

# AFL-CIO

## **AFL-CIO Opposes Extension of USMCA (NAFTA 2.0) Without Critical Changes**

### **Background**

In 1994 the North American Free Trade Agreement (NAFTA) came into effect despite tremendous opposition from organized labor and civil society. The negative outcomes surpassed the labor movement's most dire predictions. NAFTA led to the outsourcing of over a million good manufacturing jobs, cost workers billions in wages, undermined worker power at the bargaining table, and hollowed out entire communities.

In 2019, the AFL-CIO endorsed the United States-Canada-Mexico Agreement (USMCA) after working with Congressional allies to secure significant improvements over the deeply flawed NAFTA. Chief among these was a commitment by the Government of Mexico to fully implement fundamental labor law reforms to address a decades-old system of corruption and violence designed to keep Mexican workers' wages artificially low, encouraging offshoring of jobs from the United States and dragging down wages and labor standards across North America. The agreement also contains an innovative "sunset clause," which stipulates that the agreement will expire in 2036 unless the parties agree to extend it for another 16 years.

The last five years have shown that the USMCA is not delivering on its promise to address systemic labor exploitation in Mexico and end the corporate offshoring of good, union jobs. Since 2019, the last year before the USMCA came into force, the bilateral trade deficit in goods with Mexico has ballooned by 74 percent to \$171 billion. Major multinationals like Stellantis, John Deere, Nabisco and Case New Holland have continued to offshore production to Mexico where manufacturing workers' wages remain just a tenth of their American counterparts. At the same time, the Mexican government has failed to implement key pieces of its labor reforms while slashing the budget of institutions charged with enforcing its labor laws.

As we approach the July 2026 joint review, the AFL-CIO firmly opposes a 16 year USMCA extension without fundamental changes (outlined below) to ensure the agreement delivers for workers across North America.

### **Key Issues**

#### **Continued Offshoring of Good Jobs**

Since the USMCA entered into force, the US has lost tens of thousands of good union jobs to corporate offshoring to Mexico. The US manufacturing sector has been hit particularly hard with the closure of union manufacturing plants that make everything from Oreos to automobiles to high tech aerospace components. At the bargaining table, management continues to use the threat of offshoring to Mexico to beat back workers' legitimate demands to claim a greater share of the value of the goods they produce.

## **No Progress on Wage Gap**

Despite the agreement's upgraded labor provisions, the wage gap between Mexican workers and their American (and Canadian) counterparts remains stubbornly high and continues to incentivize corporate offshoring. **The average wage of workers in Mexico's manufacturing sector remains just a tenth of what their American counterparts earn.** This massive disparity requires both an immediate response to deter offshoring and a long-term commitment to policies to raise wages and standards in Mexico.

## **Mexican Government's Failure to Implement Labor Law Reform**

As part of USMCA, the Mexican government agreed to fully implement a package of labor law reforms designed to uproot the corrupt "protection contract" system that kept wages low by denying workers their right to organize independent trade unions and bargain for fair compensation. Despite some progress, there is now significant backsliding:

- The government's latest budget contains a 33% cut in funding to the already understaffed Federal Center for Conciliation and Labor Registration (CFCRL), which plays the lead role in implementing Mexico's labor law reform;
- In a flagrant violation of USMCA's Labor Chapter (Annex 23-A), the CFCRL **has not issued a single fine on firms that violate Mexico's labor laws** and reportedly lacks the legal authority to do so. Mexico's failure to issue and collect fines is emblematic of its broader failure to effectively enforce its labor laws – a clear violation of Article 23.5;
- The Mexican government is failing to investigate and prosecute cases of threats and violence against workers who support independent trade unions – a clear violation of USMCA Article 23.7;
- The Mexican government is failing to address discrimination against workers who support independent trade unions, including by "blacklisting" them so they are unable to find employment at other facilities in the area.

## **Rapid Response Labor Mechanism**

The USMCA's rapid response labor mechanism (RRM) has proven to be an effective enforcement tool for advancing worker rights at select facilities in Mexico. To date, 39 cases have been initiated by the US Department of Labor under the RRM with many of these resulting in tangible wins for workers, including wage increases, reinstatements after illegal dismissal, back pay, and new collective bargaining agreements. Despite these wins, in too many cases the mechanism has struggled to deliver timely and meaningful remediation measures. We therefore urge the Parties to strengthen the RRM by adopting a package of reforms designed to improve the transparency, accessibility, and effectiveness of the mechanism.

## **Technical Assistance Funding**

The USMCA's implementation legislation contained a robust package of technical assistance funding to help Mexico stand up new labor justice institutions and support the growth of independent unions capable of representing workers' interests and engaging in real collective bargaining with employers. While important progress has been made, workers attempting to organize still face enormous pushback from the deeply entrenched protection contract system. It is vital that Congress provides additional funds to the Department of Labor's International Labor Affairs Bureau to build the capacity of independent unions to assert their right to organize and bargain collectively with employers in Mexico.

## **Forced Labor Import Ban**

The USCMA required all three parties to adopt and implement a ban on the importation of goods made, in whole or in part, with forced labor. While all three countries have adopted some form of an import ban, the Canadian and Mexican governments have done little to enforce it in practice. Canadian authorities have reportedly stopped just one shipment of goods that they later released, while Mexico appears to have detained nothing.

## **Chinese Investment in Mexico**

Since the USMCA came into effect, Chinese investment into Mexico has more than doubled as companies look to sidestep US tariffs imposed to address pervasive state subsidies, dumping, intellectual property theft, and other unfair trade practices. Changes in US trade policy have led to reductions in direct Chinese exports to the US, while boosting China's exports to Mexico – between 2020 and 2024, Chinese exports to Mexico more than doubled from \$44.8 billion to \$90.2 billion. The parties must address the economic and security threats posed by China, including by adopting common border measures to address unfairly traded electric vehicles, steel, and aluminum. The USMCA cannot be a backdoor for the circumvention of our trade remedy laws.

## **Rules of Origin**

In an effort to boost North American manufacturing, the USMCA included stronger rules of origin (ROO) in key sectors like automobiles. The joint review process should review their effectiveness and seek to develop enhanced ROO for other priority sectors, including aerospace, large appliances, and other industries. It should also crack down on corporate non-compliance when companies decide that it is more cost effective to pay the existing Most Favored Nation tariff rather than demonstrate compliance with the agreement's ROO.

## **Digital Trade**

The USMCA's digital trade chapter grants broad digital corporate rights to collect, process, and move citizens' personal data across borders. At the same time, it imposes rigid restrictions on the measures governments may adopt to protect data privacy, ensure emerging technologies comply with domestic labor laws, promote competition, and more. Taken together, these provisions threaten to "preempt" the right of our Congress and other democratic governments to regulate a host of challenges presented by the digital economy. We encourage Congress and the Administration to revisit the USMCA digital trade chapter to ensure it strikes the right balance between promoting open data flows and protecting governments' legitimate right to regulate the digital economy.

## **Country of Origin Labeling**

The USMCA failed to include provisions to clarify that mandatory country-of-origin labeling (COOL) for meat products is consistent with the agreement and cannot be subject to trade challenges under the USMCA or WTO rules. US food production supports hundreds of thousands of good union jobs and consumers have a right to know where their food comes from. COOL empowers consumers, supports workers, and strengthens critical food supply chains and should be included in a renegotiated USMCA.

## **Weak Environmental Standards**

Despite containing some improvements over NAFTA, the USMCA's environmental chapter failed to set strong and enforceable environmental rules capable of avoiding a race to the bottom. In particular, the agreement failed to address the challenges presented by climate change and does not contain meaningful enforcement tools. Under USMCA, Mexico's relatively weak environmental regulation and lax enforcement creates a dramatic incentive to offshore production. As we fight to strengthen our own environmental standards, we must ensure that the USMCA addresses these hidden subsidies to both safeguard US competitiveness and protect the environment.