

**International
Association of
Machinists and
Aerospace Workers**



9000 Machinists Place
Upper Marlboro, Maryland 20772-2687

Area Code 301
967-4500



OFFICE OF THE INTERNATIONAL PRESIDENT

June 30, 2011

RE: Jobs and Trade

Dear Senator/Representative,

As one of the nation's largest manufacturing unions, and the largest union in the aerospace industry, one of the few industrial sectors in which the U.S. has a positive balance of trade with the world, IAM members know the potential benefits of international trade. We have, however, also witnessed the systematic destruction of our manufacturing base and the loss of six million manufacturing jobs in the last decade from failed trade policies and the devastation that this has wrought on American workers, their families, and their communities.

A critical test for any trade agreement is whether it will create American jobs, raise living standards, and improve international labor, consumer, and environmental standards. A careful review of the three pending free trade agreements with South Korea, Columbia, and Panama reveals that these Bush-era, NAFTA style agreements all fail this essential test. **Consequently, the IAM strongly opposes the deeply flawed free trade agreements with South Korea, Columbia, and Panama.**

The Jobs Crisis

Passage of these trade agreements will add to the misery of our nation's workforce and could hamper efforts to restore the structural and sustainable health of our economy. For ordinary Americans the current economic crisis has meant persistent and deep unemployment. This month's employment report showed a stagnate job market with a high unemployment rate of 9.1 percent. Hundreds of thousands of Americans have given up looking for nonexistent jobs and have dropped out of the workforce. Through May, labor force participation remained at 64.2 percent for the fifth consecutive month, the lowest rate since the start of the Great Recession. The Economic Policy Institute (EPI) estimates that if labor force participation were the same as a year ago, the official unemployment rate would be 10.1 percent.

Long-term unemployment, the percentage of the unemployed out of work for over six months, has risen to 45.1 percent, only slightly off last year's record 45.6 percent. The other significant employment rate, the U-6 measure of underutilization which includes the unemployed, discouraged, and those working

only part time continues to hover at 15.8 percent, representing nearly 25 million Americans.

With the continued loss of jobs comes downward pressure on the wages and benefits of working Americans. According to the Department of Labor, workers' pay for the twelve months ending in May rose a scant 1.8 percent before adjusting for inflation. The economic news, however, is not all bad. According to the Department of Commerce, through the first quarter of 2011, U.S. corporations earned profits at a record annual rate of \$1.727 trillion—the highest amount ever recorded in the sixty years the government has been tracking such data.

No to the Korea-U.S. Free Trade Agreement

This FTA is the largest since the North America Free Trade Agreement (NAFTA) and has the potential to eliminate as many U.S. jobs. While the Administration is careful to only claim that the FTA will “support” 70,000 jobs, the net effect will be a loss of jobs; EPI estimates a 159,000 job loss. According to the International Trade Commission (USITC) the KORUS FTA will increase the trade imbalance in seven industrial sectors. Electrical equipment (with a negative balance between \$762 and \$790 million) and motor vehicles and parts (with a negative balance \$531 and \$708 million) being the two most at risk sectors. Jobs will also be at risk in the aerospace, auto parts and supply, appliance, machinery, textile, and other industries.

It is important to note that prior official estimates by the USITC of the impact of trade agreements have significantly underestimated U.S. trade imbalances and job losses. According to the USITC, China's entry into the World Trade Organization was not supposed to have appreciably affected employment, but an estimated 2.4 million American jobs have been lost to China since 2001. A similar impact was felt after the passage of NAFTA, which the USITC originally projected would create a trade surplus for the U.S.

The KORUS FTA does not address the huge trade imbalance between the U.S. and South Korea in automobiles. In 2009, South Korea shipped approximately 500,000 cars to the U.S., while we exported a mere 6,000 autos to South Korea. While the December 2010 supplemental agreement allows the Big Three U.S. automobile manufacturers to sell up to a total of 75,000 U.S. made cars (but, importantly, does not guarantee this number) without having to meet South Korea's stringent safety and environmental requirements, it is doubtful that a South Korean consumer would want to buy an inferior U.S. made product, particularly when South Koreans have a cultural aversion to foreign made autos; foreign autos only make up four percent of the South Korean market.

Any extension of the U.S.'s meager 2.5 percent protective tariff will continue to be nullified by the manipulation of Korea's currency, an issue that the FTA fails to address. Nonmarket barriers in South Korea's auto market, such as, higher insurance rates and taxes, were also not addressed in the FTA. The Korea Automobile Manufacturers Association actually expects exports to the U.S. to increase.

The agreement contains inadequate provisions regarding the rule of origin that undercut what it means to label a product "Made in U.S.A." and allows for 65 percent foreign content in manufactured goods that are eligible for the lower tariff treatment. This means that a product with only 35 percent domestic content will be considered American made. NAFTA required a 50 percent domestic content requirement and the EU-South Korea agreement requires an even higher 55 percent domestic content. The ultimate effect of the low domestic content requirement of the KORUS FTA will be to incentivize the outsourcing of production to countries with low wages and few labor rights, including Mexico and China. More specifically South Korean vehicles shipped to the U.S. could be built with North Korean and Chinese made auto parts, putting at risk the jobs of both American and South Korean workers, which is a primary reason why South Korean unions oppose the KORUS FTA. While the lowest domestic content requirement may be beneficial to large multinational corporations like General Motors, which now produces and sells more vehicles in China than it does in the U.S., it will put the jobs of American auto workers at risk.

The FTA also raises concerns over the possibility that goods made in the Kaesong Industrial Complex (KIC), the North Korean sweat shop zone set up by Hyundai where some 120 South Korean companies employ over 40,000 North Koreans, and where labor rights are nonexistent, could gain future access to the U.S. market. According to South Korea's Ambassador to the U.S., Han Duk-Soo, *"The planned ratification of the South Korea-U.S. free trade agreement will pave the way for the export of products built in Kaesong to the U.S. market."*

North Korean workers in the KIC are paid a mere 0.25 to 0.38 per hour with the repressive North Korean regime first taking a cut of nearly 45 percent of the wages. These payments provide an important source of foreign currency for North Korea, pumping millions per month into the corrupt regime, and, ironically, helping to fund the North's dangerous nuclear program. The Kaesong Industrial Complex has remained opened despite the ongoing geopolitical tensions on the Korean peninsula that require the continued presence of 28,500 U.S. military personnel. Hyundai recently signed a new lease to expand the KIC ten fold and house an expected 1,500 companies and employ an estimated 350,000 North Korean workers.

This KORUS FTA also fails to address flaws in the May 2007 framework that the Bush Administration negotiated. That framework, which also applies to FTAs with Columbia, Panama, and Peru, specifically excludes reference to the conventions of the International Labor Organization, the only internationally enforceable labor standards. The labor provision also limits labor violations to those that “affect” trade and are sustaining or reoccurring. The framework also extends extraordinary private investor rights that undermine federal and state sovereignty and incentivize the offshoring of U.S. jobs. Additionally, the agreement’s deregulation of financial services ignores the experience of the recent financial debacle that led to our current economic crisis and threatens to undermine the re-regulation of that industry.

No to the U.S.-Columbia Free Trade Agreement

The killings of trade unionists continue in Columbia. Last year, even with the FTA under scrutiny, fifty-one of our brothers and sisters were murdered and twenty-one trade unionists survived attempts on their lives, an increase from 2009. According to the International Trade Union Confederation (ITUC), *more trade unionists are killed in Columbia than the rest of the world combined.*

The killings continue because year after year the Colombian government has failed to bring justice for the victims of this violence. Nearly 2,800 trade unionists have been murdered in Columbia since 1986 yet there have been only a handful of persecutions. The impunity rate for the murders of trade unionists is 96 percent.

The Administration’s so-called “Action Plan” to address the labor atrocities is not an agreement and lacks any meaningful enforcement provision. Indeed, once implemented, any violation under the LAP would be “resolved” through the weak labor chapter based on the May 10 agreement. Since violations would have to be connected to trade, labor violations in the public sector, or any sector where there is not a connection to trade, would apparently not be covered. Moreover, violations would have to be sustained or reoccurring. Most importantly, however, the LAP makes absolutely no guarantee that the killings, injuries, and threats will stop. Even if all of the requirements of the “Action Plan” are met there is no guarantee that the murder rate will go down, nor would a failure to stop the killings prevent the free trade agreement from being implemented, and once the free trade agreement goes into effect the U.S. will lack any leverage with Columbia to stop the murders and improve labor rights.

If the Central American Free Trade Agreement (CAFTA) is any model, there will be an increase in murders if the FTA is passed. When CAFTA was under consideration, the murders of trade unionists in Guatemala dropped to zero, only to increase to sixteen in 2009 and ten in 2010. The labor protections in CAFTA

have been a failure; last year the Guatemalan labor leader who filed the first labor complaint under CAFTA was murdered.

The agricultural provisions of the FTA fail to address the displacement of over 5.2 million Afro-Columbians and indigenous peoples within Columbia, which now has more internally displaced citizens than any other country in the world.

Before a trade agreement with Columbia goes forward, Columbia needs to demonstrate to the world that it has a zero tolerance for violence against trade unionists and that human rights will be protected. The U.S. needs to show the world that it is serious about protecting basic human rights and that it will not sacrifice that agenda for higher profits for multinational corporations.

No to the U.S.-Panama Free Trade Agreement

As the U.S. struggles with a budget deficit of historical proportions, it is incredible that we would be considering extending trade privileges to Panama, one of the world's top countries for tax cheats. Panama has long been a heaven for money laundering both for multinationals and narco-traffickers. Unfortunately, the FTA fails to effectively close this huge loop hole. Nor does the FTA allow U.S. companies the ability to bid on improvement projects in the Panama Canal Zone.

All three of these flawed FTAs contain the NAFTA Investment Chapters which provides foreign investors and corporations extraordinary rights to challenge state and federal laws pertaining to procurement (e.g., Buy American requirements), consumer and public health protections, and environmental regulations. Such challenges would not take place in U.S. courts, but before secret international tribunals which would have the power to require compensation for "regulatory takings." This is no hypothetical matter, as the federal and state governments have spent millions defending NAFTA challenges to regulations while Canada and Mexico have had to pay millions because of these challenges.

China—the Real Trade Challenge

Like most Americans, we do not understand why Congress and the Administration continue to focus on passing these free trade agreements while our manufacturing base and economy strain from the impact of the unfair trade practices of China. Last year our trade imbalance with China was over \$273 billion, an imbalance that costs the U.S. millions of jobs and billions in lost tax revenue. China is a country that gives generous subsidies to state owned enterprises, engages in intellectual property theft, has no independent labor unions, and continues to manipulate its currency, which is estimated to be undervalued by as much as 40 percent. The undervalued currency makes Chinese manufactured products artificially cheap and U.S. made products more

expensive. Failing to address China's numerous unfair trade practices will prevent the U.S. from "winning the future" as President Obama has proclaimed America must do.

Fair Trade—A New Template

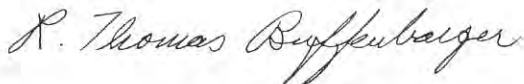
We have stated repeatedly that the U.S. should take a strategic pause and evaluate the full impact of past trade agreements and practices before ratifying any new agreements. Such a pause is more important than ever before as our weak economy continues to struggle with the lasting effects of bad trade deals and the wreckage of the global financial crisis brought on by deregulation. The KORUS FTA has yet to be ratified by the South Korean Parliament, and 2012 parliamentary and presidential elections may push off ratification even further into the future.

Economically, the KORUS FTA has the potential to do as much damage to the living standards of ordinary Americans and NAFTA. Linking Trade Adjustment Assistance (TAA) to the KORUS FTA is a clear indication that the FTA will result in the loss of American jobs. American workers need jobs, not the burial insurance of TAA. Morally, no FTA is as repugnant as the agreement with Columbia, the murder capitol of the world when it comes to violence against trade unionists. As previously stated, the so-called Action Plan is a fig leaf that seeks to provide cover for the inaction of the Columbia government and the impunity with which murders take place in that country.

America can no longer afford "free" trade agreements that benefit Wall Street and multinational corporations at the expense of U.S. workers. **I urge you in the strongest possible terms to reject these job killing agreements.**

If you have any questions, please contact Legislative and Political Director Matthew McKinnon at (301) 967-4575.

Sincerely,



R. Thomas Buffenbarger
International President.