

protection in mind, additional international bridges over the Rio Grande could destroy habitats, aggravate flooding and increase human presence in refuge areas.

- Depending on inspection procedures, there is a risk that increased commerce could disguise an increase in the illegal commerce in endangered wildlife.

POSSIBLE ENVIRONMENTAL EFFECTS OF THE NAFTA: INVESTMENT

- There have been concerns expressed that the NAFTA will lead to "pollution haven" investment motivated by lower environmental requirements or weaker enforcement in Mexico.
- Despite such concerns, studies of investment flows have shown neither significant nor systematic effects of differing environmental policies internationally, or even between U.S. states.
- For NAFTA to have a significant potential effect on the location of investment for environmental reasons, the following conditions must apply:
 - environmental compliance costs must represent a significant portion of total operating costs;
 - existing trade barriers must be significant;
 - costs associated with relocating an industry or creating new capacity must not exceed compliance cost gains; and,
 - environmental compliance costs must be sufficiently different in the alternative sites to encourage investment based on these differences.
- The evidence suggests that these four conditions are rarely met in U.S.-Mexican trade.
 - Pollution abatement costs make up a small share of costs for most industries, averaging only 1.1% of value added for all industries; 86% of industries have abatement costs of 2% or less.
 - Most industries with high pollution abatement costs have low U.S. tariffs, either on a most-favored-nation basis or Mexican exports are currently eligible for zero duties under GSP (Generalized System of Preferences). Only 11 out of 442 U.S. industrial sectors have both significant abatement costs and relatively high trade protection in the U.S.
 - The 11 industries also tend to be very capital intensive, however, which means there are relatively high costs for shutting down in one location and opening elsewhere, or adding new capacity. These costs may well overwhelm any compliance cost savings.
 - Finally, there may not be now or in the future a significant difference in Mexican environmental requirements. This is especially true of large, capital intensive industries likely to meet the other three conditions. And all new investors in