CAFTA because of the rich biological diversity in the region. These corporations plan to harvest plants and microorganisms for patenting as new discoveries. In reality, they will make legal claims on and profit from plants, medicines and traditional knowledge that indigenous people of the area have used for centuries.[3]

Under CAFTA's IP provisions, it will be difficult for poor people to patent their inventions or traditional knowledge (for example, in music, handicrafts, traditional medicines and other creative outputs). Women are often the keepers of this traditional knowledge; often sales of traditional handicrafts are an important source of income, just as use of traditional medicines is important to the health of their families. Their legal rights to intellectual property are put in jeopardy under CAFTA.[4]

As the primary providers of healthcare within families and communities, women will bear increased burdens under CAFTA's IP laws, as access to cheap drugs and medicines becomes less available. One analysis conducted in Costa Rica revealed that IP measures outlined in CAFTA will increase the cost of some medicines by as much as 800%.[5]

Towards a More Gender Sensitive Central America Free Trade Agreement

Any trade agreement with the countries of Central America must respect and ensure their sovereign right to determine their own national development and economic growth paths, and allow governments to fulfill their responsibility to protect the social welfare of their peoples and communities.

Gender impact assessments of how CAFTA will impact the lives and livelihoods of the women throughout the region must be undertaken before any trade agreement is signed.

Women from across the region must be able to participate in a transparent negotiation processes, be educated about what is at stake, and contribute to the creation of pro-poor, gender sensitive strategies for development that take into consideration their knowledge, expertise and needs.

Trade in agriculture should protect small farmers, primary food crops, and ensure food security and food sovereignty.

Foreign investment in the region should be socially responsible, and should be applied towards development goals of poverty eradication in a gender sensitive manner.

Privatization of essential public services should be excluded from CAFTA in order to ensure that these services remain affordable and accessible to women and men in the region.

Countries must be able to maintain the flexibility to adopt appropriate policies to protect the indigenous knowledge and rights of their local communities, particularly for women who are the primary users and protectors of this knowledge.

1 Fosse, F. "What you need to know about the U.S.-Central America Free Trade Agreement (CAFTA)," Center of Concern/IGTN. This document can be found at http://www.igtn.org/NorthAmerica/FactSheets.htm.

2 Ibid

3 Fosse, F, op cit.

4 Ibid

5 Moreno, R. *The Free Trade Agreement between the United States and Central America: Economic and Social Impacts*, p. 118.

CAFTA's Environmental Chapter

By Quixote Center/Quest for Peace; for more inforamtion contact Tom Ricker at (301) 699-0042

CAFTA's Environmental Chapter was leaked to the public, and is the only piece of the text of the agreement to which anyone, besides the negotiators, currently has access. The text of the chapter can be found at: http://www.quixote.org/quest/advocacy/fair_trade_cafta_environmental_chapter.pdf. The chapter has many reasons for alarm.

Weak standards of enforcement

The basic model for the CAFTA environmental chapter is the recently signed free trade agreement between Chile and the United States. The CAFTA chapter provides no real expansion of environmental protection, or meaningful enforcement of environmental laws. The basic requirement (and the only part of the text that seems to be reviewable under any dispute mechanism) is Article 2. This is simply a requirement that countries enforce their existing environmental laws.

> Under Article 2, there are some differences in language between the U.S. and Central American positions, but both versions create what seems a very large loophole: countries are free to apply discretion in enforcement of laws, meaning they can prioritize which laws or areas of enforcement are most important. Accordingly, [U.S. text]: "parties understand that a Party is in compliance with subparagraph (a) where a course of action or inaction reflects a reasonable exercise of such discretion, or results from a bona fide decision regarding the allocation of resources."
>
> Allowing for some degree of discretion is not itself a problem - and no doubt necessary to reach an agreement. However, the text is so broadly worded that it would be difficult to force a decision on non-compliance, should a conflict ever reach dispute settlement.
>
> The weakness of this language is magnified by the general lack of enforcement of environmental laws in Central America and the United States currently. With CAFTA, this is, perhaps, a more significant problem in Central America where the increase in U.S. investment that would likely result from the agreement will put added pressure on the environment.
>
> John Audley, fellow at the Carnegie Endowment for International Peace, has written, "Although the Central Americans are making progress toward designing and implementing effective environmental laws, the United States is already aware these laws may not yet be adequate and certainly not well enforced. Asking a country with weak enforcement capability to enforce (perhaps) insufficient laws means little in terms of real environmental protection." (full text of Audley's article, http://www.ceip.org/files/pdf/wp40.pdf.)

Capacity Building Assistance

The U.S. should place more emphasis on providing resources through technical assistance and capacity building grants to begin to offset that lack of enforcement in Central America. However, a complicating factor to this approach is that Central American governments have not themselves placed emphasis on the environment in their requests for capacity building assistance during the course of negotiations (with the exception of Costa Rica).

In the original text, there is a proposed framework to establish a parallel agreement establishing an Environmental Cooperation and Capacity Building Mechanism. The proposed mechanism establishes a Working Group to oversee the implementation of a very broad set of goals. But again, a lack of specificity weakens this provision. This mechanism also provides little opportunities for participation by non-governmental sectors in the Working Group. The only provision for public participation in this side agreement is very weak: "The parties shall take into account public comments and recommendations regarding the cooperative activities."

Dispute Settlement:
Article 8 establishes a framework for "Environmental Consultations." There are some differences between the positions of the U.S. and Central American negotiators on mechanisms for dispute settlement. Like the Chile Agreement, the U.S. is proposing that consultations, if stalemated, may have access to dispute settlement - but only as they relate to Article 2 talked about above. The Central American provisions, on the other hand, establish a consultative process involving the construction of a review panel and lengthy period of reports, discussions and oversight.

Neither provision lays the groundwork for strict penalties or meaningful enforcement, and as noted, Article 2 is already so vague, that it is hard to see this being a terribly effective mechanism. Thus, as with the Chile agreement, this provision fails the "parity" standard - a standard whereby environmental concerns are given the same weight as commercial provisions.

Finally, as in the Chile FTA, there are no mechanisms for individual citizens to raise complaints. Meanwhile, corporations are granted extensive rights to raise complaints under investment provisions - similar provisions in NAFTA have been used to weaken environmental standards. (See Public Citizen Report: Bankrupting Democracy on Chapter 11 cases under NAFTA)

As David Waskow of Friends of the Earth testified before the House Subcommittee on Commerce, Trade and Consumer Protection concerning the Chile and Singapore FTAs, "We believe that it is fundamentally imbalanced and inappropriate to omit a citizen petition mechanism for environmental provisions when the investment rules in these agreements include a private right of action for foreign investors."

NAFTA in Mexico: Lessons for a Central American Free Trade Agreement

By the Latin America Working Group, for more information contact Elanor Starmer, (202) 546-7010

Signed in 1994, the North American Free Trade Agreement (NAFTA) was lauded by its supporters as a "win-win-win" accord that would bring increased economic integration, development, and growth to Canada, Mexico and the United States. NAFTA has undoubtedly accelerated regional economic integration, and select sectors have benefited from the agreement. But the tradeoffs of such integration are by no means negligible. Lessons learned from the experience of farmers and workers in Mexico under NAFTA can help illuminate the risks of sweeping reforms now being proposed for Central America.

NAFTA, Agriculture, and the Environment in Mexico

Asymmetrical levels of development in Mexico and the United States have acted as a barrier to real competition between the two countries, and have dealt a blow to Mexico's small and medium producers. A 2001 report by the Economic Policy Institute found that at the time Mexico entered into NAFTA negotiations, it suffered from "noncompetitive production costs… due to higher prices for inputs such as diesel and electricity, higher financial costs, and higher marketing costs (due to deficient infrastructure in highways and warehouse storage…among other factors)."[1] Greater access to farm technology and targeted subsidies in the United States[2] have allowed large-scale agribusinesses to flourish, while the vast majority of Mexican farmers cultivate small plots with far fewer technological inputs.[3] Combined with an elimination of some subsidies and price supports for Mexican farmers, the disparity has resulted in a flood of low-cost US goods to Mexico with which most Mexican farmers are unable to compete.

In an attempt to stay afloat amidst an influx of cheap US goods, some Mexican farmers—particularly those who farm corn—have changed their farming and land-use practices. Many of these shifts have taken a toll on the environment in areas under agricultural production. Large corn producers in Mexico have increased their use of pesticides, herbicides, and fertilizers in an attempt to raise yields. According to a study commissioned by the World Wildlife Fund, these inputs, along with intensified tillage and increased use of water resources, have had a negative environmental impact and have contributed to rapid soil degradation and erosion. Some small farmers have diversified their incomes through the addition of grazing animals; the overgrazing of land previously fallow or under cultivation, or the clearing of forests for pasture, both have negative environmental impacts.[4]

NAFTA and Labor in Mexico

Blows to the rural agricultural sector under liberalization have not necessarily been offset by increased employment in urban areas. Under NAFTA, Mexico has seen a dramatic expansion of *maquiladoras*, with these plants contributing to 35% of all new manufacturing employment between 1995 and 1999. However, jobs were lost during the same period, as factories that had previously supplied inputs to exporters were replaced by foreign suppliers. On balance, employment in the manufacturing sector fell 9.4% between 1993 and 2000, as the loss in supply-chain jobs overtook growth in the *maquiladora* industry.[5]

Even in sectors that experienced job growth under NAFTA, wages and purchasing power fell. According to a report issued by the office of Mexican President Ernesto Zedillo in 2000, incomes of salaried workers in Mexico fell by 25% between 1993 and 1998. While some of this decline can be attributed to the peso crisis Mexico experienced in 1995, even wages in *maquiladoras*—a rapidly expanding sector of the economy—fell by 21% during this period. Moreover, the purchasing power of the minimum wage fell by 17.9% through 1999.[6]

Workers' rights and working conditions in Mexico have not improved noticeably under NAFTA, despite the inclusion of labor provisions in the agreement. The North American Agreement on Labor Cooperation (NAALC), a side agreement of NAFTA, called on signatories to enforce their existing labor laws and created a mechanism by which an outside panel could be appointed if countries exhibited a pattern non-compliance. While the agreement held potential to strengthen labor standards and practices, the decision to use NAALC in this way—including calling for an arbitrating panel in cases of non-compliance—was placed in the hands of signatory countries rather than an independent oversight body. Moreover, only certain violations could trigger panel review or sanctions. Violations of the freedom of association, the right to bargain collectively, and the right to strike are among the labor rights not eligible for review or sanctions. As documented by Human Rights Watch, the end result of NAALC has been that signatories' "interpretation of [the agreement's] obligations has been minimal… [and] petitioners' concerns have been ignored."[7]

Lessons for Central America

The Mexican experience under NAFTA holds important lessons for the governments and citizens of Central America. Negotiators have hinted that the labor clause included in CAFTA will be similar to that of NAFTA; the agreement will likely mandate only that signatory countries enforce their own labor laws—which in Central America's case are notoriously weak—and will provide an inadequate penalty for non-compliance. Central American governments should also think carefully before entering into an agreement that eliminates their ability to implement mechanisms to protect the rural sector, particularly small and medium producers. Asymmetrical levels of development between Central America and the United States will deal a harsh blow to small and medium producers in the region, and economic shifts could result in elevated levels of hunger and unemployment in rural agricultural areas, or increased migration. The environmental impact of shifts in production techniques could also be negative.

NAFTA has also had a negative effect for some workers and small family farms in the United States. For more, see "NAFTA's Impact on US Farmers and Workers" in this packet.

1 Economic Policy Institute: *NAFTA at Seven: Its Impact on Workers in All Three Nations*. April 2001. Report available at http://www.epinet.org/content.cfm/briefingpapers_nafta01_index.

2 According to the Economic Policy Institute, since NAFTA, 33 percent of the value of agricultural production in the United States has been subsidized. In Mexico, only 16 percent receives such support. (Economic Policy Institute, op cit).

3 According to the UN FAO Statistical Database, US farmers farm an average of 29 hectares of land, while Mexican farmers farm only 1.8 hectares of land. The World Wildlife Fund found that in 2000, yields per hectare of land in the United States and Mexico averaged approximately 7.0 and 1.7 percent respectively. (Nadal, Alejandro: *The Environmental and Social Impacts of Economic Liberalization on Corn Production in Mexico*. October 2000. Report available at http://www.cec.org/files/PDF/ECONOMY/engmaize_EN.pdf).

4 Nadal, Alejandro, op cit.

5 As cited in Salas, Carlos: *The Impact of NAFTA on Wages and Incomes in Mexico*. April 2001. Salas is a researcher at La Red de Investigadores y Sindicalistas Para Estudios Laborales (RISEL) in Mexico; report can be viewed at http://www.epinet.org/content.cfm/briefingpapers_nafta01_mx

6 Salas, Carlos, op cit.

7 Human Rights Watch: *Trading Away Rights: The Unfulfilled Promise of NAFTA's Labor Side Agreement*. April 2001. Report available at http://www.hrw.org/reports/2001/nafta/index.htm.

NAFTA's Impact on US Farmers and Workers

By the Latin America Working Group; for more information contact Elanor Starmer, (202) 546-7010

US farmers and workers were led to believe that the signing of NAFTA would expand the US export market, adding jobs and increasing production levels at home. In reality, workers in both the manufacturing and agriculture sectors have suffered since the agreement was signed in 1994.

NAFTA's benefits to the US agricultural sector have favored large producers; the agreement has negatively impacted small farmers in the US. According to a report on Florida's agricultural sector by the watchdog group Public Citizen, in NAFTA's first six years, farm income for non-corporate Florida farm operations fell 74.4%, while total Florida farm income increased 13.4%.[1] Similarly, a 1400% increase in Mexican peanut imports has allowed corporate Alabama peanut farms to expand production, but production by small Alabama peanut farmers declined by 5.3% between 1994 and1999.[2] Low floor prices and US subsidies that target larger producers allow agribusinesses to sell their products at below production cost in Mexico, undercutting small and medium producers in both countries.

The growing US trade deficit has caused a fall in domestic employment rates. NAFTA supporters claim that every 1 billion dollar increase in US exports creates an additional 20,000 American jobs.[3] However, they ignore the increase in imports that can offset job growth at home. According to Economic Policy Institute research, US imports rose nearly 20% more than exports between 1994 and 2000, creating a negative trade balance.[4] Furthermore, EPI concludes, "Job losses associated with the trade deficit increased six times more rapidly between 1994 and 2000 than they did between 1989 and 1994."

2.8 million jobs were created in the United States in this six year period, but 5.8 million were eliminated, resulting in a net loss of 3 million jobs.[5] According to Public Citizen, more than 525,094 US workers were certified as of December 31, 2002 under a special NAFTA unemployment program, "NAFTA Transitional Adjustment Assistance (NAFTA-TAA)". This unemployment is directly attributed to NAFTA, as only workers who produced a product directly affected by NAFTA are eligible for assistance under the NAFTA-TAA., as opposed to those employed in supply chain industries (many of whom were also negatively effected).[6] While this job loss figure is small relative to the size of the economy, job creation was the principal motivation for elimination of trade barriers under NAFTA. According to NAFTA promoters, the increase in jobs would compensate for other economic and environmental risks under the free trade agreement.[7] The job loss figures suggest that NAFTA has failed to achieve its main objective.

The sectors that lost the greatest number of jobs between 1994 and 2001 were the motor vehicle industry, the textile and apparel industry, the electronics equipment industry, and the lumber industry.[8]

Rising import competition has undermined US working conditions. The availability of cheap labor and weaker labor standards in Mexico has allowed U.S. corporate management to use the threat of relocation to suppress wages, discourage union organizing, and allow working conditions to deteriorate. According to a report by the Alliance for Responsible Trade (ART), the threat of plant relocation has been a "frequent tactic used by US employers in bargaining with their workers over wages and working conditions and in thwarting union organizing drives." By 1999, more than 68% of employers used the threat of closing during bargaining.[9]

U.S. workers in the manufacturing sector, which was hit hardest by the trade deficit created by NAFTA,[10] saw 1.5 million jobs leave the country.[11] As a result, these workers were forced to relocate to lower-wage industries, namely the service-sector, where the U.S. saw an increase of 3 million jobs during the 1990s. Workers faced an average reduction of wages of 13% when they found new employment.[12] And even for those workers who were able to keep their jobs, purchasing power declined during the NAFTA period. Productivity increased by 25% between 1990 and 2000, but real wage growth was only 8%.[13]

A breakdown of job losses under NAFTA by state and industry is available at http://www.epinet.org/briefingpapers/nafta01/state-losses-table.pdf.

1 Public Citizen: *Down on the Farm: NAFTA's Seven-Years War on Farmers and Ranchers in the US, Canada and Mexico*, August 2001, p. 5. Available at http://www.citizen.org/documents/ACFF2.PDF.
2 Ibid, p. 7
3 Alliance for Responsible Trade: *Lessons from NAFTA: the High Cost of 'Free' Trade*, p. 36
4 Economic Policy Institute: NAFTA at Seven: Its Impact on Workers in All Three Nations. April 2001. Available at http://www.epinet.org/content.cfm/briefingpapers_nafta01_index.
5 Ibid
6 Public Citizen: A Sampling of NAFTA-Related Job Loss. Available at http://www.citizen.org/trade/forms/search_taa.cfm.
7 Economic Policy Institute, op cit.
8 Scott, Robert: *NAFTA's Impact on the States*. Report available at http://www.epinet.org/content.cfm/briefingpapers_nafta01_impactstates.
9 Alliance for Responsible Trade, op cit, p. 37
10 The US deficit in manufacturing trade increased 158.5% between 1994 and 2000, according to the Economic Policy Institute.
11 Alliance for Responsible Trade, op cit, p. 38
12 Ibid
13 Ibid

Fair Trade or Free Trade? Understanding CAFTA

What People are Saying about CAFTA…

American Federation of Labor - Council of Industrial Organizations (AFL-CIO)
Thea Lee, Assistant Director for International Economics (202-637-5000): "We are working closely with trade unions in Central America to develop proposals for an integration model based on a foundation of strong domestic institutions, including independent, democratic trade unions and states with the capacity to regulate employers and protect workers' rights…. Any trade agreement that falls short of these proposals will be a failure for Central America and a failure for American workers, and we will work with our allies across the region to oppose it….
Repeated and systematic violations of workers' rights retards the development of Central American countries, and drags down standards for American workers who are thrown into a vicious race to the bottom." More: http://www.aflcio.org/mediacenter/prsptm/tm11192002.cfm

Bloque Popular, Central America
Bloque Popular is a broad-based coalition of Central American civil society organizations that oppose CAFTA. The *Bloque Popular's* statement, "The People's Declaration Against Free Trade," was translated into English and signed by many groups, both in Central America and the U.S.: "We emphatically reject CAFTA as it does not generate sustainable development or create jobs. On the contrary, they increase public debt; threaten our historic, cultural and natural wealth; and destroy national sovereignty and food security. These free trade agreements undermine our people's struggle for a democratic culture that promotes justice and equality." More: http://www.epica.org/Programs/alternatives/fairtrade.htm

Carnegie Endowment for International Peace
John Audley, Senior Associate and Director of the Trade, Equity and Development project (jaudley@ceip.org or 202-939-2290): Author, *Opportunities and Challenges to Advance Environmental Protection in the U.S.-Central American Free Trade Negotiations.* Audley argues that environmental protections must be included in CAFTA, and offers guidelines for a trade regime that promotes environmental protections, strengthens rule of law, and encourages good governance in the region. Steps to achieve this agenda include building on environmental protection efforts already underway; crating trade-related incentives, such as promotion of green product exports; and including good governance provisions such as dispute settlement proceedings, environmental reviews, and participation and transparency measures. More: http://www.ceip.org/files/publications/TED-2003-Feb-CAFTA-and-environment.asp

Sandra Polaski, Senior Associate, Trade, Equity and Development Project (spolaski@ceip.org or 202-939-2252): Author, *How to Build a Better Trade Pact with Central America.* "A well constructed CAFTA could reinforce weak institutions and government capacities and thus allow positive market forces to take hold, creating jobs and gradually allowing the region to grow out of poverty. But the large size of the agricultural sector, the severe constrains on workers and households, the lack of public funds for adjustment, as well as the deficient laws and weak enforcement systems all demand that CAFTA be constructed with extraordinary care. Otherwise, the positive opportunity could instead produce a major development setback." More: http://www.ceip.org/files/publications/CAFTA-better-Polaski.asp?p+43&from=pubdate

Center of Concern/U.S. Gender and Trade Network
Maria Riley, OP, Coordinator , Global Women's Project, Coordinator, North America Gender and Trade Network-U.S. (mreily@coc.org or 202-635-2757): "Trade is not gender neutral." "Economic liberalization, which has increased the gaps between the rich and the poor, both within and between nations, and increased inequalities between women and men, is pushed through trade and investment policies fostered globally by the World Trade Organization and its most powerful players." More on the gender impact of CAFTA: http://www.coc.org/pdfs/coc/CAFTA_Facts.pdf

Economic Policy Institute

Robert E. Scott, International Economist (rscott@epinet.org): Author, *Phony Accounting and U.S. Trade Policy.* "The U.S. has experienced steadily growing trade deficits for nearly three decades, and these deficits have accelerated rapidly since the North American Free Trade Agreement (NAFTA) took effect in 1994 and the World Trade Organization (WTO) was created in 1995. The toll on U.S. employment has been heavy: from 1994 to 2000, growing trade deficits eliminated a net total of 3.0 million actual and potential jobs from the U.S. economy." More: http://www.epinet.org/content.cfm/Issuebriefs_ib184

Human Rights Watch

El Salvador's Failure to Protect Workers' Human Rights: Implications for CAFTA

Preliminary Findings of Human Rights Watch Research, May 2003: "The systematic failure of El Salvador to protect and promote workers' human rights, documented in the preliminary [findings], highlights the importance of including in CAFTA meaningful labor rights provisions that address both labor laws and their enforcement and account for the serious workers' rights abuses in El Salvador." Instead, it is expected that labor provisions in CAFTA will mirror those in the US-Chile Free Trade Agreement, obliging signatory countries only to enforce their own labor laws and providing weak mechanisms for resolving issues of non-compliance. "Workers' human rights protections enshrined in El Salvador's Constitution and Labor Code have major loopholes that allow employers to circumvent them. The Ministry of Labor does not effectively enforce even these inadequate protections." More: http://hrw.org/backgrounder/americas/salvador050103-bck.htm

Mesoamerican Initiative on Trade, Integration and Development (*Iniciativa CID)*

CID is a coalition of Central American civil society groups that has closely monitored the CAFTA negotiations. For a time, CID representatives participated in an "adjoining room" during the negotiations, where they were available for consultation by the trade negotiators. Finding this process non-transparent and un-responsive to their concerns, CID called for a moratorium on the negotiations, citing the need for a longer timeframe, increased participation from civil society, and the exclusion of sensitive agricultural products. CID explains: "The negotiations for the FTA have for a backdrop agricultural and agribusiness sectors that find themselves in a profound crisis. Agricultural producers are concerned that they will have to compete with commodities produced under the broad shelter of subsidies that are the foundation of U.S. agricultural policy. For this reason, CAFTA must include clauses that provide for asymmetrical treatment in favor of the Central American countries, so as to create conditions for fair and equitable competition." More: http://www.iniciativacid.org/filer/foodforthought.pdf

Oxfam America

Stephanie Weinberg, Trade Policy Advisor (sweinberg@oxfamamerica.org or 202-496-1088): "The U.S.-Central America Free Trade Agreement will bring devastating changes upon Central America's poor. The same rules being negotiated in the WTO and FTAA - requiring liberalized trade in agriculture, deregulated investment and decreased access to intellectual property - will reduced Central American government's abilities to make trade work for development goals. Oxfam America says no to CAFTA and calls on governments to uphold the rights and interests of all their citizens to make trade fair for Central America." More, see *Make Trade Fair for Central America*, http://www.oxfamamerica.org

Washington Office on Latin America

Vicki Gass, Senior Associate for Economic Issues (vgass@wola.org or 202-797-2171): "From a human rights perspective, CAFTA is troubling on a number of fronts. The negotiations are taking place on a fast-track, and civil society groups both in the U.S. and in Central America are being denied their right to participation in shaping the agreement. Civil society has some very legitimate concerns. CAFTA would require liberalization of the agricultural sector, and would devastate the small farm sector and undermine food sovereignty and the right to food in Central America. Further, CAFTA would significantly weaken the standard and enforcement of labor laws in Central America. For farmers and workers across the region, this agreement does not represent fair trade but a step backwards in terms of the protection of their economic, social and cultural rights. More: http://www/wola.org/economic/econ_trade.htm