A New NAFTA?: North America Needs an Alternative Model for Fairer Trade

A Submission to Global Affairs Canada’s NAFTA Consultations

By the Trade Justice Network

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Many Canadians are aware (and have been directly impacted by the fact) that the North American Free Trade Agreement (NAFTA) has increased trade across borders and contributed to economic integration between Canada, the United States and Mexico. These are not inherently negative processes; however, continental integration and cooperation through NAFTA have been accompanied by a host of devastating impacts on people, the environment and democracy across the continent. Some of those well-documented impacts are outlined in this submission, including a rise in inequality, the expansion of investor rights, the weakening of labour rights, environmental degradation, the deterioration of agricultural systems and the lowering of public health and consumer protection standards. We argue that the NAFTA renegotiations must take into consideration the impacts of NAFTA to date in order to develop a fairer trade relationship going forward.

Based on the lessons learned from NAFTA, we wish to point to alternatives, namely the core principles and elements that must characterize any new agreement for North American trade and economic integration, as well as the process to develop it. A new agreement or model for trade and cooperation must protect labour (including migrant workers’) rights and human rights; agricultural production, rural communities and food sovereignty; environmental sustainability; democracy and government’s right to regulate. The negotiation and development process must be democratic, transparent and participatory. We call on the Canadian government to commit to upholding these rights and principles. Furthermore, Canada must be prepared to walk away from a deal that does not protect them.

**Economic Inequality**
NAFTA has contributed to a rise in economic inequality in Canada as well as the U.S. and Mexico. This has been most evident in the growing gap in wealth and power between corporations and people. Since NAFTA, there has been a great deal of corporate amalgamation, which fuels the concentration of assets and profits (Brennan 2015). In 1950, the largest 60 firms held 29% of total corporate profit, rising only to 30% in 1993. Following NAFTA, Canada experienced two waves of mergers. Profit concentration nearly doubled, reaching 58% in 2011 (Brennan 2015, 7). Corporate concentration has been accompanied by increased market power of the largest firms. In 1993, the markup (profit as a portion of revenue) of the largest 60 firms was less than 3%; it rose to 12% in 2007 (Brennan 2015).

NAFTA also made companies freer to move across borders. NAFTA rules restricted governments’ ability to stop the mobility of capital. The increase in competition that follows from trade liberalization motivates employers to drive down labour costs (i.e. wages) (Crow & Albo 2005). It is for this reason that we have seen many transnational corporations, particularly those based in the US, move their production to lower wage regions (e.g. Mexico or Latin America). This benefits neither the domestic population nor the lower wage region.

What is important to note is that the dramatic increase in corporate profits has not been shared with workers or citizens. Brennan (2015, 8) notes that “the windfall is not being shared equally between the owners of corporate equity and the labourers who help produce it. As corporate power increases, as it did in the decades since 1990, owners tended to win at the expense of workers.” As a result, trade and investment liberalization under NAFTA has contributed to rising income and wealth inequality in Canada.
NAFTA was sold to citizens on the basis that it would contribute to economic growth and, in turn, benefits (including higher income and standard of living) for all. However, as demonstrated above, this promise was not the reality. There has been a similar fall in wages and rise in inequality in the U.S. and Mexico (Public Citizen 2014). In Canada and the U.S., an increase in the unemployment rate and a decline in the growth rate of productivity have also accompanied trade liberalization (Seccareccia 2014).

The Trudeau government has vowed to address the growing inequality in Canada through its commitment to “growing the middle class” (Speech from the Throne 2016). The continued, unfettered expansion of corporate power and profits would severely undermine the Canadian government’s efforts to enhance equality and to ensure economic prosperity is shared fairly by all. At the negotiating table for the “new NAFTA” and other trade deals, Canada must advocate for the reigning in of corporate/investor power. An alternative trade and investment model—such as one that promotes domestic investment and fosters inclusive, wage-led growth—would help to rebalance the distribution of income, wealth and power (Brennan 2015, 9).

**Investment Protections**

The rising inequality between the corporate sector and workers/citizens has been exacerbated by NAFTA’s investment provisions. NAFTA was the first large multilateral trade deal to include the investor-state dispute settlement (ISDS) mechanism in its investment provisions (Chapter 11). It has since become a standard addition to subsequent trade and investment deals, such as the Trans-Pacific Partnership (TPP), Canada’s Foreign Investment Promotion and Protection Agreement (FIPA) with China. The recently signed Comprehensive Economic and Trade Agreement (CETA) with the EU contains a nearly identical Investor Court System (Van Harten 2016). ISDS reinforces and protects investor rights to the extent that investors/firms are able to effectively sue governments before tribunals of private arbitrators—separate from the domestic court systems—for alleged expropriation, discriminatory treatment or loss of potential profits. However, ISDS goes beyond “protecting” investors, as “the obligation to compensate investors for losses of expected profits can and has been applied even where rules are nondiscriminatory and profits are made from causing public harm” (Stiglitz & Hersh 2015). Nearly all cases have involved the challenge of public interest regulations (see Public Citizen 2012 for an extensive overview of ISDS cases involving public interest policies, organized by categories of environment, labour rights, essential services, etc.). In short, ISDS gives foreign investors and multi-national corporations the ability to challenge government decisions and regulations that they deem unfavourable to their economic activities.

Canada is the most challenged country under NAFTA Chapter 11 (see Global Affairs 2017). Cases against Canada include challenges to wildlife conservation measures, provincial water and timber protection policies, and bans on gasoline additive MMT, a cosmetic herbicide, fracking in the St. Lawrence River Basin, and the sale and use of pesticides. In addition to the challenges against these public health and safety and environmental regulations, ISDS has contributed to a “chilling effect” on public interest regulations, similar to the outcome of regulatory cooperation under NAFTA. The continued expansion of investor rights, therefore, is not in the best interest of Canadians. Furthermore, investors and corporations have been granted
access to a mechanism for challenging laws and regulations not afforded to the public. ISDS must be removed from any new model for North American trade and cooperation.

It is worth noting that this year, Ecuador terminated 16 bilateral investment treaties, including one with Canada, based on the recommendation of the Ecuadorian Citizens’ Commission Comprehensive Audit of Investment Protection Treaties and of the International Arbitration System on Investments (CAITISA) report. One of the Commission’s key recommendations was to exclude the ISDS mechanisms from any future treaty (Transnational Institute 2017). This demonstrates that it is possible to reject ISDS in pursuit of fairer trade relationships.

Canada must halt its continued support of expanding investor rights at the expense of human and labour rights, environmental sustainability, indigenous sovereignty, governments’ right to regulate and democracy. Such investor protections certainly do not resemble the making of a “progressive” trade agenda, as the Trudeau government has claimed a commitment to (Trudeau 2017; Government of Canada 2017a). For the government to honour this commitment, the federal government and negotiators during the NAFTA renegotiations must stand up against ISDS and in favour of Canadian sovereignty and democracy.

**Labour Rights**

NAFTA was sold to Canadian workers on the basis that it would raise wages, working conditions and standard of living for all workers across the continent. However, the economic prosperity as a result of NAFTA has not been shared by working people. As noted above, wages have not increased along with productivity while corporate profits have spiked, thus exacerbating income and wealth inequality.

NAFTA also included a labour side agreement, the North American Agreement on Labour Cooperation (NAALC), that is effectively toothless. The agreement aimed to promote the enforcement of several core labour rights, including freedom of association; protection of the right to organize; the right to bargain collectively; the right to strike; minimum wage; equal pay for equal work; occupational health and safety; and prohibitions on child labour (NAALC 1993). However, the NAALC is not internationally enforceable, but rather was designed as “a review mechanism by which member countries open themselves up to investigation, reports, evaluations, recommendations and other measures” (Compa 2001, 3). The NAALC, therefore, has limited capacity to sanction states for violation of the agreement, rendering it largely meaningless (Crow & Albo 2005, 19).

The NAALC does little to expand upon existing labour rights and standards. It “does not create new regional labor standards, but Article 27 of the agreement mandates that labor protections already established under national labor laws must be enforced” (Garcia 2011, 38). The NAALC “did not develop a strategy for upward harmonization of labour standards, emphasizing instead effective enforcement of national law” (Compa 2001). However, given that the provisions of the NAALC have extremely limited enforceability, this means that the agreement makes little to no contribution to raising working conditions or standard of living.

Furthermore, it has been argued that “as investors shift production to lower-wage countries, governments implicitly encourage selective enforcement of domestic labor law in order to maintain international competitiveness” (Garcia 2011). This phenomenon, often referred
to as the “race to the bottom,” is worsened by the fact that NAALC does not provide an effective mechanism to challenge any avoidance of domestic labour laws.

A “new NAFTA” must learn from (and address the limitations of) the NAALC. This may involve the inclusion of enforceable labour rights and standards within an international agreement, in the way that investor rights are binding. This could also involve encouraging governments to ratify the International Labour Organization (ILO) conventions. In a new model for North American trade and cooperation, labour rights must be protected and enforced. This would encourage the raising of wages, working conditions and standard of living for all workers across the continent, thus creating an upward harmonization of labour standards instead of a race to the bottom.

Environmental Impacts
We have seen ongoing environmental degradation under NAFTA, despite attempts to promote environmental protection through its environmental side agreement. In 1993, the Parties negotiated a side agreement called the North American Agreement on Environmental Cooperation (NAAEC). It outlines goals such as the promotion of sustainable development and transparency, and public participation in the development of environmental protections. The NAAEC also established the Commission for Environmental Cooperation (CEC), a trilateral institution tasked with providing information for consultations, providing recommendations to the NAFTA Free Trade Commission on how to avoid environmental trade disputes, and encouraging the enforcement of domestic environmental laws. The NAAEC also established a dispute resolution procedure under the CEC (Housman 1994).

While several of its provisions were noted as progressive at the time, the side agreement has been heavily criticized due to its lack of enforceability. Specifically, the CEC has little power to encourage enforcement; the disputes that may be brought before an arbitration panel are limited. The NAAEC sets a high bar for which disputes may be heard, as it requires a “persistent pattern” of non-enforcement (Housman 1994). The agreement also contains a very loose definition of enforcement, thus enabling the Parties to avoid disputes (Ibid.). On top of this, the dispute resolution process is complex and time-consuming, thereby creating significant barriers to achieving any environmental gains (Ibid.).

Finally, the Secretariat of the CEC may receive submissions from non-governmental organizations or individuals who argue that a Party is not effectively enforcing its environmental law (NAAEC 1993, Article 14). This may lead to the preparation of a “factual report” by the Secretariat submitted to the CEC. However, these reports “do not necessarily trigger any process to correct any problems identified” (Housman 1994, 418). For these reasons, the NAAEC is effectively toothless.

As with labour rights, the non-binding nature of environmental provisions stand in stark contrast to investor rights. In fact, the investment provisions in these trade agreements pose a serious threat to the ability of governments to develop and enforce environmental regulations. Article 114.2 of NAFTA outlines the Parties’ recognition that it is inappropriate to lower health, safety or environmental measure to attract investment and their commitment to avoid doing so. However, the article “limits an aggrieved party’s recourse to consultations and publicity,” and thus its “lack of enforcement measures has raised serious questions regarding the provision’s
ultimate ability to discourage investment flight...In effect, 1114.2 simply preserves the legal status quo” (Housman 1994).

The investor-state dispute settlement (ISDS) mechanism in NAFTA and subsequent agreements also poses a significant threat to the environment. Environmental laws, regulations and other protection measures are not immune from these mechanisms. In fact, many ISDS cases tend to be about environmental protection, health and natural resources (Van Harten 2016b, 2-3). In effect, ISDS is a tool with which foreign investors and multi-national corporations can challenge—and ultimately cause the overturning of—laws, regulations and policies that have been developed in the public interest. This includes the ones that have been designed to protect the environment, as well as those in the areas of health, social services and labour.

This erosion of governments’ sovereignty and right to regulate, particularly around protecting the public interest, comes at a time when addressing climate change is of utmost importance. Not only does ISDS restrict the maintenance and implementation of existing environmental laws, regulations and policies, but it threatens to prevent the development of new ones. Such investor protection provisions will, therefore, undermine Canada’s ability to meet its climate commitments. Any new agreement for North American trade and economic integration must include comprehensive and enforceable environmental protection provisions if Canada is to meet its environmental sustainability and climate change commitments.

Environmental protections are also inextricably linked to the safeguarding of Indigenous sovereignty and self-governance in Canada. The Canadian government must honour the nation-to-nation relationship with Indigenous peoples by ensuring that Indigenous communities retain the right to make decisions around natural resource development on their lands without the threat of challenges from foreign investors.

**Agriculture**

Under NAFTA, there has been a deterioration of agricultural systems and farmer livelihoods in Canada, the U.S. and Mexico. Following NAFTA, there were substantial increases in U.S. exports of grains and oilseeds to Canada and Mexico (e.g. the average annual volume of U.S. corn exports to Mexico over the past two decades have quadrupled that during the decade prior to NAFTA, 1984-93) (Zahniser et al. 2015). This had a devastating impact on Mexican corn production and contributed to the need for many agricultural producers to migrate to the U.S. and Canada to find work. The flooding of Mexican agricultural markets with U.S. surplus corn production has had a particularly pronounced effect on poorer farmers, as well as environmental impacts. As low-income Mexican farmers were forced to expand their agricultural production into marginal forest and jungle areas to compensate for lower incomes following NAFTA, there has been increased deforestation and biodiversity loss (Soto 2012).

Following the Canada-U.S. Free Trade Agreement in 1989, and intensified by the signing of NAFTA in 1994, Canadian agriculture policies have prioritized increasing exports (NFU 2012). This stands in contrast to putting first domestic provision of food and the ability of people and producers to define their food and agriculture systems, known as food sovereignty (Declaration of Nyéléni 2007). NAFTA renegotiations must ensure the protection of each country’s ability to determine their own agricultural policy and, in turn, ensure food sovereignty. This is also important in the context of the Canadian government’s commitment to develop a
national food policy (Government of Canada 2017b). Protecting governments’ right to regulate, indigenous sovereignty and food sovereignty in the North American model for trade and economic integration will be crucial for ensuring Canada’s ability to determine its own food and agriculture policies.

Relatedly, Canada must protect its supply management system for dairy, poultry and egg farmers. Canada’s supply management is a crucial part of maintaining the vitality of rural communities and the environment, and important for promoting food sovereignty. Supply management ensures farmers can earn a fair and decent living, and it provides high quality, local food at fair and stable prices for consumers (see Sinclair 2015).

**Regulatory Harmonization**
The efforts to reduce “trade barriers” under NAFTA has included the targeting of public interest regulations. Regulatory cooperation, facilitated through trilateral working groups and bilateral frameworks such as the Canada-U.S. Regulatory Cooperation Council, has contributed to the lowering of public health and consumer protection standards in Canada. This is well-researched and well-documented in areas such as pesticides and food safety regulations (see Baylis & Badulescu 2006; Zahniser et al. 2015; Trew 2016; Council of Canadians 2016).

Rather than the upward harmonization of standards, NAFTA has contributed to a downward pressure on public interest regulations. This is unacceptable to Canadians. NAFTA renegotiations must ensure that countries retain their sovereignty to develop regulations, laws and policies in the public interest where needed.

**An Alternative Model for Trade, Integration and Cooperation**
In identifying the shortcomings of the current international trade model, embodied in NAFTA, we believe it is important to point to alternatives for a more just, equitable and democratic model of trade. We provide some suggestions here.

In May 2017, the Trade Justice Network participated in the tri-national meetings of civil society organizations in Mexico City to discuss the NAFTA renegotiations. The approximately 300 participants were representatives of labour, migrant, agricultural, environmental, public education, human rights, social justice and other civil society groups from Quebec and English Canada, the U.S. and Mexico. Fruitful discussions over three days led to the development of a joint tri-national declaration on the NAFTA renegotiations.

In this declaration, civil society groups call for an alternative model of trade that puts the interests of people and the environment at the centre. Peoples of all three countries reject U.S. President Donald Trump’s nationalist and xenophobic rhetoric. We all support economic integration, cooperation and exchange, but through a model that is negotiated transparently and with the democratic participation of society, guarantees the sovereignty of each country, and protects human, political, economic, social, cultural and environmental rights.

We conclude this submission by citing the specific list of demands outlined in the declaration, which has been signed on to by civil society groups across the continent:

> “Any Treaty and negotiating process must:
1) Advance through a transparent, democratic and participatory process involving the public and the legislative branch of each country.

2) Include in the text of the agreement clear and effective, time-bound, binding and enforceable labor and environmental rules that meet and exceed established international standards.

3) Eliminate privileges for foreign investors such as the Investor-State Dispute Settlement mechanism (ISDS) and respect the right of people to exercise democratic control over public policies in each country.

4) Establish binding norms that guarantee the preeminence of human rights established in international pacts and agreements.

5) Create integral gender policies that guarantee equity and non-discrimination as fundamental principles, as well as the active participation of women in all spheres of life.

6) Guarantee participation and prior informed consent for indigenous peoples and communities with the aim of respecting the sovereignty of peoples over their resources, territories and cultures.

7) Include measures in law and practice that raise wages and increase access to decent work in all three countries, promoting trade union democracy, freedom of association, and transnational collective bargaining in cases where an employer operates in two or more countries.

8) Guarantee free public education at all levels as a social right, indispensable in the construction of democratic and socially just societies and for the liberation of our peoples. Education must be excluded from free trade deals, as it is not a commodity.

9) Promote a North American industrial policy that effectively protects shared production, by increasing quantitative requirements for rules of origin and strengthening monitoring to guarantee the North American origin of components in key industries.

10) Safeguard food sovereignty, mechanisms of production and supply management, rural livelihoods and the right to know about what is in our food and how and where it is produced.

11) Guarantee the delivery of quality public services - education health care, energy, water, etc., protect public procurement, and protect the rights of nations to expand public ownership of resources and services.

12) Include shared commitments to the rights of migrant workers and indigenous people and enforceable mechanisms to protect them, including the right to form trade unions.

13) Reject chapters on intellectual property and electronic commerce that violate the right to free expression, privacy and access to information and medicines. Preserve a free and open internet, prevent the criminalization of end users and do not allow copyright to become a mechanism for usury.

14) Include shared commitments to improving public infrastructure and sustainability in all three countries, promoting tax justice to achieve that objective through fair, equitable and progressive taxation of profits.

15) Include strong binding and enforceable obligations to address climate change, deforestation, contamination of air and water, emissions of greenhouse gasses, and to preserve the social property of forests, lands, biodiversity and water. Each country must
be required to fulfill its nationally determined contribution to the Paris climate agreement.”

The Trade Justice Network is a network comprised of environmental, labour, civil society, student, Indigenous, cultural, farming and social justice organizations that aims to raise awareness about free trade agreements and their implications. We seek to highlight the need for a more sustainable, equitable and socially just international trade regime.
References


