

INDUSTRY MIGRATION

ISSUE

Concern has been voiced frequently that the NAFTA could result in a migration of industry to the country with the lowest environmental standards or the least stringent enforcement of its pollution laws. Such migration would result in:

- the creation of a "pollution haven" and
- pressure to lower standards or to relax enforcement in other NAFTA countries.

FINDINGS

The fundamental question is whether the costs of complying with environmental laws are such that differences in standards and enforcement would provide sufficient incentive for companies to relocate. There is little or no empirical evidence of industries relocating to take advantage of possible reduced costs of complying with lower environmental standards. Research indicates a number of reasons for this finding:

- Environmental requirements are only one of several factors that determine the location of an investment.
- Pollution abatement and control costs for the majority of industries average only about 1 per cent of the costs of production.
- Import tariffs are generally already low for industry sectors with high costs for environmental compliance.
- Environmental standards are expected to become even more stringent in the future: companies that become more innovative will enjoy a competitive advantage. (Strict environmental regulations in Japan, Sweden and Denmark resulted in innovative products which are exported worldwide.)
- There is not a significant difference in environmental standards among the NAFTA countries.
- Mexico has given notice that it is upgrading its enforcement activities and will not tolerate polluters.

There is a misconception that Mexico seeks to attract investment by polluting industries. Mexico has some of the most stringent environmental laws in the world. In the past, enforcement of those laws has been a problem but Mexico is focusing its attention on improving enforcement.