

**PRESIDENT'S UNITED STATES-MEXICO  
FREE TRADE LETTER**

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**HEARING**

BEFORE THE

**COMMITTEE ON FINANCE**

**UNITED STATES SENATE**

**ONE HUNDRED SECOND CONGRESS**

**FIRST SESSION**

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**MAY 7, 1991**  
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# PRESIDENT'S UNITED STATES-MEXICO FREE TRADE LETTER

TUESDAY, MAY 7, 1991

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

The hearing was convened, pursuant to notice, at 2:00 p.m., in room SD-215, Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Also present: Senators Moynihan, Baucus, Bradley, Riegle, Daschle, Packwood, Roth, Danforth, Chafee, Durenberger, Symms, and Grassley.

[The press release announcing the hearing follows:]

[Press Release No. H-18, May 3, 1991]

## SENATOR BENTSEN CALLS HEARING ON PRESIDENT'S U.S.-MEXICO LETTER; COMMITTEE NEEDS TO LEARN DETAILS OF RESPONSE, CHAIRMAN SAYS

WASHINGTON, DC—Senator Lloyd Bentsen, Chairman of the Senate Finance Committee, Friday announced a hearing on President Bush's response to issues concerning the proposed free trade agreement with Mexico.

The hearing will be at 2 p.m. Tuesday, May 7, 1991 in Room SD-215 of the Dirksen Senate Office Building.

Bentsen (D., Texas) and Congressman Dan Rostenkowski (D., Ill.), Chairman of the House Ways & Means Committee wrote to Bush on March 7, 1991, asking for an action plan to address a number of concerns that they said should be addressed before Congress considers the extension of trade negotiating authority under fast-track legislative procedures. The concerns include such areas as worker adjustment, environmental standards, health and safety standards and worker rights. The President responded on May 1.

"It's imperative that members of the Finance Committee have a chance to question witnesses from the Administration about the details of the President's response as we consider the request for an extension of the fast-track negotiating authority," Bentsen said.

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

The CHAIRMAN. If you would please find seats and cease conversation, we will get the hearing under way. We are scheduled to have a vote fairly early, so we will move as far as we can and then recess temporarily to take care of the voting.

When the President sent up his request for a 2-year extension of the fast track, I pledged that we would take a close look at all aspects of any proposed agreement, and we have done that. We held two hearings back in February on the proposed negotiations with Mexico and Canada. We devoted one hearing to the general question of a fast-track extension. We had 2 days of hearings on

progress in the Uruguay Round, and at the end of April, we reviewed the President's Enterprise for the Americas Initiative.

In short, we examined all aspects of the negotiations that are covered in the President's request. But now we have entered into the home stretch, and there are still some loose ends that need to be tied up, and that is why I have called this hearing.

A number of members of this committee have come to me individually to talk about their concerns in various aspects of any treaty that might be brought about. They have talked to me about health and safety standards; about environmental concerns, and I understand that, and I share that. I look at a situation where we are seeing 25 million gallons a day of raw sewage going into the Rio Grande. Go up to Juarez and see an open ditch coming along the U.S. border with raw sewage, and all the problems of hepatitis.

But I also see a President of Mexico who closes down a big refinery in Mexico City, and discharges 4,500 employees because of the pollution problems, and makes the environmental concerns a major priority for his country.

And then, I think, suppose we just turn our backs on this agreement and not try to negotiate. How do we resolve these environmental concerns then? We ought to be negotiating these, and particularly with the President of Mexico, who is concerned about the environment, and see what we can do to resolve some of those kinds of concerns.

I have the same concern, and I share the same concerns with those people who talked to me about the possibility of job exodus from the United States. If I believed that was going to happen, I would be against any negotiations, and I would certainly be against any treaty. But I do not think that has to be the result at all, and the studies we have had thus far have shown a net increase in jobs on both sides. And that is what I think can happen. If people want to go to Mexico and move their plants down there, they can do that now. You have over half of the products coming in from Mexico without any duty. If you look at things like automobiles, it is a 2.5-percent duty, and 3 percent on parts; an average duty of 4 percent. So that is not a serious impediment to moving plants to Mexico now.

But I believe when we see trade with Mexico more than double in the last 4 years, and the great creation of jobs on this side because of that, that we ought to be encouraging it.

We see a President who has a 6-year term. I suppose about half of that has expired. Much of the things that he has done have been by regulation. Let us see if we cannot work it into a treaty agreement and lock some of those things in.

But because of the concerns on the possibility of job loss, because of the concerns on workers' rights, because of the concerns on the environment, Chairman Rostenkowski and I together wrote a letter to the President asking him how these would be worked on; what would be the objectives; how much of this could be done by the time that a treaty was presented back to the U.S. Senate and to the House of Representatives. And I met with the President not once, but several times, in discussing these concerns and how they had to be addressed. And the President has written us a letter in regard to that. And I believe he has gone a long way in making

concessions to see that we have adequate funds for job training, and for job placement, because there will be winners and losers in this process, and we know that. He has gone a long way in addressing the environmental concerns and progress that has to be made as they are negotiating on the agreement overall.

Let us think for a moment what the result might be if we did not have fast track. On June 10, 1990, President Bush and President Salinas announced their decision to begin free trade negotiations. If the fast track had not existed, it is quite likely the negotiations would be completed today. And we would be debating whether to approve an agreement, rather than debating whether to approve the negotiations.

That agreement would probably have had nothing to say about workers' rights, or the environment, or health and safety standards. Instead, we now have this response from the President. The concerns of the Congress have been heard, and we can move forward in a constructive fashion.

Fast track is going to be a tough sell to the Congress, but the action plan should give some comfort to those Senators who have expressed concern about the negotiations with Mexico.

I called this hearing to give members of the Finance Committee the opportunity to question the key administration players about the details of the action plan, and I am glad that Ambassador Hills, Secretary Martin, and Administrator Reilly are able to join us today. I now defer to my colleague, Senator Baucus, for any comment he might have.

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

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

Senator BAUCUS. Thank you very much, Mr. Chairman. Mr. Chairman, I congratulate you for not only this hearing, but for all the other hearings that you have held on this very important subject. I also congratulate the President and Ambassador Hills, Mr. Reilly, and Secretary Martin.

I know particularly Ambassador Hills has worked very, very hard and very diligently meeting with members of Congress.

In fact, at a meeting at the White House this morning, on Senator said it was the first time in his experience as a member of the United States Senate he has heard Senators complain because he is visited too often by members of the administration on this issue; that it is too much access to the administration. So they have worked very, very hard to try to meet the concerns and the questions the Senators have.

Mr. Chairman, I also applaud the administration for responding to your letter, and to the letter that Chairman Rostenkowski has sent, as well as the letter that Majority Leader Richard Gephardt sent to the President raising certain concerns. I think the action plan that the administration has come up with goes a long way. It does not go as far as I think it should go. There are many opportunities between now and the time when a final agreement may be sent to the Congress where we can try to get additional commit-

ments to wage/weight differential, to environmental concerns into that agreement, but at least the action plan is a good first start. It shows good faith on the part of the administration to deal with the concerns that many Senators have about a potential agreement with Mexico.

Mr. Chairman, I am particularly impressed with the assurance that the administration will place a representative, or two—I do not know the number—on the acting committee. That is, there will be environmental representatives on the private advisory group to advise the administration on negotiations with Mexico.

That will, for the first time, bring environmental considerations into the decisionmaking process as administrations works with the private sector. Certainly, we in the Congress are vitally concerned about environmental considerations. It now is helpful to have environmental representatives also in the administration's advisory council.

I must say, Mr. Chairman, just to repeat, while I am impressed, I still think that we have further to go. I would like to see enforcement of environmental actions in Mexico as enforcement provisions somehow either in, or directly related to the free trade agreement. The administration has not yet given that commitment. It is a commitment that I will be looking for.

I do believe that we, as Americans, should take advantage of the opportunity we now have in negotiations with Mexico to try to find some innovative way for some enforcement mechanisms to help achieve greater environmental protection that do not now exist in current law.

I will be hoping and pushing administration to conclude those provisions in some workable way. We are plowing new ground here. It is a new area, but it is a new area that must be pursued. And so I look forward to working with administration as we try to get those provisions included. I thank the Chairman.

The CHAIRMAN. Thank you. I want to state again I know that we have a vote scheduled in not too long a time, so I would hope that we would keep our statements pretty concise.

Senator Grassley.

**OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S.  
SENATOR FROM IOWA**

Senator GRASSLEY. Mr. Chairman, I think we have to look at some basic realities here. I think we all forget too often that the United States can compete with any nation in the world, given the opportunity to do so on a level playing field. We can even, in some instances, compete effectively when the playing field is not so level.

In the case of Mexico, particularly, we can either help create opportunities for both of our countries, or we can start drafting legislation that will deal with the increasing migration of Mexican citizens coming north looking for opportunities.

Several Members of Congress have expressed a number of concerns about the proposed extension of fast track authority. I too have raised some concerns over the course of the hearings held in this committee. I think we should continue to pursue our individual concerns, but we should also remember that what we have

before us is a real historic opportunity to create the largest market in the world between our first and third largest trading partners.

Mr. Chairman, in Iowa and in other places throughout this country, the old adage about the time approaching when we have to fish or cut bait is here. I think the time has come for us to get off the dock and cast our lot for a better, more prosperous America for all of our citizens and the peoples of other countries.

To understand the significance of this opportunity, all we have to do is look at what Japan is already doing in Mexico. In 1990, the Fortune 500 list of the world's largest corporations included 111 Japanese firms; 33 of these corporations are now doing business in Mexico.

Since 1982, Japan has invested more money in the Americas than in any other area of the world. From 1982 to 1988, Japanese investment in the Western Hemisphere totaled \$75 billion, whereas Japanese investment in Asia—which is Japan's traditional sphere of influence—totaled only \$26 billion. Mexico has been the highest recipient of Japanese investment in all of Latin America.

The point, Mr. Chairman, is that the arguments of lost jobs and environmental concerns, while not to be taken lightly—and I do not suggest that my colleagues should take them lightly—are issues that I believe this administration can work out. Of more concern to me is the fact that by the end of 1990 there were 179 Japanese plants in Mexico; 56 percent in the electronics industry, and 24 percent in the auto industry. If Mexico is such a bad deal, why has Japan decided to invest in their economy? And who, in this government, will be able to complain about emissions from Japanese plants or about jobs lost in this country from either those plants or lost markets? And, lastly, are we going to allow the Japanese to use Mexico as an export platform into the United States?

In conclusion, I would like to lift a paragraph written by Sidney Weintraub on this issue, wherein he states, "The stage is set for a showdown that will determine the tenor of U.S. relations with Mexico and, more importantly, America's national strategy for competing in world markets.

"Will the United States choose the path appropriate for capacities and talents of an advanced economy, competing on the basis of the value added by skilled workers using state-of-the-art technologies to develop innovative products and services for customers around the world, or will we instead use our resources to insulate companies that pit U.S. workers against the low-wage laborers of developing nations?"

I hope we will give the President the authority he needs to develop a free trade agreement with Mexico, and as a result, create jobs and lift standards of living for both countries. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Riegle.

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

Senator RIEGLE. Thank you, Mr. Chairman. This is an issue about which I have very strong feelings and very grave reservations. And I say that with all due respect to you as Chairman, and



to our witness today. I would ask that at the end of my statement there be included in the record a story that some of you may have seen from U.S. News & World Report last week. It is a six-page story in a leading business journal.

[The article mentioned above appears in the appendix.]

Senator RIEGLE. The headline is "Poisoning the Border," and then the sub-headline says, "Many American-owned factories in Mexico are fouling the environment and their workers are not prospering," which in some respects is the more important part of the article, although both parts are very important.

I think this proposal carries very special and very serious dangers for our economy and for our society. I think, in effect, if we move ahead with an agreement in this area—and I will address the action plan in a minute—I think it constitutes an industrialization plan for Mexico to be accomplished by a de-industrialization plan here in the United States. And I think that is the worst possible strategy for us. The cold fact of the matter is that this will cost us good jobs. We may add some low-income jobs and some jobs down at the bottom of the wage scale, but if you look at manufacturing wages with a manufacturing worker in Mexico earning about 50 cents an hour, and an American worker for comparable work earning about \$10.50 an hour, if we go to a free trade agreement, it is going to tilt the table in such a way that I think tens of thousands of our best manufacturing based jobs, middle class jobs, are going to leave this country and go south of the border.

And that is precisely why so many business firms are endorsing this package. It is not because they see Mexico as a significant market in which we can sell vast quantities of American goods. The income just does not exist in Mexico for that to happen. The GNP for Mexico is roughly 4 percent of the GNP of the United States.

You can take product class after product class, the notion that we are going to sell any significant number of refrigerators, or cars, or trucks, or anything south of the border anytime soon just is not in the cards.

But with respect to the action plan, I want to be very direct about it, because I have gone through it. And it is not specific, and I do not think it is much of an action plan. And I frankly resent the fact that there is so little in it that is specific. And let me just give you one example where I would like to hear some clarification today, and beyond today. Studies have found that productivity in American-owned and Japanese-owned plants in Mexico is somewhere between 80 and 90 percent of the productivity in the United States and in Japan, but the wages in Mexico are less than 10 percent of those in either here, or Japan. And, in fact, wages are no higher in these plants than in the rest of the Mexican economy.

Now, the reason it appears that this is so is that the major unions down there are controlled by the ruling party, and the workers just do not have effective rights to bargain for their share of rising prosperity, and that is part of what this U.S. News & World Report story says.

The independent union movement down there has been repressed. Now, a very real question is what are the specific steps? Specific steps in an action plan that is going to ensure enforcement

of labor standards in Mexico in light of the suppression of independent unions, and the lack of an independent judiciary, and the fact that the union movement down there is essentially part and parcel of the government. I do not think we have an answer to that.

In addition, we have got an administration here that has fought tooth and nail against trade adjustment assistance, worker retraining assistance. Now, all of a sudden, we are told that they are for it in this case for people who lose their jobs here as a result of this agreement that is coming down the track. We have got a situation right now in a sewing plant in Utica, MI; 209 people are about to lose their jobs because the jobs are going to Suarez, Mexico. The question is, where is the money to do the retraining? The State of Michigan certainly does not have it. I do not see the Bush Administration coming up with the money today for this kind of activity.

Plus, retrain for what? There was a Pizza Hut that opened up the other day up in Massachusetts. They advertised 11 jobs, and 1,100 people showed up. Now, we can lose \$10.50 an hour jobs, and maybe we will gain some \$4 or \$5 an hour jobs after a period of years go by in terms of the adjustment process, but that does not build a strong America.

And frankly, the lack of specific items in this plan leaves me very uneasy. And so, the resolution that I have drafted, Mr. Chairman, S. Res. 109, is designed because of the nature of this being a bilateral proposed agreement—as opposed to the Uruguay Round, which is a large number of countries—to give us the opportunity on the Senate floor to open this proposed agreement up to amendment in five specific areas, so that if the agreement comes back in a form that is unworkable or going to be damaging or hurtful to this country, we have an opportunity to offer amendments on the floor. And frankly, if it cannot face the test of open amendments in five discrete areas—environmental standards, labor standards, rule of origin, adjustment assistance and dispute resolution—then I think that is another way of saying that it is not an agreement that really meets the interests of this country.

I must say that I am frustrated because we have got a Federal Reserve nominee today up before the Senate Banking Committee for an afternoon hearing, and they tell us it is quite urgent that that nominee undergo the nomination process. And so, I will have to go back and forth between this committee and that one. But I want to file these reservations, and I thank the Chairman.

The CHAIRMAN. They will be filed in their entirety.

Senator Symms.

Senator SYMMS. I have no statement at this time, Mr. Chairman. I look forward to hearing from the witnesses, and welcome them here today.

The CHAIRMAN. Senator Packwood.

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

Senator PACKWOOD. Mr. Chairman, you and Chairman Rostenkowski did the country a service by sending a letter to the President asking for an explanation of the various issues involving

labor, environment, and the others, and I think the President gave a good answer to it. And I think it is a satisfactory answer.

And I think before we ever have to vote on any free trade agreement with Mexico, or on the Uruguay Round, we are going to have these questions answered in full, or the agreement simply will not pass. So, I think we have crossed the threshold, and I congratulate both you and Chairman Rostenkowski, and the administration on highlighting this issue which needed to be highlighted.

The CHAIRMAN. Thank you. Senator Moynihan.

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

Senator MOYNIHAN. Mr. Chairman, in just exactly that spirit, I would like to thank you and your counterpart in the House for that original letter, and thank the President and Ambassador Hills for their response. But also, to note Mr. Packwood's statement, that we really want these questions answered, or the measure will not pass.

And to refer to one of the concerns of Senator Riegle, and to cite Ambassador Hills, that for what is a very long while now, at every one of these occasions that I have attended, I have asked about dispute settlement.

And I do not have to prove my bona fides here. I helped negotiate the agreements that led to the Kennedy Round of 1962. I have been in this almost 30 years, and have been absolutely loyal to the Reciprocal Trade Agreements program that President Roosevelt began, which the GATT incorporated after the Second World War.

I have asked again and again how do you have a free trade agreement with a government that does not have a free judiciary? It is not a complex or marginal question. I mean, one has great admiration for some of the people in the Mexican Government. For their new leadership. You have great understanding of their past. You admire the regime that they managed to put in place in the twenties. But it is a one party state. It is not a free country. Freedom House so stipulates. Now, how are you going to have a dispute settlement when you have a judiciary which is controlled from its administrative center?

It is not a hostile question. I had hoped to have answers. I have had no indication that the question has ever been heard. I see Ambassador Hills taking notes, and I know it has been heard, I have feared that I have not been getting an answer because, perhaps, there was none. And I will leave it there, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Moynihan. Ambassador Hills, would you proceed? Thank you.

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

Ambassador HILLS. Thank you, Mr. Chairman, and members of the committee. It is a pleasure to appear before you to talk about the fast track procedures, the North American Free Trade Agreement. And I have sent a written testimony to this committee, and with your permission, I would just summarize a few points.

The CHAIRMAN. It will be accepted in its entirety.

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

Ambassador HILLS. For over half a century, the United States has followed a bipartisan trade policy designed to open markets, and to expand our trade opportunities. And that partnership has extended to this North American Free Trade Agreement.

We sought your guidance, and that of other interested parties, as we examined the issues presented. And I, too, join your colleagues, Mr. Chairman, to complement you for your thoughtful letter sent to the President in March, and I want to respond to the economic issues that you raised. And I am privileged to have with me Secretary Martin to address the labor issues, and Administrator Reilly to address the environmental issues to follow up last Wednesday's response that was sent by the President. And I would only comment that the President, too, indicated his personal commitment to a close bipartisan cooperation throughout the negotiations and beyond.

On the economic side, we think there are considerable benefits. As you have already noted, a North American Free Trade Agreement would create the largest, richest market in the world, with 360 million consumers and producers, and an output of \$6 trillion.

All of our economic studies show that the United States would gain; gain in terms of output; gain in terms of exports; gain in terms of jobs. And history with Mexico confirms that we would have those gains, since Mexico joined the GATT in 1986 when its tariffs were roughly 100 percent, and since then has dropped them down today to a high of 20 percent.

We have seen our exports grow from \$12 billion to \$28 billion. And for every billion dollar's worth of exports, we gained 2,200 new jobs. We know that we can do better. Mexico's trade restrictions today are still 2.5 times ours, and we believe that if we can bring down those restrictions, we will gain exports, and, in so doing, gain jobs. Mexico is our fastest growing export opportunity. Even today, with their poverty, per capita, Mexicans are importing from us \$350 a person, which is more than 10 percent over what the far more affluent European community imports from us per capita. And, in addition, the United States benefits from Mexico's growth, because for every dollar that Mexico spends on imports, 70 cents are spent in this country.

We believe that the resulting integration of the three economies of our first largest trading partner, and our third largest trading partner will, without a doubt, increase and strengthen America's ability to compete with Japan and with the European community.

My colleagues here at the table will respond more fully to the points that are made in the President's response to your letter, Mr. Chairman. Let me just mention three. We will have transitions that will enable our economy to adjust to any changes brought about by the North American Free Trade Agreement, and by that, let me refer to three.

We will have long periods of phase-in. Secondly, we will have safeguards during the transition period that will enable us to respond to an increase in imports, should they occur. And thirdly, we will have a strong rule of origin that will prevent Mexico from becoming simply a staging area to the United States. In short, there

must be real North American content. Secondly, we will not reduce in any measure our environmental, or health and safety standards; those will stand. And we will reject at the border any trade that falls short of our stringent environmental and health standards. And thirdly, we will appoint environmentalists to our policy advisory committee, not only to Apton, but some of the specialized committees, such as our Intergovernmental Committee, our Services Advisory Committee, and our Agricultural Policy Advisory Committee.

And I agree with Senator Baucus, I think that we will benefit from that input, but to secure the benefits that will come to us from more closely linking the economies of Canada and Mexico with our own, we truly need fast track authority. And let me just say three things here. Fast track will not dictate the pace of the negotiations; they will not be rushed. But we will continue to consult with Congress in a very meaningful way.

Secondly, we are not asking Congress to approve any agreement. We have not had 1 day of negotiation. That is why I cannot tell Senator Moynihan what the dispute settlement resolution might look like in the North American Free Trade Agreement. We have some models, but we have not had 1 day of negotiation. And so, the page is empty.

We will want to consult with Senator Moynihan with respect to what sort of a dispute settlement makes sense in the context of a trilateral agreement in the North American region. And we are certainly going to continue our efforts at consultation. We want to work closely with the Congress in a bipartisan and constructive fashion. And I thank you for this opportunity to appear before you.

The CHAIRMAN. Thank you. Secretary Martin, we are very pleased to have you. If you would proceed, please.

#### STATEMENT OF HON. LYNN MARTIN, SECRETARY OF LABOR

Secretary MARTIN. Thank you, Mr. Chairman. It is a pleasure for me to be with you here today to speak in favor of the North American Free Trade Agreement. I am especially pleased to be here so soon after signing with my colleague, the Secretary of Labor of Mexico, an important memorandum of understanding and cooperation.

Under that agreement and the associated work plan, I am confident that the Department of Labor will be able to address the concerns of many in Congress, and elsewhere, about Mexican labor standards before the conclusion of negotiations.

During the past week, I have been visiting former colleagues in the Congress on, what I believe, are the true merits of the proposed trade agreement. In my opinion, successful conclusion of such an agreement will expand North American markets for United States goods and services; contribute to the growth and prosperity of the entire continent; and increase the general competitiveness of the United States, providing ultimately new opportunities and new jobs for the American worker. But as a former member of Congress, I can say that most of the concerns and questions I heard from last week were not surprising. They are concerns about local job loss, lower standards and wages for American workers as a result of an

agreement with Mexico. Those are rational and legitimate concerns, but I firmly believe we can work together to address and to make sure that those concerns are answered.

Just last Wednesday, President Bush forwarded his plan for addressing many of these issues to the Congress. In his action plan, the President made clear his intention to ease the transition for import-sensitive industries. In these sectors of tariff and non-tariff barriers, the reductions will be phased in over a long haul.

As Secretary of Labor, having worked with Ambassador Hills, you are all absolutely right. She has brought your concerns, she knows your concerns, and part of the negotiations must be that your concerns are our concerns. The President and I are both committed to working with the Congress to be sure there will be adequate assistance for effective retraining of any dislocated American worker. That may be done through an existing program, such as the EDWAA Program, or through the creation of a new program.

The President is determined to assure the timely availability of comprehensive services to United States workers who might conceivably be displaced over a period of time as a result of such a trade agreement.

Last week, when I signed the unprecedented memorandum for cooperation with my counterpart in Mexico, we also talked in that memorandum about enforcement of labor standards in Mexico. As the program under the agreement progresses, we will be exchanging health and safety, statistical, and wage hour expertise with the goal of improving conditions for workers on both sides of the border.

In addition, the Department of Labor has made sure that we are part of the negotiating process. My deputy, Deputy Secretary Rod Darment, traveled to the United States-Mexico border last week at my request to have a first-hand look at the economic conditions on both sides of the border.

He visited then a number of plants in the Brownsville/ Metamoros, and El Paso-Ciudad Juarez area. He came back with a very different impression about working conditions in the Maquiladoras than one would expect from the misinformation that is being circulated about Mexico and the FTA.

In the final analysis, of course, only individual members of Congress can decide whether their concerns have been adequately addressed in the plans submitted by the President, and by the program of cooperation with Mexican labor officials that I have outlined.

But I want you to know this: I intend to work hard to insure that we provide whatever additional information or assurances you need to make that decision, and I hope it will support the President's request. I will do whatever possible to assure full consultation with the Congress in addressing your concerns.

This is only the beginning of a long process. Promoting the interests of American workers will continue to be my highest priority as Ambassador Hills leads this team in negotiating such an agreement with Mexico and Canada. I look forward to working with you during that process.

I firmly believe that a properly negotiated agreement is in the best interests of the American economy, and of American workers.

And if, for a moment, we can take concerns about local effects—which I know each of you have to—I think there is strong bipartisan support to do all we can to insure American trading strength in an increasingly tough trading environment.

None of us can ignore the growing strength, productivity, and overall competitiveness of the European community and the countries of the Pacific Basin. Only by enhancing our own productivity and the productivity of our work force will the United States be able to keep up.

In my view, a balanced trade agreement with our North American neighbors will make a contribution to that goal. It is a win-win proposition. We stand to improve U.S. trade opportunities both within our continent, and with the rest of the world as a result of the agreement. To reject fast track, and then perhaps a free trade agreement as well, would endorse the status quo. It is an explicit loss for American workers, and for the economy.

Therefore, I pledge again a desire to work with you to make sure that American workers are fully protected, and to make sure we open the doors of opportunity, rather than retain a status quo with the advantages on Mexico's side, and the United States bearing too many of the disadvantages.

The CHAIRMAN. Thank you very much, Madam Secretary. We are pleased to have Mr. Reilly, who is the Administrator of the Environmental Protection Agency, with us.

#### STATEMENT OF HON. WILLIAM K. REILLY, ADMINISTRATOR, ENVIRONMENTAL PROTECTION AGENCY

Mr. REILLY. Thank you, Mr. Chairman. With your permission, I will offer my statement for inclusion in the record, and briefly summarize it.

The CHAIRMAN. That will be done.

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

Mr. REILLY. In the summer of 1989, the G-7 summit leader's meeting in Paris stated in their communique that in today's world it is not possible seriously to address issues of trade, economics, agriculture generally, without taking very seriously environmental considerations.

I think that the degree to which the environment has figured in the deliberations in the Congress and the administration, among non-governmental organizations, and between our two countries with respect to this free trade agreement, is a measure of the greater seriousness and awareness that we have of the truth of that insight.

I have worked closely with government officials in Mexico who are concerned for the environment, both before taking office as EPA Administrator, and as a member of the bi-national commission since then—the first EPA Administrator to be included on that cabinet level body from both our countries. And I believe I can say that Mexico is very seriously committed to improving its environment.

They have, as you mentioned, Mr. Chairman, shut down a half billion dollar refinery, the source of 15 percent of Mexico City's air

pollution, at a possible cost of some 5,000 jobs. They have shut down 24 military industrial installations in that city.

They have begun the very expensive job of taking lead out of their gasoline, and all of their 1991 automobiles are to have catalytic converters. That is an expensive, costly decision for them to make.

It is one that they have done in the absence of the kind of resources I think they would begin to have with the free trade agreement. And it is just one of many that they have undertaken. They have added a number of new enforcement personnel to strengthen their capacities to enforce their laws at the border.

I can recall a particularly moving moment when President Salinas in Monterrey had a breakfast meeting with President Bush and the cabinets of our two countries, and industrial leaders from both our countries—CEO's from many U.S. corporations who have invested in Mexico—when President Salinas rose and said, "We are committed to raising our standard of living, and improvement of the environment is a vital component of a better standard of living. We want no dirty jobs. That is our past. Give us only clean jobs, for that is all that we will allow."

There is a concern that environmental laws in Mexico are not comparable to those applicable in the United States. We, at EPA, have carefully analyzed the 1988 comprehensive law for the environment that deals with air and water pollution, hazardous waste, soils, and ecology in Mexico, and have concluded that the national technical standards prescribed for implementation of this law are, in fact, comparable to U.S. requirements.

They have begun to come out in the past 3 years.

There are many more that will have to be issued to realize the objectives of that law. But I dare say that 3 years into this, they have made about as much progress as the United States had into our environmental revolution after our legislation began to develop in the early 1970's.

They have shut down some 980 plants for environmental reasons and not allowed them to be reopened until environmental commitments were made to upgrade. And they have shut down some 84 plants in Mexico on environmental grounds permanently. They have established a new, \$100 million fund to help existing industry bring on new pollution control technology and upgrade. And they have made a commitment that with respect to new industry—all of which is subject under their law to an environmental impact assessment—they will require that it meet the standards of the country of origin.

I think that there are those who are concerned about the possibility that free trade with Mexico may exert pressure on the United States to relax its standards with respect to the enforcement of our laws protecting the public health, controlling pesticide residues in food, enforcing our hazardous waste laws, or excluding endangered species imports, or any of the other statutes and regulations for which we have worked so hard in this country. They will be maintained. They will be enforced. They will not be relaxed one whit.

We also committed in the President's action plan to a full-scale review of the broad range of our various relationships on the envi-



ronment. And within the Environmental Protection Agency, and the Forest Service, and the Fish and Wildlife Service, many of our agencies have a full spectrum of relationships with Mexico.

We have agreements with respect to air and water pollution along the border, with assistance to Mexico City on its air pollution. We have the first environmental attache ever stationed abroad in Mexico City at the request of our ambassador now working on the environmental problems full time.

We will undertake that exercise in the spirit in which Ambassador Hills has consulted closely with environmental organizations and other interested groups. We will also prepare an integrated plan for the border, which we expect to have available for comment and review and consultation and then revision, sometime within the next 60 to 90 days. That will address a range of problems that we and Mexico believe need addressing with respect, particularly, to water pollution and hazardous waste, and to more coordinated enforcement of our laws in the border area.

Let me just say in conclusion, Mr. Chairman, that we have made tremendous progress on the environment in the last 20 years in the United States. We have reduced carbon monoxide and sulphur dioxides in our cities by about a third. We have reduced particulates by 64 percent, and lead by 97 percent. We have brought back Lake Erie. We spent over \$50 billion on water pollution control at the Federal level alone, and we are currently spending close to 2 percent of our gross national product on air and water pollution and waste management.

And what is it that allowed us to make those commitments and to achieve those results? It is growth, an increase of about 60 percent in the last 20 years in our gross national product. What Mexico has lacked is resources. I am very much of the belief that with resources, Mexico will achieve even more, and already, in my view, is a leading developing nation in terms of environmental performance of any in the world. Just yesterday, Mexico committed to fully phase out chlorofluorocarbons on the schedule of the United States, by the year 2000. This is a commitment that under the treaty they were the first nation in the world to ratify, the Montreal Protocol, they need not do, and which will have economic costs associated with it for them.

These are measures, I think, of a serious country that does not need to be told by us to strengthen the protection for health of its people, or the restoration of its natural systems.

President Bush likes to speak of re-invigorating the economies of our three countries, from the Yukon to the Yucatan. And I think we have the vision also of restoring the natural systems on which all life, including economic activity, depend for these same areas. And I very much see free trade and fast track as the means toward that end. Thank you, Mr. Chairman.

The CHAIRMAN. Well, that is particularly interesting testimony because of our concerns about the environment. Let me understand this. If you have a use of a pesticide in Mexico that we, in our country, deem dangerous and illegal, does that mean that we will stop that fruit or vegetable from coming into this country?

Mr. REILLY. We will not permit, Mr. Chairman, any chemical residue on food that we detect for which there is no prescribed tolerance in the United States.

The CHAIRMAN. Well, I am particularly interested in the border's environmental concerns, having been born and reared on that border. A lot of interest in all those border states about that. In doing this, will you be holding field hearings?

Mr. REILLY. I expect that we will, and I, in fact, will be going to the border area with Secretary Cherinos of the Mexican Environment Agency sometime, I think, in July. We do, in fact, intend to take the opportunity to be heard, to listen to those who have views about the border. We are very aware of the problems in the area and would anticipate that that would include hearings.

The CHAIRMAN. Secretary Martin, when you expect the memorandum of understanding with Mexico on labor issues to be accomplished?

Secretary MARTIN. Mr. Chairman, the memorandum points specifically to these particular areas of cooperation.

The CHAIRMAN. I want it to talk about child labor.

Secretary MARTIN. All right. Excuse me.

The CHAIRMAN. Occupational health and safety. Will those be considered in it?

Secretary MARTIN. Yes, sir. Worker health and safety, the general conditions of work, specifically areas of labor concern, such as child labor laws, collective bargaining. All of those are covered in the MOU. With regard to worker health and child labor we will shortly begin to have teams of experts from our Nation visit Mexico where we will be looking not just for similar standards, but for the kinds of enforcement that will make sure that both nations both improve. And the two specific areas that are covered, I think I would have to say, with much of the resources, will be both child labor, and worker health and safety.

The CHAIRMAN. I think what we have to remember, too, is we are talking about a developing country. Now, this is the only place in the world I know of where you have a major industrial power sharing a common border with a developing country.

And to talk about making these kinds of moves which you do at some economic cost, particularly when you have high unemployment, that is a major commitment for such a country. And as we deal with Thailand, and we look at all the problems of pollution and environmental concerns, and the products that are coming from there to us, where the Japanese are out-sourcing so many of their things there, they have none of those limitations. But here, we have a country next to us. Now, for example, I understand they are talking about hiring another 100 health inspectors, environmental inspectors. What is the status of that, can anyone tell me?

Mr. REILLY. Yes, sir. They have, in fact, begun to hire 50 new inspectors for the border area, and another 50 in Mexico City, increasing by several orders of magnitude the inspection force they have. We are working with them on aspects of information-sharing, training, targeting potential violators, and things of that sort.

The CHAIRMAN. I have also heard that Mexico has stated that the extension of the fast track authority is absolutely essential to

continue the negotiations. Is that correct? Can someone comment on that one?

Ambassador HILLS. That is what I have been told, Mr. Chairman. My counterpart—

The CHAIRMAN. It seems practical to me, Ambassador—I do not see how you get a bottom line offer in negotiating if it can be brought back here to the Congress and every interest group can start trying to add on its amendment. And then I would assume the same thing, if we had that, would be true in Mexico, and the Mexican Congress could do the same thing: start adding on their amendments. I do not know how you conclude that kind of a situation and really move it forward.

Ambassador HILLS. It will not work, because trade agreements are subject to unraveling with even small changes. We saw that with our discussions in Brussels. But more importantly, you put your finger on the crucial point, and that is, that we would not get the bottom line.

The CHAIRMAN. Well, I have insisted on consultation, and I did not think the administration did it to the degree they should on the Canadian agreement, and we blocked the agreement, as you know. Then we had consultation. In this instance, this time, I see so much consultation, I am seriously thinking about charging you rent in my office. [Laughter.]

I see that my time has expired. I see we have a vote, so some of the members will be leaving. And then I will wait till the last minute, and we will probably have a little recess in the process here.

Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman. I would like to ask Mr. Reilly a question, if I might. These environmental concerns have been voiced by a number of individual Senators, and one of the rationales in favor of this agreement—and you can straighten me out if I am wrong—is that capacity to deal with environmental challenges is in direct ratio to the wealth of a nation, with some variance in there, dedication obviously being one of them. Basically, the poorer a country is, the less it is able to wrestle with environmental challenges, be it restoration of forests, cleaning the waters, or cleaning the air.

On the converse side of that, the wealthier a nation is, the better it is equipped to be able to deal with these challenges, because it has got the money to do it. Has that been your experience? And I am going to call upon your experience that you had before you came into this current job.

Mr. REILLY. It very much has been my experience. I think that there may have been a perception some 20 years ago—certainly perception in some quarters of the environmental community—that growth was the problem.

Now, I think, it is universally acknowledged that growth is the solution. Not the kind of growth that created all of our superfund sites, not the kind of growth that allowed contamination to develop to the point where we actually created a drag on productivity when we begin to correct it and to deal with the health problems, but a different kind of growth. If you are talking about phasing out lead in gasoline, as I recall, that cost something like \$3 billion in the

United States. I do not know what it is going to cost Mexico, but I am sure an appreciable amount, probably more proportionate to their economy. Scrubbers cost something in the range of \$150 million currently. Investments in the environment, we believe, very much pay off in terms of all sorts of measurable benefits. But they do take growth and capital.

Senator CHAFEE. Therefore, if we believe that this agreement is going to increase the wealth of all three nations—the United States, Mexico, and Canada—then it would seem to me to follow that Mexico would then be in a better position to deal with these environmental challenges that it has. Would that follow?

Mr. REILLY. I think it would very much follow. The extraordinary thing is that Mexico has made the commitments it has in a period of very difficult financial stringency, and without the kind of growth that we anticipate free trade would make possible.

Senator CHAFEE. Well, I was impressed with what you said about the closure of that refinery in Mexico City with the commensurate loss of jobs that you outlined. Now, let me ask you another question. Many of the environmentalists, as I understand it—although they have not told me this, but I understand this—have argued against this extension prior to the President's letter coming forward. Now, since that letter has been received, has the environmental community wheeled into line in support of the extension?

Mr. REILLY. We have been tremendously—

Senator CHAFEE. Are there any names of groups, EDF, or others that you can name?

Mr. REILLY. We have been tremendously pleased to see the response of several environmental organizations to that action plan. The National Audubon Society, in its statement by its president, Peter Burley; the Natural Resources Defense Council; the Environmental Defense Fund; and World Wildlife Fund, have all issued published statements in response to that plan commending it, complementing it, saying that it did, in fact, respond to many of the concerns that they had.

Senator CHAFEE. Well, I think that would be very, very helpful. These are prestigious organizations, and perhaps you could submit those names for the record, and if you could let me know the names of these groups, it would be very helpful.

Mr. REILLY. Be glad to do that.

[The information follows:]

As mentioned previously, several of the major environmental organizations issued statements praising the President's Action Plan, stating that it met many of their concerns and constituted an excellent step toward assuring that environmental quality concerns will be taken into account in the Free Trade Agreement negotiations. Specifically, the group included the National Audubon Society, The Natural Resources Defense Council, the Environmental Defense Fund, and the World Wildlife Fund.

Senator CHAFEE. Now, the next chapter is, of course, not only do you have the law, but the enforcement of it. And what inkling do you get of Mexico's enthusiasm about enforcing some of these splendid environmental laws that they might have on their books?

Mr. REILLY. Well, that very clearly has been a need, and that we have focused on more closely, I think, than anything else. The Mexican Environment Minister has indicated his intention to pro-

vide a concentrated enforcement effort in two areas: in Mexico City, and along the border. That is the reason for that strengthening of enforcement personnel—100 new inspectors.

That is something that we expect to work very closely with him on, and we have some resources that we can make available in terms of technical equipment, and information, and intelligence, and perhaps even some parallel enforcement efforts on our side of the border.

Senator CHAFEE. Well, Mr. Chairman, I see my time is nearly up. I would just like to say, for the record, that Mexico has environmental problems; so do we. And we have probably got as many superfund sites as they have, plus some.

We are going to hear in the course of this debate that Mexico is not active in the environmental arena. I do not, however, think people in glass houses should be throwing bricks. We are in a similar situation ourselves; whether it is with nuclear wastes or hazardous wastes.

We have a long way to go in cleaning up our own house before we scold Mexico and how they have behaved. I think it is very encouraging that these environmental organizations are in support of this extension. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Ambassador, we have got some concern stated, and we heard a bit of it today in some of the comments of members that Mexico is just being used as a trampoline for, for example, Japanese products coming in, and then be brought on into the United States. What are you looking at insofar as looking at areas of origin?

Ambassador HILLS. We will negotiate a good rule of origin, and we may have multiple rules of origin, as we have in other trade agreements. But there will have to be substantial North American content, and that will prevent the trampoline effect to which you allude.

The CHAIRMAN. I see we are now half way through the roll call. That means I have to sprint. So I ask you to stand in recess. I am sure that we will have a member here to continue the hearing within 5 minutes.

Ambassador HILLS. Thank you, Mr. Chairman.

#### AFTER RECESS

Senator BAUCUS. Senator Bentsen asked me to reconvene during his absence. He is voting. He will be back any minute now. I have some questions for you, Mr. Reilly, essentially with respect to environmental concerns. Did I understand you correctly in saying that the EPA analysis of Mexican environmental statutes is that the quantity and quality, if you will, of Mexican environmental law is comparable to that of the United States?

Mr. REILLY. The 1988 law, which is a comprehensive law and requires environmental impact statements of new industry, taken together with the national technical standards that have been issued thus far under it—and I think there have been six principal ones—in our view, is essentially comparable to the kinds of controls that we have for similar activities. The standards have not been issued

for a very large number of activities and sectors that we would expect ultimately would be addressed.

The Mexicans have begun to accelerate the rate at which they develop and issue them, but as I said, I think that comparably to our progress 3 years into implementation, say, of the National Environmental Policy Act, or the Clean Water Act, or the Clean Air Act in the early 1970s, they are doing very well. And that is clearly the direction they want to go. They have also indicated their intention to hold new industrial investment in Mexico to the same standards, at least, that it would be subject to in its country of origin.

Senator BAUCUS. So, does Mexico have environmental statutes comparable to the American's Clean Water Act, or Safe Drinking Water Act, or—

Mr. REILLY. In those areas where they have issued these technical standards, we believe that they do. But as I say, there are many areas they have not yet covered, and so it is going to take some time, I think, for them to get there.

Senator BAUCUS. Now, we passed a very massive—as you well know better than most anyone in this room—a massive Clean Air Act. Does Mexico have comparable clean air legislation?

Mr. REILLY. Well, Mexico is applying technological requirements to new industry and to automobiles. I mentioned that they have a requirement that the 1991 automobiles have catalytic converters and be suitable for unleaded gasoline, and that unleaded gasoline now be made available. They are moving in that direction.

I do not think that we can say with respect to the full spectrum of economic activity in industry that they have all of those standards written down at this time, but together with their commitment to apply, essentially, the standards applicable here to any industry that originates here, I think that we can be reasonably confident that they will.

Senator BAUCUS. And what about enforcement? Most who look at this problem admit that there are fairly strong environmental statutes in Mexico, but that Mexico does not properly enforce its environmental statutes, at least by American standards. Now how does administration attempt to deal with the enforcement problem in the free trade negotiations?

Mr. REILLY. Well, that has been considered the major weakness of Mexican environmental law for some time, but I must say I was astonished in looking over the past several weeks at their performance in some detail to see that they have, in fact, shut down nearly 1,000 plants temporarily—84 of them, as I said, permanently, for reasons of environmental protection. I do not think we can say we have done that in any recent time period, or that we would want to. But that is, in fact, a measure of pretty serious environmental commitment.

They are also strengthening their personnel, allocating more funds. They have increased by, I think, eight-fold, the budget for their EPA equivalent of the Ministry responsible for environmental protection in Mexico. Many of those resources are being committed to enforcement, inspection, and upgrading.

Senator BAUCUS. And that would be roughly from what to what? As you say uphold, what does that mean?

Mr. REILLY. I think it was under \$6 million to nearly \$40 million. Senator BAUCUS. What—I am sorry. Go ahead.

Mr. REILLY. They have also committed over the next 4 years—I think \$3.5 billion—to initiatives to improve air quality in Mexico City alone, so that looked at across the board and in the other agencies that deal with, or touch on the environmental, each of them now has a budget line item identifiable for environmental protection so that the amount of funds overall being applied to the environment is considerably more than the amount made available to my counterpart there.

Senator BAUCUS. Now, I noticed in the action plan there is no provision for monitoring Mexican environmental law enforcement. Why not monitoring provision?

Mr. REILLY. Well, we do, in fact, propose to obtain an agreement and work together with Mexico to try to do a better job of monitoring our performance, and I expect that that will be part of the ongoing review that we will develop.

Senator BAUCUS. So administration, during the negotiations, will be looking for and be advocating a monitoring provision that is to monitor Mexican environmental law?

Mr. REILLY. I will, in cooperation with my counterpart, look at the ways that we can better monitor our environmental performance, particularly in the border area. We are already doing it with respect to air pollution in El Paso. They are trying to get a better fix on the origin and the character of pollutants in that area preparatory to developing a comprehensive plan to include the air quality. We are going to take similar efforts of that sort, and that will very much be a part of our commitment.

Senator BAUCUS. Now, what about enforcement provisions? Why no enforcement mechanisms in the action plan?

Mr. REILLY. Well, the Mexicans, I think, naturally resent the implication that they would only do for the health and environmental protection of their own people what we make them do in return for a free trade agreement. They are, as I set out, profoundly transforming their environmental laws and upgrading environmental commitments. We have a number of measures of that. I do not think that the kinds of arguments that would ensue with respect to trade conflicts—301, possibly the creation of a potential abuse of those procedures by an industry that feels it has a special interest that has been aggrieved—is the best way to work with Mexico in strengthening its environmental protections.

Senator BAUCUS. I appreciate that. Any country might feel a little resentment if it was pressured on any matter that it knows it should move in. For example, on trade matters, no country altruistically, out of the goodness of its heart opens up its markets unless it is, in my judgment, encouraged to do so. I think, frankly, the same applies to environmental matters. No one likes to be told what to do. People in international trade tend not to be altruistic; countries tend not to be altruistic. Sometimes I think a little friendly persuasion is helpful.

Mr. REILLY. Well, let me be clear, though. Those matters that affect, for example, the trade in food products where pesticides are of concern, are subject to enforcement and to a trade sanction if they violate the agreement that will be directly provided for.

Senator BAUCUS. Yes.

Mr. REILLY. Hazardous waste is in the same category.

Senator BAUCUS. My time has expired.

Senator Durenberger.

**OPENING STATEMENT OF HON. DAVE DURENBERGER, A U.S.  
SENATOR FROM MINNESOTA**

Senator DURENBERGER. Thank you, Mr. Chairman. Bill, during the lunch hour we were visiting with the Secretary of Labor about various things, and she alerted us to the fact that she was going to be here, and that this was an historic participation of the Secretary of Labor in free trade. During the course of the conversation, I was sitting next to the junior Senator from Arizona, and he was selling me on free trade. He said, the fact of the matter is that these so called low-paying jobs, if they were not in Mexico, would be in Malaysia, or they would be in Indonesia, or Thailand, or somewhere like that. In addition to that, he said that in the 4 years of the Salinas administration, as he has taken down the protectionism from Mexico, the trade has gone up. In fact, the trade has gone up from \$24 billion to \$48 billion in 4 years, and it has got a surplus in favor of the United States.

My question relates to this reality. Of course neither you on either side of the Ambassador is supposed to know whether that is true, or not. I am not asking you that question.

But when Tom Donahue was here from the AFL-CIO testifying against the free trade, he cited a consulting company's promotional flyer—a fairly recent one, as I recall—identifying the benefits of doing business in Mexico called "Minimal Governmental Regulatory Controls—No OSHA, No EPA, No EEOC's, No Air Quality Controls."

Then he cited this LA Times series on the Southern California furniture industry moving en masse out of Southern California into Tijuana. These are the kinds of realities—if they exist—that we are all up faced with when trying to sell tougher enforcement of environmental laws. How do we handle that with our constituents, and particularly those who are maybe opposed for different reasons, when they raise these environmental concerns?

Mr. REILLY. Well, I think first of all, you have to take the commitment that Mexico is making to apply rigorous standards to new industry increasingly seriously. They are going to have the resources which they have not had to put teeth into their laws for very long. They are going to have an incentive to apply them.

They are clearly anticipating a lot of new growth and development. They are very concerned themselves about conditions along the border, and I think that one consequence of free trade that has not been noticed much is that the opening up of the entire country to investments should reduce the somewhat excessive pressure to go into the immediate border area, where most of the environmental problems that are of concern to many along the border, have been concentrated.

Senator DURENBERGER. Over the last several years as we have been trying to negotiate with our colleagues on clean air, we have frequently had to deal with the fact that in recent years, Mexico's



new installations—particularly as I recall, copper smelters and facilities of that nature, have no sulphur dioxide controls at all. As a result, I am told, that these airborne substances are brought into the United States.

Mr. REILLY. Yes.

Senator DURENBERGER. I am not familiar with the way in which we may have negotiated these problems in the past. Now I am not talking about just raising the cost of goods as a result of pollution abatement, but about actual pollution.

Mr. REILLY. Yes, I understand.

Senator DURENBERGER. If new installations in Mexico are sending toxic waste and/or sulphur or nitrogen dioxide into the United States, what is the process for negotiating—

Mr. REILLY. Well, I think that Senator Baucus's question about monitoring is relevant here, and that makes a good argument for it. But I would say with respect to those smelter issues—there were three of them, as I recall, I forget when it was, 1986 or 1987—that posed a particularly egregious problem to the Sonora, Arizona, environment. And two of them have, in fact, since been retrofitted as a response to an agreement worked out under our 1983 United States-Mexico border annex, and the other one was shut down. So even in the absence of the kinds of relationships we have been improving on the environment, the Mexicans have been increasingly responsive to those concerns.

Senator DURENBERGER. All right. Thank you very much.

The CHAIRMAN. Senator Danforth.

Senator DANFORTH. Ambassador Hills, you have been working on this very, very hard for a considerable period of time, and you have heard all of the arguments against the free trade agreement. Have you heard any arguments that are particularly surprising to you? It seems to me that the arguments against it are the basic protectionist arguments that are made against almost anything.

Ambassador HILLS. Most of the arguments I would put in that category. We have tried to reach out to some concerns, particularly in the area of environment. And I do believe that any good environmentalist has to be for the North American Free Trade Agreement, because the best solution for environmental problems, as Administrator Reilly has said so eloquently, is greater resources.

Senator DANFORTH. I do not spend a lot of time in Mexico, but I remember driving from the airport in whatever it is across from San Diego.

Ambassador HILLS. Tijuana.

Senator DANFORTH. Tijuana to the airport in San Diego, and right now, it is a very marked difference in air quality that is visible to the naked eye. It seems to me that maybe you have no place to go but up. I do not know. What do you think, Mr. Reilly?

Mr. REILLY. Well, I dare say, Senator, that San Diego is a larger problem with respect to the air pollution at least than Tijuana is. The water pollution has been a different story, and we have now committed in the budget—the President has just proposed some \$100 million to the construction of a \$187 million waste water treatment plant to take that flow-over from Tijuana's waste and treat it. So, I think there, at least, both areas have their set of environmental problems, and we are working on both fronts.

Senator DANFORTH. Insofar as efforts to work together, whether it is on labor matters or environmental matters between the United States and Mexico, what would be the effect on cooperative efforts between the two governments and between the two countries if the free trade agreement were not approved—if the fast track extension were not approved?

Ambassador HILLS. I think it would deal a serious blow, Senator, to our cooperation, which has been very, very good across the board on economic, as well as social issues. Our binational commission meets regularly, and our Secretary of Labor meets with her counterpart, our Administrator of the Environmental Protection Agency meets with his counterpart, and so it goes so that we have made, I think, considerable progress during the 2 years plus of the Salinas/Bush Administrations.

Senator DANFORTH. Ambassador Hills, I would like to ask you just one unrelated issue relating to soybeans, if I may. Mr. MacSharry was in Washington, was it last week?

Ambassador HILLS. Last week. Yes, Senator.

Senator DANFORTH. I do not know if this is so or not, but did he suggest that no action be taken with respect to the implementation of the panel report on soybeans until next year, and if he did, what answer did you give him?

Ambassador HILLS. He said that he committed to have definitive action by October of this year. And when I complained that that would not meet this year's growing season, he said that that would be as fast as he would be able to address the issue, at least as fast as he would be able to address it in a full way. His price package, he felt, would be able to address it in a minimal way—I think 3 percent—which is totally inadequate. And we are going to continue to consult on this issue.

Senator DANFORTH. What did you say to him?

Ambassador HILLS. I explained how enormous the problem was from this side of the Atlantic. It is a tremendous source of friction, and we do need to have a fix to the problem. I expressed concern that his commitment with respect to an October definitive date had not been sanctioned by the Council of Ministers, and I inquired how he could make the commitment in view of that fact. He believed he could deliver as committed to a definitive settlement in October, and we have been meeting with our industry, and, of course, will continue to consult with it, as well as with you.

Senator DANFORTH. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Roth.

Senator ROTH. Thank you, Mr. Chairman. First, let me say what a pleasure it is to have these three distinguished public servants here. I have a couple of questions I would like to ask you, Carla. The administration has agreed to strengthen the North American content for assembled automotive products beyond that provided in the United States-Canada FTA. In your view, how high should this content provision be?

Ambassador HILLS. Senator Roth, as you know, the Canadian agreement calls for a 50 percent Canadian or U.S. content. We have been negotiating with the Canadian Government within the United States-Canada commission for a 60-percent local content.

And that figure was selected based upon consultation with members of this committee, as well as other members of Congress, so that that is the figure that we thought of to date. We have not come to a figure that would be appropriate for a whole North American region. For that, we will need to consult with the private sector, with Congress, and, indeed, perhaps get studies by the International Trade Commission.

Senator ROTH. Not many people realize that my little State of Delaware, percentage-wise, has more auto workers than any other State, including Michigan, so this is a matter of real interest.

I applaud the President's commitment to insuring that a free trade agreement contains effective safeguard mechanisms to address specific problems relating to injurious and sudden increases in imports from Mexico.

And I understand you expect to at least partly deal with that through snap back provisions. As highlighted in the President's May 1st action plan, a similar provision was, of course, contained in the United States-Canadian Free Trade Agreement. Have we ever had any reason to utilize those provisions with the Canadians?

Ambassador HILLS. We have not used the snap back provision ourselves. The Canadians used the snap back provision, I think, for only 1 day, dealing with asparagus.

Senator ROTH. But that would be the principal means of protection?

Ambassador HILLS. Actually, we contemplate three transition measures. First, a long phase-in so that industry and agriculture can adjust. Secondly, the safeguard mechanisms, and there are two of those. One general, and then the snap back, which is peculiarly suited to the surge of import that occurs during a harvest period, so there might be an overlap of only a day or two during the peak of a season. And finally, the rule of origin to which you have alluded is another mechanism of handling transitions.

Senator ROTH. Secretary Martin, I have two or three questions I would like to ask you. I have been much interested in the past in our trade adjustment assistance program, and I am concerned over the comparison that has been made between EDWAA and TAA and the area of job placement, namely, that there is a 70 percent placement rate for workers receiving EDWAA training, but only a 30 to 35 percent rate for those in training under TAA.

Now, it is my understanding there has been a clear-cut, comprehensive data collection effort under EDWAA, but the same is not true for TAA. Is that your understanding?

Secretary MARTIN. I do not know that we have any comprehensive data collection under TAA. Let me check and get back to you with that, Senator.

Senator ROTH. Well, that is my understanding that one of the reasons the figures are so low here is that we do not have the same data available, in fact, some States have not supplied any information. So I would very much appreciate that information.

[The information appears in the appendix.]

Senator ROTH. Well, in view of that, rather than go through these questions, Mr. Chairman, if I could, I would like to submit them in writing.

The CHAIRMAN. That will be done.

**Ambassador HILLS.** Thank you. Senator Roth, if I may, just in the President's letter of May 1st, that letter which I think has provided such help to many members of the House and Senate, as initiated by Senator Bentsen and Chairman Rostenkowski, when the President talked about worker adjustment, there was no specific program mentioned.

The reason for that is an intent to work with the Congress to make sure whatever program is developed, whether new or relying on other programs—such as EDWAA, or others such as TAA, which you mentioned—that that be done in the context of what is available, and in cooperation with the Senate and the House.

**Senator ROTH.** Well, one of my interests in the past in connection with TAA, of course, has been a small fee, which I will not go into right now. But one question I have, Carla, is whether that same approach—some small fee between Mexico and ourselves—might be a means of helping to finance the cost of trade adjustment, or whatever steps we take. And that is something I would want to examine with the administration. Mr. Reilly, I hope next time you are here we can call you Secretary Reilly.

**Mr. REILLY.** Thank you, sir. So do I.

**Senator ROTH.** Thank you, Mr. Chairman.

**The CHAIRMAN.** Mr. Reilly, I assume that you assisted in the President's response on the environmental concerns, and I congratulate you on that. I note that a number of the environmental associations have spoken favorably about the President's answer to the questions that I cited concerning the environment. And I think your testimony today has been helpful in that regard. Do you have any further questions?

**Senator BAUCUS.** I just have one point, Mr. Chairman, if I might. I would like to inquire as to the degree to which under United States fast track procedure, as some allege, the United States is somewhat in a disadvantageous position, or the members of Congress are in a somewhat disadvantageous position, because they are not allowed to, in a formal matter, offer amendments to change the administration's agreement that might be brought back to the Congress.

**Ambassador Hills,** Mexico does not have a parliamentary form of government, but is it true that Mexico basically is a one political party country, that is, the PRI party is, essentially, significantly majority party in Mexico, is that correct?

**Ambassador HILLS.** Over the past substantial number of years, the PRI has been the predominant party. At present, my understanding is they run their Congress through a coalition, and I would point out that it is not so solid that it does not lose an election from time to time. I am advised that the Baja, CA gubernatorial was lost to the opposition party.

**Senator BAUCUS.** My question really goes, though, to the track record of President Salinas with his legislative body. What is the success rate of President Salinas as he attempts to push his proposals, his programs, through the legislative body of Mexico? Does he win, or does he lose? What happens?

**Ambassador HILLS.** I really have not done a study of the legislation that has been offered into the Mexican Congress, and what the win/loss ratio is. I would be happy to take a look at it.

Senator BAUCUS. Well, my understanding is that it is pretty good, that is, that he does a pretty good job. Which is to say that if President Salinas can get his agreement through the Mexican legislative body, then Mexico is in no worse position than the United States under its fast track procedure. That is, if both sides will informally try to work out their provisions, and once the agreement is agreed to by the executive branches of each country, that each country is on equal footing.

Ambassador HILLS. That is correct. I have been told by my counterparts in Mexico that there will be no amendments in Mexico, if that is what you are alluding to.

Senator BAUCUS. That is.

Ambassador HILLS. Thank you.

Senator BAUCUS. And do you not think that the United States Government is in at least a strong a position in negotiating with Mexico as Mexico is? Are we somehow in a disadvantageous position, we Americans, with Mexico? Is there something about the Mexicans that make them better negotiators than the Americans?

Ambassador HILLS. The proof will be in the pudding, and that is what I would urge Congress is not to tie our hands now, because I am more interested in getting a good agreement for the American people. And you know, Senator, if I were negotiating with you, and you knew that a group was going to renegotiate our deal, you are not going to give me your best bottom line. You are going to save a cushion, and that is the real significant factor.

If this Congress wants to tie a hand and a foot behind and make us come back with an agreement that is not as good as one we could have gotten, then I think we are not working together in a partnership to get the best deal for the United States.

Senator BAUCUS. Or to state it differently, if the United States Congress were to disapprove extension of fast track, we would be tying your hands behind your back when you go in negotiations where the Mexican negotiators would not have their hands tied behind their back.

Ambassador HILLS. That is true, and I am told by both of my counterparts in Canada and in Mexico that they would decide not to negotiate with us, so we would forego the opportunity to negotiate a North American Free Trade Agreement.

Senator BAUCUS. So, first they would not negotiate. and second, if they were to negotiate we would be on the same level playing field.

Ambassador HILLS. If they were to negotiate, notwithstanding, I do not believe that we would get the best deal that we could get. I would rather negotiate the deal, the best deal I can, and then say to my negotiating partner, that is the deal I am going to present to my Congress.

And if Congress does not believe it is in the national interests, it should be voted down. But that I will not get the best deal that I can if the party that I am negotiating with saves a cushion for the second negotiation. And I think that is just vital to any negotiation, and each of you can look to a negotiation that you personally would be in. And if you believe that that negotiation is going to be re-opened, you are simply going to save something. And that means that the best deal is not achieved.

Senator BAUCUS. And would you bring back an agreement to this Congress which you felt that probably would not be approved by this Congress?

Ambassador HILLS. No. And as you know full well, we consult all along the road so that you know where we are at any stage in the negotiation. Indeed, Senator Baucus, you were in Brussels with us, and knew very well where we were in the course of the negotiation and what was determinative when we decided not to strike a deal in December.

Senator BAUCUS. All right. Thank you.

The CHAIRMAN. Senator Durenberger.

Senator DURENBERGER. Ambassador Hill, just one question. When Bill Frenzel left the Congress, Minnesota lost its only 100 percent free trader. It is left with about a 94.5 percent, or something like that.

I think you probably know that sugar beets are very important in my State. You also know, because you are a consultant and you always have been a consultant, how strongly the sugar beet industry in America has reacted to some of the earlier statements by your predecessor that we ought to get sugar beets on the table early on in the European Round. Given what the European Community has done with the sugar business in the last few years and given the fact that most agriculture in my State on the Mexican free trade and on GATT is for fast-track procedure, what should be done to address their concerns?

These folks have been scared to death by some of the early experiences they have had with U.S. negotiators. I thought I would give you an opportunity take 30 seconds or a minute and reassure them that they should not be as strongly opposed to the fast track process as they are right now. As far as I know, the sugar folks across this country are telling their Senators and their Congressmen that they ought to be against the fast track process.

Ambassador HILLS. Fast track does not determine what the agreement will look like. We do not have an agreement. They should not be against fast track, because we are out to negotiate market opening opportunities for them, and across the agricultural sectors.

When we get an agreement, whether it be in the Uruguay Round with 107 nations, or the North American Free Trade Agreement with a total of two other nations, then they can be critical and make an evaluation and they can pass their judgment on to their elected representatives. I think to deal us out of the negotiation at a time when exports are contributing 88 percent to the growth of our economy is really to work against their own best interests.

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

The CHAIRMAN. Senator Chafee, do you have any other comments?

Senator CHAFFEE. I do not have any questions.

The CHAIRMAN. Senator Baucus?

Senator BAUCUS. No questions.

The CHAIRMAN. I think it is paradoxical that we have our principal negotiator here asking for an extension of fast track, when, if our negotiators had been patsies, if they had not been tough in

standing up for the United States' interests, they would have agreed in Brussels to what our competition wanted. And you would not have needed an extension of fast track.

You need an extension of fast track because you really held out for what was right for America in opening up these markets and expanding trade. That is why we need the extension. That is why I think we are going to get it. The hearing is closed.

[Whereupon, the hearing was concluded at 3:37 p.m.]

## APPENDIX

### ADDITIONAL MATERIAL SUBMITTED

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#### PREPARED STATEMENT OF SENATOR LLOYD BENTSEN

When the President sent up his request for a two-year extension of fast-track negotiating authority, I pledged that this Committee would take a close and careful look at all aspects of that request. We have done that.

We held two hearings back in February on the proposed negotiations with Mexico and Canada. We devoted one hearing to the general question of fast-track extension. We had two days of hearings on progress in the Uruguay Round of Multilateral Trade Negotiations. And at the end of April, we reviewed the President's Enterprise for the Americas Initiative. In short, we have examined all of the negotiations that are covered in the President's request.

We have now entered the home stretch. But there are still some important loose ends that need to be tied up, and that is why I called this hearing.

A number of Members have raised legitimate concerns about the proposed free trade agreement (FTA) negotiations with Mexico—concerns about health and safety standards and the disparity in wage levels and differing environmental regulations. These are not issues that are typically addressed in trade agreements. And these are not issues that are easily addressed in any agreement.

But I reached the conclusion that these issues had to be addressed before the Congress would be willing to extend the fast-track. Early in March, Chairman Rostenkowski and I wrote to the President asking for an action plan by May 1st on how the Administration intends to deal with these labor and environmental concerns.

The President sent us his response last week. In my judgment, the Administration has made some important commitments in its action plan—in areas such as worker adjustment, worker rights and the environment. Most important, they have agreed to make concrete progress in these areas before any agreement is sent to the Congress for approval.

Frankly, I was concerned that the President's action plan would not amount to much. The President shared with me an early draft of the plan—and there was a glaring omission. That draft did not include a strong commitment to develop a worker adjustment program to help those who might be adversely affected by an FTA with Mexico.

We know that there will be winners and there will be losers if an FTA is negotiated. I feel strongly that, on balance, an FTA will be a significant net benefit for our economy. But that does not mean that we can turn a blind eye to those individuals who might not benefit—and that is what I told the President.

I was pleased to see that the final version of the action plan contained a strong commitment to develop a worker adjustment program that is adequately funded and that will be targeted at workers who might lose their jobs as a result of an agreement with Mexico. And a commitment that an effective program would be in place before any agreement with Mexico goes into effect.

If fast-track is extended, I intend that this Committee will devote considerable attention in the months ahead to developing a worker adjustment program that can meet the needs arising out of a Mexican agreement. This Committee needs to take a look at the programs and policies we have to help workers and firms that are by imports get back on their feet. This includes our Trade Adjustment Assistance program.

I made this point to Ambassador Hills almost two months ago when we started to look at the fast-track question. I made the same point to President Bush. And I asked the President to keep his commitment to work with us on fashioning an ad-



justment program that will take care of any workers who are displaced by a Mexican agreement.

The President's action plan also contains some important commitments in the areas of the environment and worker rights. Work on these issues will be done in a timeframe that parallels the FTA negotiations so that we can see how much progress there has been by the time we consider the FTA itself.

This action plan is not perfect. But it does give me some comfort on the concerns that Chairman Rostenkowski and I raised with the President. However, I want to offer a word of caution to the Administration: In my view, this action plan is just a downpayment. I intend to monitor the negotiations on *all* of these issues closely to make sure that progress is made on these issues.

I want to make one additional point about the action plan: I think its very existence is probably the best argument for the extension of the fast-track. Let's think for a minute about where we might be today if the fast-track had not existed.

On June 10, 1990, President Bush met with President Salinas to announce their desire to begin free trade negotiations. If the fast-track had not existed, it is quite likely that the negotiations would be *completed* today—and that we would be debating whether to approve an *agreement*, rather than debating whether to approve the *negotiations*. That agreement probably would have had nothing to say about worker rights or the environment or health and safety standards.

Instead, we now have this response from the President. The concerns of Congress have been heard, and we can move forward in a far more constructive fashion.

I have told the President that fast-track is still going to be a tough sell. But the action plan should give some comfort to those Senators who have expressed concerns about the negotiations with Mexico.

I called this hearing to give Members of the Finance Committee the opportunity to question the key Administration players about the details of the action plan, and I am glad that Ambassador Hills, Secretary Martin, and Administrator Reilly were able to join us today.

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#### PREPARED STATEMENT OF SENATOR DAVE DURENBERGER

Mr. Chairman, like every member of this Committee, I have serious reservations about the implications of negotiating a free trade agreement with Mexico. Considering Mexico's level of economic development, its wage structure, its historical antipathy to foreign investment, and its record on environmental issues, I have serious concerns about linking our two countries in an historic free trade agreement.

I also recognize that in this last decade of the twentieth century, borders are becoming less and less relevant. Capital flows around the globe in seconds. Jobs, factories, and investment move to those countries where business and political conditions are most favorable. A labor-intensive company in the United States that can no longer compete with Third World wages today faces two choices: innovate and automate and keep operations at home in the United States, or move assembly and manufacturing abroad.

Whether or not the United States negotiates a successful free trade agreement with Mexico, the reality is that certain types of jobs and industries will inevitably continue to migrate to lower-wage countries, including Mexico. Some studies suggest that an FTA may not stem this migration of lower-skill jobs, but will diminish the export of jobs and entire factories to the Far East. For industries such as telecommunications, more jobs can be retained in the United States if final assembly operations occur across the border in Mexico. Otherwise the choice is to move an entire manufacturing plant to Thailand or Malaysia.

Mr. Chairman, the question for this Committee and for Congress, is whether the overall U.S. economy will benefit from freer trade with Mexico. In its submission to Congress last week, the Administration stated that A U.S.-Mexico Free Trade Agreement "can be expected to raise average productivity and real wages in both countries." And the Administration cites an economic study that suggests that such an agreement will create up to 64,000 new U.S. jobs over the next ten years.

Like all long-range economic projections, I take those numbers with a dose of caution. But I am pleased that the Administration is firmly committed to a worker adjustment program that ensures that any worker who may lose a job as a result of this agreement will receive "prompt," "comprehensive" and "effective" adjustment and training assistance.

For evidence you can rely on, since President Salinas began reducing Mexico trade barriers 4 years ago, trade between our countries has doubled from \$24 billion to \$48 billion a year with a U.S. surplus.

Mr. Chairman, all of us have real concerns about Mexico's commitment to safe working conditions, and environmental protection. I know that we are pressed for time, so I will defer until our distinguished witnesses have completed their testimony.

## PREPARED STATEMENT OF CARLA A. HILLS

### INTRODUCTION

Mr. Chairman and members of the Committee, it is a pleasure to appear before you again to discuss fast track, the proposed negotiation of a North American Free Trade Agreement (NAFTA) among the United States, Mexico and Canada, and related issues.

For over half a century, the United States has followed a successful trade policy designed to open markets and expand trade opportunities throughout the world. That policy has stimulated economic growth here and abroad. It has been successful because it is a bipartisan policy; it promotes the national interest; and it has been made in full partnership between the Congress and the Administration.

That partnership has extended to the proposed NAFTA negotiations. Since before Presidents Bush and Salinas first endorsed the historic idea of a U.S.-Mexico free trade agreement last June, the Administration made it clear that the negotiation would be done together with the Congress and the private sector. We sought your guidance and that of other interested parties as we examined the issues surrounding the NAFTA negotiations.

During these consultations, concerns were raised in the Congress and the private sector about the initiative. Your March 7 letter to the President, Mr. Chairman, co-signed by Chairman Rostenkowski, and a separate March 27 letter from Majority Leader Gephardt, asked the President to respond to these concerns. Two particular issues were raised: labor and the environment.

Last Wednesday, the President sent you his response. The President indicated his personal commitment to "close bipartisan cooperation in the negotiations and beyond." We want to work with Congress, and our record shows we *do* work with Congress. Over the past few months, the President convened a major effort to reach out to interested parties in Congress and the private sector, to listen to and examine their concerns, and to respond to them.

Today, I would like to summarize our action plans on labor and the environment.

### ECONOMIC IMPACT

It is important to remember that we want to negotiate this agreement because we think it will be in this country's, and Mexico's, best economic interests. Many have expressed concern about the impact of the NAFTA on the U.S. economy.

We have drawn on a variety of economic studies on the impact of freeing trade and investment between the United States and Mexico. All point to a net positive impact on the United States in terms of exports, output and employment.

- The analysis dealing with the issue shows net job creation in the United States.
- Our experience shows that Mexico is a large market for U.S. exports. On a per capita basis, Mexicans buy more from us than citizens of the European Community—\$350 per person versus \$266 per person.
- Mexico's ability to absorb new investment is limited. Even if direct investment flows from the United States double or triple to \$3 billion to \$5 billion annually, that increase will only amount to 0.4 percent to 0.7 percent of the \$750 billion in annual U.S. domestic investment.

The fears that have been expressed about massive capital and job flight have not been supported by any serious economic analysis.

#### A. Labor Adjustment

Studies also show, and experience would indicate, that some sectors might face increased competitive pressures. In a broad sense, society benefits when we focus our jobs and our capital in sectors where we are most productive. But we should not and will not forget that the transition to a new job can be difficult for individual workers and communities. Not every worker will keep his or her job once a NAFTA is negotiated. Dr. Clopper Almon of the University of Maryland, for example, estimates that under an FTA, the United States would gain 88,000 jobs and lose 24,000 over 10 years, for a net gain of 64,000 jobs.

The most important worker adjustment program is a growing economy and increasing job opportunities. Nevertheless, we cannot ignore the impact that the loss of a job has on the individual affected.

Therefore, the Administration will work to ensure that the NAFTA contains provisions to minimize its potential for adverse effects on employment. The Administration also will meet its commitment to assist dislocated workers.

Specifically, within the NAFTA itself we will seek a transition period for sensitive sectors in agriculture and industry. During this period, duties and other barriers would be phased out in small increments so as to ensure orderly adjustment. To determine sensitivity, we will rely on the advice of the U.S. International Trade Commission, the Congress and the private sector. In the U.S.-Canada FTA, the most sensitive sectors received a 10-year phase-out. With respect to the NAFTA, we are prepared to consider transition periods beyond those provided for in the U.S.-Canada FTA.

A transition period must be accompanied by safeguard provisions that allow us to respond effectively and quickly to injurious import surges from Mexico or Canada. In addition, when Mexican and Canadian imports contribute to injury arising from an overall import increase, we need to preserve our right to take action to limit Mexican and Canadian imports as part of a safeguard action on imports from all sources.

We will also need the specific ability, during a transition period, to act quickly against imports from only Mexico or Canada if injury to a sector is caused by tariff or other concessions made in the NAFTA. Such a safeguard mechanism should allow us to temporarily suspend trade preferences negotiated in the NAFTA, including reimposition of duties. For perishable agricultural commodities, we might need additional mechanisms, such as the temporary "snap-back" provisions provided for the first 20 years of the U.S.-Canada FTA.

Another priority will be strict rules of origin. We must ensure that the benefits of the NAFTA accrue to the United States, Mexico and Canada, and not to third-party "free riders." We do not want Mexico or Canada to become packaging stations for third-country exports seeking back-door duty-free entry into the United States. Rules of origin will impose clear, tough, and predictable standards for the benefit of North American products.

In designing these rules, we will again rely heavily on the advice of the Congress and the private sector. We also will draw on our experience with Canada, but know that changes may be needed to reflect our trade with Mexico. We will seek, for example, to strengthen the required North American content for assembled auto products.

These provisions should help to limit dislocations caused by the NAFTA, and we do not expect there to be any immediate or substantial job losses. However, we have a responsibility to be ready to assist any dislocated workers affected by the NAFTA who face adjustment difficulties. Effective retraining and adjustment programs can facilitate adaptation to ongoing shifts in our economy.

As the President noted in his letter to you, Mr. Chairman, the Administration is firmly committed to working with the Congress to ensure an effective, adequately funded worker adjustment program—either through enhancement of an existing program like the Economic Dislocation and Worker Adjustment Assistance Act (EDWAA) or through the creation of a new one. Any needed changes in U.S. law should be in place by the time the NAFTA enters into force and could appropriately be addressed in legislation implementing the NAFTA. Secretary Martin will discuss the worker adjustment assistance issue in greater detail in her testimony.

### *B. Labor Mobility, Workers Rights and Labor Standards*

Also raised in the context of the debate have been the issues of labor mobility, worker rights and labor standards.

I have stated repeatedly that, by mutual agreement between the United States and Mexico, labor mobility and our immigration laws are not on the table in these talks. The Administration does not contemplate any provisions in the NAFTA that would require changes in our immigration laws, with the possible exception of technical changes to facilitate the temporary entry of certain professionals and managers, as was done in the U.S.-Canada FTA. We would consult closely with the Congress even with regard to this limited exception.

With respect to workers rights and labor standards, Mexico's labor law and practice are stronger than is generally known. Mexico has strong protections in its Constitution and laws, and the Mexican government also has a strong political interest in and commitment to promoting workers rights. The problem is more one of re-

sources to enforce that commitment, rather than an inadequate commitment or inadequate laws.

Again, Secretary Martin will address this issue more fully in her statement. I would only say that one of the best ways to help promote workers rights and their enforcement is economic growth. Growth helps raise living standards and reduces pressure for emigration to the United States. It creates more resources for enforcement. It helps cut unemployment, placing workers in a better bargaining position. It leads to bigger companies that are better able and more likely to comply with existing regulations.

The United States and Mexico can and should work together on labor issues of mutual interest. We are establishing a cooperative framework for mutual action in this area, which Secretary Martin will discuss more fully.

#### THE ENVIRONMENT

Mexico and the United States agree that efforts at trade liberalization should be complemented by efforts to enhance environmental protection. President Salinas is determined to keep Mexico from becoming a pollution haven for North America, and we wholeheartedly support him.

Mexico passed a comprehensive environmental protection law in 1988 that adopts many of the same general approaches to protecting the environment as have been applied in the United States. All new investments are being held to the higher standards of this law, and an environmental impact assessment is required to show how they will comply.

Of course, good laws require good enforcement. Mexico is beefing up its enforcement activities. It has imposed 980 temporary industrial closures and 82 permanent closures for non-compliance with its laws. It has greatly increased its budget for environmental enforcement and is planning to add 50 new inspectors for the border region and 50 for Mexico City. And President Salinas recently announced his decision to close Mexico's largest oil refinery, at a cost of roughly \$500 million and perhaps as many as 5000 jobs.

We can and will build on these efforts, both within the NAFTA and parallel to it.

#### A. *Protection and Enhancement of Environmental, Health and Safety Standards and Enforcement in the NAFTA*

There is the mistaken impression that the NAFTA will weaken U.S., Mexican or Canadian environmental, health or safety standards. I can assure you that the Administration will do nothing in the FTA to weaken our environmental laws or to diminish our right to protect the health and safety and the environment of Americans.

- We will not agree to weaken U.S. environmental and health and safety laws and regulations as part of the NAFTA and will maintain enforcement of them.
- We will maintain our right to impose stringent pesticide, energy conservation, toxic waste and health and safety standards.
- We will also seek to ensure our right, consistent with other international obligations, to limit trade in items or products, such as endangered species, controlled by international treaties.

During the negotiation of any environment-related provisions, U.S. officials who are expert in the subject matter and who are responsible for maintaining the integrity of U.S. regulations will be involved in the negotiations.

We will also work with Mexico to enhance environmental, health and safety standards regarding products, and to promote their enforcement. Such efforts would be subject to full public and scientific scrutiny of any changes before they would be implemented, to ensure that human, plant, and animal health and the environment are safeguarded.

#### B. *Public Participation in the Policy-Making Process*

As you know, USTR has over 1,000 private sector advisors from agriculture, industry and labor. But our consultations to date on the NAFTA have convinced us that we need to broaden the participation in USTR's private sector advisory committees to include individuals with an environmental perspective and substantive expertise.

Accordingly, we will be appointing environmental representatives to the Advisory Committee on Trade Policy and Negotiations (ACTPN), the Agricultural Policy Advisory Committee (APAC), the Industry Policy Advisory Committee (IPAC), the Intergovernmental Policy Advisory Committee (IGPAC), the Investment Policy Advisory Committee (INPAC), and the Services Policy Advisory Committee (SPAC). In

addition, the Environmental Protection agency will consult closely with non-governmental groups as issues arise in the context of ongoing U.S.-Mexico environmental relations, both within the NAFTA and in our parallel efforts.

We also believe that a review of U.S.-Mexico environmental issues is appropriate as we embark on the NAFTA, with particular emphasis to the potential environmental effects of a NAFTA. We will prepare this review drawing on a variety of resources, including consultations with interested members of the public. The review will be completed in a timely fashion, so that its results may be taken into account during the NAFTA negotiations and other bilateral efforts. We understand that Mexico will prepare a similar review, and we will encourage it to do so.

### *C. Joint Environmental Initiatives*

Beyond these efforts and commitments, we will pursue with Mexico an ambitious environmental program parallel to the NAFTA negotiations. Such efforts will include:

- The design, by the end of 1991, of an integrated plan to clean up the U.S.-Mexico border. The plan's implementation will largely parallel and complement the NAFTA. The plan will cover air and water pollution, hazardous waste, chemical spills, pesticides and enforcement. We will establish a process for public comment on the plan during its design and for periodic review during its implementation.
- Expanded and enhanced cooperation and enforcement by both countries, including such actions as providing an opportunity for the public to submit data to appropriate national authorities on alleged non-compliance and coordinated targeting of potential violators.
- The establishment of a program of technical cooperation and training, which will include facilitation of the sharing of pollution control technology.

President Salinas has made it clear that he will not permit Mexico to be used as a pollution haven to gain short-term economic advantage. We have made it clear we will not lower our standards and will work with Mexico to improve environmental protection. Companies would be foolish to invest in Mexico on the assumption that they can avoid environmental regulation or enforcement.

### *Need for Fast Track Extension*

Mr. Chairman, the NAFTA negotiations present an historic opportunity for the United States, Mexico and Canada to make progress on a host of issues. I think our action program shows our determination, and Mexico's, to advance our relations along a wide spectrum.

But to seize this opportunity, we need fast track. Since March 1, I have testified before this Committee and many others to stress how critical an unencumbered fast track is to our trade negotiations, whether the NAFTA, the Uruguay Round or the Enterprise for the Americas initiative. I know you, Mr. Chairman, and many others on this Committee share this view.

Let me reiterate several points. First, fast track will not determine the pace of the NAFTA negotiations. We will negotiate as long as it takes to get a good agreement. It would do us no good to rush the negotiations and bring back a package the Congress and the American public would not support.

Second, we are not asking the Congress to approve the NAFTA. There cannot be a vote on the NAFTA yet; we haven't even started negotiations!

The vote on fast track is a vote on a procedure, not a vote on the agreement itself. What the Administration seeks a chance to try to negotiate an agreement. Mexico and Canada have made it clear that they consider fast track essential for their participation in NAFTA negotiations with us.

Finally, nothing in the vote on fast track locks any Member into supporting (or opposing) the NAFTA once negotiated. Should the Congress conclude that the NAFTA agreement, or for that matter any agreement reached in the Uruguay Round or under Enterprise for the Americas, is not in the national interest, then it can be rejected by a simple majority vote of either House.

### CONCLUSION

As the President noted in his May 1 letter to you, Mr. Chairman, and to every Member of Congress, "our efforts toward economic integration will be complemented by expanded programs of cooperation on labor and the environment. The catalyst for these efforts is the promise of economic growth that a NAFTA can provide, and key to these efforts is the extension of unencumbered fast track procedures."

We have pledged to work with the Congress in this effort, and our action plan is concrete evidence that we mean what we say. The NAFTA presents a splendid op-

portunity for progress. The alternative—not even to try to negotiate—advances none of our goals. Indeed, rejection of fast track will set them back. Let us work together, as we have since 1934, to craft trade agreements that promote trade and prosperity at home and demonstrate U.S. economic leadership abroad.

#### RESPONSE OF CARLA HILLS TO A QUESTION SUBMITTED BY SENATOR GRASSLEY

*Question.* Mexican trade officials have stated that due to constitutional constraints, energy will be "off" the table. If energy is insulated from any full scale negotiation, I am concerned about what this may mean for our American fertilizer and petrochemical industries. If the trade agreement would leave the Mexicans free to price natural gas on a two tier basis; that is, natural gas going to their domestic ammonia facilities to be priced at lower than normal market rates, this would allow the Mexicans to manufacture and sell ammonia in the U.S. market at prices considerably below our own domestic producer's cost of production. You can see that this would have an extreme adverse consequence for the American fertilizer industry. . . Will the U.S. negotiators insist on addressing this issue in their talks?

*Answer.* Mexican officials have not ruled off the table all energy issues. They have said that they will not agree in the NAFTA to change Mexican constitutional provisions on energy. The Mexican constitution reserves ownership of hydrocarbons to the Mexican state. The Constitution does not preclude negotiation of provisions affecting energy trade and services. Although negotiations have not yet begun on the NAFTA, we do intend to address trade issues of the kind you raise. As you know, Mexico does not now use the kind of dual pricing system you describe. Nevertheless, we believe it is appropriate for all parties to agree in the NAFTA not to use that type of trade-distorting price.

#### PREPARED STATEMENT OF LYNN MARTIN

Mr. Chairman. Members of the Committee. It is a pleasure for me to be here today to discuss the Administration's request for the extension of fast-track procedures that will be used, in part, to negotiate the President's proposed North American Free Trade Agreement (NAFTA) with Mexico and Canada. The NAFTA represents an historical opportunity to demonstrate America's commitment to freer trade. Such an agreement would clearly have mutually beneficial provisions supporting economic growth which in turn means opportunities for individuals on both sides of the border. Moreover, the NAFTA will place the United States in a preeminent position in an increasingly competitive world economic environment.

#### THE NEED FOR FAST-TRACK EXTENSION

The extension of fast-track procedures is essential, not only to the negotiation of a sound free trade agreement with Canada and Mexico, but also to continued effective participation of the United States in ongoing Uruguay Round negotiations and to the negotiation of trade agreements under the Enterprise for the Americas Initiative. It should be clearly understood, however, that your support for fast-track is not an endorsement of any particular agreement. By permitting an extension of fast-track procedures, the Congress will not abdicate its power to review and accept or reject any agreement concluded by our negotiators, nor its ability to advise the Executive Branch on the elements of an agreement as it is negotiated. Moreover, the Administration will continue to consult with the Congress to assure that Congressional concerns have been fully considered before the agreement is brought back for approval. There is no doubt in my mind that Congress will continue to be a very significant "player" in the process leading up to a final agreement. Permitting an extension of fast-track procedures is simply an approval for the Administration to negotiate trade agreements under conditions that will give our negotiators the best possible chance of obtaining agreements that are truly in the best interest of the United States.

As the U.S. Labor Secretary, I endorse fully what Ambassador Hills and other Administration officials have said to the Congress regarding the importance of continuing fast-track procedures. Without them, good agreements are simply not possible. No negotiator—a labor-management negotiator, a member of Congress, or a trade negotiator—can negotiate the best deal possible for a client without the assurance that the deal he negotiates will be the deal that is voted on at home.

## TRADE, ECONOMIC GROWTH, AND JOBS

Although the legal issue now before the Congress is the continuation of fast-track procedures, the focus of attention has been on the proposed negotiation of a North American Free Trade Agreement—a crucial issue for the future of U.S. competitiveness.

As we in this country face increasingly strong competition from abroad, it is imperative that we do all we can to assure that our businesses and workers have every opportunity to compete on a fair and equal footing with their foreign competitors. As recent evidence suggests, the vitality of our economy is increasingly dependent on the ability of our goods and services to compete in the international market place. In 1990, U.S. exports accounted for 84 percent of our total economic growth. Through the Uruguay Round and in bilateral negotiations with our individual trading partners, we will continue to pursue the reduction of foreign barriers to U.S. exports and enforce the laws that protect our companies and workers from unfair foreign competition.

But as we press for lower barriers to trade worldwide, we also must be continually alert to unique opportunities that can act as a catalyst for more rapid improvements in our economic expansion and competitiveness than would be otherwise possible. In my view, the President's proposal to negotiate a North American Free Trade Agreement with Mexico, building on our existing free trade agreement with Canada, is just such an opportunity—a "win-win-win" opportunity under which the economies and workers of all three nations will benefit.

Not only is the NAFTA an opportunity, it is critical, in view of the increasing strength of our trading partners. None of us can ignore the growing strength, productivity, and overall competitiveness of the European Community (EC) and countries in the Pacific Basin region.

European Community economic growth since 1987 has surpassed most projections and foreign investment continues to flow rapidly into Europe as investors seek to locate within the continent to serve the European single market more efficiently.

The Pacific Basin countries—Japan, plus the four East Asian newly industrializing countries (NICs), Hong Kong, Taiwan, Korea, and Singapore—have made substantial inroads into world markets. Over the period 1980-1989, manufacturing productivity in Japan rose at an average annual rate of 5.3 percent. The share of total world exports accounted for by Japan and the four East Asian NICs rose from 10.9 percent in 1980 to 17.9 percent in 1989. Only by enhancing the efficiency of our producers and the productivity of our workforce will the U.S. be able to keep up with the dynamic economies of the Pacific Basin.

## ECONOMIC EFFECTS OF A NORTH AMERICAN FREE TRADE AGREEMENT

Canada and Mexico are, respectively, already our number one and number three trading partners. In 1990, nearly 20 percent of our exports went to Canada and seven percent went to Mexico. Our proximity to those countries means that as their economies grow, our opportunity to participate in that growth will be substantial. Today it is estimated, for example, that for each dollar of growth in Mexico, 15 cents is spent on U.S. goods and services and 70 cents of each dollar spent on imports in Mexico is used to buy U.S. products.

The further reduction of barriers to trade under a North American Free Trade Agreement will mean growth for all three countries, expanded export opportunities for U.S. businesses, and new job opportunities for U.S. workers. For every 51 billion increase in U.S. exports to Mexico, it is estimated by the Department of Commerce that more than 19,600 export-related jobs are created in the United States.

The positive effects of trade barrier reductions can clearly be seen in our trade relationships with Mexico in recent years. Since joining the GATT in 1986, Mexico has reduced its highest tariffs on U.S. goods from as much as 100 percent in 1986 to a high of 20 percent today. The average trade-weighted Mexican tariff applied to imports from the U.S. has fallen by more than half, from 25 percent in 1985 to about 10 percent today. By 1990, in the wake of that dramatic reduction, U.S. exports to Mexico had increased by 130 percent. This is almost twice the increase (73 percent) in U.S. exports to the world during the same period.

The elimination of trade and investment barriers among the United States, Mexico, and Canada, will create a North American Free Trade Area consisting of over 360 million consumers with a combined gross national product (GNP) of over \$6 trillion. By comparison, in 1989, the twelve members of the European Economic Community had a population of 320 million and a GNP of \$4.7 trillion.

There are three studies that have been completed on the probable effects of a free trade agreement with Mexico: one conducted by Professor Clopper Almon under

contract to the Department of Labor; another done by the U.S. International Trade Commission at the request of the Senate Finance Committee and House Committee on Ways and Means; and a third study done by KPMG Peat Marwick for the U.S. Council of the Mexico-U.S. Business Committee. All three of these studies—which use different economic assumptions and employ different methodologies—point to the same result: the net impact of a free trade agreement with Mexico on the U.S. economy will be positive. Broadly, all three studies conclude that:

- An agreement with Mexico that liberalizes trade in goods and services will result in a net gain for the U.S. in terms of output, exports and *employment*.

- The positive, short-term economic consequences for the United States will be relatively small because of differences in the size of the two economies: Mexican GNP is only about 4 percent of U.S. GNP. Nevertheless, the Clopper Almon study predicts a net gain in U.S. employment of 44,500 jobs over 5 years and 64,000 over 10 years. Other studies have suggested even more U.S. jobs could be created.

- Although the effects of a free trade agreement with Mexico will be positive for the United States economy as a whole, the results will not be evenly distributed across sectors. There are indeed some sectors that will face increased competitive pressures as a result of liberalization.

In the action plan submitted to the Congress on May 1, President Bush made clear his intention during the negotiations to ameliorate any adverse consequences of trade liberalization which might occur in vulnerable sectors. In these sectors, there will be longer staging of tariff and non-tariff barrier reductions and we will insist that the agreement contain an effective and timely safeguard mechanism to protect any of our industries that may be seriously injured by import surges attributable to the agreement.

I want the Committee to know that the President and I are both very concerned about U.S. workers who may be dislocated as a consequence of this agreement. I also want to assure you that the Administration will ensure that resources will be available to ease worker adjustment. In his letter forwarding the Administration's plan, the President made a commitment to work with the Congress to ensure that there will be "... adequate assistance and effective retraining for dislocated workers." Whether provided through improvement or expansion of an existing program—such as the flexible and responsive half-billion dollar Economic Dislocation and Worker Adjustment Assistance program (EDWAA)—or through creation of a new program, the President is determined to assure the timely availability of comprehensive services to U.S. workers displaced as a result of a NAFTA.

#### LABOR CONCERNS ABOUT NAFTA

I am, of course, well aware of organized labor's concerns about the proposed free trade agreement and particularly their concerns about the possible wholesale movement of U.S. investment to Mexico. I have had an opportunity to discuss these issues in some detail with U.S. labor leaders during the AFL-CIO Convention in Bal Harbour and subsequently at other meetings.

I believe strongly, however, that the pessimistic concerns of organized labor about the possible consequences of a North American Free Trade Agreement are inaccurate. The view of organized labor, in my opinion, fails to give adequate consideration to at least three very important factors:

- First, it fails to acknowledge the movement of production to Mexico and other low-wage countries that has already occurred, and will likely continue even in the absence of a new agreement. Globalization of production is a reality. In 1970, 10 developing countries had zones devoted to assembly operations for export, built primarily using foreign capital. By 1986, 46 countries had such zones and 12 others had zones under development or in the planning stage. In 1970, there were only 120 *maquiladora* plants in Mexico but by 1990 there were nearly 1,900.

- Second, organized labor's argument dismisses the positive effects that production in Mexico can have on the competitiveness of certain U.S. industries and the positive effects it can have on maintaining certain jobs in the United States. For example, DELTEC, an electronics manufacturer based in San Diego, moved some of its labor-intensive operations to Mexico and increased employment in the U.S. by 50 percent.

- Third, organized labor's argument ignores the potential benefit to U.S. production and employment that would accrue from increased exports to Mexico. International trade is dynamic. By increasing the standard of living in Mexico, a NAFTA will stimulate U.S. exports and create U.S. jobs.



Labor leaders and some members of Congress have also argued that the disparities between Mexico and the United States in the area of labor standards are an insurmountable obstacle to the negotiation of a fair and effective NAFTA.

As Secretary of Labor, I would like to give you my frank evaluation of the question of Mexican labor standards issues. It is simply not true that Mexican labor standards are low. Mexican workers enjoy legal protections that are comprehensive and in some ways exceed those provided by statute to U.S. workers. Many of those rights flow directly from the Mexican Constitution, which not only guarantees such basic rights as freedom of association, but also the right to earn a wage sufficient to sustain the wage earner and his family. Other Constitutional provisions mandate rights such as maternity leave, overtime pay, and maximum hours of work. Therefore, no company with a good knowledge of Mexican labor law and practice would move operations to Mexico with the expectation of being able to exploit its workforce.

Labor relations in Mexico are governed by the Federal Labor Law of May 1, 1970, and its subsequent amendments. The law is comprehensive and regulates labor contracts, minimum wages, hours of work, legal rest days, paid vacations, the employment of women and minors, collective bargaining, strikes, labor courts, occupational risks, and dismissal compensation—in short, virtually every aspect of worker protection that could be imagined.

Similar conclusions regarding Mexican labor law were presented on April 30 in testimony by the General Accounting Office (GAO) on its assessment entitled "Occupational Safety and Health and Child Labor Practices of the United States and Mexico." The GAO report, developed in response to a Congressional request, concluded that the United States and Mexico have similar laws to protect workers. In their testimony GAO noted that both countries have laws and regulations restricting the work of children and both regulate essentially the same safety and health hazards. For example, the report notes, the maximum allowable noise levels for an eight-hour shift in the textile and apparel industries is the same in both countries—90 decibels.

Occupational safety and health legislation in Mexico provides substantial protection for workers. A system of Federal, state, and local tripartite advisory commissions supplements implementation of elaborate legal provisions. Plant-level committees of worker and management representatives oversee enforcement on the factory floor. Thus, enforcement of Mexican workplace safety and health laws depends on the vigilance and quality of the local committees. Some small- and medium-sized firms do not have such committees. Not surprisingly, the number of accidents is higher in firms that do not have safety committees.

In my view, Mexico should be commended for its comprehensive approach to promoting the interests of the Mexican worker. There are clearly some enforcement problems, but these are due primarily to the large size of Mexico's informal sector. As in many industrialized countries, Mexico also has problems with assuring full compliance with labor laws and regulations in small- and medium-sized business. But this should not be a reason to object to a free trade agreement with Mexico.

#### U.S.-MEXICO DIALOGUE ON LABOR ISSUES

The United States and Mexico have begun a dialogue on labor issues. In March 1991, our two governments agreed to create a Labor Working Group under the umbrella of the U.S.-Mexico Binational Commission (BNC). In my judgment, having a conversation and cooperating with our neighbors to the south on labor issues is long overdue.

The BNC Labor Working Group, which I co-chair with Secretary of Labor and Social Welfare Arsenio Farell, will hold its first formal meeting in August 1991 in Mexico. I am looking forward to that opportunity to meet my Mexican counterpart and to discuss with him matters of mutual concern.

In preparation for the August meeting, the Department of Labor has been in contact with the Mexican Secretariat of Labor and Social Welfare and the good will and cooperative attitude we have found in Mexico augurs well for the relationship between our two institutions. On April 26, a preparatory meeting of the BNC was held in Washington, and officials from the two departments had an opportunity to advance their discussions and exchange views.

As a consequence of that meeting, on May 3, I signed a Memorandum-of-Understanding and Cooperation (MOU) with the Mexican Secretariat of Labor and Social Welfare for a broad-based program of technical cooperation to address labor issues of mutual concern. The program that will be undertaken under this agreement will be carried out as the NAFTA negotiations proceed and will assure that labor issues are addressed in parallel with our negotiations of a NAFTA.

Under the terms of this agreement and the related action plan, our experts from OSHA, ESA, ETA and other DOL offices will be working closely with their counterparts in Mexico over the next several months to assure that Mexican labor law enforcement is up to U.S. standards. Areas of mutual cooperation under the MOU will include:

- Worker health and safety;
- General conditions of work, including labor standards and their enforcement;
- Procedures for the resolution of labor conflicts;
- Collective bargaining agreements for the improvement of work conditions;
- Social security systems;
- Credit institutions for workers to purchase consumer durables and housing;
- Labor statistics; and
- Quality and productivity.

Particular early attention will be given to projects related to occupational safety and health; child labor; and labor statistics.

#### CONCLUSION

In conclusion, Mr. Chairman, I want to re-emphasize that the negotiation of a North American Free Trade Agreement provides the best opportunity at hand to do something positive about an issue of concern to us all—U.S. competitiveness. Let us take this opportunity and work together to develop an agreement that can be of benefit to all three countries.

Our ability to seize this opportunity is critically dependent, however, on Congressional approval of the Administration's request for the extension of fast-track procedures. I, therefore, strongly urge your approval of this request so that we can explore this very promising opportunity with our North American neighbors.

Thank you, Mr. Chairman.

#### RESPONSES OF LYNN MARTIN TO QUESTIONS SUBMITTED BY SENATOR ROTH

**Question No. 1.** I am concerned over the comparison being made between EDWAA and TAA in the area of job placement, namely, that there is a 70 percent placement rate for workers receiving EDWAA training, but only a 30 percent rate for those in training under TAA. I understand that under EDWAA there is a clear-cut, comprehensive data collection effort devoted to tracking job placement, but the same is not true for TAA. Is this understanding correct?

**Response.** It is important to understand that, for EDWAA, the job placement rate for a given year compares the number of participants who obtained a job upon leaving the program with the total number of participants who left the program for any reason, regardless of the services received while in the program. In Program Year (PY) 1988, the national job placement rate thus defined was 69 percent. In PY 1989, the rate was 66 percent. For TAA, the job placement rate for a given year compares the number of applicants who applied for program benefits and who obtained jobs with the total number of new applicants. In Fiscal Year (FY) 1989, the national job placement rate thus defined was 30 percent. In FY 1990, the rate was 32 percent.

Both the EDWAA and the TAA programs have clear-cut, comprehensive data collection efforts. They are, however, significantly different because of the nature and structure of the two programs. The EDWAA program, which operates under an *enrollment* concept, collects data on services the enrolled individuals receive in the various approved cost categories such as readjustment services and training. As individuals complete such activities, they are terminated from the EDWAA program and employment status is determined.

Under the TAA program, individuals are certified as eligible for a number of differing benefits: trade readjustment allowances (TRA), training, job search allowances, and relocation allowances. There is no specific enrollment in a program; rather the allowable services are provided to eligible workers on request. As there is no enrollment *per se*, the concept of termination is not used. An individual may receive training and then go on to receive additional TRA, job search allowances, relocation allowances, or get a job.

An important distinction between the populations served by the EDWAA and TAA programs is also relevant. EDWAA focuses on the permanently dislocated who are not likely to return to their previous jobs, and the long-term unemployed; whereas, in addition to the permanently dislocated, TAA serves workers who are on partial layoff and workers subject to recall who are not seeking new employment.

**Question No. 2.** Is the job placement data collected on workers certified under TAA mainly supplied by State employment agencies? Are all workers in training

under TAA required to report to these agencies on whether they find a job after completing training? Is every State reporting to your Department on the job placements they may know about for TAA workers, or are some States failing to do so? If so, which States are not?

*Response.* All data on the TAA program are provided by the State agencies who are acting as agents of the Secretary in administering the TAA program. In most cases this is the State employment security agency. Each State is required to report quarterly to the Department of Labor on key workload data elements on the delivery of TAA benefits and services to eligible workers. Workers are not required to report to the appropriate State agency as to whether or not they found a job after completing training.

The Department has an evaluation study presently underway which aims to provide more definitive data on the TAA program. The final report for this evaluation is due in September 1992.

*Question No. 3.* Under the 1988 Trade Act, Congress required the Labor Department to seek agreements with the States to coordinate the administration of employment service, training, and supplemental assistance under TAA and JTPA. How is this working?

*Response.* When implementing the 1988 amendments the Department revised the State agreement as required under Section 239 of the Act. One of the modifications included the requirement that the State agency develop an interagency agreement with the State agency administering the EDWAA program when the same agency did not administer TAA and EDWAA. Such agreements were executed in all applicable States.

Reviews of State programs reveal that coordination is taking place in providing services to TAA eligibles. Examples include funding of training, providing adjustment assistance not available under the TAA program such as job search assistance and providing assessment and placement services.

The FY 1990 State TAA reports indicate that nearly 25 percent of workers who were eligible for and requested TAA services were also participants in a JTPA Title III program.

*Question No. 4.* There have been allegations that the heavy emphasis on performance standards, namely job placements, under EDWAA has led to so-called "creaming"—training those who really do not need it to the disadvantage of those who do. Some of these problems have been uncovered in audits by your Inspector General. How significant a problem is this and what steps are being taken to address it? How many of these cases have been unveiled by your Inspector General? Precisely how many workers are involved?

*Response.* The Administration is proposing JTPA amendments to address charges of "creaming" in the Title II-A State grant program for the economically disadvantaged. However, "creaming" has not been viewed as a significant problem under EDWAA, and the Inspector General has not identified any such cases under EDWAA. The Employment and Training Administration is conducting oversight to ensure that participation in EDWAA training activities is limited to dislocated workers who need it.

EDWAA performance standards ensure program accountability. Performance standards are reviewed every two years to determine their impact on participation and services. A recent study by the independent Northeast-Midwest Institute described EDWAA as a "notable model of Federal labor policy" and praised the Employment and Training Administration's efforts to ensure the program's effectiveness through guidelines and performance standards.

*Question No. 5.* Under EDWAA, how many States actually have provided "needs-related" payments? Is this a completely discretionary State decision?

*Response.* Under the Economic Dislocation and Worker Adjustment Assistance (EDWAA) Act, decisions to award needs-related payments are left to the discretion of local service providers. During program year 1989 (the latest year for which data are available), 186 substate grantees in 34 States provided needs-related payments to EDWAA participants. Also in that year, about 6 percent of total EDWAA expenditures were for supportive services, which includes needs-related payments.

*Question No. 6.* What are the key differences and similarities between the training provided under EDWAA and that provided under TAA? It is my understanding that training under TAA is often more substantive and comprehensive, and, thus, provides for overall better preparation for reentering the workforce. Is this correct?

*Response.* Both EDWAA and TAA make a variety of services available to workers participating in their programs. Depending on the needs of individual workers, TAA may provide training, job search allowances, and relocation allowances, while

EDWAA may provide training, basic readjustment services, job referral, and needs-related payments.

EDWAA seeks to provide services to dislocated workers soon after they lose their jobs so that they can return to productive employment. More than 60 percent of EDWAA participants receive training ranging from a few weeks to several months; others receive basic readjustment services and job referral. The average length of participation in EDWAA is 19 weeks, but 10 percent of all EDWAA participants receive training lasting 26 weeks or more.

In contrast, TAA requires that workers be certified as eligible for TAA benefits and services, which may entail a delay of up to 60 days. Not all individuals certified eligible for TAA in fact take advantage of TAA benefits and services. About 50 percent of all eligible applicants for TAA benefits and services enter training. The TAA reporting system does not collect comparable information on the length of training, which may begin while an individual is still receiving unemployment insurance benefits and not yet eligible for trade readjustment allowances. However, for all individuals who draw basic trade readjustment allowances, which includes individuals who are either in-training or have received a waiver, the average length of benefits is 21 weeks.

As mentioned earlier, the Department is conducting an evaluation study which should provide more information on the TAA program.

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#### PREPARED STATEMENT OF WILLIAM K. REILLY

I want first to express my appreciation for the careful way this Committee has assessed the issues of fast track extension and free trade with Mexico. I am very happy you have made an opportunity for me to address the environmental issues involved.

EPA's basic position on fast track and free trade for Mexico, as I said to the House Foreign Affairs Committee over a month ago, is that failure to approve fast track and a free trade agreement with Mexico would be not only an economic but an environmental disaster. The economic prosperity Mexico should experience under a free trade agreement will enable Mexico to strengthen its existing environmental programs to achieve the rising levels of environmental quality it needs.

There are three questions that have been raised about the effect of a free trade agreement on the environment that I want to deal with clearly and conclusively before welcoming your questions.

The first issue is easily dealt with. It involves the question whether we will agree in a free trade agreement to relax environmental or health protections on goods coming into the United States. As is stated in the paper the Administration submitted to you last Wednesday, "The United States will not agree to weaken existing US pesticide, energy conservation, toxic waste or health or safety standards in the FTA and we will maintain enforcement of them."

The second issue is the charge that Mexico is a pollution haven which will lure away US business seeking low environmental costs. No American company would be well advised to relocate to Mexico on this theory. Mexico's new comprehensive environmental law of 1988 is in part based on US environmental law and experience and in some respects goes beyond our law as, for example, in its requirement of environmental impact statements on private projects.

The new Mexican environmental law addresses most of the major concerns of US pollution control law, including air, water, and hazardous waste, and SEDUE (the Mexican environmental agency) has adopted many of our standards. President Salinas of Mexico at his meeting with President Bush in Monterrey last November indicated that this law would be rigorously applied to all new investment coming to Mexico and that Mexico wants no dirty jobs. The requirement in the 1988 Mexican law that an environmental impact analysis must be done on all new public and private projects will be effectively used to screen out any fugitive polluting investment.

As another indication of Mexico's serious approach to environmental issues, it was the first country to ratify the Montreal Protocol, and it has set a goal of phasing out ozone-depleting substances on the same ambitious schedule as the United States, rather than taking the additional 10 years afforded developing countries.

To achieve this ambitious goal, Mexico is the first country to submit project proposals to the Multilateral Fund for implementation of their phase out. In addition, SEDUE, in cooperation with EPA, Northern Telecom, and the Industry Cooperative on Ozone Layer Protection, will be embarking on a major technology transfer project to eliminate the use of ozone depleting solvents in all electronics uses as rapidly as possible.

The third question raised about environmental effects of a free trade agreement is the charge that an FTA will exacerbate poor environmental conditions in our border area with Mexico.

First, as you probably are aware, EPA and SEDUE are doing a detailed Border Environmental Plan to map out solutions of the pollution problems of the border area. This assignment was made to SEDUE and EPA at the Monterrey meeting of Presidents Bush and Salinas. The plan will survey the environmental needs in the Border Area (defined in our 1983 Border Environmental Treaty as 100km on either side of the international boundary) and review the appropriate roles to be undertaken by industry, municipalities, the International Boundary and Water Commission, and the border states, as well as EPA and SEDUE.

The draft Plan, which is only the first stage of what will be a periodic process of joint environmental planning for the Border Area, should be available for public comment by the end of June and will be finalized before the end of this year. Secretary Chirinos of SEDUE and I plan to hold meetings on the subject in the border area in July.

Although the border plan is still very much in a discussion state, let me mention three items in it that will be of interest to you:

- **On water quality**

There will be a review of the water pollution cleanup projects along the border managed by the International Boundary and Water Commission we share with Mexico. Our 1944 Treaty with Mexico assigns the IBWC a priority on water sanitation and we are fortunate to have such an experienced binational entity to plan and implement the border water treatment projects we will need.

- **On air quality**

We have agreed with SEDUE to do an air basin control plan for El Paso-Juarez, and EPA will implement the new Sec. 815 of the Clean Air Act, under which EPA can provide Mexico with extensive technical assistance on air quality regulation in the Border Area.

- **On hazardous wastes**

SEDUE will be working with industry on the Mexican side of the border to develop an adequate local hazardous waste treatment capacity.

Second, as to environmental enforcement in the border area as well as elsewhere in Mexico, the following items are worth noting:

- Mexico has already started recruiting 50 more environmental inspectors for the border area and has closed almost 20 enterprises in the Border Area in the last month to get compliance with environmental requirements.

- SEDUE and EPA will provide the public with an opportunity to submit data on alleged non-compliance with environmental regulations, and this policy will be implemented in the border area.

- SEDUE and EPA plan to coordinate the targeting of their enforcement actions where there are significant adverse transboundary impacts. We will also continue our practice in training SEDUE inspectors of having them from time to time accompany EPA inspections on our side of the border, and of having EPA inspectors accompany SEDUE inspector trainees in inspections on their side of the border.

Let me add a few words about the extensive technical cooperation and training assistance to SEDUE we plan to make available for SEDUE's environmental programs throughout Mexico, in order to reinforce the extensive efforts already under way in the Mexican government.

- The Commerce Department is establishing a US business committee to assist small to medium sized Mexican business in meeting environmental standards.

- EPA plans to strengthen procedures for the exchange of modern monitoring and surveillance equipment necessary for comprehensive environmental enforcement.

- In addition to its technical assistance on air quality regulation in the Border Area, EPA will be providing SEDUE with general technical assistance on enforcement, pesticides regulation, hazardous wastes regulation, and standard setting.

- EPA will also promote a program of transfer of environmental technology to Mexico.

All this amounts to a greatly accelerated and intensified environmental quality program in Mexico. We intend to develop and implement this program of cooperation in parallel with our negotiation of the FTA.

I urge Congress to support the "fast track" procedures that will allow negotiations between our two countries to proceed expeditiously. The NAFTA negotiations present an historic opportunity for the United States, Mexico, and Canada to make progress on a host of issues. The Administration's action program shows our determination, and Mexico's, to advance our relations along a wide spectrum, particularly with respect to the environment. To seize this opportunity, we need fast track.

A vote against fast track could stifle the spirit of cooperation that is necessary for a coordinated approach to environmental issues in the border area. Rejection of the key policy instrument needed to negotiate a NAFTA would deny Mexico the economic resources it needs to vigorously pursue efforts to improve environmental quality throughout its territory.

Environmental improvement will not occur in Mexico or any other developing country without the economic development necessary to finance pollution reduction, apply new technologies, support government programs, and pay for inspectors, regulators, and prosecutors.

If I were to summarize the environmental argument for fast track and free trade in a single sentence, I would ask the question:

"What do you think we would achieve on the environmental front if we reject free trade with Mexico?" We at EPA have no doubt, as I said at the outset, that the result would be both an economic and environmental disaster.

SUBMITTED BY SENATOR DONALD W. RIBBLE, JR.

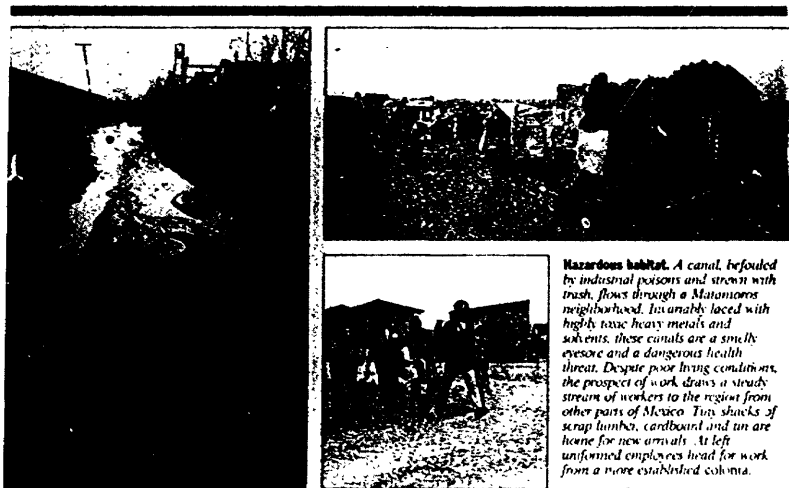
BY U.S. NEWS

# Poisoning the border

*Many American-owned factories in Mexico are fouling the environment, and their workers aren't prospering*

**W**ith its manicured lawns and high-tech ambience, the FIMS industrial park in Matamoros, on the Mexican border from Brownsville, Texas, gleams with ultra-modern, American-owned manufacturing and assembly plants that turn out a variety of consumer and industrial products. Eager to cut costs, U.S. companies from *Fortune* 500 giants to small entrepreneurs began relocating to northern Mexico 25 years ago under a program called *maquiladora*—from an ancient custom of trading raw for finished goods. They have transformed once-squalid border towns like Matamoros into sprawling centers that annually attract thousands of job-hungry workers. Close to 2,000 plants employing





**Hazardous habitat.** A canal, befouled by industrial poisons and strewn with trash, flows through a Matamoros neighborhood. Invariably laced with highly toxic heavy metals and solvents, these canals are a smelly eyesore and a dangerous health threat. Despite poor living conditions, the prospect of work draws a steady stream of workers to the region from other parts of Mexico. Top: stacks of scrap lumber, cardboard and tin are home for new arrivals. In left: uniformed employees head for work from a more established colonia.

about half a million people are now strung along the 2,000 miles of border from Matamoros in the East to Tijuana in the West. Here, the industrial dynamism of the First World and the poverty of the Third dovetail in what is widely viewed as a mutually beneficial arrangement. U.S. companies enjoy cheap labor and generous tax breaks from both nations; Mexican workers get steady jobs and the chance to improve their lives. The program last year pumped \$3.5 billion in foreign exchange into the Mexican economy—second only to the \$9 billion from oil exports. Says Alfred Rich, president of the Western Maquila Trade Association: "This is a program in which everyone benefits."

But that portrait is incomplete. The border region is paying a growing environmental price for allowing the Mexican-based firms to operate beyond the restraints of the U.S. Environmental Protection Agency and the Occupational Safety and Health Administration. Some companies admit they have moved south to avoid expensive U.S. environmental requirements. The result: They are creating more pollution there than they would in the United States.

And while Mexico enacted tough new cleanup laws in 1988, scant resources have been made available to enforce them.

As the Bush administration presses forward with plans for a free-trade pact with Mexico, critics in Congress and organized labor cite present environmental and social conditions as a reason to block the treaty. They point to a report last June by the American Medical Association, which described the region as "a virtual cesspool and breeding ground for infectious disease." The AMA concluded: "Uncontrolled air and water pollution is rapidly deteriorating and seriously affecting the health and future economic vitality on both sides of the

border." Treaty opponents argue that conditions will worsen if the border is fully opened. And these growing concerns about pollution have prompted several federal agencies to consider whether U.S. Trade Representative Carla Hills should order an environmental impact statement, which could delay the pact for years.

Advocates of a free-trade agreement argue that economic development, while inevitably creating some pollution, frequently spurs prospering nations to significantly improve their environmental enforcement and to enact more stringent workplace rules. In addition, President Carlos Salinas de Gortari is more determined than any predecessor to clean up pollution, suggesting a brighter future for workers and the environment. But a U.S. News survey of current conditions reveals:

- Indiscriminate dumping of long-term storage of industrial garbage and hazardous wastes is rashing the landscape and poisoning the water and soil.
- A slungullion of chemical-laced industrial waste water and raw sewage is pumped into canals and rivers, causing widespread gastrointestinal illness, hepatitis and other long-







**Generations.** Unborn and weathered man takes a space from scavenging in a huge open waste dump in Reynosa for nuts to eat. In Nuevo Laredo a child drinks nonpotable water.

term health problems— including a suspected increase in mortality from certain cancers.

■ Massive discharges of toxic fumes have occurred in chemical plants and other factories. In the Matamoros-Reynosa region alone, seven major accidents since 1980 have sent more than 350 people to hospitals and forced thousands to flee their homes.

■ *Maquiladora* employees—most of them women, who sometimes start work as young as 13 years old—are exposed to toxic substances and other workplace health hazards without being given safety instructions or basic protection like masks and gloves. There is also evidence of severe birth defects suffered by infants born to workers.

The *maquiladoras*—or maquilas, as they are commonly known—have sustained explosive growth of 15 to 20 percent over the past five years. As a result, tens of thousands of workers are now packed into shantytown *colonias*, living in hovels built from cinder blocks, tin sheets, scrap lumber, plastic and cardboard without electricity, sewers or potable water.

Some of these conditions might be endurable if the prospect of upward economic mobility weren't so distant for most of the workers. Wages start at 82,000 pesos—\$27—for a 49-hour

week. The average weekly salary is about \$47 in a border economy where food and other necessities often are as expensive as in the United States. The case of Yolanda Carrillo, who lives and works in the FINSA park, is typical. The 16-year-old began working at the MagnaTek lighting plant at the age of 14 and earns the peso equivalent of about \$46 a week selling electronic goods. Home is a wooden shack with a dirt floor, cardboard covering the window holes and wind whistling through cracks in the walls. A *colonia* canal flows nearby, its milky water badly polluted by industrial wastes. "Even the goats won't drink it," says the young woman.

**Little money.** She shares the tumble-down structure with her blind, bedridden father, an older sister who also works in a maquila, four other female relatives and three sickly infants. There is no electricity, and water must be carried in plastic buckets from a standpipe three blocks away. Meals are cooked on an open fire or on a small propane burner. Despite two maquila salaries, Yolanda and her family live at little better than subsistence level. "The money," she shrugs, "isn't enough to make a change."

Questions about worker exploitation in a nation where unemployment is endemic draw ready rejoinders from ma-

quila officials. "We're in a foreign country and it's a big mistake to impose U.S. values," says John Riles, vice president of Vertek, a Tijuana-based electronics company. Adds trade association chief Alfred Rich: "Are these people better off with me or without me?" The small wage gives them the ability to enjoy a decent lifestyle. They may not be living in the lap of luxury, but they aren't starving.

Some, though, are getting sick. Interviews with dozens of employees in border communities turned up complaints of headaches, vision and respiratory problems and skin diseases caused by soldering fumes, solvents and other chemicals—particularly in the electronics assembly industry. Some plants supply protective gloves, but few women wear them because they hamper dexterity and prevent the workers from maintaining the fast-paced production schedules. "They take advantage of us because women are more docile," says Reynosa worker Apolonia Resendiz, 39. "The men complain, so they don't get hired."

Catalina Domnan, a professor at El Colegio de Sonora in Hermosillo, has studied health conditions among maquila women in Nogales since 1985. Among other problems, she finds that workers in the American-owned plants are three times as likely to give birth to

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infants of low weight as are other local women; half of these underweight babies are born prematurely. "We suspect toxics," Deunman says. "We need to study just what the long-term effects are from being exposed to all these chemicals and fumes."

**The Mallory children.** Dr. Isabel de la O. Alonso knows all too well. Over the past eight years, she has pieced together evidence strongly suggesting an environmental tragedy that has gone largely unnoticed. In 1982, while operating the Matamoros school for special education, she began seeing retarded children with unusual physical characteristics that fell outside well-documented conditions such as Down's syndrome. The children, with degrees of retardation ranging from mild to profound, had broad noses, bushy eyebrows, thin lips, webbed and deformed hands and feet and other distinctive birth defects. A clinical history of their families revealed a single common thread: Each of their mothers worked during her pregnancy at a now defunct electrical components maquila then called Mallory Capacitors.

Dr. de la O has located 25 living Mallory children, has documented another half dozen who died shortly after birth and suspects there are several others. The mothers all told her their jobs involved washing capacitors—small devices that hold electrical charges—in a chemical mixture they knew only as *electrolita*. As they worked with the liquid it would cover their hands and arms and splash onto their faces.

Now in charge of special education for the state of Tamaulipas, Dr. de la O suspects that the women were exposed to polychlorinated biphenyls, or PCBs, widely used in the electrical components industry before they were banned by the United States in 1979. Today, the Mallory children have passed the age of puberty, and the insidious genetic defects continue. Most of the girls have not begun menstruation, and many of the boys have undescended testicles.

In the absence of tort laws or strictly enforced EPA- and OSHA-style regulations, U.S. companies in Mexico are under little more than a moral obligation to protect either their workers or the environment. Some corporations—Union Carbide for example—are lauded by activists for treating workers and the environment well. Others can't claim the same honors. And maquila owners say attempts to operate their plants up to EPA standards are sometimes stymied by the slovenly practices of workers. "There's a lot of ignorance



**Maquila dream!** On the assembly line at the MaqueTek plant in Matamoros, 16-year-old Yolanda Cervillo is typical of the predominantly young and female maquila work force. She earns less than \$1 an hour for a 40-hour workweek, roughly the industrywide average. High living costs in the border region keep maquila workers and families mired in poverty. Yolanda's home is a ramshackle, dirt-floor shack where she cares for her father, Enrique, who is bedridden and blind.

on the shop floor and old habits die hard," says David Flowers, head of Pulse Engineering in Tijuana.

SEDUE is the acronym for the Mexican federal agency charged with enforcing the nation's environmental laws. René Altamirano, its director of pollution prevention, vows: "The border will never become a pollution haven for the United States." But despite the best of intentions, Altamirano concedes, his agency is under severe handicaps. SEDUE has multiple responsibilities nationwide, including housing and parks, but its entire annual budget is just \$10 million. While the United States will spend \$24.40 per capita this year on environmental protection, Mexico can afford to spend only 48 cents—a major increase from the 8 cents it spent in 1989. Altamirano's financially strapped agency, for example, has only two inspectors in each of the six border states to investigate and ferret out environmental scofflaws.

This inadequate supervision invites

problems. Under a binational agreement, maquilas are required to ship their hazardous wastes back to the United States for disposal and to notify the EPA. But transportation and EPA-approved disposal of a single 55-gallon drum of hazardous waste can cost anything from \$150 to \$1,000. As a result, most maquila wastes are stockpiled, buried, dumped, flushed, burned or "donated" to charities for "recycling"—an environmental charade permissible under a loophole in Mexican law. In 1989, reports the EPA's Kathleen Shimmin, the agency received just 12 notifications of hazardous-waste shipments being returned to the United States across the California and Arizona borders. Last year, the total rose to 85. "That's a small drop in the bucket," Shimmin says. "Besides jawboning, we have no legal means to force these companies to comply."

Those who monitor the maquila industry believe that big corporations, with their modern plants and their keen

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eye on public image, are more likely than small factories to voluntarily follow EPA and SEDUE standards. Yet controversy has even tainted some of America's giants. General Motors, for example, operates 34 border plants employing 41,500 people. Spokesman John Mueller says the auto maker has local environmental standards and cultural norms. "At the FINSA industrial park in Matamoros, some 1,200 workers at GM's \$80 million RIMIR plant manufacture 6,000 automobile bumpers daily. RIMIR officials say their hazardous wastes are recycled locally or repatriated to the United States, and the plant appears to be a model of industrial efficiency and environmental rectitude.

"We play by the EPA and SEDUE rules, we have to keep our nose clean and we are the environmental leader of the other maquilas," says Chuck Ahlquist, RIMIR's managing director.

**Battle over numbers.** Now, however, there is a dispute over the company's practices. Environmentalists claim their tests of discharges from the RIMIR plant showed much higher readings than GM's own tests. Last year, the Boston-based National Toxics Campaign Fund collected some 100 separate samples from discharge pipes at 21 U.S. plants in Mexico. Chemist Marco Kalltofen says NTCF's federal-approved laboratory found that the RIMIR sample contained xylene—a common solvent that can cause lung, liver, kidney and brain damage—in a concentration of 2,800 parts per million (ppm). Kalltofen also says he measured discharges of ethyl benzene at 430 ppm, acetone at 56 ppm, methylene chloride at 41 ppm and toluene at 5.7 ppm. The EPA's cumulative permissible limit for all toxic organic chemicals discharged from industrial plants like RIMIR is 213 ppm, and some state standards are even lower. SEDUE's standards closely parallel the EPA's.

RIMIR officials say they are mystified by the high readings and are anxious to correct any deficiencies. Their routine tests conducted by an independent laboratory at roughly the same time as Kalltofen's last year showed xylene discharges of 0.56 ppm. Their tests for the other chemicals all showed readings of less than 1 ppm.

Pollution problems are evident elsewhere along the border. NTCF's tests at other plants found concentrations of hazardous materials in some samples that were too high to measure accurately. Water samples at 16 of the 22 sites, says the NTCF, violated Mexican and



**Toxic legacy.** Did exposure of pregnant workers to deadly PCBs create a generation of mentally and physically handicapped victims? Dr. Isabel de la O Alonso (left) believes it did. Maria Rodriguez (below), with son Juan, 17, recalls workers fainting and babies born with birth defects. "Nobody made the connection," she laments.

U.S. water-quality standards, some in Matamoros contained pH levels so severe they would cause acidic or caustic burns to skin.

Beyond the discharges, other practices by some U.S. firms also degrade the environment. Adjacent to the Reynosa industrial park that is home to several major corporations is a massive open dump that contains acre after acre of industrial detritus—plastic, metal, rubber, resins, paint sludge. Foul-smelling slime leaks from drums marked "Zenith Plant No. 12." Zenith Electronics Corp. spokesman John Taylor acknowledges that the company, which employs as many as 10,000 workers at its Reynosa facility, dumps its bathroom, kitchen, office and nonhazardous industrial trash here but says toxic wastes are returned to the United States. "This [site] is a SEDUE-licensed disposal facility and

anything we do is in accordance with the law," Taylor says. "We are a good corporate citizen in Mexico." Both SEDUE and Reynosa municipal officials, however, say they have not authorized the area to be used as a dump.

The public-health threat from the kinds of solid wastes found at the Reynosa dump is generally confined to the local area. But polluted industrial effluent and untreated sewage from the exploding populations of the cities and colonies are migrating into the United States and creating serious water-borne health problems north of the border. In Tijuana, toxic effluent from the industrial park at Otay Mesa mixes with 12 million gallons of raw sewage discharged daily into the Tijuana River. The river then flows north before emptying into the Pacific Ocean at Imperial Beach, Calif., south of San Diego. Some 2.4

loads of shellfish are quarantined, and local officials estimate the closed beach will cost the area's beloved reputation coast more than \$100 million a year in lost tourism and recreation opportunities.

California officials describe the New River, some 120 miles east of San Diego, as the Biblical waterway in the state—if not the entire United States. It flows north out of Mexico, a booming asphalt city, and into the Salton Sea, a large lake southeast of Palm Springs. Tests show the New River contains some 300 different industrial chemicals and 15 viruses capable of causing outbreaks of polio, dysentery, cholera, typhoid, meningitis and hepatitis.

Continuing east, the pattern is repeated. Up to 30 million gallons of untreated sewage flow out of Nogales each day and into Arizona's Santa Cruz River. An underground plume of carcinogenic solvents—including trichloroethylene—mingling with chromium, lead, manganese, cadmium, arsenic and mercury has been polluted an aquifer that provides drinking water for thousands of colonia residents. The plume has migrated 10 miles beneath the border, forcing the closing of at least 12 wells on the U.S. side. In Texas, more than 100 million gallons of raw sewage laced with solvents, heavy metals and pesticides empty each day into the Rio Grande from Ciudad Juárez, Nuevo Laredo, Reynosa and other cities. Tissues of fish

caught in the river show high levels of copper, selenium and mercury, and untreated human wastes turn the Rio Grande—literally—into the nation's biggest open sewer.

"This is a public-health disaster waiting to happen," says Dr. Reynaldo Godines, president of the Tri-County Medical Society in Laredo, Texas. The incidence of hepatitis between Brownsville and El Paso, he points out, is already six times the national average. In the El Paso colonia of San Elizario, 33 percent of children 6 years old and under are infected with hepatitis A, and 85 to 90 percent of adults contract the disease by the age of 35. At the University of Texas Health Science Center at Houston, epidemiological studies by Dr. Irma Coch reveal significantly elevated liver and gall bladder cancer mortality rates in the 33 counties along the

Rio Grande that get their drinking water from the river. Dr. Coch suspects a combination of factors is responsible, including poor living conditions, high levels of local pollution in the water and toxic chemicals from the maquilas.

Flowing south, One fair of free-trade opponents—industries fleeing south to avoid U.S. environmental laws, and the skyrocketing costs of waste disposal—has already been validated. Between 40 and 50 furniture manufacturers, unable to meet Southern California's air quality standards, have relocated in Mexico. Joseph Hering, director of the Pasadena Research Institute, monitors the trend and says furniture industry employment in Southern California has shrunk from 85,000 workers in 1987 to 55,000 today. Over the next five years, he predicts, half of the region's 125,000 metal-finishing jobs will be lost to Mexico. "These industries can operate down there with fewer precautions and, in fact, create pollution," Hering says. "Almost to a man, that's what happens." Analysts say other industries that generate large amounts of toxic garbage—metal plating, chemicals, plastics, fiberglass and electronics—are also migrating south.

What are the prospects for change? Observers like Roberto Sánchez of El

Colégio de la Frontera Norte believe the Mexican government, eager to foster industrialization, will never lean hard on the plants unless forced to by massive environmental tragedy. There is some possibility, though, that the Bush administration will provide a more serious and comprehensive crackdown on polluters. Trade Representative Hills will unveil a proposal this week, designed to win the backing of Democrats for last trade talks with Mexico, that is expected to seek stronger bilateral enforcement of pollution standards and suggest that U.S. assistance might be available for environmental programs in Mexico.

The Bush administration is also being pressured by critics like the Coalition for Justice in the Magallaneras—an umbrella lobbying group—to find ways to improve wages and conditions for the Mexican workers. And American companies are coming under increasing fire from liberal lobbying groups. For industry and the Bush administration, the challenge from opponents is clear: Find ways to clean up the *magallaneras* mess, or the prospects for a free-trade agreement will get worse.

BY MICHAEL SATCHELL  
PHOTOS BY CHARLE ARCHAMBAULT

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