[MS-0398.041.002.002]

EDC

San Diego Economic Development Corporation

August 19, 1992

RECEIVED
AUG 20 1992
Ans'd.....

The Honorable Leon Williams
Supervisor, Fourth District
County of San Diego
County Administration Center
1600 Pacific Highway
San Diego, CA 92101

Dear Leon:

Attached is an Executive Summary of the North American Free Trade Agreement which will be submitted to Congress for evaluation. Following submission of the agreement, Congress will have 90 days to review the text and evaluate the agreement's ramifications. The Congress can then make comments and recommendations to the administration.

Sometime in December, the Presidents of the U.S. and Mexico, along with the Prime Minister of Canada, will sign the agreement. It will then be presented to Congress and the Senate for ratification.

I think after you review this information you will recognize a number of opportunities for San Diego and San Diego based companies. However, like any opportunity, there are many changes that we must prepare ourselves for if we are to capture the benefits. To this end, companies that may be negatively impacted by the agreement will be granted a generous "phase-in" time to adjust to the new rules set forth by the NAFTA.

We at EDC are currently working with the private sector in an attempt to identify the opportunities and seize them, while at the same time turning those issues that might be a problem into benefits. For example, a tube requirement for television manufacturers could force non-U.S. companies to produce their products entirely in Asia. On the other hand, those same manufacturers might be convinced to set up a picture tube manufacturing facility here in the United States and quite possibly in San Diego as Sony has done, creating new jobs and economic vitality for the region.

Due to its geographic position, the San Diego/Tijuana region sits ready to reap the benefits of free trade. The San Diego Economic Development Corporation, along with your leadership, is planning on using NAFTA to greatly enhance our regional economy. If there is anything that EDC can do to help you understand the ramifications of this monumental agreement, please do not hesitate to call Neil Whiteley-Ross or myself.

Sincerely,

Dan

Dan Pegg

DP:pm

701 B Street, Suite 1850, San Diego, California 92101, (619) 234-8484, Fax (619) 234-1935

partially funded by the City, Port and County of San Diego

Highlights of the North American Free Trade Agreement

NAFTA

OVERVIEW

THE NORTH AMERICAN FREE TRADE AGREEMENT

U.S. Exports to Mexico Have Nearly Tripled Since 1986 and Should Approach $44 Billion This Year

U.S. Jobs Supported by Exports to Mexico Have Doubled to Over 600,000

NAFTA Will Expand U.S. Exports and Generate Jobs

In August 1992, the United States, Canada, and Mexico concluded negotiations on the North American Free Trade Agreement (NAFTA), which will eliminate trade and investment barriers among the three countries.

NAFTA implements President Bush's vision of economic growth through free trade and will make America more globally competitive. It links the United States with our first- and third-largest trading partners, creating the largest and richest market in the world, with 360 million consumers and $6 trillion in annual output.

Academic studies show "a surprising degree of unanimity" in predicting net U.S. job creation and wage gains from NAFTA, according to the U.S. International Trade Commission. Already, U.S. exports to Canada support 1.5 million U.S. jobs. Our exports to Mexico support more than 600,000 U.S. jobs, which the Institute for International Economics predicts could swell to **over 1 million jobs by 1995.** These job gains will occur because NAFTA:

- **Eliminates all tariffs** on industrial and agricultural goods produced by the NAFTA partners, enabling approximately 50 percent of our exports to Mexico to enter Mexico completely duty-free on the day NAFTA becomes effective. Mexican tariffs on all remaining industrial products and most agricultural items will be phased out over 5 to 10 years.
- **Opens Mexico's $146 billion services market** for U.S. providers, including banks, telecommunications, insurance, accounting, and trucking firms, and **improves our access to Canada's $285 billion services market;**
- **Phases out restrictions in the North American auto market** to create important new U.S. export opportunities, while establishing tough rules of origin that ensure that only vehicles with substantial North American parts and labor benefit from NAFTA tariff cuts;

- **Opens access to Mexico for U.S. agricultural exports**, including corn, grains, oilseeds, livestock, and other commodities by phasing out tariffs and import licensing requirements, which currently cover 25% of U.S. agricultural exports;
- **Offers a higher level of protection for U.S. copyrights, trademarks, patents,** and other intellectual property rights from that of any other bilateral or multilateral agreement; these rights are crucial to U.S. exporters of high-technology goods, pharmaceuticals, biotechnology, sound recordings, motion pictures, and computer software;
- **Establishes an effective dispute-settlement mechanism** among the NAFTA partners;
- **Provides fair rules for investment in North America** by ensuring non-discrimination, ending local content requirements, and dropping export performance quotas; and
- **Provides substantially increased access for U.S. firms to Mexico's state-owned energy companies,** with particular benefit to petroleum and heavy electrical equipment suppliers and construction firms. NAFTA establishes transparent rules for bidding and creates a bid challenge procedure.

NAFTA Builds on Recent Gains in U.S. Trade

NAFTA builds on the market-opening U.S.-Canada Free Trade Agreement, which has boosted our Canadian exports to $85 billion. NAFTA also accelerates the opening of the Mexican market, and locks in recent gains:

- By the end of 1992, U.S. exports to Mexico are projected to more than triple, from $12.4 billion in 1986 to nearly $44 billion, transforming our trade deficit of $5.7 billion in 1987 to a projected surplus in excess of $8 billion.
- Mexico is now our fastest-growing major market, and has surpassed Japan as our second-largest market for manufactured exports.
- The more than 600,000 U.S. jobs currently supported by our exports to Mexico include all sectors, and are nationwide: almost every state has expanded exports to Mexico since 1987.
- Export-related jobs generally pay 17 percent more per hour than the average U.S. wage. This wage advantage accrues to service workers as well as to workers in the manufacturing sector.

NAFTA Ensures Growth and Stability in Mexico

Increased economic growth in Mexico yields a high payback for the United States:

- Almost 70 cents of every Mexican import dollar – and 15 cents of each dollar of additional Mexican income – is spent on U.S. goods and services.
- Moreover, NAFTA will raise Mexican wages and standards of living, and thus **decrease pressures for unauthorized immigration** to the United States.
- Finally, NAFTA will generate new resources to improve the environment.

NAFTA Assures a Smooth Transition for Workers

The NAFTA governments agree that import-sensitive industries should have time to adjust to free trade. Therefore, NAFTA explicitly provides:

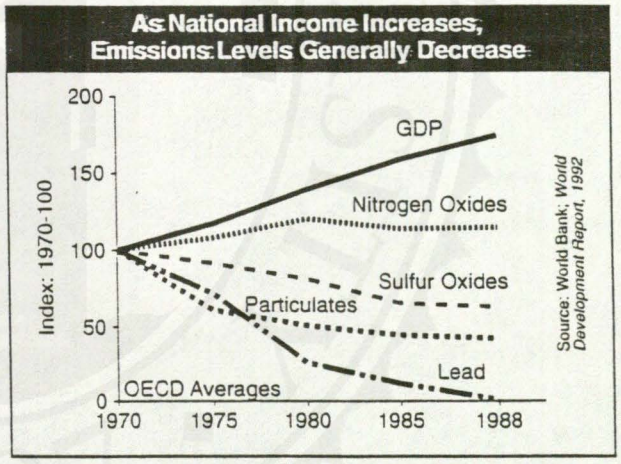
- **A transition** of up to 15 years before tariffs are eliminated on our most sensitive products;
- **Safeguards** to protect against actual or threatened injury from increased imports by permitting the temporary reimposition of higher, pre-NAFTA tariff rates; and
- **Tough rules of origin** and limits on duty "drawback" (rebates) to ensure maximum benefits for products produced in North America.

Worker Adjustment Assistance: President Bush is committed to work with the Congress to have in place adequately funded worker adjustment assistance that provides "prompt, comprehensive and effective services" by the time NAFTA enters into force. To this end, the Administration is currently consulting widely with Congress and the private sector.

Long-Term Labor Cooperation: Pursuant to a 1991 Memorandum of Understanding, the U.S. and Mexican governments have been cooperating on key labor issues, such as worker safety and health, child labor, and labor law and worker rights. We are now discussing longer term cooperative efforts to address, through technical assistance and training, priority issues regarding Mexico's labor standards and enforcement regime.

NAFTA Benefits the Environment

The NAFTA agreement affirms the goal of all three nations to "promote sustainable development... [and] strengthen the development and enforcement of environmental laws and regulations...." Accordingly, the NAFTA text:



- Allows the U.S. to maintain its stringent health, safety, and environmental standards, including the right to prohibit imports that do not meet our standards;
- Maintains the right of parties, including state and local governments, to enact even tougher standards, while encouraging the NAFTA parties to strengthen standards through upward harmonization;
- Preserves our right to enforce our international treaty obligations by limiting trade in products such as endangered species or ozone-depleting substances; and
- Permits NAFTA parties to impose stringent environmental standards on investments so long as they apply equally to domestic and foreign investors, while renouncing the lowering of standards to induce investment.

New Resources for Environmental Protection: By generating new income, NAFTA will permit Mexico to devote even more resources to protecting and enhancing the environment. Academic studies show that as economic growth increases, pollution decreases.

Border Plan: The United States and Mexico have developed an "Integrated Environmental Plan for the U.S.-Mexico Border," announced by Presidents Bush and Salinas in February 1992. Mexico has committed $460 million over three years for border environmental initiatives. President Bush's FY 93 budget includes $241 million, double the amount in 1992, to clean up the border area's rivers, hazardous waste, and air pollution.

Long-Term Cooperation: To enhance environmental protection and conservation, the U.S. and Mexican governments are pursuing a series of long-term cooperative programs covering enforcement, pollution control and prevention, pesticides, waste management, and emergency response, among other things. This work is expected to result in the establishment of new mechanisms for environmental cooperation, including enforcement.

Next Steps for NAFTA

Timing of Congressional consideration of the NAFTA is governed by "fast track" procedures, which Congress last year extended for agreements signed before June 1, 1993. Under those procedures:

- After negotiations are completed, the President may give formal notice to the Congress of his intent to enter into the agreement.
- Ninety calendar days after giving notice, the President may sign the agreement.
- The President may submit legislation implementing NAFTA to Congress any time after signing the agreement. The President intends to work closely with Congress on developing such legislation.
- Once the legislation is submitted, it will be entitled to "fast track" treatment, meaning that Congress will vote "yes" or "no" on the agreement (no amendments) and will do so within 90 session days of Congress. In the past, passage has taken considerably less time because the Administration has consulted closely with Congress throughout the negotiations and has collaborated with Congress on the drafting of implementing legislation.

"By building together the largest free trading region in the world, Mexico, the United States and Canada are working to ensure that the future will bring increased prosperity, trade, and new jobs for the citizens of each of our countries."

President George Bush
July 15, 1992

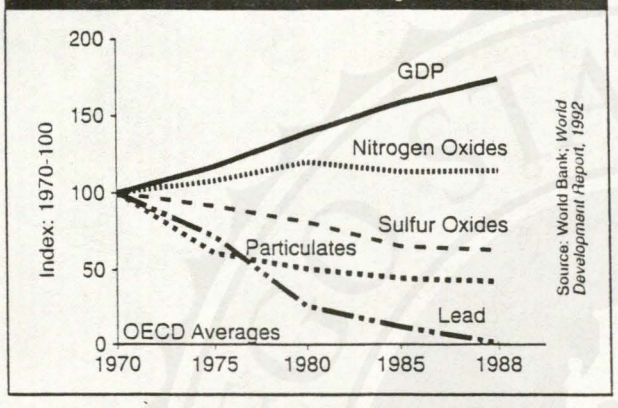
For more information, contact: Office of the U.S. Trade Representative,
600 17th St., NW, Washington, D.C., 20506

August 1992

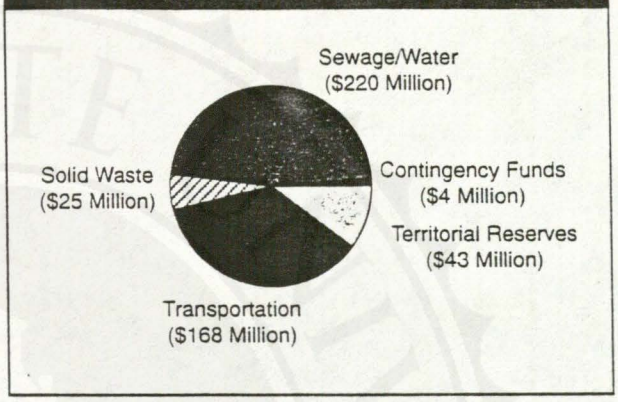
ENVIRONMENT

THE NORTH AMERICAN FREE TRADE AGREEMENT

As National Income Increases, Emissions Levels Generally Decrease



Mexico is Devoting $460 Million to Border Environmental Protection in 1992—1994



NAFTA Will Enhance Environmental Protection Throughout North America

The NAFTA parties have agreed that economic development should take place in an environmentally sound manner. Thus, the NAFTA text itself states that one of its primary purposes is to:

> *"Contribute to the harmonious development and expansion of world trade... in a manner consistent with environmental protection and conservation;... promote sustainable development;... [and] strengthen the development and enforcement of environmental laws and regulations."*

By promoting Mexican economic growth, NAFTA will create more resources for environmental protection. Independent studies show that as a country's national income increases, pollution levels generally decrease.

Key Environmental Provisions of the Agreement

NAFTA's provisions on standards and health and safety measures explicitly ensure our right to safeguard the environment, while also encouraging NAFTA parties to strengthen environmental standards. Specifically, NAFTA:

- **Maintains existing U.S. health, safety, and environmental standards** by allowing the U.S. to continue to prohibit entry of goods that do not meet U.S. standards;
- **Allows the parties, including states and cities, to enact even tougher standards;** and
- **Encourages the NAFTA parties to harmonize their standards upward** to strengthen environmental and health protection.

The Environmental Review

On February 25, 1992, President Bush released the findings of a nine-month U.S. Government review of the environmental effects of NAFTA, which included public hearings in six U.S. cities. The review concluded that NAFTA will:

- Enhance environmental protection by providing Mexico with additional resources to address current environmental problems; and
- Ease environmental pressures on the border as free trade encourages economic development to occur further south.

The review also concluded that NAFTA will not encourage U.S. firms to relocate to Mexico because pollution abatement costs represent a small share of total production costs in most industries.

The Border Plan

The comprehensive, multi-year Border Plan announced by Presidents Bush and Salinas in February 1992 will improve the environment along the border, while sustaining economic development:

- The "Integrated Environmental Plan for the U.S.-Mexico Border" was developed in consultation with the public and private sectors in 16 border cities.
- The Plan establishes a Border Environmental Advisory Committee, composed of 24 members representing various areas of the border region, and utilizes U.S. and Mexican working groups on enforcement, air, water, hazardous waste, pollution prevention, and emergency response.
- Mexico has announced a three-year $460 million program for border clean-up. President Bush's FY 1993 budget proposal includes $241 million for border environmental programs, more than double the amount allocated in FY 1992.

Longer-Term Environmental Cooperation

The United States and Mexico have agreed upon a work program to enhance regional environmental protection and enforcement:

- The United States and Mexico are formulating workplans covering the areas of air, water, hazardous waste, pesticides, enforcement, emergency response, pollution prevention, data exchange, and environmental impact assessment.
- This work is likely to result in new mechanisms for environmental cooperation that will review and monitor environmental relations, including enforcement issues.

The United States and Canada already have established mechanisms to deal with a host of environmental issues, ranging from conservation of ecosystems to control of transboundary movement of hazardous wastes. Most recently, the United States and Canada signed a landmark agreement to reduce acid rain.

Importantly, NAFTA also **preserves our right to enforce our international treaty obligations,** including limits on trade in products such as endangered species and ozone-depleting substances.

Environmental protection will be further enhanced by NAFTA's **investment** provisions, which:

- Permit the parties to impose stringent environmental standards on new investments, so long as they apply equally to domestic and foreign investors, while renouncing the lowering of environmental standards as a means to induce investment; and
- Permit the parties to require environmental impact statements on new investments.

Mexico: Environmental Accomplishments

Law: Mexico's comprehensive 1988 environmental law covers air, water, and soil pollution, and is patterned on U.S. law. In some instances, Mexican standards are even stricter than those in the United States — e.g., Mexico requires environmental impact statements for both new public and private investment.

Enforcement: In the last two years, Mexico has dramatically increased its enforcement activities, closing permanently or temporarily over 1000 polluting firms, boosting its enforcement budget from $6.6 million to $77 million in 1992, and increasing the number of border area environmental inspectors from 50 to 200.

Mexico City: In March 1992, President Salinas announced that he was requiring the biggest industrial polluters to reduce particulate emissions up to 90 percent or move out of the city. Sulfur oxides, carbon monoxide, and lead concentrations are now at or below acceptable levels; special attention is now being paid to ozone levels.

Conservation: Mexico has set up 44 national parks, 8 reserves, and 14 biosphere reserves; joined CITES in 1991; ended the commercial harvest of sea turtles; is working with the U.S. to eliminate dolphin mortality in tuna fisheries; and has announced plans to use turtle excluder devices on all shrimp vessels by May 1994.

The Pollution Haven Myth: Compliance costs play a minimal role in relocation decisions because they represent a small share of total costs for most industries. Indeed, 86 percent of U.S. industries have abatement costs of 2 percent or less. Moreover, most U.S. industries with high compliance costs already have low tariffs, so NAFTA would give them little incentive to relocate to Mexico.

The NAFTA agreement contains other provisions that are designed to enhance environmental protection, including:

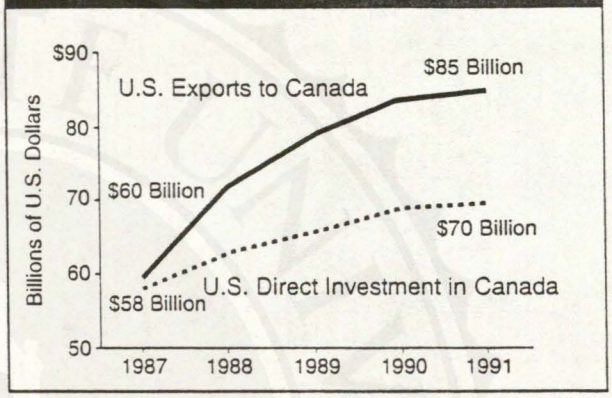
- **Dispute settlement:** NAFTA will allow dispute settlement panels to call on scientific experts for advice in trade disputes raising environmental and health science issues, and places on the complaining party the burden of proving that an environmental or health measure is inconsistent with the agreement. Parties whose standards are questioned can opt to have disputes resolved under NAFTA's provisions.
- **Land Transport:** NAFTA will decrease border congestion by allowing trucks to transport cargoes directly to their destinations in both countries, cutting idling time and ending the need to switch trailers at the border and return them home empty.

INVESTMENT

THE NORTH AMERICAN FREE TRADE AGREEMENT

U.S. Exports to Mexico Have Risen As Our Investment in Mexico Has Increased

U.S. Exports to Canada have Risen As Our Investment in Canada Has Increased



Investment Liberalization Will Mean Increased U.S. Exports and Jobs

In Mexico, Canada, and worldwide, U.S investments generate increased U.S. exports:

- Integrated production in North America will make U.S. firms more competitive against European and Japanese producers.
- NAFTA's elimination of Mexico's local content requirements for manufacturers will increase the demand for inputs sourced from the United States. U.S. subsidiaries in Mexico already buy over one-fourth of total U.S. exports to Mexico.
- NAFTA will open new U.S. export opportunities in Mexico and Canada. According to a December 1991 study by the U.S. International Trade Commission, joint production ventures in Mexico and Canada source 51 percent and 40 percent, respectively, of their inputs from the United States, compared with just 13 percent for U.S. ventures in the rest of the world.

NAFTA Encourages Environmentally Sound Investments

NAFTA's investment provisions will enhance environmental protection by:

- Permitting the parties to impose stringent environmental standards on investments, so long as they apply equally to domestic and foreign investors, while renouncing the lowering of environmental standards as a means of inducing investment; and
- Permitting the parties to require environmental impact statements on new investments.

NAFTA Provides Greater Fairness for U.S. Investors

Specifically, NAFTA:

- Provides for **non-discrimination** against U.S. companies establishing, acquiring or operating businesses in Canada or Mexico.

- Ensures that Mexico and Canada cannot block returns of profits, or royalties, or **repatriation of capital** to the U.S.
- **Eliminates the need for approval of new investments** in most sectors and does away with many other restrictions on foreign investments.
- **Prohibits the parties from requiring companies to export** as a condition for investing and from offering incentives that discriminate against imports.
- Exempts U.S. investors in Mexico from other performance requirements, thus **eliminating requirements that exports balance imports and that local content be used.**
- **Protects against unjust or uncompensated expropriations,** and grants U.S. investors direct access to **international arbitration** to enforce their rights.

NAFTA provides a **strong dispute settlement mechanism** that protects investors' rights by:

- Permitting investors to resort directly to international arbitration to resolve disputes with the host government;
- Enabling investors to obtain binding awards of money damages for violations of NAFTA's investment provisions; and
- Providing for enforcement of awards under both NAFTA and relevant treaties.

DISPUTE RESOLUTION

THE NORTH AMERICAN FREE TRADE AGREEMENT

NAFTA Contains Rapid and Effective Dispute Settlement Procedures

NAFTA creates a Trilateral Trade Commission that will regularly review trade relations among the three countries and discuss specific problems.

The Commission may create bilateral or trilateral panels, as appropriate, of private sector experts to resolve disputes involving interpretation of the NAFTA text. NAFTA also provides for independent panels to review antidumping and countervailing duty disputes, establishes processes for resolving disputes between the investor and the host government, and facilitates commercial arbitration of private disputes.

Interpretation of the Agreement

Binational or trinational panels will quickly and fairly resolve disputes under the NAFTA:

- From start to finish, dispute resolution will take no more than eight months.
- NAFTA's provisions on panel selection guard against national bias by permitting each country to appoint panelists only from among citizens of the other countries, permitting the appointment of panel chairs from non-NAFTA countries, and requiring all parties to agree on the panelists.
- Countries that win a dispute may demand trade compensation if the losing country does not comply with the panel recommendation, and may retaliate if the compensation is inadequate.

NAFTA contains special provisions for resolving disputes on environmental and health issues:

- If one country complains about another's environmental or health standards, the complaining party has the burden of proving that the standard is a violation of the NAFTA.
- Dispute-settlement panels convened under NAFTA may call on scientific and environmental experts for advice on complex scientific issues regarding the environment and health.

Antidumping and Countervailing Duty (AD/CVD) Cases

NAFTA does not change U.S. trade laws that protect U.S. industry from unfairly dumped or subsidized imports. These laws will continue to be vigorously enforced. At the same time, NAFTA substantially improves the ability of U.S. firms to appeal Mexican decisions involving allegations of dumping or subsidized sales in the Mexican market:

- NAFTA requires Mexico to undertake far-reaching legal reforms to provide full due process guarantees and effective judicial review of AD/CVD cases to U.S. exporters. These reforms must be completed before NAFTA enters into force.

- U.S. firms may choose to appeal decisions against them in other countries either through their appellate systems or the binational panel process.

The NAFTA panel system improves upon the provisions of the U.S.-Canada Free Trade Agreement (CFTA) in three ways:

- First, judges, rather than trade practitioners, will serve on the binational panels. This will reduce the potential for conflicts of interest and underscore the requirement to use existing domestic laws and precedents, rather than a new body of case law, as the basis for decisions.
- Second, NAFTA's procedures for challenging a panel decision also improve upon provisions in the CFTA by lengthening the period of review and providing expressly for an examination of the legal and factual conclusions of the binational panel.
- Third, NAFTA provides for the suspension of the entire panel process if the application country's law interferes with the panel process or denies effective panel review of the basis of the administrative decision.

International Arbitration of Investment Disputes

NAFTA protects investors' rights through a dispute settlement mechanism that:

- Permits investors to go directly to international arbitration for disputes with the host government;
- Allows investors to seek binding awards of money damages for violations of the NAFTA's investment provisions; and
- Provides for enforcement of awards under both the NAFTA and international treaties on enforcement of arbitral awards.

Resolution of Private Commercial Disputes

NAFTA encourages and facilitates the use of alternative dispute-settlement procedures to resolve commercial disputes between private parties in NAFTA countries:

- Each country must have in place legal mechanisms to enforce arbitration contracts and awards and will take steps to promote other forms of dispute settlement; and
- A special committee under the NAFTA Trade Commission will examine and report on dispute settlement issues in the three countries.

MYTHS & REALITIES

THE NORTH AMERICAN FREE TRADE AGREEMENT

Will Mexico's lower wages and workplace safety standards encourage U.S. companies to move to Mexico?

No. The total cost of production is what matters in relocation decisions, not wages alone. Labor productivity is as much as five times higher in the United States than in Mexico, and, over the past decade, U.S. productivity has grown more than twice as fast as Mexico's.

Mexican worker rights and labor standards compare favorably with those in the United States, as do Mexico's laws and regulations on occupational safety and health. Moreover, we have a broad-based cooperative effort underway between the U.S. Department of Labor and the Mexican Labor Ministry to narrow discrepancies that exist.

Will NAFTA lead U.S. companies to move their operations—and jobs—to Mexico to avoid U.S. environmental standards?

No. First, environmental compliance costs play a minimal role in relocation decisions because they represent a small share of total costs for most industries. Moreover, most U.S. industries with high compliance costs already have low tariffs, so NAFTA would give them little incentive to relocate.

Second, all new investments in Mexico must comply with Mexico's 1988 environmental legislation, which closely mirrors U.S. law. In some instances, Mexican environmental standards are even stricter than those in the United States. Mexico's enforcement of these standards is improving dramatically: since 1989, President Salinas has shut down over 1000 factories for non-compliance with Mexican environmental standards, and quadrupled the number of border inspectors.

Third, to narrow any differences in standards and enforcement, we are working closely with the Mexican government. In February 1992, Presidents Bush and Salinas unveiled an "Integrated Environmental Plan for the U.S.-Mexico Border," which establishes working groups on enforcement, air, water, hazardous waste, pollution prevention and emergency response. Moreover, we are making progress toward the establishment of new mechanisms for environmental cooperation, including enforcement.

Will NAFTA turn Mexico into an export platform for products from outside of North America?

No, NAFTA's tough rules of origin mean that the benefits of its tariff cuts go only to North American-made products, thus preventing Mexico from being used as a "pass-through" for non-NAFTA products.

In the auto sector, for example, cars built in Mexico and Canada must contain 62.5 percent North American content to be eligible for preferential tariff treatment.

In the textile sector, to qualify for duty-free status, textiles and garments must be woven and processed in North America generally from the yarn-spinning stage forward.

Finally, NAFTA will eliminate Mexico's export requirements and limit its duty rebate programs, thus removing the artifical incentives firms in Mexico had to export to the United States.

Will NAFTA mean that cheap imports from Mexico will flood the U.S. market?

No, our imports from Mexico are relatively small, equivalent to just over one-half of one percent of U.S. GDP. Moreover, half of those products already are eligible to enter the United States duty free, and thus will be unaffected by NAFTA's tariff reductions.

In addition, NAFTA contains a number of provisions that will protect U.S. workers from import surges:

- Long transition periods for the reduction in U.S. tariffs for import-sensitive sectors; and
- Safeguards, which permit a temporary hike in U.S. tariffs to protect U.S. workers from being injured from increased imports.

Finally, U.S. trade laws remain unchanged and will be strongly enforced to protect U.S. workers from unfairly dumped or subsidized foreign goods.

Will NAFTA increase immigration from Mexico?

No. First, NAFTA does not alter either U.S. immigration laws or the vigor with which they are enforced. Second, free trade will stimulate economic growth, creating new jobs, at better wages, in Mexico:

- Economic growth in Mexico is the single most important long-term remedy to the problem of unauthorized migration to the United States, according to a 1990 report by the Commission for the Study of International Migration and Cooperative Economic Development.
- Indeed, a 1990 U.S. International Trade Commission Study concluded that the NAFTA will both expand the number of jobs in Mexico and increase average wages, decreasing the economic pressures that lead to emigration to the United States.

Will anything be done to help displaced workers?

While NAFTA will create good, high-paying jobs for Americans, workers dislocated as a result of the NAFTA will be eligible for adjustment assistance.

In his May 1, 1991 letter to Congress, the President affirmed his commitment to providing adequately funded worker adjustment assistance that ensures that workers who may be displaced will receive "prompt, comprehensive, and effective services."

The Administration is already working with Congress and the private sector on worker adjustment assistance, and is committed to have a proposal ready when NAFTA legislation is considered by Congress – well before NAFTA enters into force.

What will happen to the U.S.-Canada Free Trade Agreement (CFTA)?

NAFTA builds upon trade liberalization begun in the CFTA, but does not erode the benefits of the CFTA.

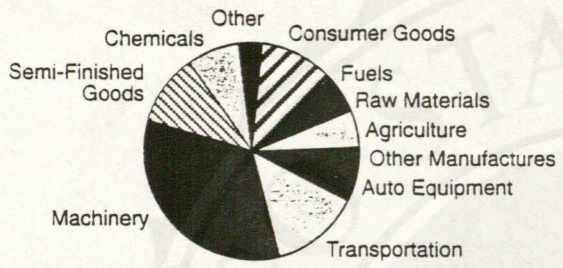
In general, NAFTA provisions replace parallel sections of the CFTA. For example, NAFTA improves upon—and supersedes— the CFTA's provisions on rules of origin.

In other areas, NAFTA broadens the scope of the CFTA by addressing issues such as intellectual property and land transportation that were not included in the CFTA.

MARKET ACCESS: GOODS

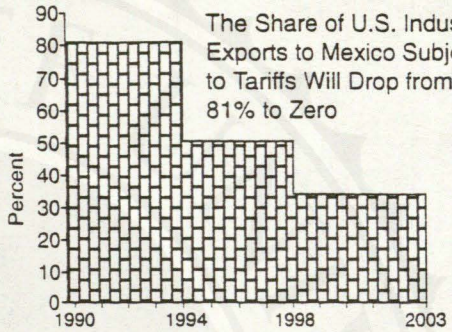
THE NORTH AMERICAN FREE TRADE AGREEMENT

85 Percent of U.S. Merchandise Exports to Mexico Are Manufactures



Total 1991: $33 Billion

As Mexican Tariff Walls Are Torn Down: U.S. Exports to Mexico Will Rise



NAFTA Eliminates Mexico's Import Barriers, Which Will Boost U.S. Exports and Jobs

Roughly 65 percent of all U.S. exports to Mexico can be sold in Mexico completely duty free either on the day the NAFTA enters into force or within 5 years:

- This includes some of our most competitive products, such as aerospace equipment, semiconductors, computers and parts, telecommunications and electronic equipment, medical devices, rail locomotives and many auto parts, machine tools, and paper products. Mexican tariffs on these items now range between 10 and 20 percent, a substantial barrier.
- In other areas, such as furniture, steam turbines, and beer, Mexico's tariffs will drop by 20 percent or more on the day NAFTA enters into force.
- Mexico's tariffs on all industrial goods will be phased out within 10 years.

NAFTA also prevents Mexico from increasing tariffs on U.S. goods above their current level; without NAFTA, Mexico would have the right under international trade rules to raise most of its tariffs to 50 percent.

If the United States and Mexico agree, tariffs on U.S. exports to Mexico may be removed ahead of schedule to accelerate the pace of free trade.

Mexico will eliminate its import licenses either immediately or within 10 years for items such as pharmaceutical inputs and used equipment, including computers, tractors, and industrial machinery.

CFTA Tariff Phase-out Will Continue

NAFTA does not alter the tariff elimination schedule established in the U.S.-Canada Free Trade Agreement (CFTA). Since the CFTA went into effect in 1989, two successful rounds of tariff acceleration have removed ahead of schedule tariffs on $8 billion worth of trade with Canada; a third round is now under discussion.

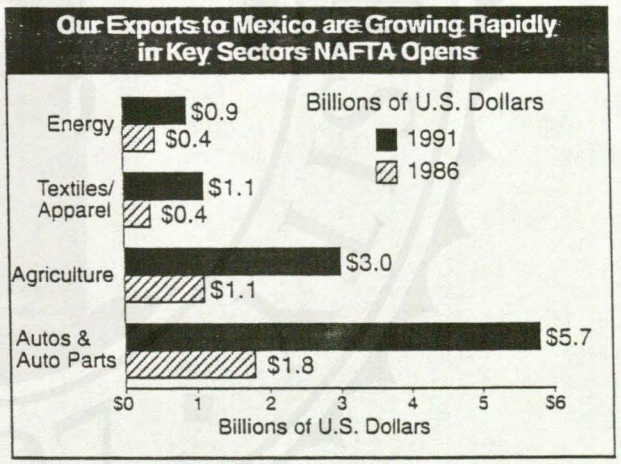
Benefits for Key Sectors

Automotive Trade: U.S. automotive exports to Canada and Mexico totalled $28.5 billion in 1991. Our automotive exports to Mexico totalled $5.7 billion, which should increase as NAFTA:

- Lowers Mexican tariffs on autos from 20 percent to 10 percent immediately, and then to zero over 10 years, and lowers tariffs on most auto parts to zero within 5 years;
- Mandates tough rules of origin specifying that vehicles must contain 62.5 percent North American content to qualify for NAFTA tariff preferences, thus preventing "screwdriver" assembly plants using insufficient North American content from benefitting from NAFTA tariff cuts;
- Increases the demand in Mexico for U.S. autos and auto parts by eliminating over 10 years requirements that automakers supplying the Mexican market produce the cars in Mexico and buy Mexican parts;
- Eliminates mandatory export quotas and other performance requirements previously imposed on foreign-owned automotive manufacturing facilities in Mexico; and
- Eliminates Mexican import restrictions on buses and trucks within five years.

Textiles and Apparel: NAFTA opens the $6.4 billion Mexican textile and apparel market. U.S. textile exports to Mexico reached $1.1 billion in 1991. Specifically, NAFTA:

- Immediately eliminates barriers to trade between Mexico and the United States on over 20 percent, or some $250 million, of textile and apparel exports. This includes key U.S. exports, such as denim, underwear, thread, and many household furnishings;
- Eliminates, over six years, barriers to another $700 million worth of U.S. textile exports, including yarns, most household furnishings, most fabrics, and certain other apparel;
- Provides strong rules of origin requiring that garments must be manufactured in North America generally from the yarn-spinning stage forward to qualify for duty free status, thus preventing Mexico from serving as an export platform for "free riders" outside of North America; and
- Provides safeguards — tariffs or quotas — if imports cause damage to the U.S. industry.



Agriculture: U.S. exports to Mexico, our third largest foreign agricultural market, totalled $3 billion last year. NAFTA's tariff reductions and elimination of Mexican import licenses will spur increased U.S. exports:

- One-half of U.S. farm exports to Mexico will enter Mexico duty-free on the day NAFTA enters into force. All remaining tariffs on agricultural goods will be eliminated within 15 years. Mexican tariffs now generally range from 10 to 20 percent.
- **Grains:** NAFTA will eliminate immediately Mexico's licensing requirements for wheat and corn and will allow unrestricted access for those commodities, as well as other grains, rice, and oilseeds and oilseed products within 10 to 15 years.

- **Dairy and Poultry:** NAFTA will immediately eliminate Mexico's licensing requirements for poultry, eggs, cheeses, and non-fat dry milk and remove all further trade barriers within 10 to 15 years.
- **Livestock:** NAFTA will lock in our current duty-free access to the Mexican market for cattle and beef, and will eliminate within 10 years all remaining Mexican tariffs on U.S. livestock and poultry exports.
- NAFTA contains safeguard measures that automatically increase duties for certain sensitive products to protect U.S. farmers if import volumes rise too rapidly during the transition.

Energy and Petrochemicals: NAFTA provides access for U.S. firms to Mexico's electricity, petrochemical, gas, and energy services and equipment markets:

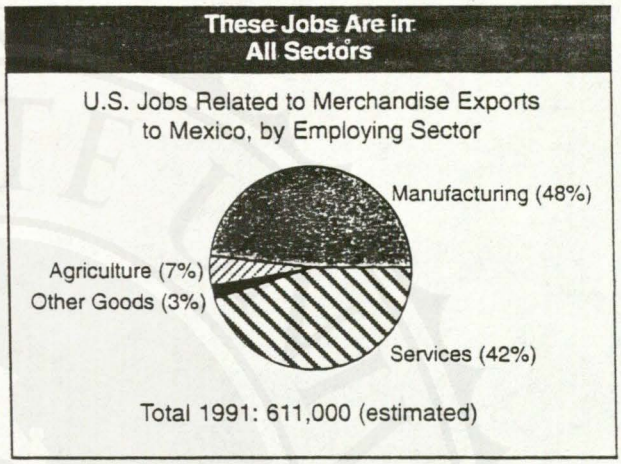
- **Government Procurement:** NAFTA provides significant opportunities to sell to state-owned PEMEX and CFE (the State Electricity Commission) under open and competitive bidding rules.
- **Electricity Generation:** NAFTA allows private foreign ownership and operation of electric generating plants for self-generation, co-generation, and independent power plants.
- **Petrochemicals:** NAFTA immediately lifts trade and investment restrictions on most petrochemicals, by lifting investment restrictions on 14 of the 19 previously restricted basic petrochemicals and on 66 secondary petrochemicals.
- **Services:** NAFTA provides for performance incentives in services contracts such as drilling activities.
- **Natural Gas and Electricity Exports:** NAFTA permits U.S. firms to negotiate directly with Mexican buyers of natural gas and electricity and to conclude contracts with the buyers together with PEMEX or CFE.
- **Reform:** NAFTA reinforces recent reforms in the North American energy sector and provides the framework for sustained liberalization of this sector.

Other Sectors: NAFTA's elimination of tariff and non-tariff barriers will provide U.S. industries with new market opportunities in all sectors, including:

- **Electronics:** Most Mexican tariffs on telecommunications equipment, computers and parts, and electronic components will be eliminated immediately, with others eliminated within five years. U.S. exports of electronics products to Canada and Mexico totalled $4.5 billion in 1991, and have been growing 20 percent annually.
- **Pharmaceuticals:** Mexico will immediately eliminate its import licenses on pharmaceutical inputs and will eliminate over 10 years its tariffs on pharmaceuticals, which now range between 10 and 20 percent. In addition, NAFTA will virtually eliminate compulsory licensing for pharmaceuticals and extend the term of patent protection to at least 20 years, versus the current 10 years in Canada. Mexico also will substantially open its government procurement market for pharmaceuticals. In 1991, the United States exported $645 million in pharmaceuticals to Mexico and $121 million to Canada.
- **Entertainment:** NAFTA will open Mexico's cable television market to U.S. and Canadian investment, give U.S. broadcasters the right to broadcast across the Mexican border, and remove Mexican import restrictions on U.S. motion pictures.

U.S. JOBS & ADJUSTMENT

THE NORTH AMERICAN FREE TRADE AGREEMENT



NAFTA Will Increase U.S. Exports and Generate Jobs

U.S. exports to Canada and Mexico reached a record $118 billion in 1991, supporting over 2.1 million U.S. jobs. Over 1.5 million jobs were supported by exports to Canada, and more than 600,000 U.S. jobs depended on exports to Mexico.

- These jobs are distributed nationwide: exports to Mexico have risen in almost every state since 1987.
- Export-related jobs generally pay 17 percent more than the average U.S. wage. This wage advantage accrues to service workers as well as to those employed in manufacturing.

A May 1992 U.S. International Trade Commission survey of academic studies reported "a surprising degree of unanimity" in predicting net job creation and wage gains from NAFTA. The Institute for International Economics recently projected that by 1995, over 1 million U.S. jobs will be supported by U.S. exports to Mexico alone.

NAFTA will generate jobs in all sectors:

- **Manufactured Goods:** NAFTA will slash Mexican tariffs to enable about half of the products the U.S. exports to Mexico to enter Mexico duty free either on the day NAFTA becomes effective with tariffs on the remaining products phased out over 10 years.
- **Agriculture:** Tariff reductions plus the elimination of Mexico's import licenses, which currently cover 25% of U.S. agricultural exports, will increase our exports to Mexico, which have nearly tripled since 1986.
- **Services**: The elimination of barriers to the sale of services across borders will generate U.S. jobs by opening Mexico's $146 billion services market to U.S. firms, and by improving our access to the $285 billion Canadian services market. Services jobs related to U.S. merchandise exports pay premium wages – more than manufacturing jobs overall.

A Smooth Transition for U.S. Workers

The transition to free trade should result in minimal adjustment pressures in the United States since Mexico's economy is only 1/20th the size of ours, and our imports from Mexico are equivalent to just over one-half of one percent of U.S. GDP. Moreover, half of these imports already are eligible to enter the United States duty free, and would thus not be affected by NAFTA.

However, to ensure a smooth transition and further minimize adjustment pressure, the NAFTA explicitly includes:

- **Long transition period**s of up to 15 years for the elimination of tariffs on the most sensitive U.S. sectors, such as household glassware, footwear, broomcorn brooms, and some fruits and vegetables;
- **Safeguards** that permit a temporary hike in U.S. tariff rates to pre-NAFTA levels to protect U.S. workers and farmers from being injured by increased imports from Mexico or Canada; and
- **Tough rules of origin** that guarantee that the benefits of the NAFTA tariff cuts go to North American-made products only; in the auto sector, for example, cars and light trucks built in Mexico must contain 62.5 percent North American content to be eligible for preferential tariff treatment.

To further prevent Mexico from becoming an export platform for non-NAFTA countries, NAFTA provides for:

- **Elimination of performance requirements**, such as export quotas and local content requirements, for foreign investments in Mexico; and
- **Limits on duty "drawback"** (rebates) on components imported from a non-NAFTA country and then incorporated into a product exported to another North American country.

Finally, NAFTA does not change in any way U.S. laws to combat unfair trade practices, which will be vigorously enforced to prevent dumping and unfair subsidies.

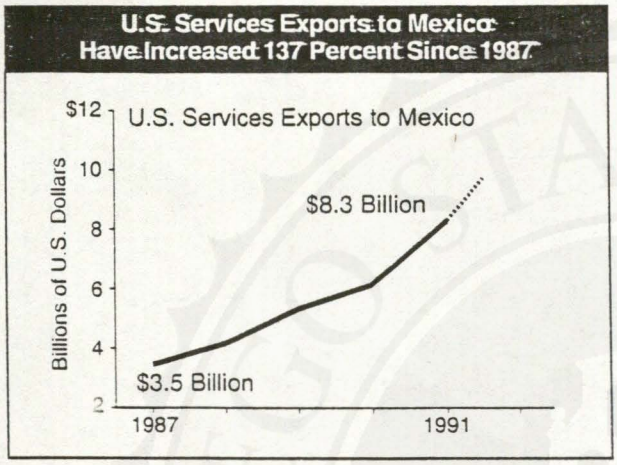
Worker Adjustment Assistance

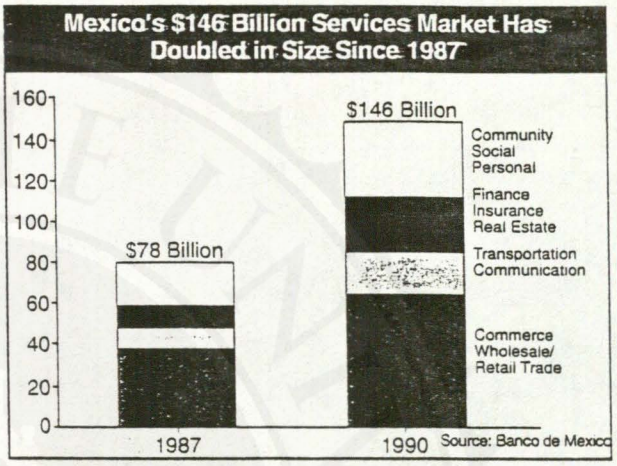
In addition to the trade-related adjustment provisions in the NAFTA itself, the Administration is working with Congress and the private sector to provide worker adjustment assistance:

- In his May 1, 1991 report to Congress, the President committed to provide worker adjustment assistance that is adequately funded and ensures that workers who may be displaced will receive "prompt, comprehensive, and effective services."
- The President stated that he would work with Congress to meet these objectives, and that they could appropriately be addressed in legislation implementing a NAFTA, which is expected to be considered by Congress next year.
- The Administration began its initial series of Congressional and private sector consultations regarding adjustment efforts in May 1992, as the outlines of the NAFTA emerged. Since then, the Department of Labor has held consultations with Congressional staff on interested committees, as well as with private sector groups.
- A worker adjustment proposal will be ready when NAFTA legislation is considered by Congress – well before NAFTA actually enters into force.

SERVICES

THE NORTH AMERICAN FREE TRADE AGREEMENT





NAFTA Opens Mexico's $146 Billion Services Market and Improves Access to Canada's $285 Billion Market

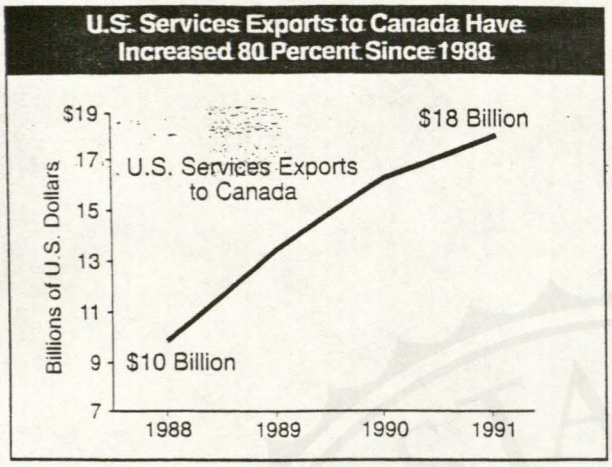
NAFTA liberalizes services trade by establishing the following principles:

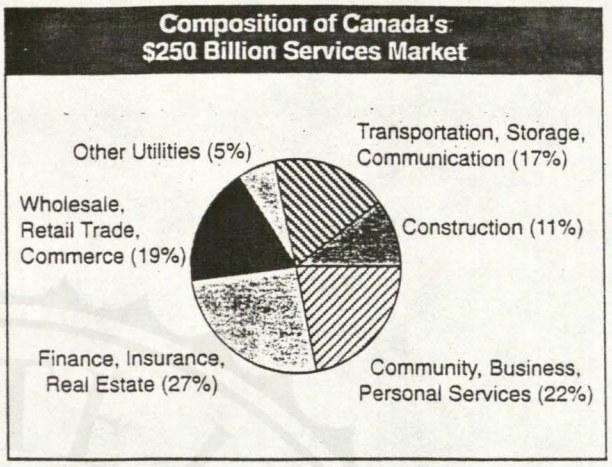
- **Non-discrimination:** NAFTA parties agree to treat each others' services firms no less favorably than local services firms.
- **Provision of Cross-Border Services**: With few exceptions, U.S. firms may provide services in Mexico and Canada without relocating their operations and employees from the United States.
- **No Citizenship Requirements**: All three parties will eliminate citizenship requirements for licensing of professionals, such as lawyers, doctors, and accountants; further harmonization of professional services standards will facilitate cross-border trade.

Restrictions that remain in place cannot be worsened, and, if liberalized, cannot be made more restrictive in the future.

These principles apply to most services sectors, other than aviation transport, maritime, and basic telecommunications. Among the services covered are:

- Construction
- Engineering
- Accounting
- Enhanced Telecommunications
- Commercial Education
- Health Care Management
- Advertising
- Environmental Services
- Tourism
- Land Transport
- Consulting/Management
- Architecture





Benefits of NAFTA in Key Services Sectors:

Financial Services: NAFTA enables U.S. financial firms to establish wholly owned companies in Mexico for the first time in more than 50 years, and permits U.S. banks, securities firms, and other financial companies to compete in the Mexican and Canadian financial markets.

- **U.S. banks and securities firms** will be permitted to establish wholly owned subsidiaries throughout Mexico and engage in the same range of operations as similar Mexican firms.
- Virtually all limitations on the ability of U.S. banks and securities firms to compete in the Mexican market will be eliminated by January 1, 2000, and Mexico's ability to impose future constraints on foreign-owned firms will be limited.
- Other types of financial firms, including **leasing and consumer finance**, will also be able to establish operations in Mexico when the agreement goes into effect and will not be subject to any limitations after a short transition period.
- Mexicans and Canadians will be guaranteed the right to purchase financial services from firms in the United States.

Insurance: NAFTA eliminates restrictions on U.S. ownership and provision of services in the $3.5 billion Mexican insurance market:

- U.S. insurance companies may sell cargo insurance, and reinsurance on a cross-border basis into Mexico, and sell life, health, and travel insurance to Mexican residents who come to the United States.
- U.S. firms with **existing joint ventures in Mexico** will be able to obtain as much as 100 percent ownership by 1996.
- **New U.S. entrants** that wish to acquire an interest in an existing Mexican firm may become majority (51%) owners as of 1998, and 100 percent owners by 2000. Alternatively, new entrants may start their own wholly owned firms in Mexico immediately, subject to certain size limitations in effect until January 1, 2000.

Telecommunications: NAFTA eliminates discriminatory restrictions on U.S. sales to and investments in the $6 billion Mexican market for telecommunications equipment and services. NAFTA:

- Opens opportunities for U.S. **exports of equipment** to Mexico, which totalled $790 million in 1991 and are projected to be in excess of $1 billion by year-end 1992.
- Improves opportunities for **U.S. exports of enhanced services** to Mexico, a market expected to grow from $22 million in 1991 to over $100 million by 1995; NAFTA also improves prospects for exports of cross-border enhanced services, which totalled $27 million in 1990.
- Eliminates investment restrictions in most enhanced services immediately, and eliminates all investment and other restrictions on **packet-switched services** in 1995.
- Enables U.S. firms to operate state-of-the-art, private **intra-corporate communications systems** throughout North America and guarantees U.S. businesses access to public communications facilities while doing business in and with Mexico.
- **Eliminates product standards as a barrier** to telecommunications trade by providing for mutual recognition of test data from all competent test facilities in NAFTA countries.

Land Transportation: NAFTA opens Mexico's market for international truck, bus, and rail transport, and locks in U.S. access to Canada's already open transportation market. Specifically, NAFTA:

- Permits **U.S. trucking companies** to carry international cargo to the Mexican states contiguous to the United States by the end of 1995, and to have cross-border access to *all* of Mexico by the end of 1999. Over 90 percent of U.S. trade with Mexico is shipped by land.
- Provides **U.S. charter and tour bus operators** full and immediate access to the cross-border market; U.S. regular bus route companies will gain full cross-border access by the end of 1996.
- Gives U.S. trucking and bus companies the right to set up **international cargo subsidiaries** or new companies in Mexico, and to acquire minority ownership by the end of 1995, majority ownership by 2000, and 100 percent ownership by 2003.
- Opens the Mexican market permanently for **U.S. railroads**, locking in the market-oriented reforms undertaken by the Mexican National Railroad, by permitting U.S. railroads to market their services directly to customers, use their own locomotives, construct and own terminals in Mexico, and provide infrastructure financing.
- Opens investment and operating access for **port facilities** in Mexico, increasing options for **U.S. intermodal companies**.

NAFTA's land transport provisions also improve safety and the environment because they:

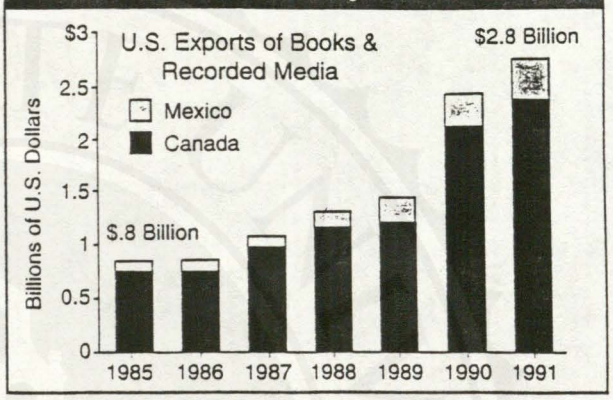
- Establish a process for harmonizing various land transport safety standards, giving impetus to ongoing work to upgrade Mexico's safety standards; and
- Will decrease congestion and improve the border environment by ending the necessity of "handing off" trailers at the border and having them return home empty.

INTELLECTUAL PROPERTY RIGHTS

THE NORTH AMERICAN FREE TRADE AGREEMENT

The U.S. Now Exports Over $21 Billion in R&D-Intensive Goods to Mexico and Canada

Copyright-Dependent U.S. Exports to Mexico and Canada Totalled Nearly $3 Billion in 1991



NAFTA's IPR Provisions Will Promote U.S. High Tech and Entertainment Exports

The United States is a world leader in creativity and innovation, and growth in our exports of R&D-intensive goods, software, movies, books, and sound recordings depends on strong patent, copyright, and trademark rules, as well as effective enforcement.

NAFTA provides a higher standard of protection for patents, copyrights, trademarks, and trade secrets than has been established in any other bilateral or international agreement.

In addition, NAFTA:

- Requires enforcement of rights against infringement and piracy, both internally and at the border; and
- Reduces the threat of piracy of intellectual property rights, including rights of authors and inventors.

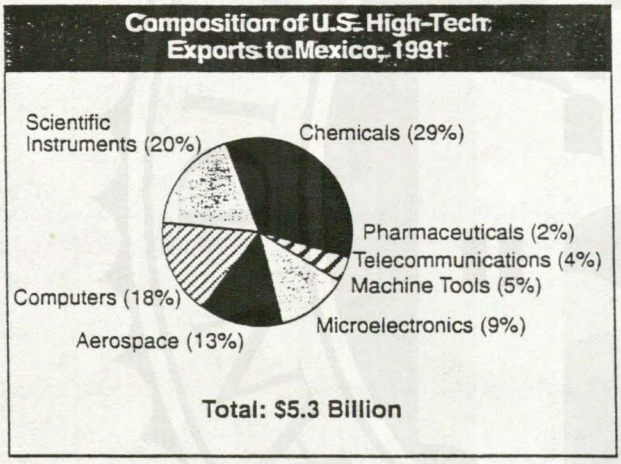
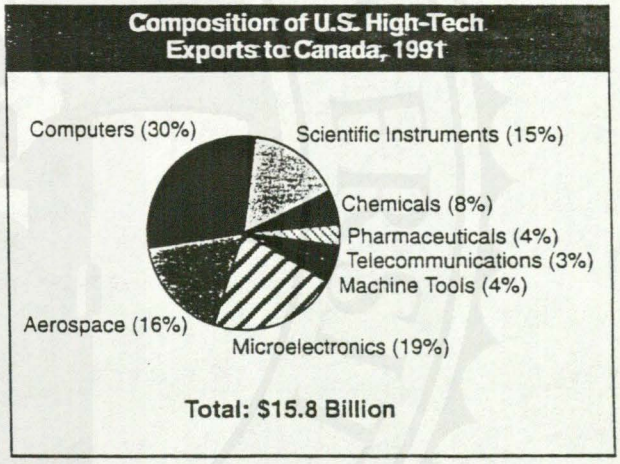
High-tech exports account for 32 percent of total U.S. exports to the world, but only 16 percent of U.S. exports to Mexico. NAFTA removes barriers that have limited U.S. market opportunities in the past, opening up substantial new export opportunities for U.S. high-tech equipment and service providers.

Patents: NAFTA's patent protection resolves longstanding trade irritants for U.S. pharmaceutical and agricultural chemical companies by:

- Protecting **product and process patents** for virtually all inventions; and
- **Limiting the ability of countries to impose compulsory licensing** on patent holders, particularly pharmaceutical companies.

Copyrights: NAFTA provides copyright protection for North American producers of computer programs, sound recordings and motion pictures, including:

- Protecting **computer programs** as literary works and databases as compilations;
- Giving copyright owners of computer programs and producers of sound recordings the right to **prohibit the rental** of their products;
- Establishing a **50-year term of protection for sound recordings**, and requiring parties to provide protection for existing sound recordings; and
- Setting a minimum term of 50 years for the protection of **motion pictures and other works**, and allowing companies to exercise their rights as authors.

Other Rights: NAFTA also strengthens protection for trademarks, service marks, trade secrets, and other rights by:

- Improving protection for integrated circuits, industrial designs, and plant varieties; and
- Preventing the use of geographical indications to mislead the public.