

GAO

Briefing Report to Congressional  
Requesters

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October 1994

NORTH AMERICAN  
FREE TRADE  
AGREEMENT

Structure and Status of  
Implementing  
Organizations



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**General Government Division**

B-258628

October 7, 1994

The Honorable William F. Clinger, Jr.  
Ranking Minority Member

The Honorable Al McCandless  
Ranking Minority Member  
Subcommittee on Legislation and  
National Security

The Honorable Steven Schiff  
Ranking Minority Member  
Subcommittee on Human Resources and  
Intergovernmental Affairs  
Committee on Government Operations  
House of Representatives

The Honorable John Mica  
The Honorable Rob Portman  
The Honorable Deborah Pryce  
House of Representatives

On January 1, 1994, the North American Free Trade Agreement (NAFTA) between the United States, Canada, and Mexico entered into effect. NAFTA, the most comprehensive free trade agreement ever negotiated, is expected to create the world's largest free trade zone when it is gradually implemented over the next decade. Since NAFTA was such a controversial treaty, the three countries agreed to adopt NAFTA-related accords in order to address concerns about environment, labor, and border area development. A series of secretariats, commissions, working groups, and other bodies are now being created to execute the intent of these NAFTA-related agreements.

You asked us to provide information on the progress of establishing organizations to carry out NAFTA's goals and the extent to which a new bureaucracy is being created to manage the terms of the agreements. Specifically, our objectives were to identify (1) the design and composition of the various organizations created by NAFTA and its related agreements, (2) the status of staffing and budget-related issues for these organizations, and (3) any instances of the expansion of NAFTA's bureaucracy.

We provided a briefing to Committee and Subcommittee staff on September 27, 1994. This report summarizes the substance of that briefing.

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## Results in Brief

NAFTA and its related agreements created a number of bodies in three general categories: those created by NAFTA itself; those created by trilateral agreements between the United States, Canada, and Mexico; and those created by a bilateral agreement between the United States and Mexico. These agreements each established an organizational structure, headed by a commission or board of directors made up of government ministers from each country, to carry out the terms of the agreements. These organizations are the

- Free Trade Commission (FTC), designated by NAFTA to supervise the implementation of the agreement, which has no permanent location or staff and rotates meeting places among the three countries;
- Commission for Environmental Cooperation (CEC), a trilateral body created by the North American Agreement on Environmental Cooperation and located in Montreal;
- Commission for Labor Cooperation (CLC), a trilateral body created by the North American Agreement on Labor Cooperation and to be located in Dallas;
- board of directors of the Border Environment Cooperation Commission (BECC), set up under a bilateral agreement between the United States and Mexico and to be located in Ciudad Juarez, Mexico; and
- board of the North American Development Bank (NADBank), also set up under a bilateral agreement between the United States and Mexico and to be located in San Antonio, TX.

Each of the commissions and boards oversees its own organization composed of bodies variously called committees or working groups to address issues related to their areas of responsibility (app. I describes NAFTA and its related agreements in greater detail; app. II lists FTC committees and working groups).

U.S. Trade Representative (USTR) officials expect committees and working groups under FTC to utilize existing government staff and budget resources. Participation in these groups is expected to amount to less than 5 percent of the participants' overall work time on average, according to USTR officials.

On the other hand, NAFTA's related agreements, which represent a new approach to addressing labor and environmental issues, create a number of new bodies, requiring new staff. For example, CEC expects to hire 32 people to staff its office in Montreal, while CLC expects to hire 15 people to staff its office in Dallas.

The responsibility for establishing and managing the various NAFTA bodies is generally being shared equally by the three partners. This shared partnership extends to leadership, location, and staffing of the bodies. Similarly, the budgets for each of the related bodies will be shared equally by the three countries.

Setting up several of NAFTA's supporting bodies has taken longer than was initially expected, according to government officials. Although NAFTA and

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its related agreements do not specify time frames for formation of the various committees and working groups, the ministerial councils set out projections for the initial steps of hiring key staff. In several cases, these targets have not been met, resulting in delays in setting up sites for the supporting bodies.

The potential exists to expand the number of NAFTA organizations. FTC has the authority under NAFTA to create additional committees and working groups if it deems necessary. Four new working groups have been set up by the trade ministers of the three governments in addition to the 20 groups specifically established by NAFTA. However, USTR officials state that all the committees and working groups under FTC will only meet on an as-needed basis and will require minimal resources. CEC, CLC, and the board of NADBank also have the authority, based on their charters, to create new committees and working groups. None had done so as of September 16, 1994.

The three countries' trade ministers have also proposed a body that would require new staff and a permanent site: the NAFTA Coordinating Secretariat (NCS). The trade ministers, after NAFTA entered into effect, agreed in principle to form a coordinating secretariat, to be located in Mexico City. However, negotiations to formally establish NCS have been delayed, due in part to disagreement over the number of permanent staff to be assigned from each country, unresolved differences about the specific functions of NCS, and the need to obtain appropriation authority from the U.S. Congress. As of September 16, 1994, an agreement had not been finalized by the three countries.

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## Scope and Methodology

In order to identify the design and composition of the various organizations created by NAFTA and its related agreements, we reviewed the texts of NAFTA, the North American Agreement on Labor Cooperation, the North American Agreement on Environmental Cooperation, and the agreement establishing both NADBank and BECC. We also reviewed government documents on commission charters, staff and budget allocations, and committee work plans obtained from the U.S. Departments of State, Commerce, Labor, and the Treasury; the Office of the U.S. Trade Representative; and the Environmental Protection Agency (EPA). In addition, we interviewed officials from these agencies in Washington, D.C.

In order to identify the status of staff and budget issues for the new NAFTA-related organizations, as well as identify any instances of expansion of NAFTA's bureaucracy, we interviewed U.S. government officials responsible for implementation, as well as U.S. officials serving on several of the NAFTA bodies. We also reviewed the agreements creating the various new organizations.

We did not independently verify the accuracy of the data obtained and did not interview officials from the governments of Canada and Mexico.

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We did our work from May 1994 to September 1994 in accordance with generally accepted government auditing standards.

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## Agency Comments

We discussed the contents of this report with USTR officials on September 14, 1994, including the Director for Canadian Affairs and the Deputy Director for Mexican Affairs, and incorporated their technical comments and clarifications where appropriate. USTR generally agreed with the report's characterization of the status of NAFTA-related organizations. On the basis of USTR's comments, we included a more explicit description of the USTR position that FTC committees and working groups are expected to require minimal resources.

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As agreed with you, unless you announce the contents of this briefing report earlier, we plan no further distribution of this report until 14 days from its issue date. At that time, we will send copies to other interested congressional committees, the U.S. Trade Representative, and other interested parties. Copies will be made available to others on request.

The major contributors to this briefing report are listed in appendix III. Please contact me at (202) 512-4812 if you have any questions concerning this report.



Allan I. Mendelowitz, Managing Director  
International Trade, Finance, and  
Competitiveness



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## Abbreviations

BECC	Border Environment Cooperation Commission
CAIP	Community Adjustment and Investment Program
CEC	Commission for Environmental Cooperation
CFTA	U.S.-Canada Free Trade Agreement
CLC	Commission for Labor Cooperation
DOC	U.S. Department of Commerce
EPA	Environmental Protection Agency
FTA	Free Trade Agreement
FTC	Free Trade Commission
NAAEC	North American Agreement on Environmental Cooperation
NAALC	North American Agreement on Labor Cooperation
NADBank	North American Development Bank
NAFTA	North American Free Trade Agreement
NAO	National Administrative Office
NCS	NAFTA Coordinating Secretariat
USTR	U.S. Trade Representative

# North American Free Trade Agreement: Organizational Structure and Implementation Status

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Figure I.1: North American Free Trade Agreement

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## GAO North American Free Trade Agreement (NAFTA)

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### **NAFTA**

### Organizational Structure and Implementation Status

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GAO GAO Briefing  
Objectives

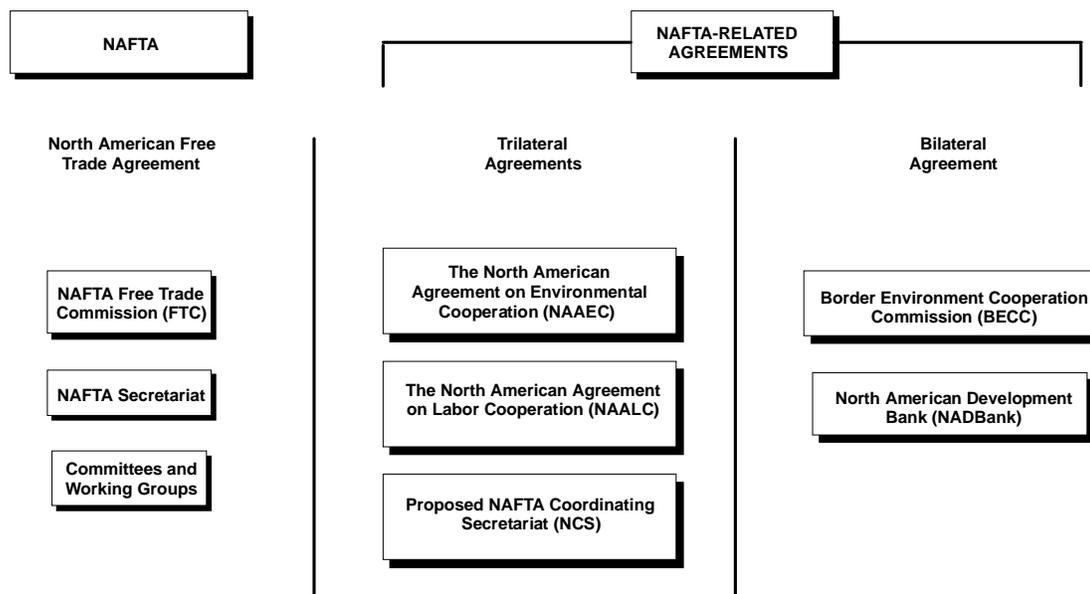
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For NAFTA and its related agreements:

- Define organizational structures
- Determine status of staffing and budget for these organizations
- Identify any instances of the expansion of NAFTA's bureaucracy

# GAO Overview of NAFTA and Related Organizations

Organizations can be divided into three broad categories



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## Overview of NAFTA and Related Organizations

NAFTA and its related agreements created a number of independent bodies. These bodies generally fall into three broad categories, based on the authority under which they were created: (1) a commission and committees created under the authority of NAFTA; (2) commissions and committees created under the authority of trilaterally negotiated agreements; and (3) boards of directors and committees created under the authority of a bilaterally negotiated agreement between the United States and Mexico.

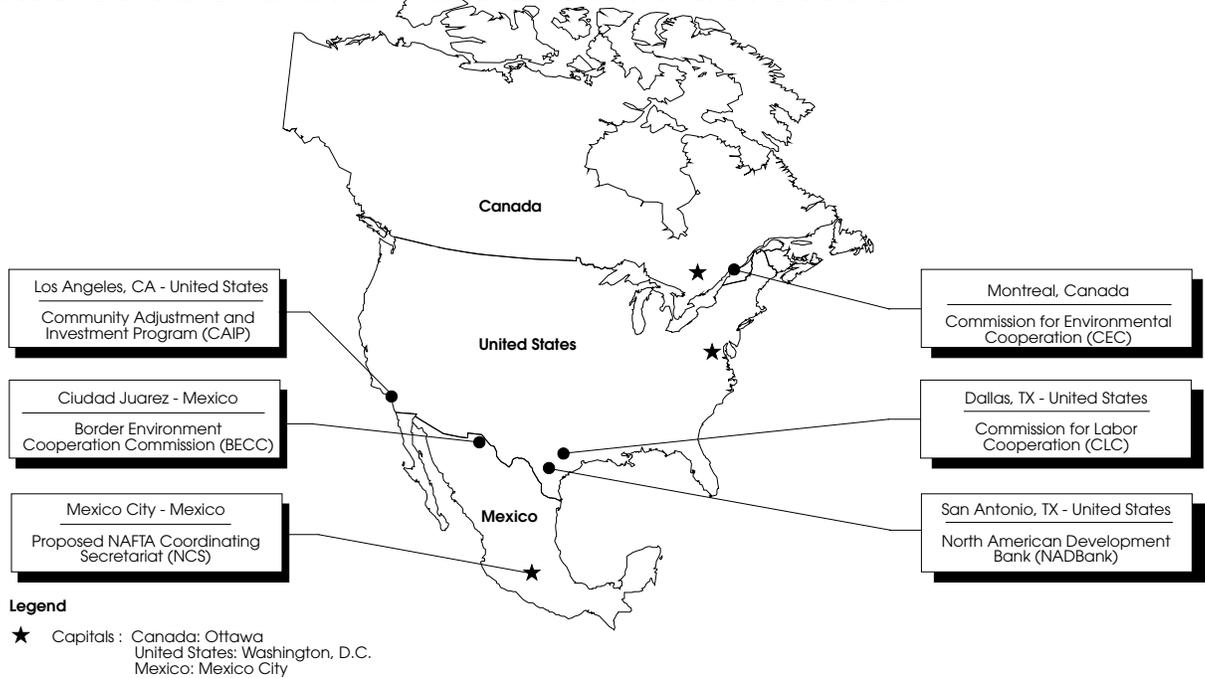
NAFTA entered into effect on January 1, 1994. The Free Trade Commission (FTC) is NAFTA's governing body. Its charter sets out a number of committees and working groups responsible for facilitating implementation of specific sectors within the agreement (see app. II).

In response to congressional interest in incorporating labor and environmental issues into the negotiations, the three countries undertook discussions that culminated in the North American Agreement on Environmental Cooperation (NAAEC) and the North American Agreement on Labor Cooperation (NAALC). These trilateral agreements each created a new international organization, the Commission for Environmental Cooperation (CEC) and the Commission for Labor Cooperation (CLC), respectively. CEC is designed to address and resolve environmental issues that arise between the parties. CLC is designed to improve working conditions and living standards in each country, enhance communication, and pursue cooperative labor-related activities among the three countries.

In response to interest in improving border environmental conditions and infrastructure, the United States and Mexico entered into the "Agreement Between the Government of the United States of America and the Government of the United Mexican States Concerning the Establishment of a Border Environment Cooperation Commission and a North American Development Bank" in November 1993. This bilateral agreement created two new international organizations: the Border Environment Cooperation Commission (BECC) and the North American Development Bank (NADBank). BECC is expected to assist border states in both countries to design and finance environmental infrastructure projects in the border region. NADBank is expected to provide financing for environmental projects certified by BECC and also to provide support for community adjustment and investment projects.

# GAO NAFTA and Related Organizations: Office Locations

## New NAFTA-related offices located in six cities across North America



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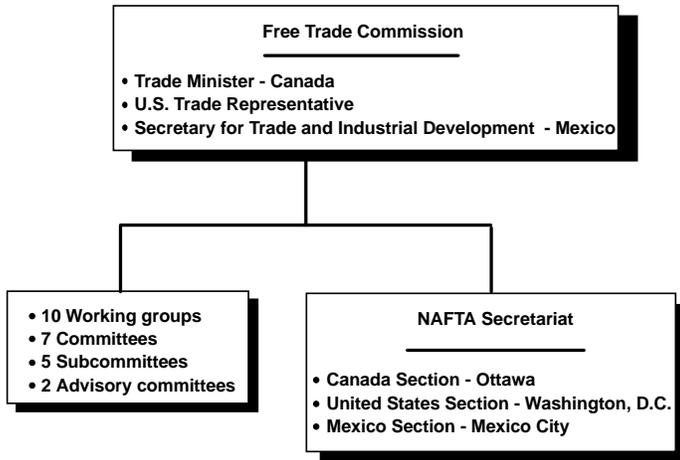
## Locations of New Organizations

Several of the NAFTA-related organizations will require new permanent locations and staff. These are to be located in various cities across North America. Ministerial negotiations determined the host country for each new location, generally assuring representation for each country. U.S. Trade Representative (USTR) officials explained that it was then up to the host country to determine the city in which the permanent site would be located. As of September 16, 1994, CEC was operating in its permanent site in Montreal, Canada, while CLC, BECC, and NADBank had not begun operations.

In most cases, the cost of office supplies and leases are to be shared equally by participating countries. However, NADBank is an exception. The city of San Antonio, TX, where NADBank is expected to be located, has agreed to provide temporary office space and basic building services, conference facilities, and eventually permanent space in a yet-to-be constructed building, all at no cost to NADBank.

# GAO NAFTA: Free Trade Commission

## Organizational Structure of FTC



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## NAFTA Free Trade Commission

The Free Trade Commission serves as the governing body of NAFTA. According to NAFTA, FTC members must be cabinet-level representatives of the three countries. They currently are the U.S. Trade Representative, Canada's Minister of Trade, and Mexico's Secretary of Trade and Industrial Development. FTC's responsibilities include

- supervising the implementation of NAFTA,
- resolving disputes that may arise regarding NAFTA's interpretation or application,
- supervising the work of the NAFTA Secretariat and NAFTA committees and working groups, and
- establishing additional committees and working groups as needed.

FTC held its first meeting in Mexico City on January 14, 1994.

## GAO NAFTA Free Trade Commission: Secretariat

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- Comprised of Sections in the United States, Canada, and Mexico
    - U.S. and Canada National Sections created under U.S.-Canada FTA
    - Mexico Section recently created
  - Sections are responsible for supporting NAFTA's dispute resolution process
  - U.S. Section's staff has not increased under NAFTA
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## NAFTA FTC Secretariat

NAFTA's Secretariat, comprised of three National Sections, is primarily responsible for supporting NAFTA's dispute resolution processes, including providing administrative assistance for dispute resolution panels formed under chapters 19 and 20 of NAFTA. National Sections originated in the U.S.-Canada Free Trade Agreement to administer binational procedures for panel reviews. In NAFTA, dispute resolution provisions were extended to Mexico as well, and a Section for Mexico was added.

The manager of the section is called the Secretary of the Section. The sections also include support staff and are located in each nation's capital. The U.S. Section contains the Secretary and three staff, according to the U.S. Secretary. The U.S. Section's staff size has not increased under NAFTA from its level under the U.S.-Canada Free Trade Agreement (FTA).

Mexico recently announced the appointment of its Secretary and is now in the process of setting up its section.

## GAO NAFTA Free Trade Commission: Committees and Working Groups

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- 20 committees and working groups created in NAFTA
  - 4 working groups created since December 1993
  - 8 working groups carried over from U.S.-Canada Free Trade Agreement
  - USTR believes that these committees and working groups will not increase budgetary expenses
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## NAFTA FTC Committees and Working Groups

A number of committees and working groups have been formed to facilitate NAFTA's implementation. Most were specified in various chapters of NAFTA, while several were created by FTC at its first official meeting in January 1994. The purpose of these groups is to provide a channel for discussion of issues of ongoing concern to the NAFTA countries; the groups are generally comprised of government experts. For example, USTR officials stated that several of the groups were created to provide a standing forum for issues that were unresolved under NAFTA. The groups are expected to meet at least annually but are generally likely to get together when one or more of the countries requests a meeting.

USTR officials believe that the committees and working groups will not cause an increase in U.S. budgetary expenses since they (1) are composed of current employees of the government, (2) require no new location or office space, and (3) are to meet only as needed.

# GAO NAFTA-Related Agreements: Trilateral

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## **UNITED STATES - CANADA - MEXICO**

- Separate trilateral agreements:
    - North American Agreement on Environmental Cooperation
    - North American Agreement on Labor Cooperation
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GAO NAFTA-Related Agreements:  
Bilateral

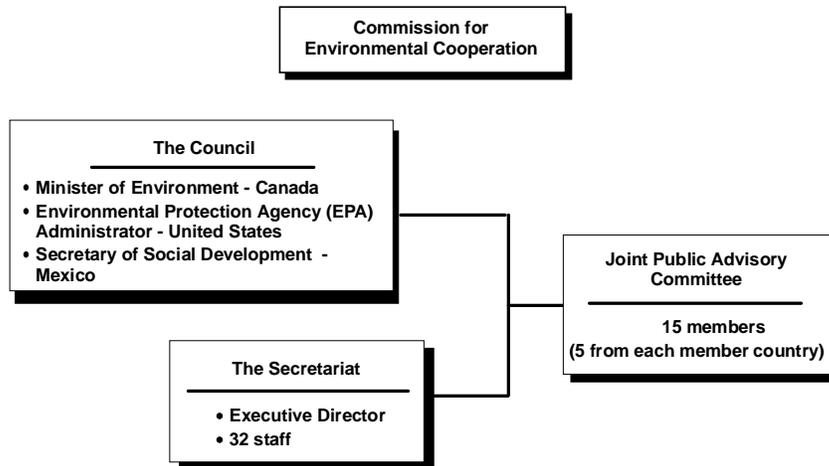
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**UNITED STATES - MEXICO**

- One bilateral agreement created:
  - Border Environment Cooperation Commission
  - North American Development Bank

# GAO Trilateral Agreements: Environmental Cooperation

## Organizational Structure of CEC



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## Organizational Structure of the Commission for Environmental Cooperation

The Commission for Environmental Cooperation is comprised of (1) a three-member Council of cabinet-level or equivalent representatives from each country: the U.S. Environmental Protection Agency Administrator, Mexico's Secretary of Social Development, and Canada's Minister of Environment; (2) a Secretariat led by an Executive Director who was selected by the Council; and (3) a Joint Public Advisory Committee, consisting of 15 members, 5 appointed from each country.

The Council, as CEC's governing body, oversees all CEC operations and is supposed to meet at least once every year. Its first meeting was held March 23, 1994. The Secretariat is to provide technical, administrative, and operational support both to the Council and to committees and groups established by the Council. The Joint Public Advisory Committee is expected to convene at least once a year at the time of the Council's regular session, or at its members' discretion. The Joint Public Advisory Committee may advise the Council or provide technical information to the Secretariat. Each party may also convene a national and a governmental committee to provide advice on NAFTA's implementation.

## GAO Trilateral Agreements: Status of CEC Staff and Budget

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- CEC's Executive Director was appointed in July 1994
  - Currently interviewing for staff positions in Montreal, Canada
  - \$9-million FY 1995 budget approved by CEC Council
  - U.S. portion not appropriated as of September 16, 1994
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## Status of CEC Staff and Budget

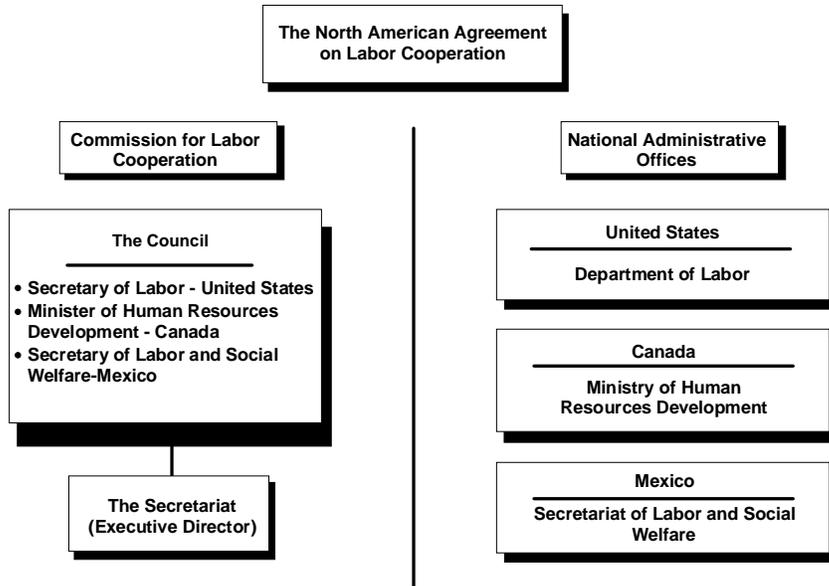
CEC is further along in establishing its operations than the other NAFTA-related organizations, according to EPA officials, in part because it has selected its Secretariat's Executive Director. EPA officials explained that the most controversial issue surrounding the establishment of CEC was the nationality of the Secretariat's Executive Director. Since the three governments agreed that the nationality of the Executive Directors of the CEC and CLC Secretariats (and the proposed NAFTA Coordinating Secretariat) should differ, the selection of the CEC Executive Director had a direct bearing on who would be chosen for the other Secretariats. The three governments decided that the CEC Executive Director would be a citizen of Mexico. According to EPA officials, Mexico's candidate met with unanimous support from all of the parties and was appointed in July 1994.

The Executive Director is currently interviewing candidates for about 32 positions within the CEC Secretariat in Montreal, Canada. These positions include environmental attorneys, economists, and others with expertise in environmental matters, and also include administrative staff. In addition, the Executive Director is in the process of implementing a work plan approved by the Council.

During their ministerial meeting in July 1994, the Council approved a \$9-million budget for 1995 that should be contributed equally by the members. The U.S. portion would be supplied through EPA's fiscal year 1995 budget which, as of September 16, 1994, had not yet been appropriated by the Congress. This amount is less than was authorized in NAFTA's implementing legislation, where the Congress authorized a U.S. contribution to CEC of \$5 million for fiscal year 1995.

# GAO Trilateral Agreements: Labor Cooperation

## Organizational Structure of NAALC



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## Organizational Structure of the North American Agreement on Labor Cooperation

NAALC has two components—one trinational and one national. The trinational component is represented by CLC, which is comprised of a ministerial Council and a supporting Secretariat. The Council oversees the implementation of the agreement, hires the Executive Director of the Secretariat, and directs its work. The Council's members are the U.S. Secretary of Labor, Canada's Minister of Human Resources Development, and Mexico's Secretary of Labor and Social Welfare. The Council held its first meeting on March 21, 1994, to discuss the formation of the Secretariat and other implementation issues. The Secretariat, which assists the Council in exercising its functions and prepares various reports and studies, will be located in Dallas.

The national component of NAALC consists of a federal government level office in each country called the National Administrative Office (NAO). Each country's NAO is led by a secretary and has several functions: it serves as a domestic focal point for parties interested in NAALC issues, disseminates information on CLC activities, requests consultations with other NAOs, and receives public complaints about nonenforcement of labor law. The U.S. NAO is located in the Department of Labor's Bureau of International Labor Affairs and was established on January 1, 1994.

NAALC also authorizes each country to convene two advisory committees: a National Advisory Committee comprised of representatives of labor, business, and the public; and a Governmental Committee comprised of representatives of federal and state officials. A charter has been developed for the U.S. National Advisory Committee, but members have not yet been appointed. No action on the Governmental Committee has been taken so far.

## GAO Trilateral Agreements: Status of NAALC Staff and Budget

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- No CLC staff yet hired
    - Executive Director to be a Canadian
    - CLC is expected to have 15 staff
  
  - U.S. NAO Secretary appointed in July
    - U.S. NAO operating with detailed staff
  
  - Funding for NAALC is pending
    - Three governments will share costs
    - U.S. portion expected to be \$2.2 million
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## Status of NAALC Staff and Budget

As of September 16, 1994, no CLC staff had been hired. The Council, which hires the Executive Director of CLC, had initially anticipated that it would fill the position by June 1, 1994. However, this objective was not met because the three governments did not agree on the nationality of the Executive Director until the CEC Executive Director was appointed in July 1994. At that time, the three governments decided to appoint a Canadian citizen to head CLC, and the Council will fill the position when Canada submits a list of names of prospective candidates.

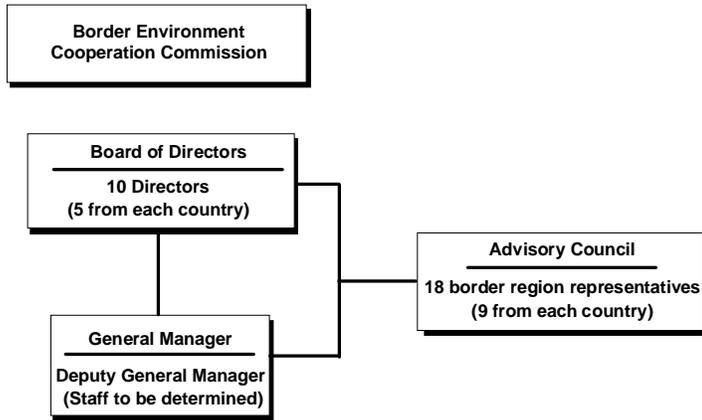
CLC's operations will be run by an Executive Director and two Deputy Directors. Once hired, the Executive Director will then proceed to hire the 15 CLC staff called for in NAALC, including several labor market economists and labor law specialists, as well as administrative staff.

Since its inception, U.S. NAO has operated using staff detailed from the Department of Labor. In July 1994, however, a permanent NAO Secretary was appointed. Beginning in October 1994 NAO expects to hire about 13 staff, according to Department of Labor officials, if the budget permits.

Funding for the NAALC organizations is pending. CLC will be funded by the three governments, with three equal contributions, while the costs of NAOS are to be borne by each country. NAFTA implementing legislation authorized an annual U.S. contribution to CLC of \$2 million for each of fiscal years 1994 and 1995, but as of September 16, 1994, the Congress had not passed an appropriation for these funds. Department of Labor officials expect U.S. total NAALC-related expenditures for fiscal year 1995 to be approximately \$2.2 million, of which approximately \$1 million will be for the U.S. contribution to CLC.

# GAO Bilateral Agreement: Border Environment Commission

## Organizational Structure of BECC



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## Organizational Structure of the Border Environment Cooperation Commission

BECC is managed by a board of 10 directors appointed by the United States and Mexico. The EPA Administrator, Mexico's Secretary of Social Development, and each country's commissioners from the bilateral International Boundary and Water Commission are to sit on the board. Each country is to select three of the remaining six directors representing (1) border states, (2) localities in the border region, and (3) members of the public. On an alternating basis, each of the parties is to choose one of the directors as Chairperson of the board of directors for a 1-year term.

The General Manager and Deputy General Manager of BECC are to be selected by the board and are each to be appointed for a term of 3 years. They may be reappointed if the board chooses.

The BECC Advisory Council is expected to provide advice to the board of directors and the General Manager on issues related to BECC activities. The BECC Advisory Council is to consist of 18 representatives, 9 from each country. They can be drawn from border states, local communities, nongovernmental interest groups, and private citizens. Council members are expected to serve for 2 years, may be reappointed, but will not be paid by BECC, other than reasonable expenses incurred while attending council meetings.

## GAO Bilateral Agreement: Status of BECC Staff and Budget

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- No BECC staff yet hired
  - Nationality of General Manager unresolved
  - BECC may have 15 to 20 staff
- U.S. FY 1995 contribution for BECC is less than authorized
  - Standing authorization is \$5 million
  - \$1.51 million made available from State Department FY 1995 appropriations

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## Status of BECC Staff and Budget

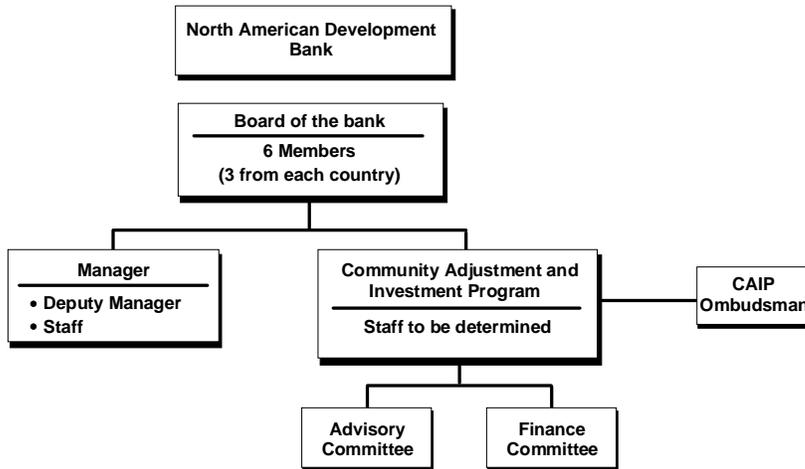
Although BECC's board of directors had been appointed by each country as of September 16, 1994, they had not met yet because of three remaining issues between the governments of the United States and Mexico, according to a State Department official. First, the nationality of the General Manager remains unresolved. Second, the level of government involvement in BECC operations has not yet been resolved. Finally, the two countries have not yet decided the extent to which BECC proceedings will be open to the public.

Once these issues are resolved, the BECC board is expected to hire the General Manager and the Deputy General Manager. The General Manager is expected to be responsible for hiring support staff for an office to be located in Ciudad Juarez. State Department officials estimate that the number of staff positions could be approximately 15 to 20, but final levels are to be determined by the board once the General Manager is in place.

The U.S. contribution for fiscal year 1995 BECC expenditures is less than authorized by the Congress. NAFTA implementing legislation authorized an annual U.S. contribution of \$5 million, beginning in fiscal year 1994. Recently, the Congress appropriated funds for the State Department's budget, of which \$1.51 million for fiscal year 1995 is expected to be used as the U.S. contribution for BECC operations. Mexico is expected to match this amount.

# GAO Bilateral Agreement: North American Development Bank

## Organizational Structure of NADBank



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## Organizational Structure of the North American Development Bank

NADBank has two components. It is managed by a board of the bank, which oversees the operation of NADBank and approves its budget and all financial operations. Its members are the U.S. Secretaries of the Treasury and State and the Administrator of EPA; and Mexico's Secretaries of Finance, Trade and Industrial Development, and Social Development. The board, which plans to meet at least annually, held its first meeting in San Antonio on June 17, 1994. NADBank and its support staff are to be located in San Antonio.

NADBank has a second component, called the Community Adjustment and Investment Program (CAIP). It will utilize up to 10 percent of NADBank capital to provide services in both countries, which need not be in the border region. The United States plans to set up an office for this program, called the "CAIP window," in Los Angeles.

The United States is establishing two committees to assist in meeting the objectives of CAIP: the CAIP Advisory Committee and the CAIP Finance Committee. The Advisory Committee, which is required to have nine members drawn from a diverse group of nongovernmental interests, is expected to provide guidance on criteria developed for CAIP-sponsored financial assistance. It originated in NAFTA implementing legislation. Advisory Committee membership is currently being considered by the President, according to Treasury officials. The Finance Committee, composed of specified government officials, will establish procedures for the endorsement of loans, guarantees, or grants supported by the CAIP window. It was created by executive order of the President.

Finally, the United States must also create an ombudsman position, by presidential appointment, to provide a channel for public input on the operation of CAIP, as well as to perform programmatic audits.

## GAO Bilateral Agreement: Status of NADBank Staff & Budget

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- No NADBank staff yet hired
    - Nationality of the Manager is unresolved
    - Staff may start at 10 to 12 and eventually increase to 25
    - CAIP not yet set up
  - Supplies and staff expected to be funded by NADBank earnings
  - Office space contributed by San Antonio
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## Status of Nadbank Staff and Budget

As of September 16, 1994, no NADBank staff had been hired. NADBank's operations are to be run by a Manager and Deputy Manager. At the first board meeting in June 1994, the board appointed a management search committee to seek qualified applicants for the positions. However, a Treasury official told us that the decision to hire a Manager has been on hold while the governments resolve the nationality of the BECC General Manager position, since the governments agreed they should be of differing nationalities. Treasury hopes that the Manager will be hired by mid-October. Once in place, the Manager is expected to hire support staff. Treasury officials anticipate that the initial staff level will be between 10 and 12 and may increase eventually to around 25.

The number of staff for two CAIP components has not yet been determined. First, no decision has been made as to the number of staff at the CAIP window in Los Angeles. Also, Treasury officials stated that the number of staff constituting the ombudsman office has not yet been determined because the position is still being developed.

NADBank will not require separate appropriations for its operational funding, according to Treasury officials. On October 1, 1994, the first installment of NADBank's capital shares was expected to be contributed by the United States. The United States and Mexico are expected eventually to contribute a total of \$450 million. Treasury officials stated that NADBank plans to use earnings on this capital to fund staff and office supply expenses. Office space is being provided by San Antonio. No budget has yet been completed to itemize anticipated operating expenses.

## GAO NAFTA Organizations Expanded by Free Trade Commission

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### **Organizations have increased, but the impact is expected to be minimal**

- Four working groups created after completion of NAFTA negotiations
  - Their impact is expected to be minimal because they
    - Are staffed by current government employees
    - Will meet only as necessary
    - Will not require additional funding
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## NAFTA Organizations Have Increased, but the Impact Is Expected to Be Minimal

The number of FTC working groups has increased since the completion of NAFTA negotiations. The three countries' trade ministers have created four new working groups. Two working groups, one on subsidies and countervailing duties, and the other on dumping and antidumping duties, were created on December 2, 1993, in a joint agreement by the ministers. Two other working groups, on government procurement and on services and investment, were announced at the first official meeting of FTC on January 14, 1994, using authority granted FTC under NAFTA to establish new committees and working groups.

USTR officials believe that these working groups and any other new committees established by FTC will have a minimal impact on existing staff and budget resources. FTC committees and working groups were intended to formalize communication channels among the United States, Canada, and Mexico via their government agencies. As a result, while many new committees and working groups were created in NAFTA, they are staffed by current government experts; funding for these committees will be drawn from existing agency budgets. Many of the committee members served as NAFTA negotiators and will lend expertise in their areas of specialization as needed, according to officials. Participation in these groups is expected to amount to less than 5 percent of the participants' time on average, according to USTR officials.

CEC, CLC, and the board of NADBank also have the authority in their charters to create new committees and working groups as they see fit. As of September 16, 1994, none had used this authority to do so, according to U.S. government officials.

## GAO NAFTA May Be Expanded by Proposed Trilateral Agreement

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**Three countries agreed in principle to create a new permanent organization:**

- NAFTA Coordinating Secretariat
  - Not part of NAFTA negotiations
  - To be located in Mexico City
- Formal agreement on its structure and role has not yet been completed

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## A Proposed NAFTA Coordinating Secretariat May Require New Staff and Funding

The trade ministers from the three NAFTA countries have proposed a new NAFTA organization that is expected, if implemented, to require additional staff and budgetary funding from the United States. The United States, Canada, and Mexico have agreed in principle to create a third trilateral organization in Mexico City, which is expected to be called the NAFTA Coordinating Secretariat. NCS was not included in NAFTA, but was proposed at the conclusion of negotiations for the other NAFTA-related agreements. NCS was agreed to by the United States and Canada in order to provide balance, according to government officials. They explained that the government of Mexico, like the United States and Canada, wanted to host a NAFTA organization.

Negotiations to formally establish NCS were prolonged due in part to disagreement over the number of permanent staff to be assigned from each country, unresolved differences about the specific functions of NCS, and the need to obtain appropriation authority from the U.S. Congress. As of September 16, 1994, the three countries had yet to issue a formal agreement on the NCS structure or role, according to USTR officials.

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## GAO NAFTA Coordinating Secretariat: Anticipated Role and Resource Needs

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- May be responsible for
    - Official NAFTA translations
    - NAFTA document storage
    - Acting as a clearinghouse for NAFTA trade data
  
  - May have a staff of 15
    - May have U.S. director
  
  - Budget needs are unknown
    - No Congressional authorization for NCS, as of September 16, 1994
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## Anticipated Role of NCS

U.S. government officials believe that NCS will be responsible for providing official translations for NAFTA documents, storing official NAFTA documents, preparing an annual report, and serving as a clearinghouse for NAFTA trade data. NCS' role may become broader, however, since Mexico negotiated for more expansive functions for NCS, according to U.S. government officials.

NCS may have a permanent staff of approximately 15 people, although it is not clear how long NCS will take to fill these positions. The United States initially wanted to keep NCS small, with about 5 total staff, but Mexico pressed to have an NCS whose staffing was comparable to CLC's, at about 15 staff. U.S. government officials expect that the Director of NCS will come from the United States.

USTR officials could not provide an estimate of the potential NCS annual budget, though they did expect it to be shared equally by the three countries. The U.S. Congress had not authorized funding for NCS as of September 16, 1994.

# NAFTA Free Trade Commission Committees and Working Groups

<b>Free Trade Commission: committees and working groups</b>	<b>Lead agency</b>	<b>Participating agencies<sup>a</sup></b>	<b>Meetings as of 9/16/94</b>	<b>Authorization source</b>
Committee on Trade in Goods	USTR	11	3/10/94	NAFTA article 316
Committee on Trade in Worn Clothing	USTR	6	None	NAFTA annex 300-B, section 9.1
Committee on Agricultural Trade	USDA and USTR	2	None	NAFTA article 706
Advisory Committee on Private Commercial Disputes Regarding Agricultural Goods	USDA and USTR	1	None	NAFTA article 707
Committee on Sanitary and Phytosanitary Measures <sup>b</sup>	USDA and USTR	5	3/24/94	NAFTA article 722
Continuation of U.S.-Canada Free Trade Agreement	USDA and DOC	3	None	CFTA article 708 groups <sup>c</sup>
Committee on Standards-Related Measures	USTR	9	3/14/94 4/14/94 6/15/94	NAFTA article 913
Land Transportation Standards Subcommittee	DOT	7	6/22/94	NAFTA article 913(5)
Telecommunications Standards Subcommittee	USTR and NIST	4	4/13/94	NAFTA article 913(5)
Automotive Standards Council	DOT	5	None	NAFTA article 913(5)
Subcommittee on Labeling of Textile and Apparel Goods	USTR	6	6/94	NAFTA article 913(5)
Committee on Small Business	DOC and SBA	3	6/22/94	NAFTA article 1021
Financial Services Committee	U.S. Department of the Treasury	3	4/22/94	NAFTA article 1412
Advisory Committee on Private Commercial Disputes	To be decided	2	None	NAFTA article 2022(4)
Working Group on Rules of Origin	Treasury	8	2/28/94	NAFTA article 513
Customs Subgroup	U.S. Customs Service	None	3/23/94 7/94	NAFTA article 513(6)
Working Group on Agricultural Subsidies	USDA and USTR	2	None	NAFTA article 705(6)
Bilateral Working Group on Agricultural Grading and Quality Standards	USDA and USTR	1	None	NAFTA annex 703.2(A) (25)
Working Group on Trade and Competition	U.S. Department of Justice	2	3/29/94	NAFTA article 1504
Temporary Entry Working Group	INS	5	3/22/94 6/29/94	NAFTA article 1605
Working Group on Emergency Action	USTR	6	None	NAFTA article 2001(2)(d)
Working Group on Government Procurement	USTR and U.S. Department of State	2	3/23/94	FTC Ministers Meeting 1/14/94
Working Group on Services and Investment	USTR and Treasury	3	3/30/94	FTC Ministers Meeting 1/14/94

(continued)

<b>Free Trade Commission: committees and working groups</b>	<b>Lead agency</b>	<b>Participating agencies<sup>a</sup></b>	<b>Meetings as of 9/16/94</b>	<b>Authorization source</b>
Working Group on Subsidies and Countervailing Duties	To be decided	6	None	Joint statement 12/2/93
Working Group on Dumping and Antidumping Duties	To be decided	6	None	Joint statement 12/2/93

Legend

CFTA	Canadian Free Trade Agreement
DOC	U.S. Department of Commerce
DOT	U.S. Department of Transportation
INS	U.S. Immigration and Naturalization Service
NIST	National Institute for Standards and Technology
SBA	Small Business Administration
USDA	U.S. Department of Agriculture

<sup>a</sup>“Participating agencies” reflects preliminary expressions of interest received by USTR from agencies wanting to participate in NAFTA committees and working groups.

<sup>b</sup>The proposed Subcommittee on Pesticides has not been formally established under this committee.

<sup>c</sup>CFTA established eight working groups for agriculture-related issues.

Source: USTR.

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