Haiti: “Open for Business”

A study by Haiti Grassroots Watch
on factory investment in Haiti

December 2011

*The following is a groundbreaking, seven-part study by **Haiti Grassroots Watch (Ayiti Kale Je)** on the past, present and future of sweatshop factory investment in Haiti. The study asks, “Can a “new” Haiti really be built on sweatshop wages and free trade zones?”*

*This is a text version of the study. It reproduces some, but not all, of the charts in the study and none of the photos. To see the extensive photos and charts contained in the study, go the original posting of the article on the website of Haiti Grassroots Watch **http://www.ayitikaleje.org/**. There, you can also watch a very telling and imaginative five minute video adding up the cost of living of a Haitian factory worker.*

*Vous trouverez la version française de cette étude ici : **http://www.ayitikaleje.org/**.*

Introduction

“Haiti is open for business.” That’s what President Michel “Sweet Micky” Martelly said on November 28 at a ceremony inaugurating a giant industrial zone being built in the north of Haiti. Across Haiti and abroad, Martelly, his government, and “advisors” like former President Bill Clinton have been pushing Haiti as a foreign investor’s dream come true.

“We are ready for new ideas and new businesses, and are creating the conditions necessary for Haiti to become a natural and attractive destination for foreign investment,” the new president said last fall in New York City.

“The window of opportunity is now,” an aide added. “Haiti has a new President and a new way of thinking about foreign investments and job creation.”

The president might be new, and there might be new actors on the scene, but there’s not much new about the plans. Once again, Haiti’s government and its private sector – and their international supervisors – are pitching sweatshop level salaries as a key “comparative advantage.”

Assembly factories and free trade zones have been part of Haiti’s “development” planning for decades. Now, armed with billions of dollars in grants, loans and private investment, Haitian and foreign governments and business people are building a whole slew of new factory zones as part of the country’s “reconstruction.”

Worse, they’ve chosen a piece of fertile farmland for the showcase project: a giant industrial park, heavily financed by US$124 million in U.S. taxpayer dollars. Six months from now, South Korean textile giant Sae-A Trading will be opening its doors. Its plants will use a river that runs into the nearby fragile Caracol Bay as its waste waterway. And, in addition to running the risk of harming the country’s already devastated environment, the new mega-factory will stitch millions of clothing articles for Wal-Mart, Target, GAP and other U.S. retailers, meaning that more U.S. workers will likely be knocked out of their jobs.

Not one major media outlet – in Haiti or abroad – has explored these and other factors of the what some have touted as a “win-win opportunity” for foreign investors and the Haitian people. Indeed, many journalists have been cheerleaders.

But the “new” Haiti as definite winners and losers.

Haiti Grassroots Watch (HGW) spent months on an investigation, conducting over three dozen interviews, visiting factory zones and workers in the north and in the capital, and reviewing dozens of academic papers and reports, including one leaked from Haiti’s Ministry of the Environment. Among the findings:

- Haitian workers earn less today than they did under the Duvalier dictatorship.
- Over one-half the average daily wage is used up lunch and by transportation to and from work.
- Haiti and its neighbors have all tried the “sweatshop-led” development model – and it has mostly not delivered on its promises.

• At least six Free Trade Zones or other industrial parts are in the works for Haiti.
• The new industrial park for the north does not come without costs and risks: Massive population influx, pressure on the water table, loss of agricultural land, and it's being built steps from an area formerly slated to become a "marine protected area."

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Salaries in the "New Haiti"

Part 1 of Haiti: "Open For Business", by Haiti Grassroots Watch

"I have a problem with my country. I've been working in factories here for 25 years, and I still don't have my own house." – Evelyne Pierre-Pauli[1]

Pierre-Paul, 50, doesn't even rent a house. Before the January 12, 2010, earthquake, she and her three children rented two rooms for 10,000 gourdes (about US$250) a year. But the building was destroyed in the earthquake. Twenty-two months later they are still living under a tent, in one of the capital's hundreds of squalid refugee camps.

Pierre-Paul's average daily take-home wage is actually more than Haiti's rock-bottom minimum.[2] She earns about 225 gourdes or US$4.69 a day. But that doesn't cover even half of what would be considered a family's most basic expenses. Like all the other workers Haiti Grassroots Watch (HGW) surveyed, only some of Pierre-Paul's children attend school, and the family rarely eats meat.

"When payday comes, you pay all the little debts you accumulated, and you don't have anything left," the worker told Haiti Grassroots Watch (HGW).

Pierre-Paul sews clothes for One World Apparel, a giant hanger-like factory owned by two-time failed presidential candidate Charles H. Baker. The cloth comes in duty-free, workers cut it up, stitch the pieces together, and the clothing – for K-Mart, Wal-Mart and for uniform supply companies – goes back out. The factory enjoys a number of tax benefits such as a 15-year exemption on payroll taxes and no Value Added Tax, even though it's not in a Free Trade Zone (FTZ), thanks to the Investment Code enacted during the truncated 2000-2004 mandate of President Jean-Bertrand Aristide.

Currently, about 29,000 workers, about 65 percent of them women, cut and sew in Haitian textile factories assembling clothes for Banana Republic, GAP, Hanes, Gildan, Levis, and dozens of other well-known labels. But if the Michel Martelly government, the Interim Haiti Recovery Commission (IHRC), the U.S. State Department, the World Bank, George Soros, and a host of others involved in Haiti's "reconstruction" see their visions realized, there will soon be 200,000 or even 500,000 assembly workers in FTZs and industrial parks all over the country. [See ***Why is Haiti "attractive"?***, part three of this study.]

That prospect doesn't interest Pierre-Paul too much.

One recent night, after a ten-hour workday, the slightly hunched sewing machine operator met with a journalist in one of her tent's "rooms." A plastic table and a few chairs are jammed up against the canvas walls. In the other "room" the worker has a bed where she and all her children sleep. Clothes are neatly piled in the corner. Pierre-Paul makes food – lots of spaghetti – on a charcoal fire outside.

"I don't see any future in this for my children," she commented.

Downwardly Mobile

That's not surprising. Pierre-Paul's wages have one-third less buying power than they did 25 years ago when she first began her factory career. The minimum daily wage has gone from 15 gourdes in 1982 (US$3.00 in 1982 dollars) to 150 gourdes (200 gourdes for non-factory work), which is about US$1.61 in 1982 dollars. Even taking into account Pierre-Paul's slightly higher average wage, she still makes only US$2.53 in 1982 dollars.

Chart (summarized below): Minimum wage in 1982, 2009 and today, compared with its real buying power in 1982 US dollars. (During its investigation, HGW learned that most workers today earn more than the minimum wage, but that the salary remains less than it was in 1982.)

Year	*Daily mimimum wage in Haitian currency*	*In US dollars*
1982	*15 gourdes*	*US$3*
2009	*70 gourdes*	*US$0.78 (in 1982 dollars)*
2011	*150 gourdes*	*US$1.61 (in 1982 dollars)*

Average factory wage in 2011: 236 gdes (US$5.90 in 2011 dollars)

An in-depth study conducted by HGW with eight workers in the capital and from the country's biggest FTZ – the Dominican-owned CODEVI park on the Haitian-Dominican Republican border – determined that the average worker wage is about 236 gourdes a day – that's $2.53 in 1982 dollars. (Two factory owners, Baker and Clifford Apaid, confirmed that average.) According to HGW's statistics, the average worker's annual salary, including the traditional "thirteenth month," would be about $153 a month or $1,989 per year.

HGW's study also found that the average worker spends more than half of his or her wage just getting to work and back and eating lunch:

Averages of workers' typical commute and lunch expenses:

Expense	*In gourdes*	*In US dollars*	*% of average daily wage*
Transportation	*31 gdes*	*.76*	*13%*
Daily noon meal	*90 gdes*	*2.25*	*38%*
Total	*121 gdes*	*3.01*	*51%*

Transportation and food represent only a tiny percentage of a workers' responsibilities. For example, the average worker surveyed supports over four people, three of them children. Average school fees carried for each worker, according to HGW's study, come close to US$690 per family.

While HGW could not verify all of the figures, a recent study came up with an even higher numbers for transportation, school fees and other expenses. According to the AFL-CIO's Solidarity Center (March 2011 study), a "living wage" for an average factory-worker family with one wage earner and two children should be about $749 per month – almost five times the current average assembly worker wage of $153 per month (6 days of work per week).

"This figure represents the actual cost of living and serves as a baseline for an appropriate minimum wage that will promote sustainable economic development," the Solidarity Center noted in its March 3, 2011, report.

"The salary question is a veritable scandal," economist Camille Chalmers told HGW in an interview. "The salary has gotten lower and lower, also. [Workers] get paid in gourdes but in fact [because almost half of food eaten in Haiti is imported], they consume in dollars."

Pierre-Paul said she knows the salary is not enough. "I don't have any choice," she explained. "My parents didn't have me learn a skill, so when I was 25, and I didn't know what else to do, I resigned myself to factory work."

Pierre-Paul's boss, factory owner Charles H. Baker, admits the salary is not "livable."

"If a person is honest, it's clear that it's not enough," Baker admitted. "If I could give a worker 1,000 gourdes a day, I'd pay that. But the conditions in Haiti don't permit us to pay 1,000 gourdes."

A glimpse into the life of a worker

Baker and other factory owners might claim they want to pay more than sweatshop wages but they have fought salary hikes and unions ever since they got into the game. Under the Duvalier regime – when wages were actually higher than today – only the dictatorship-sanctioned "union" was allowed. Since then, owners have (so far) nearly crushed any organizing efforts.

Thanks to the hard work of the labor group Batay Ouvriye (Worker's Struggle) and the courage of workers there, who endured threats, job losses and even beatings, over 3,000 laborers at the CODEVI park on the Haitian-Dominican border belong to a union. The union negotiates a collective contract for all the workers there.

This fall, Batay Ouvriye and textile workers got a union going in the capital. On September 15, organizers announced the new, legally registered Textile and Clothing Workers Union (SOTA - Sendika Ouvriye Tekstil ak Abiman). In less than two weeks, however, five SOTA executive committee members had been fired, one of them from Baker's One World Apparel.

Batay Ouvriye's spokeswoman Yannick Etienne said the firings – which factory spokespeople said were for "violations," were totally predictable. "It's very coincidental that one week after the union is announced, five committee members are fired. They decapitated the union."

Asked about the incident, Baker said his lawyer had advised him not to comment. But according to Batay Ouvriye, workers were fired after handing out leaflets in the street, refusing to work overtime, and other actions which are completely guaranteed by Haitian law.

After a long investigation, on November 24, 2011, a United Nations organization revealed that the firings were not just. Better Work, an organization set up by the UN's International Labor Organization, noted that: "There is solid evidence showing that the representatives of SOTA were fired because they belong to a union" and recommended "the reintegration with back pay as a means of reparation" for the union members.

The September firings are only the latest in the three decades of repression and union-busting.

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The Anti-Union, Pro-"Race to the Bottom"

Part 2 of Haiti: "Open For Business", by Haiti Grassroots Watch

Factory worker Evelyne Pierre-Pauli has never been in a union. A sewing machine operator at One World Apparel – run by two-time presidential candidate Charles H. Baker – she's afraid to even talk about the subject. "You have to create unions in secret because if you utter the word, you can get fired," Pierre-Paul told Haiti Grassroots Watch. "The bosses say that if we form unions, we'll destroy business."

National law and international conventions guarantee Haitian workers the right to organize and to collective bargaining. As recently as 2010, however, the International Trade Union Confederation's (ITUC) Annual Survey of Violations of Trade Union Rights noted that in Haiti "employers have enjoyed absolute freedom" to repress organizers, due to political turmoil and other factors.

"Those trying to organize workers in a union are constantly harassed or dismissed, generally in breach of the labor legislation. To prevent workers from joining unions, employers give bonuses to those who are not union members," the ITUC survey reported.

More recently, Better Work, a United Nations International Labor Organization (ILO) agency charged by the ILO with assuring all Haitian textile factories taking advantage of HELP legislation (U.S. Congress, 2010) comply to international labor standards [see 'Why is Haiti "attractive"?' part three of this study], said much the same thing. In its April 2011 report, Better Work noted numerous violations like the lack of written contracts, the lack of proper recordkeeping on hours worked, forced overtime and too much overtime, failure to grant proper paid leave and failure to give proper lunch breaks.

Better Work investigators also noted that there were no unions in any of the Port-au-Prince factories. “Better Work Haiti notes very significant challenges related to the rights of workers to freely form, join, and participate in independent trade unions in this industry in Haiti,” the report said.

But while Better Work notes “significant challenges” regarding the right to organize, director Richard Lavallee admitted that his office can’t do much to assist that situation, aside from file reports and make recommendations. “Better Work has a collaborative relationship” with the factories, he told HGW. “Coercive power doesn’t come from Better Work.”

Incredibly, Lavallee told HGW that workers said didn’t understand the meaning of “union.”

“When we interviewed workers to ask if they had colleagues who were fired because of trying to organize, we heard responses like, ‘What is a union?’” he said.

Whether or not Lavallee really believes that is possible, one thing is certain: factory owners and supervisors know which workers speak with Better Work investigators. Information in a report that criticizes a factory or certain supervisor would be easy to source. It is highly probable that workers exercise self-censorship. That’s certainly what workers told HGW.

Ginette Jean-Baptiste (see endnote 2) operates a sewing machine in Charles H. Baker’s One World Apparel. She was interviewed by HGW away from the workplace. She echoed what workers at Haiti’s factories have said for decades: talking about unions and organizing can lead to a pink slip. “We can’t make our demands heard at all. You can’t talk about that even with each other because someone will tell on you and you’ll get fired,” she told HGW. [Earlier this fall, five union organizers were fired from Port-au-Prince factories, including one from One World. See ***Salaries in the New Haiti***, part one of this study.]

Decades of Union-Crushing

In 2004, when the labor group Batay Ouvriye was helping organize at the Dominican-owned *maquila* park CODEVI on the Haitian-Dominican border, hundreds of workers were laid off. Batay and others claimed the lay-offs were a direct result of the organizing. But at the time, Baker, then vice president of the Association of Haitian Industries (ADIH), did not hesitate to defend the Dominican employers. "I'm very disturbed because as a Haitian, I'm trying to create jobs," he told Inter Press Service. "These people [Batay Ouvriye and its international supporters] are spreading lies on the Internet. This kind of thing kills our business here."

But they were not lies. And business was not “killed.” Batay Ouvriye and the workers prevailed. Today, over 3,000 workers at CODEVI are unionized and all workers benefit from a collective bargaining agreement, although salary remains rock-bottom. Minimum wage for the approximately 6,500 workers is 868 gourdes (US$21.70) a week.

In the face of local organizing and international scrutiny and solidarity, Baker and other industrialists fight tooth-and-nail against raises, saying they pay as much as possible, and arguing that the foreign companies who out-source stitching jobs to Haiti would pick up and leave if workers were better paid.

Washington appears to agree. In 2009, with the backing of the U.S. embassy, ADIH fought hard against an attempt by parliamentarians to raise minimum wage to 200 gourdes (US$5.00) a day. As reported in *The Nation* and in *Haiti Liberté*, "contractors for Fruit of the Loom, Hanes and Levi's worked in close concert with the U.S. embassy when they aggressively moved to block a minimum wage increase" voted by Parliament.

USAID helped pay for a study that, not surprisingly, "found that a 200 Haitian gourde minimum wage would make the sector economically unviable and consequently force factories to shut down," according to what chargé d'affaires Thomas C. Tighe wrote in a confidential cable to Washington.

The U.S. embassy urged "[a] more visible and active engagement by [then-President René] Préval." Two months later, the president apparently convinced the Parliament to set a two-tiered minimum wage that allowed assembly industries to pay less than 200 gourdes – 125 gourdes a day until October 2011, and today raised to 150 gourdes a day.

Justifying the "race to the bottom"

According to Baker, and to HGW research [as noted in ***Salaries in the "new" Haiti***, part one of this study], workers often earn more than 150 gourdes. But the wage remains the lowest in the hemisphere – and lower than it was thirty years ago – in a country where the state mostly does not provide nor even subsidize basic needs like housing, electricity, water, education and healthcare.

Industrialists justify the low wages. "When you have a country where 80 percent of the people don't work, anything is good!" according to Baker.

Jean-Alix Hecdivert, director of the Free Trade Zone Office, agreed, telling HGW: "A worker can eat. Even if he can't satisfy his hunger, he can eat."

Up at CODEVI industrial park, Director Miguel Angel Torres echoed both men. "I do think the salary is really low, but Haiti has 70 percent unemployment! If you don't work, you don't have anything. If you get 868, at least you can survive… It's better than nothing," he said.

Haitian economist Camille Chalmers has spent years thinking and writing about the devastating effects of neoliberal economic policies on Haiti. For Chalmers, sweatshop wages for exported textiles, produced by local and foreign capitalists, are not "better than nothing."

"It's a big error to bet on the slave-wage labor, on breaking the backs of workers who are paid nothing while [foreign] companies get rich. It's not only an error, it's a crime," Chalmers said.

The economist admitted that assembly industries do create jobs but – referring to the capital's main industrial park "boom" years in the 1980s – he said that "while SONAPI [Société National des Parcs Industriels] might have created 60,000 jobs, it also attracted two million unemployed people."

Just like in Mexico, with the *maquila* boom, tens of thousands of landless peasants flowed into Haiti's capital in search of jobs. [See ***Stepping Stone or Dead End?***, part five of this study] Assembly factories "don't resolve the unemployment problem, they don't resolve the production problem," Chalmers added. "They work with imported materials, they're enclaves. They don't have much effect on the economy."

Haiti is not the first place to have "enclaves." International corporations based in North America, Europe and parts of Asia have been off-shoring as much labor as possible for decades in order to save on labor costs. And as wages rise in one country the companies pick up and move on to someplace with lower wages. The concept of "race to the bottom" is by now well understood.

CODEVI's Torres understands the "race" well. Dominican factory owners started to move across the border because "in the 2000s, we realized it was too expensive in the Dominican Republic. The clients couldn't pay the labor costs."

In a report for Georgetown University, Professor John M. Kline noted that rising labor costs on the eastern half of Hispaniola, and the 2005 expiration of "Multi-Fibre Agreement," led to the loss of over 82,000 jobs in the Dominican Republic. Between 2004 and 2008, "nearly two-thirds of the sector's total employment was lost," he wrote.

Ignorant or mendacious, the cheerleaders for Haitian sweatshop labor fail to mention the fate of those 82,000 Dominican workers. In fact, the Dominican economy, supported by remittances, ranks in the top 25 countries with the most skewed income distribution and has high structural unemployment. But that doesn't seem to matter to former President Bill Clinton. Speaking to the September 20 session of the Clinton Global Initiative meeting in New York City, he pushed Haiti to get to the front of the pack. "I predict to you - if they [Haitians] do it right - they will move to the top in the region and then they will spark this race all over the Caribbean," he told investors.

Factory owner Baker admits he is part of the race. "Yes, it's a race to the bottom… if you count on it!" Baker said.

Baker claims that low-wage, low-skilled assembly industries are temporary, a "stepping stone," and that they will be a big part of the Haitian economy for only about "ten or 15 years."

"I count on it only as a stepping stone... It's a step. We're going up the stairs and it's one of the steps," he said.

Dozens of countries – and indeed, Haiti, on and off for the past thirty years – have already tread those same "race to the bottom" steps. Has the gamble paid off?

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Why Is Haiti Attractive?

Part 3 of Haiti: "Open For Business", by Haiti Grassroots Watch

Last September, President Michel "Sweet Micky" Martelly told foreign investors that Haiti is ready for "new ideas and new businesses." The country, he said, is "creating the conditions necessary for Haiti to become a natural and attractive destination for foreign investment."

But the ideas are not that new.

Over thirty years ago, the Haitian and U.S. advisors of dictator Jean-Claude Duvalier had almost the same plan for Haiti's economy. The impoverished country would become the "Taiwan of the Caribbean" – a vast factory complex offering low sweatshop wages where to U.S. industries could assemble working in textiles, electronics and baseballs.

How has it worked out?

Three decades and billions of dollars in investments later, workers in Haiti earn less than they did under "Baby Doc." [See ***Salaries in the "new" Haiti***, part one of this study] And studies like Yasmine Shamsie's 'Time for a "High-Road" Approach to EPZ Development in Haiti' note that "[w]hile the [Free Trade Zone] model did create jobs, it also had important negative effects on Haiti's poor."

Among the "negative effects" the Canadian researcher noted:
- Increase in income concentration and regional inequality
- A rise in food and housing prices
- Slums in marginal areas sprang up, in part because of the rural exodus spurred by the factories, but also because "wages were too low to provide workers with decent or safe accommodations."

Those results haven't stopped Haitian politicians and "development experts" from doing "déjà vu all over again" planning. This time, however, plans call for "decentralizing" the factories.

In 2002, President Jean Bertrand Aristide kicked off the new round when he and Parliament passed sweeping "Investment Code" and "Free Trade Zone" legislations. The new laws offer 15-year tax holidays, duty-free import and export, and tax-free repatriation of profits. Only one Free Trade Zone (FTZ) opened last decade – CODEVI on the Haitian-Dominican border – but others were in the works prior to the January 12, 2010, earthquake, thanks to the incentives offered by duty-free textile trade agreements with the U.S.

In fact, the changes in the international garment industry during the last decade – due to the 2005 expiration of the Multi-Fibre Arrangement (MFA) and the Agreement on Textiles and Clothing which gave developing countries low-duty or duty-free export quotas for the U.S., Europe and other "developed" countries – have created havoc.

When those agreements ended, thousands of factories in low-wage countries around the world shut their doors or laid workers off as international contractors sought out more advantageous locations to have their clothes stitched. Perhaps not uncoincidentally, the very next year, in 2006, the U.S. Congress passed the Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE) Act that gave preferential access to Haitian-sewn clothing. Two years later, HOPE II expanded the preferences and locked them in place for ten years.

Then, in the wake of the earthquake, Congress approved the Haiti Economic Lift Program (HELP) Act (2010), which nearly triples duty-free quotas for clothing exports from Haiti to the U.S. and stretches the access up through 2020.

But the names “HOPE” and “HELP” shouldn’t mislead readers into thinking the legislation is meant to be “hopeful” or “helpful” to Haitian factory owners or workers only.

Writing for the United Nations in 2009, economist Paul Collier noted that “[u]niquely in the world Haiti has duty-free, quota-free access to the American market guaranteed.”

“Haiti has a massive economic opportunity in the form of HOPE II,” Collier wrote in his ‘Haiti: From Natural Catastrophe to Economic Security’ report for UN General Secretary Ban Ki-moon.

“The global recession and the failure of the [World Trade Organization] Doha Round accentuate this remarkable advantage because manufacturers based in other locations will undoubtedly be fearful that rising protectionist pressures may threaten whatever market access they enjoy currently. *From the important perspective of market access Haiti is now the world’s safest production location for garments*.” [author’s italics]

Collier and the other cheerleaders say Haiti won’t be able to sell its “unique” advantage unless it carefully assures a few sine qua nons.

<u>Low wages</u> Wages must be kept low. A World Bank/Inter-American Development Bank report prepared for the 2011 Davos World Economic Forum noted that, at the moment, Haiti’s labor costs were “fully competitive with China’s,” while wages in the Dominican Republic are “high,” which has led to a “decline” in the assembly industry there. [See also ‘Anti-union, pro-“race to the bottom”’, part two of this study]

What are the wages across the border? In 2009, minimum wage for Free Trade Zone workers was US$35 a week, which, according to the U.S. State Department – cited in a study by Georgetown Professor John M. Kline – “did not provide a decent standard of living in any industry for a worker and family.”

The implication? Haitian sweatshop wages won’t be going up any time soon. They currently stand at about $35 a week…

<u>24/7 production</u> The clothing industry “operates multi-shift production,” Collier noted in his report, where he called for Haitian factories to include night shifts. The Haitian private sector agrees. In its post-earthquake Vision and Roadmap for Haiti report, Haiti’s industrialists and

business owners called for "flexible labor laws, including immediately legalizing the 3x8 work shift to allow increased competitiveness in the garment industry."

Public investment Not surprisingly, Haiti's would-be sweatshop investors are also looking for subsidies and handouts. "Given the risk and timing associated with garment tenants, public funding is necessary to catalyze investment in the new economic development zones," the Vision and Roadmap noted. (The factory owners got their wish – the U.S. and other donors are donating almost $200 million to the new Regional Industrial Park of the North (Parc Industriel du Region Nord - PIRN) project. (See more on this in the remaining parts of this study)

Land for FTZs "Ensure that land is rapidly available for acquisition in Export Zones," Collier recommended.

Chart: Hourly wage comparison chart, converted to U.S. $
Haiti .48
Dominican Republic .90
Mexico 1.83
India .83
China (inland) 1.44
Pakistan .54
Bangladesh .30
Cambodia .33

From the government-commissioned study, Bringing HOPE to Haiti's Apparel Sector.

All of these elements will make sure that Haiti is, as Martelly called it, "a natural and attractive destination."

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What's planned for Haiti?

Part 4 of Haiti: "Open For Business", by Haiti Grassroots Watch

"Haiti Stakes Recovery on Clothiers" - Wall Street Journal, May 14, 2010

"Free Trade Zones should be one of the spearhead's to launch reconstruction." - Jean-Alix Hecdivert, director of the government Free Trade Zone Office (FTZO)

Beginning forty years ago, Haitian authorities and their backers pinned their hopes – in part – on Free Trade Zones (FTZs) and assembly jobs. [See also ***Why is Haiti "attractive?"***, part three of this study]

More recently, the Haitian government and its backers have nuanced their approach. The 2010 Presidential Commission on Competitiveness report, Shared Vision for an Inclusive and

Prosperous Haiti, named textiles as one of five "priority" sectors. (The other four are: animal husbandry, tourism, fruits and tubers, and construction.)

But in the wake of the earthquake, and with the advent of the U.S. HELP law which extends the HOPE II benefits, the main focus appears to be on FTZs and the assembly industry sector. The FTZ Office has received many requests for new authorizations, Hecdivert told Haiti Grassroots Watch.

"We are working on all of these projects because the focus is: create the most jobs possible in the shortest amount of time," he added.

Echoing Hecdivert, a key figure in the new administration said the government is basically banking on "a massive influx of foreign capital." In a September 12 article in *Le Nouvelliste*, Laurent Lamothe, head of Martelly's new Council on Economic Development and Investments, said "the biggest need for the Haitian population is job creation."

Map showing approximate locations of existing or planned industrial and FTZ parks (ten). HGW

According to HGW's interviews with the FTZ Office and the evidence culled from dozens of documents and reports, there are over a half-dozen new FTZs and other assembly industry-related projects in the works. These include FTZs, Free Trade Industries (essentially an FTZ that the size of the building) and "Special Economic Zones" which are like expanded FTZs but with some non-FTZ businesses allowed in the region. One of the biggest projects is the Industrial Park of the North Region (Parc Industriel du Region Nord - PIRN) [See also ***The Case of Caracol***, part six of this study].

Another large project – although not much is known about it – is a giant combination of FTZs and other initiatives some journalists are calling the "North Pole Initiative."

Despite numerous requests to FTZO officials, Haiti Grassroots Watch (HGW) was not able to obtain definitive paperwork on all of the projects, nor a map of approved FTZs. Below is an incomplete list of existing or potential FTZs and related projects (see here for chart).

Charity or profit?

The language in the press releases and on the websites announcing the millions in loans and grants for the expansion of the textile assembly industry constantly reinforces the idea that relocation of factories to Haiti is practically a charitable enterprise.

The Interim Haiti Recovery Commission says the project is in the "job creation" sector, making it sound almost like a social service. Billionaire George Soros' investment group hyped that their participating in the West Indies Free Trade Zone would "improve the standard of living for 300,000 residents." A Citi news release on its $250,000 grant to CODEVI congratulated itself for helping "create 1,400 new full time jobs for Haitians over the next 12 months."

But a look at what the buying power of a Haitian textile worker's salary dispels the myth that assembly jobs contribute to a significantly improved "standard of living." [See ***Salaries in the***

"new" Haiti , part one of this study.] And in any case, an investment is an investment – the objective is to make a profit. That is why financiers like Soros and Korean textile giants like Sae-A Trading are in Haiti, not in Alabama or France.

The jobs "created" in Haiti most likely already existed as jobs in another country before moving to the home of the hemisphere's lowest wage. Haitian laborers are likely replacing more expensive laborers, and are basically making it possible for clothing labels like GAP, Banana Republic, Gildan, Levis and others to make even more profits by shutting down factories based in countries with better salaries and better worker protections.

A look across the border is instructive. Between 2004 and 2008, as wages rose a tiny bit, and a preferential trade agreement came to an end, the Dominican Republic lost 82,000 assembly jobs. [For more information, see ***Anti-union, pro-"race to the bottom,"*** part two of this study and ***What makes Haiti "attractive?"*** part three.]

In the U.S. during about the same period (between 2004 and 2009), over 260,000 textile workers lost their jobs, according to the U.S. Bureau of Labor Statistics. U.S. sewing machine operators – the least trained textile workers – earned about $9.50 an hour in 2008 (the most recent figures available). In Haiti they earn about $5.90 a day.

Manufacturers do not offshore their jobs in order to "jumpstart" industry or "improve the standard of living." They do it to make a profit. As Canadian company Gildan Activewear said in a recent newspaper article, the savings offered is "too good to pass up."

According to a 2009 study commissioned by the Haitian government and paid for by the World Bank, Haitian assembly plants seem to be making a good profit, also. At that time were netting between 8 and 67 cents profit per piece, with factories stitching up to 1.7 million items per month.

Not all bad

Industrialization brings some benefits. Haitian workers get training, industrial parks are built, and there is likely some transfer of technology. Electricity, water and other infrastructure is usually improved in the FTZ areas. But the industry is volatile, and at any moment a textile company can pick up and leave.

For these and other reasons, Haitian economist Camille Chalmers is thinks the current approach – marketing Haiti's sweatshop-wage salaries – is "a big error."

"Basing the country's development on assembly industries is a big error, it will lead us into a hole, into dependency. We've already experienced it, we know what it does," he told HGW.

While Chalmers admitted that the areas with FTZs have slightly better infrastructure than the rest of the country, and that workers use their meagre wages to buy food, the overall effects are minimal and do not help the economy's productive forces grow. "The sector is practically cut off from the rest of the country. You get some factories and some salaries, and everything else is imported," he added.

"It's completely wrong-headed and it won't help the country get out from under its economic crisis," the economist concluded. ""People need to know what FTZs are, what has happened in Mexico, or Honduras, so they don't think these things will 'save' us."

How have other countries fared?

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Stepping Stone or Dead End?

Part 5 of Haiti: "Open For Business", by Haiti Grassroots Watch (Dec 2011)

Haitian factory owner Charles H. Baker admits that by trying to attract manufacturers to Haiti with the lowest salary in the Americas, the country is engaged in a "race to the bottom," but he insists that low-wage, low-skilled assembly industries are a "stepping stone" to more complex industrial development.

"It will last ten to 15 years," Baker told Haiti Grassroots Watch. "I count on it only as a stepping stone... It's a step. We're going up the stairs and it's one of the steps." [For details see ***Anti-union, pro-"race to the bottom"***, part two of this study.]

Dozens of countries – and indeed, Haiti, on and off for the past thirty years – have already walked the walk, climbing onto the bottom of the "race to the bottom" steps. What was the outcome around the region?

Haiti Grassroots Watch (HGW) reviewed reports on Dominican Republic, Mexico and Central America to see how those countries, economies and workers have done. Resoundingly, the evidence on Free Trade Zone (FTZ) and low-wage assembly industries shows:

• Economy - Little evidence of "linkages" with the rest of the economy.

• Environment and Health - Assembly industry-led industrialization can have direct and indirect negative effects on the environment, and lax regulations or lax enforcement can mean that workers are exposed to hazardous materials.

• Society - While the employment of women does yield some positive effects (economic autonomy, etc.), assembly industries can also have negative effects on families and society.

In her study, Canadian researcher Yasmine Shamsie noted that, "The literature on [Export Processing Zones] is voluminous but there are a few findings that stand out when considering Haiti. First, countries that applied the EPZ model relatively successfully (such as Mauritius and Costa Rica for instance) employed it as one pillar of a broader plan to diversify their economies. This means that the model on its own will yield hardly any beneficial results."

What does the data say? HGW cannot claim to have perused all of the literature, but a glance at some studies of countries similar to Haiti might shed some light…

Economy: In 2003, José G. Vargas Hernández of the University of Guadelajarai looked at literature related to Central America where, during the 1990s at least, "most of the *maquiladoras* are owned by Asian capital, mainly Korean capital investors." The researcher concluded that "[t]here is no evidence that *maquiladora* industry's technological complexity has a direct impact both in economic development and generation of well remunerated employment."

Vargas Hernández went on to discuss universal "non-observances of labor rights," the fact that foreign investors can leave a host country on a moment's notice, and the frequent failure of the sector to develop beyond simple low-skilled, and low-wage jobs. "There is not a clear understanding about the role that this type of industry is playing in economic growth and national development," the researcher wrote.

In an exhaustive 2008 literature review, two U.S.-based professors concluded that even Foreign Direct Investment (FDI) and the creation of high-tech assembly industry don't necessarily produce "spillover" into the local economy. In 'Comparative Studies in Comparative International Development,' Eva A. Paus and Kevin P. Gallagher looked FDI in Mexico and Costa Rica.

For they latter, they found "some positive spillovers from FDI through the training, education… [but] spillovers via backward linkages [to the rest of the economy] have been small." Hopes were very high for Mexico, which had an indigenous electronics and computer industries prior to the FDI boom. Rather than source parts in Mexico, however, the foreign companies got inputs wherever they were cheaper – usually from Asia.

"Under the Washington Consensus, governments in both countries had great faith in the power of liberalized markets to render economic stability and growth, and for FDI to generate technological and managerial spillovers," the authors wrote. "Our article contributes to the growing body of evidence that the Washington Consensus does not constitute a viable development strategy."

Along the Mexican-U.S. border, home to the *maquiladora* boom, especially following the implementation of the North American Free Trade Agreement (NAFTA), income disparity is higher than at any other commercial border in the world, a 2007 article in the Golden Gate University Environmental Law Journal reports. Minimum wage in Tijuana buys one-fifth what it did in the early 1980s, and "67% of homes have dirt floors, and 52% of streets are unpaved," researcher Amelia Simpson wrote.

Environment and Health: There are generally two types of environmental concerns associated with assembly industry plants – direct environmental damage due to waste, and indirect damage or effects, due to increased pressure on the water supply from both the industry and the typical population influx inspired by the hope of jobs.

Damage or benefits to the environment appear to be highly dependent on the ability of the host country to enforce laws and standards. Some studies claim that assembly industry factories are more careful about the environment because they know foreign consumers might boycott a polluting industry

A 2002 report on Mexico for the United Nations found that "the *maquiladora* industry performs better than the non- *maquiladora* industry with respect to direct environmental externalities."

The case of the blue jeans water run-off in the Mexican state of Puebla is by now well-known. In order to "fade" jeans, they are usually beaten or chemically treated. Tehuacán means "Valley of the Gods," but reporters call it "Valley of the Jeans." A 2008 study from Ciencia y el Hombre journal in Veracruz reported blue dye run-off polluting rivers and irrigation ditches. Of equal or greater concern is the increased demand on water supply, Blanca Estela García y Julio A. Solís Fuentes wrote. "Due to the intensive use of water, the water table is diminishing between 1 and 1.5 meters every year, at the same time the population is growing between 10,000 and 13,000 people per year," they noted.

In some parts of Mexico, factories now buy "water rights" from local farmers in order to cover their needs, harming agriculture and driving up the cost of water. The 2002 study noted that:

The shortage of water, both in quantitative and qualitative terms, has already forced the industry to start to purchase water rights, temporarily or permanently, from surrounding agricultural water shareholders. These water rights are traded with high market prices. One example is Nissan's automotive plant in Aguascalientes that purchased water rights required for its painting processes.

The North American Free Trade Agreement (NAFTA) has an environmental "side agreement" that calls for companies to clean up after themselves, but the 2007 Golden Gate article noted that the agreement is neither "enforceable" nor has it "brought adequate protections for workers or the environment."

Surveys of Haitian factories attest to the lack of protections for workers from environmental hazards. Better Work Haiti found that almost all factories violated national and international laws and standards. "Average non-compliance rates are high also for Worker Protection (93%), Chemicals and Hazardous Substances (89%) and Emergency Preparedness (82%)."

According to the April, 2011, report, "factories initiated remediation efforts to improve the situation," but as noted in a previous story [***Salaries in the "new" Haiti***, part one of this study], Better Work does not have enforcement powers.

<u>Society:</u> As the record in Haiti shows, the installation of assembly industries and FTZs can have dramatic effects on population movement. According to Simpson, in Mexico, the *maquiladora* industry "triggered the largest migration since the 1960s."

"Tijuana's population increased more than sevenfold from 1960 to 2000," she wrote.

Society is also impacted in another way. More than any other industry in poor countries, assembly plants employ women. In some countries, the workforce is up to 80 percent female, often young. Women are preferred because, according to Canadian researcher Yasmine Shamsie, quoting another researcher, "they are cheaper to employ, less likely to unionize and have greater patience for the tedious, monotonous work employed in assembly operations." (In Haiti, the balance between women and men is more even. Women make up about 65 percent of the workforce.)

The impact on women can be both negative and positive. On the negative side, women are exposed to the toxic chemicals, injuries due to movement repetition and can develop respiratory illnesses. On the other hand, having an independent income – albeit insufficient – can be empowering.

Still, women are usually the primary caregivers for children. Writing about Mexico's Cuidad Juarez in 2004 for the Houston Institute of Culture, Richard Vogel noted:

"Family life, the foundation of every community, has deteriorated under the influence of the *maquiladoras*. About half of the families that reside in the two and three room adobe houses in the working-class neighborhoods of Juárez are headed by single mothers, many of whom toil long hours in the *maquiladoras* for subsistence wages. The resulting stress on families has lead to chronic problems of poor health, family violence, and child labor exploitation. Children suffer the most. Because of the lack of child-care programs, kids are often left home alone all day and fall prey to the worst aspects of street culture, such as substance abuse and gang violence. Ciudad Juárez, by any measure of social progress, is moving backward rather than forward under the influence of the *maquiladora* industry."

A glimpse of the future?

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The Case of CARACOL

Part 6 of Haiti: "Open For Business", by Haiti Grassroots Watch (Dec 2011)

Robert Etienne looks out with dismay at the fence cutting through his field in Fleury, near Caracol, in Haiti's Northeast department.* Earlier this year, he had a healthy crop of beans coming up through the rich, black soil. "The first week of January, tractors moved across all this area and broke down everyone's fences. Thieves and animals followed, and our crops were gone," the septuagenarian told Haiti Grassroots Watch (HGW) during a visit in June, 2011.

Etienne brought up his four children right here by raising animals and farming a small family-owned plot and a larger plot he leased from the state. Along with hundreds of other farmers in this community, he woke up one day last January to discover his fields had been destroyed.

Unbeknownst to Etienne and other farmers, that same week the Haitian government signed an agreement with U.S. Secretary of State Hillary Clinton, representatives of the Inter-American Development Bank (IDB), and the Korean textile giant Sae-A Trading. With those signatures, Etienne's land and about 300 other plots were converted into an industrial zone.

Photo: Signing the Parc industriel de la région du nord (PIRN) agreement, January 11, 2011.

"This will be the match that strikes a fire, and gets things going," Hillary's husband, former U.S. President Bill Clinton, told the *Wall Street Journal*. Clinton, who at the time headed the Interim Haiti Recovery Commission (IHRC), has long-championed plans to bring more industry to Haiti.

But farmers like Etienne, along with labor leaders, environmentalists and economists, are all wondering – just what "fire" has been lit and when "things get going," what "things," and where will they "go?" Also, why was Caracol chosen?

All parties agree that the site – which is part of the Trou du Nord River watershed – is one of the most fertile spots in the Northeast Department. The new industrial park will also be located only about five kilometers from a large bay which is home to one of the country's last mangrove forests and extensive coral reefs.

In order to find out why Caracol was chosen, and to get a better picture of the potential "winners" and "losers" in the project, HGW visited the Northeast, reviewed a half-dozen studies, and interviewed numerous experts and potential beneficiaries.

PIRN - A public-private partnership

The Industrial Park of the North Region (Parc Industriel de la Région du Nord - PIRN), which recently changed its name to the Parc Industriel de Caracol, is the showcase reconstruction project for the new government, the CIRH and the "international community" in Haiti – US, France, Canada, the European Union and the Inter-American Development Bank (IDB). The 243-hectare industrial park is slated to open in March, 2012. Planners say some 20,000 people will be hired for "Phase 1," and that up to 100,000 new direct or indirect jobs, the overwhelming majority of them sweatshop wage-level assembly jobs, will be created over the next few years. [See ***Salaries in the "new" Haiti***, part one of this study.]

In the planning stages before the earthquake, and with an initial price ticket of over US$200 million, the PIRN is the result of a "public-private partnership." But the Government of Haiti (GOH) is not the only "public" partner.

The "public" to the north – U.S. citizens – are the project's biggest investor, providing some US$124 million in U.S. tax dollars. That financing that will be used (according to project documents) to improve nearby port infrastructure, build a electricity plant to supply power to the PIRN, and build at least 5,000 units of housing.

As Bill Clinton implied, foreign investment is a key part of the economic plan he and the Haitian government are pushing [see ***Why is Haiti "attractive?"***, part three of this study]. Washington is doing everything it can to help assure Haiti is "open for business." Thus, at a briefing on January 7, 2011, U.S. AID Director Cheryl Mills was proud to report that her team had "been working through with foreign investors on how we could go about attracting them to an industrial park."

In addition to U.S. tax dollars, the PIRN is also being funded by the Inter-American Development Bank (IDB) to the tune of US$55 million. The IDB money will be used to build "factory shells and inside-the-fence infrastructure," according to U.S. State Department documents.

The use of taxpayer dollars to subsidize private business is nothing new. "Public Private Partnerships" (PPP) are common the world over. The taxpayers take risks to make a location or a sector attractive for private capital. And while the overall logic and justice of PPPs in general could certainly be debated, the specifics of this PPP really stand out. It goes further than most. It uses tax dollars -– mostly from the U.S. – to benefit textile and clothing companies that are not necessarily American, and every job created there will likely result lay-offs of workers in US.

Ultimately, in the case of the PIRN at least, U.S. taxpayers are making it easier and cheaper for foreign and local clothing and textile companies firms to set up (sweat-)shops in Haiti, lay off better paid workers in the U.S. and other countries, and increase their profits. [See ***What's planned for Haiti?***, part four of this study.] If Levis and GAP can get their clothes stitched in a place that pays US$5 a day rather than US$9 an hour (approximately the lowest wage paid in US-based clothing factories), with new infrastructure, electricity, UN peacekeepers to provide security, and tax-free revenues and other benefits, why not?

Ironically, the main private partner in the PIRN is not Haitian or American. The partner is South Korean textile giant Sae-A Trading, which promises to spend US$78 million to build a 50,000 hectare factory complex to eventually employ 20,000 workers (in the first phase) and which will eventually include a textile mill that will do knitting and dyeing.

Sae-A Trading is one of the world's larger apparel makers, supplying to GAP, Wal-Mart, Target and other major U.S. retailers. The company has been building factories and textile mills around the world at record pace recently–Nicaragua, Indonesia, and now Haiti. One of the largest clothing manufacturers in the world, a 2009 article reporter that Sae-A Trading's exports – all to the U.S. – were valued at about US$885 million.

"Our 20 factories worldwide produce 1.4 million pieces of clothing a day and the annual production rate is 360 million pieces," founder Kim Woong-ki told the Korea *JoongAng* Daily. "That number is nearly equal to the U.S. population.

But Sae-A Trading is not investing in Haiti to "create jobs," as the fans of assembly industry based "sustainable development" – like President Michel Martelly – claim. The company is moving in to make more money. Sae-A will be in perfect position to take advantage the HELP Act – that allows textiles to enter the U.S. from Haiti tariff-free [see ***Why is Haiti "attractive?"***, part three of this study], and then of the recently approved U.S.-Korea Free Trade Agreement (KORUS FTA). Sae-A Trading is setting up shop just in time.

Approved by Congress in October, KORUS FTA – which could go into effect as early as January 1 – will immediately reduce tariffs on most Korean goods to zero, with more reductions coming in five and ten years. A 2007 study by the U.S. International Trade Commission estimated the agreement "would likely result in a significant increase in bilateral U.S.-Korea trade in textiles and apparel, particularly U.S. imports from Korea."

And therefore, most likely, a further decrease in employment in the U.S. textile and apparel sector.

How was Caracol chosen?

Even before the earthquake, the GOH and its supporters targeted the north of Haiti for an industrial park because of its proximity to the U.S. and to the Dominican Republic. According to various government and consultant documents, a good site needs access to a large unemployed population, an abundant water supply, electricity, and major highways.

The U.S.-based Koios Associates consulting firm, hired to help choose a site, also noted that the north region was a great place because "the area has large stretches of relative empty land." Of course, "relatively empty" is a relative term, as will be shown below.

The Koios study – dated September 20, 2010 – recommended 18 possible sites, with the Caracol site ranked #2 of 18. "The river to the east of the site has substantial perennial flow and is likely to be suitable for factories using substantial water and requiring discharge of treated water. The land is devoid of habitation and intensive cultivation," the report stated.

Except, it wasn't quite "devoid." The Caracol site was home to 300 farming plots. But the site was chosen anyway. According to a second Koios study – dated May, 2011, and entitled 'Study of the Environmental and Social Impacts: Industrial Park of the North Region of Haiti'[3] – the Caracol site was selected by the GOH because:

- of the Trou du Nord River - "it is capable of absorbing a large volume of treated water,"
- of an abundant subterranean water supply,
- most of the land belongs to the State, meaning that it would be easier to kick off the farmers.

"Good agricultural lands"

In their second study Koios admitted that the site was actually home to "good agricultural lands." But it was too late by then. Farmers had been evicted and a fence put up.

Asked after the fact by the Ministry of Environment (MOE), Caracol Mayor Colas Landry said he disagreed with the choice of the spot. "If I were consulted by the project promoters, I would never propose that site. I would orient them to Madras," he told the MOE in an internal report leaked to HGW.

(According to Haiti's Free Trade Zone Office, Free Trade and Industrial Zones should not be set up on farming land. In an interview with HGW, the Office's Luc Especca insisted on the point, saying "We all remember what happened with CODEVI." The CODEVI Free Trade Zone, built on the fertile Maribahoux Plain, caused considerable upheaval and protests in Haiti and internationally.)

What about the environment?

Shockingly, the second Koios study also admitted that "the study process and the section of sites *was not accompanied by extensive environmental, hydrologic or topographic research*." [our italics] Indeed, a comprehensive internal MOE report[4] obtained by HGW confirmed that, noting that "at [no] moment the MOE was associated in any thought in the identification of the site Caracol."

The report – subtitled 'To what extent and under what prerequisite a win-win situation could be envisaged from an environmental point of view?' – also noted that the PIRN could have "great potential adverse impact on the environment." Apparently, the Koios team agreed.

When the firm took a closer look at the site in its second study this past spring, it suggested the GOH change the "risk rating" for the project from B, or "medium," to A which – according to the MOE document – means "significant adverse environmental impacts."

In addition, Koios noted that a more detailed environmental and social impact would be necessary. The consultants suggested that while the more thorough study is conducted, the GOH should "impose certain limits to the industrial activities authorized in the park during the first 12 to 24 months of operations."

Koios also noted that the region is also home to the significant indigenous archeological sites and some of earliest European settlements in the hemisphere. The firm went so far as to make two other, even more radical, suggestions:

1. Move the project to another site in the north or even a completely different region of Haiti, or

2. Cancel the project, although, the consultants remarked, "[i]t's cancellation could call into question the reputation of the parties concerned and could harm the reputation of Haiti as a country that welcomes investment."

Not surprisingly, the PIRN was neither moved nor cancelled… And, two months after the Koios report came out, perhaps seeking to downplay the environmental aspect, the Ministry of Economy and Finance bought several one-page ads in *Le Nouvelliste* where it reported, "environment issues have been considered with a great deal of attention" and claimed that more studies were underway.

A month later, the IDB's Eduardo Almeida said everything was ready to move forward since "[e]nvironmental impact studies… have already been completed in the region."

Indeed, the project is moving forward. On November 28, the major actors flew to Caracol to inaugurate the site. Clinton, Martelly, Sae-A Trading, the BID – they were all there. "Haiti is open for business," Martelly said as he stood in front of a giant architect's schematic drawing of the factory zone. "This is the kind of change we need." *(Photo)*

But what about the risks identified by Koios and the Ministry of the Environment? Are more studies taking place or not? Will limits be imposed on the PIRN's tenants during the first 12 to 24 months? How did the Ministry of Economy and Finance – the main ministry shepherding the PIRN and the one that commissioned the Koios study – react to the Koios recommendations and the MOE report?

(View a USAID photo gallery of the [opening of the industrial park in Carocol](http://www.flickr.com/search/?q=haiti+industrial+park) on Nov 28, 2011 here: http://www.flickr.com/search/?q=haiti+industrial+park)

* Caracol is located on the north coast of Haiti, between Cap Haitien (Haiti's second largest city) and the border of the Dominican Republic. Distance from Cap Haitien to Caracol is app. 30 km.

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Industrial Park in Caracol: A "win-win" situation?

Part 7 of <u>Haiti: "Open For Business"</u>, by Haiti Grassroots Watch (Dec 2011)

Why did the Haitian Ministry of the Environment warn of "great potential adverse impact" from the new Industrial Park of the North Region (Parc Industriel de la Région du Nord - PIRN) being built in Caracol with over US$200 million in public and private financing?

Why did the consultants' study call the nearby Caracol Bay "unique, productive and precious" and say that even if all regulations are followed, the PIRN "could endanger this ecosystem?"

Why did the same consultants – who originally suggested the Caracol site, but who later admitted they did not take environmental considerations into account – tell the Government of Haiti (GOH) to consider moving or even cancelling the project? [See ***The Case of Caracol***, part six of this study, for background]

All relevant and urgent questions.

But even though two extensive environmental and social impact studies – listing numerous risks – are public and posted online, and even though there are also several other studies on the Caracol Bay marine habitat available, no Haitian or foreign media outlet (except for *Haiti en Marche*) has looked further than the press releases from the project's champions and investors: the U.S. State Department, the Inter-American Development Bank (IDB), the GOH and Sae-A Trading.

Instead, the *Wall Street Journal*, *Miami Herald*, *Associated Press*, *Le Nouvelliste, Haiti Press Network* (*Agence Haiti de presse*), and others are largely cheerleaders for the PIRN and the mostly sweatshop wage jobs it will provide.

It comes as no surprise that there are numerous environmental and social risks associated with any industrial park – "free trade" or not. But these risks are exponentially greater in poor countries due to poor zoning, lack of legislation and/or government control, large unemployed populations, etc. [See ***Stepping stone or dead end? Experiences in other countries***, part five of this study] This does not mean a project should not be undertaken, but studies should be done and the benefits vs. the risks put before the public.

As noted above, studies were done, including one released May 13, 2011 **by Koios Associates**, hired by the Ministry of Economy and Finance (MEF) in 2010 [See The Case of Caracol, part six of this study] and a second one released on August 5, 2011 and commissioned by one of the project's major investors, the IDB.

Both studies have potential conflict of interest issues: Koios chose the site in the first place, and the IBD is donating or loaning over US$50 million for the PIRN. But it appears the potential conflicts of interest and the numerous risks outlined in the documents, were not of significant concern to the power-brokers. Construction has started and a US$15 million power plant contract was awarded in September.

Haiti Grassroots Watch lacks the space and the human resources to list all the sources and fully list all the risks, but here are some of the major ones:

Risk 1 - The Caracol Bay environment

Among the most obvious risks are the dangers to Haiti's fragile environment, specifically the Caracol Bay.

The original, MEF-commissioned study recommending sites for the PIRN was done by the US-based Koios group. The 110-page study identified the Caracol site as #2 out of 18 possible sites in the north. However, their own follow-up Environmental and Social Impact Study, in May, 2011, admitted – shockingly – that the environment had not been taken into consideration the first time around. [See also ***The case of Caracol*** , part six of this study.]

Also, equally astoundingly, in their impact study, the Koios team claimed, "It wasn't possible to anticipate the presence of the complex and precious ecosystem of the Caracol Bay before we conducted this environmental evaluation."

The claim is nothing short of outrageous. The bay – home to mangrove forests and the country's longest uninterrupted coral reef – has been the subject of international study for some years and is part of several plans to make the region into a park, according to publicly available documents:

1) A 2009 study for the Organization of American States and the Inter-American Biodiversity Information Network (IABIN) put the "value of ecosystem services" a of the mangroves and coral reefs in the bay at US$ 109,733,000 per year.

2) In 2010, the UN Development Program and the Haitian Ministry of the Environment (MOE) initiated plans to set up a "Système national d'aires protégées (SNAP)." Over US$2.7 million has been invested in the program already, according to the MOE. One of the first areas on the list is the Caracol Bay.

3) The bay also lies in the Caribbean Biological Corridor (CBC), an area designated by Dominican Republic, Haiti and Cuba back in 2009, and is part of that US$7.4 million project.

Even if Koios somehow "missed" the literature on the bay, the Interim Haiti Recovery Commission (IHRC), co-headed at the time by former U.S. President Bill Clinton, cannot claim ignorance. In October, 2010, the IHRC approved US$1 million of the CBC's US$7.4 million in funding. That was two months before the Commission approved the PIRN.

<u>Risk 2 - Water</u>

Another risk involves water usage and water pollution. The PIRN is located in the middle of the Trou du Nord River watershed, identified as a "priority watershed" in a recent study from the U.S. Agency for International Development.

Water for the PIRN and surrounding settlements will likely be drawn from the river and the water table. One study however, by a Washington-based firm commissioned by the IDB recommends that water is taken from the water table only because the Trou du Nord River empties into the fragile Caracol Bay. Writing in August, 2011, the Environ International Corporation said: "[W]e strongly recommend that only subterranean water is used to satisfy the needs of the site."

But other studies noted that if too much water is taken from the water table, it could be polluted by salinity due to an intrusion of saltwater from the Atlantic Ocean. Over-exploitation of the water table could also harm agriculture in the region at large, and make it difficult to develop other water-needy businesses, such a tourism. The Environ group disagreed, saying there was ample water.

A study by the Louis Berger Group, commissioned by the MEF and quoted in the Koios study, recommended that water come from both below ground and from the river. The study said the PIRN and surrounding population (current and new) should not use more than 11,000 cubic meters per day. According to the same study, the park will likely need at least 5,800 cubic meters of water per day during Phase 1 (2012-2014) and at least 9,800 cubic meters during Phase 2.

(An internal study from the Ministry of Environment – leaked to Haiti Grassroots Watch – called these estimates "conservative" and "minimalist," saying they don't take into account continuing deforestation and projected exponential population growth." More on that study below.)

The other great water-related risk is, of course, pollution or other negative impact from the use of water from the river and water table. Here are the main ways water will be used:

1.) For the textile factory being built by Sae-A Trading Company – A large amount of water is needed for the manufacturing and dying processes. There will be significant waste waters needing multiple treatments.

2.) For cleaning and other processes at the Sae-Trading and other apparel factories, and possibly for a furniture factory. (Origins Holdings has been listed in some documents are potential tenant).

3.) For the drinking, cleaning and waste treatment needs of workers and other staff, some of whom will live inside the PIRN confines, while others live nearby.

4.) For the drinking, cleaning and waste treatment needs arising from the tens lf thousands of new residents the PIRN is expected to attract to the region.

A waste treatment plant is planned for the park, but while all of the dye run-off, industrial waste and human waste can hypothetically be managed with proper treatment, all waste waters – clean or not – will eventually end up in the Trou du Nord River and probably the Caracol Bay.

"Even if the wastewater of the park are treated, there are various other dangers related to the development of the industrial park on this site which could put the ecosystem in danger," the Koios consultants noted.

Water will also be used to cool the electrical plant being paid for by the U.S. government. The plant - being build for US$15 million by a Canadian company – will generate electricity using "heavy fuel oil," also sometimes called "bunker fuel." When dumped back into the Trou du Nord River, the temperature of water used to cool the turbines must not be more than 3 degrees C different than when taken out, or it could have significant negative impacts on aquatic ecosystems. Needless to say, the use of oil in that fragile environment also poses a risk.

<u>Risk 3 - Social</u>

The Koios study estimates that the local population could grow by between 100,000 and 300,000 people: "Large industrial or mining projects in poor countries indicate that a large migration like this could occurt, no matter what efforts are taken to prevent it."

Other studies put the number of potential migrants much lower, but even the addition of 10,000 workers and their family members – 50,000 people – will change the region, currently home to about 250,000 people, mostly farmers and fishermen.

Without zoning laws, urban planning, and heavy police presence, the PIRN might give birth to a new set of slums. The country has already witnessed the "slumification" of areas around industrial parks in the capital and in Ouanaminthe, home to the CODEVI park, and it is likely a similar process will once again occur.

The sudden arrival of thousands can have numerous negative impacts – more waste, uncontrolled use of water and trees (for cooking needs), and squatter settlements on farmland or in environmentally fragile areas. (U.S. tax dollars are going to be used to build 5,000 homes, but these appear to be slated for "expatriates" and management.)

Also, the Koios consultants noted: "There is… an elevated risk of tension between members of local communities and migrants coming to the region, especially if local residents feel they don't have the opportunity to profit from the project, especially in terms of jobs."

The Koios study warned that the negative repercussions of such conflicts might effect factory owners bottom lines, too. "Local and overseas criticism of the multinational companies operating in the park, as well as negative publicity vis-à-vis relations with the local communities (bringing about costly consummer boycotts, lawsuits, and other expensive consequences in terms of reputations and legal risks) are among the greatest consequences of bad management."

Mitigating the risks

Not surprisingly, despite the risks they identified, the Koios, IDB and Environ studies all ended up endorsing the project. However, they also listed numerous steps that need to be taken in order to minimize or eliminate the risks. For scores of pages, the consultants outline laws to be voted, programs to be followed and constructions that include the immediate creation of a marine protected area, an extensive 12 to 24 month environmental study, funding and building infrastructure and housing for the expected migrants both inside and outside the PIRN, and other steps.

Koios also optimistically wrote that “if a sufficient portion of the additional tax revenues are spent on development and on the improvement of the social and physical infrastructure in the region, many of these negative effects can be avoided of diminished.”

Indeed, massive funding could help mitigate risks. But Koios appear to have forgotten that park tenants – textile giant Sae-A and other companies – won’t pay any taxes at all for 15 years, meaning that all the “supplementary tax revenues” will need to come from factory workers, most of whom will earn little more than US$5.00 a day, who will thus be tax-exempt.

But even if the necessary funding is located, some critics, including the man currently serving as Minister of the Environment, say the recommendations don’t even go far enough.

In his 20-page report assessing the Koios study, dated June 30, 2011, and subtitled “Under what prerequisite a win-win situation could be envisaged from an environmental point of view?,” Joseph Ronald Toussaint said the document was a positive step but that it underestimated the “magnitude of impact,” “extent of impact,” “duration of impact,” and “biophysical changes.”

Then a ministry employee, and now the Minister of the Environment, Toussaint also said that the Haiti’s Minister of the Environment was not “associated in any thought in the identification of the site” [sic] nor in the terms of reference for the Koios impact study. As noted above, Toussaint also noted that the water-use estimates were too “conservative.”

Still, Toussaint’s report claimed a “win-win” situation was possible, if some US$54.5 million in studies and mitigation efforts were implemented.

What did the MEF think of the recommendations and were they followed? In August and September of 2011, Haiti Grassroots Watch (HGW) tried repeatedly to meet with both then-Minister of Economy and Finance Ronald Baudin, and with Toussaint, and even obtained promises of interviews from both offices. In the end, however, both offices refused to speak to journalists.

Maybe the Ministry of the Environment has given up its struggle to protect the bay? No representative of said ministry was present at the November 28 inauguration of the PIRN construction site. The environmental question and the Bay of Caracol were not even mentioned.

What do Caracol residents think?

Pierre Renel, like most people in and around Caracol, is a farmer. He other farmers who lost their crops last January have formed an association called Association for the Defense of Caracol Workers (ADTC in French). *Photo: Pierre Renel, president of ADTC.*

"The spot they picked for the industrial park is the most fertile part of the department," said Renel, president of ADTC. "We grow a lot of plantains, beans, corn, manioc, etc. That's how families raise their children, educate their children… its like our 'treasury!'"

But Renel and other local residents are not opposed to the park. To the contrary, they are hopeful they and their children will get some of the jobs officials and consultants have described. Some local people already have been hired – as guards or workers at an information kiosk.

According to the PIRN website, all farmers have also received either land or remuneration for their lost crops or – if they were owners – the value of their land. While the PIRN website says all farmers have been paid damages, in a recent telephone interview, several denied this, saying they were originally promised land and money. Also, some say they were not paid the amounts originally promised.

"They told us peasants would get land and cash, and according to Michaël De Landsheer [of the MEF], landowners were supposed get US$1200 per hectare, but they are not respecting their word," Renel told HGW.

Farmer Robert Etienne is excited about the factories. "They should have built something like this already! Because there's no work in this country," he said, his eyes glittering.

But Etienne, in his seventies, won't be one of those hired. He is too old. Maybe his children will get jobs? Maybe, maybe not. There will be stiff competition, even with their sweatshop wages.

Etienne and Renel and others are probably unaware of the how low salaries will be, and of how the local economy will likely change as construction moves forward and the factories start to open up: population explosion, higher rents, a grown in the "informal sector" and street merchants, lessened local agricultural production and perhaps even higher food prices.

As noted earlier in this series, assembly factories with sweatshop wages are not social projects, despite claims made in the media and in studies. The Koios study, for example, claims the PIRN will supply the "moyens de subsistance à un maximum de 500.000 personnes, soit 10 % de la population d'Haïti (means of subsistance to as many as 500,000 people, ten percent of the population of Haiti)." The claim is very difficult to substantiate. Most workers will earn a wage that can't even pay the rent, much less send children to school. [See ***Salaries in the "new" Haiti***, part one of this study.]

In the very same study, the authors also offer up this more honest appreciation: the PIRN, "was, above all, conceived to facilitate investment by (foreign) enterprises,"

As previously described, Sae-A and the other textile factories are moving to Haiti in order to take advantage of cheap labor, no U.S. tariffs until 2020, a long tax holiday in Haiti, and proximity to the U.S. market. The PIRN is part of a global economy predicated on the exploitation of the lowest wages and a "race to the bottom." [See ***Anti-union, pro-Race to the Bottom***, part two of this study]

Are exploitation, potential environmental devastation and social upheaval really a "win-win" situation? Is it socially just to spend US$179 million in foreign public financing in Haiti, to the possible detriment of workers in other countries? Can a "new" Haiti really be built on sweatshop wages and free trade zones?

Notes:

[1] The names of this worker have been changed to protect his/her identity because despite the fact that the Haitian Constitution recognizes the right of free speech and the right for workers to organize, most workplaces are pervaded by fear due to the strong anti-union sentiment. All interviews took place in the spring and summer of 2011.

[2] Workers in assembly factories are paid a base salary with extra wages for extra work. This average is calculated on a typical two-week period, and was confirmed by the factory.

[3] More than a few observers – including the current Minister of the Environment – have criticized the fact that the first and second study were conducted by the same firm.

4 In English, with considerable errors. Therefore, citations may have some corrections in brackets.

For complete news on Haiti:

* Website of the Canada Haiti Action Network: www.canadahaitiaction.ca, including list of suggested books on Haiti history and politics: http://www.canadahaitiaction.ca/books
* Haiti Liberté weekly newspaper (in French, English and Kreyol): www.haitiliberte.com
* Listserve of the Canada Haiti Action Network (daily postings): write to canadahaiti@gmail.com