

WHAT IS CAFTA?

The Central American Free Trade Agreement (CAFTA) is a regional agreement between the U.S. and five Central American countries: Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica. The Dominican Republic was “docked” onto the agreement in March 2004. CAFTA is expected to be brought before Congress sometime in 2005, although timing is unclear.

WHAT WOULD CAFTA DO?

◆ SPAWN JOB LOSS AND UNDERMINE WORKER’S RIGHTS

CAFTA has no meaningful mechanisms to ensure that worker’s rights and good jobs are not leveraged downward in order to attract investment. The North American Free Trade Agreement (NAFTA), signed in 1993 between the U.S., Canada, and Mexico has shown that “Free Trade” agreements that do not have enforceable standards for worker’s rights lead to job loss and exploitation of workers. Since NAFTA was signed in 1993, the rise in the U.S. trade deficit with Canada and Mexico has created the conditions for the loss of 879,280 U.S. jobs through the year 2002. Most of those lost jobs were high-wage positions in the manufacturing sector.ⁱ Displacement in Mexico has also been extreme – though there has been a dramatic expansion of the *maquila* manufacturing sector, on balance employment in the manufacturing sector fell 9.4% between 1993 and 2000, and even in sectors that experienced job growth under NAFTA, wages and purchasing power fell.ⁱⁱ If CAFTA passes, it would expand these patterns of job loss in the U.S. and worker displacement in Central America. Worker’s rights would also suffer as many Central American countries have extremely poor labor conditions which have repeatedly been criticized by international human rights organizations, the ILO and the U.S. State Department. CAFTA does not require countries to meet core labor standards as established by the International Labor Organization (ILO). Indeed, CAFTA does not even adequately prevent countries from lowering or failing to enforce their existing labor laws in an effort to attract investment.

◆ THREATEN FAMILY FARMERS, RURAL AND SUSTAINABLE DEVELOPMENT

Agricultural policies in CAFTA, based on the NAFTA model, would threaten the livelihoods of family farmers and ranchers in Central America and the United States by favoring corporate agribusiness over independent producers. The elimination of an effective price floor would force down market prices; allowing corporate agribusiness to sell products at prices below the cost of production. Under CAFTA, thousands of small producers in both the U.S. and Central America would be forced to forfeit both livelihood and land as big business farming operations turn a generous profit. Thanks to current farm policy and “free trade” liberalization, family farmers in the U.S. have already seen farm incomes drop dramatically in the last 10 years due to excess supply and sharply declining commodity pricesⁱⁱⁱ. For Central American farmers, the danger of a CAFTA is especially ominous: in Guatemala and Nicaragua, agriculture employs 60%^{iv} and 44%^v of the population respectively, the majority being small, rural farmers. Under CAFTA, Central America would be required to reduce tariffs, subsidies and other supports that protect these vulnerable agricultural sectors while competing with low priced imports from the U.S. Such dangerous policies would undermine the ability of governments to promote food security and sustainable development.

◆ ALLOW FOREIGN INVESTORS TO CHALLENGE ENVIRONMENTAL LAWS

Despite a few minor changes, CAFTA’s investment rules are similar to Chapter 11 of the North American Free Trade Agreement (NAFTA), which has given foreign investors broad rights and privileges that do not exist under U.S. law. Such rules allow foreign investors to challenge hard-won environmental laws and regulations in front of special international tribunals that operate outside a country’s regular legal system. Both Mexico and Canada have lost Chapter 11 challenges to environmental protections, and the U.S. faces environmentally related suits totaling more than \$1

billion.^{vi} For Central American countries, the mere threat of such costly suits could keep developing countries from adopting new environmental laws.

◆ **ERODE ESSENTIAL PUBLIC SERVICES**

CAFTA would promote dangerous policy with regards to the privatization and deregulation of essential services. Services that help meet peoples' right to food, education, health and basic utilities should be exempt from trade rules. Currently, however, domestic regulations on health, labor, energy, zoning and environmental services could be considered "barriers to trade" under the CAFTA agreement and open to challenges by multinational corporations. CAFTA could also require governments to bid out for services, essentially privatizing much needed public services, resulting in prohibitive price increases, reduced access and compromised quality. The loss of governments' ability to provide accessible essential services would severely impact the most vulnerable in our society, including the poor, children, and the elderly. Women would also be impacted disproportionately as they are often primary care givers and rely heavily on public services.

PHASE ONE OF THE FTAA

Passing the CAFTA agreement would be a strategic step for the Bush administration in the race toward a larger prize: a much larger (and equally flawed) agreement, the Free Trade Area of the Americas (FTAA) that would include every country in Central America, South America, and the Caribbean, except Cuba.

STOPPING CAFTA

The good news is that the CAFTA agreement has yet to be passed and it **can** be stopped. We can defeat CAFTA in Congress with education and organization. To learn more about the CTC campaign against CAFTA visit www.citizenstrade.org or contact the office directly at (202) 778-3320.

ⁱ Economic Policy Institute, "The High Price of 'Free' Trade," November 2003.

ⁱⁱ Economic Policy Institute, "The Impact of NAFTA on Wages and Incomes in Mexico," April 2002.

ⁱⁱⁱ Agricultural Policy Analysis Center, "Rethinking U.S. Agricultural Policy: Changing Course to Secure Farmer Livelihoods Worldwide," September 2003.

^{iv} World Bank, "Country at a Glance," Available at <http://www.worldbank.org>.

^v Centro Internacional de Agricultura Tropical, "Rural Sustainability Indicators: Outlook for Central America," August 2002.

^{vi} Public Citizen, "NAFTA Chapter 11 Investor-to-State Cases: Bankrupting Democracy," September 2001.