Emerging Disciplines on Labour Standards in Trade Agreements

Estella Aryada

TCS Emerging Issues Briefing Note (4)
March 2016

The Commonwealth
Emerging Disciplines on
Labour Standards in Trade Agreements
Estella Aryada

Summary

- There is no doubt that international labour standards can deliver a range of socio economic benefits for all countries
- This is a positive development to the extent that it entrenches fair treatment of workers around the world.
- There has been long standing debate on whether international labour standards should be brought under the ambit of the multilateral trading system/ World Trade Organisation
- The ILO provides the framework for labour issues. In the TPP, however, the TPP Parties go further in a number of areas.
- Many of the issues and challenges faced by Developing countries and LDCs still stand, but there appears to be no real effective mechanism to ameliorate institutional and financial costs.

Context

This note is part of a series examining emerging issues in regional and plurilateral agreements and their implications for trade competitiveness of developing and Least Developed Countries (LDCs). Although the link between international trade and labour standards has been acknowledged for centuries, efforts to formalise this linkage through the multilateral system have not always attracted universal support. The International Labour Organisation (ILO) is recognised as the competent body to set and deal with international labour standards. In particular the ILO’s *Fundamental principles and rights at work and its Follow-up* adopted in 1998 has come to form the basis of a vast majority of voluntary private standards and new generation trade agreements. It is important to examine how these agreements address labour issues and the potential impact this will have on the trade prospects of low-wage developing and LDCs. This paper sums up the importance of international labour standards in international trade and competitiveness, assessing the approach to labour standards in selected regional and mega-regional trade agreements. The

---

1 Estella Aryada, Adviser- Trade Competitiveness, Commonwealth Secretariat. Email: e.aryada@commonwealth.int Views expressed are personal.
labour provisions in the Trans Pacific Partnership (TPP) are examined as an illustration of how international labour standards are being addressed in the new generation trade agreements in a ‘post-WTO’ environment. The paper concludes with potential implications for Developing and LDCs.

Introduction

International labour standards and the multilateral trading system are inextricably linked: global markets require mass production and supply networks, provided by skilled and unskilled workers in different parts of the world. This is especially true with the dominance of value chains in today’s production and marketing. The link between international trade and labour standards gained traction with the rise of low-wage, globally competitive producers mainly in Asia. Some analysts argue that OECD imports from low-wage countries have displaced manufacturing (and therefore jobs) in developed countries. Not only has this lowered the wage levels of unskilled workers, but it has also led to higher unemployment and slowed economic growth. Others on the other hand maintain that the value proposition offered by low-wage has contributed to corporate profitability and enabled mass consumption of goods that would have otherwise been beyond reach of some sections of the population in Developed Countries. As regards the adoption of common standards, it is suggested that implementing core labour standards results in harmonious relations between employers and employees, and between the private sector and Government. Moreover, workers that are respected and treated fairly are more productive, which has a positive impact on social and economic wellbeing at large.

The ILO is the competent body for international labour standards. It recognises the importance of work in providing income and personal development, and the positive effects this can have on broader social and economic advancement. Adopted in 1998, the ILO’s Fundamental principles and rights at work and its Follow-up reaffirms the constitutional obligations enshrined in the following Conventions:

- No. 29 and 105 on the elimination of all forms of forced or obligatory labour,
- No.87 and 98 on liberty of association and the effective recognition of the right to collective bargaining,
- No. 100 and 111 on the elimination of discrimination with regard to employment and profession, and
- No.138 and 182 on the effective elimination of child labour

ILO’s 187 Member States agree to respect promote and realize the principles concerning the fundamental rights, which are the subject of those Conventions, even if they have not ratified all of them. A Follow up annexed to this Declaration provides for annual country reviews and technical assistance to support member countries to monitor and implement the conventions.

The 1998 ILO Declaration is pervasive and forms the basis of a wide range of international voluntary codes of conduct, including:
The UN Global Compact- Launched in 2000, Global Compact aims to encourage and support enterprises to align their strategies and operations with universal principals in a number of areas, including human rights and labour. Companies are encouraged to uphold labour standards across their own operations as well as value chains. Membership currently comprises 8,000 business entities and 4,000 non-corporate organisations (including academic institutions, Non-Governmental Organisations and Public agencies).

Ethical Trading Initiative (ETI)- An alliance of companies, trade unions and civil society organisations that promotes respect for workers' rights around the globe, ETI membership spans the UK, Germany, Spain, Australia, and USA. ETI extends the concept of responsible business to the working conditions of the people who make products. The ETI Base code is derived from ILO core standards. Companies and are expected to comply with national labour laws. Where these overlap with the ETI base code, companies are expected to apply that provision which affords the greater protection. Several large retailers of a wide range of food, homeware and other products have signed on to the ETI, implying that a vast network of producers around the world are required to comply with this Code.

ISO 26000- Provides guidance to help businesses and organisations translate the principles of corporate social responsibility into effective actions. It contains a chapter on labour, based on ILO core standards.

Similarly, several civil society campaigns and movements, including the Clean Clothes Campaign, United Students Against Sweatshops are based on ILO core labour standards.

While initiatives like this are voluntary, they often become prerequisites for producers to win and maintain business contracts with leading multinational retailers.

It is important to place voluntary labour standards in the wider context of today's international business environment. Fragmentation of virtually all business activity means that production and marketing sites are often dispersed across the world. Multinationals are at the centre of the resulting global supply chains where standards play a critical role in maintaining a common brand identity. Global supply chains have also opened lead firms to greater scrutiny not only from shareholders and Governments, but also consumers and civil society organisations, who hold them accountable for practices in supplier organisations in multiple locations. Thus, voluntary codes of conduct such as the ETI and the UNGC are of strategic importance, and a key feature of organisations’ Corporate Social Responsibility (CSR) and corporate sustainability reporting. Therefore, maintaining common standards across multiple production and marketing sites makes it easier for multinationals to protect their brand identity. It is also more efficient from an operational point of view.
Labour standards in trade agreements

GATT/WTO:

There have been attempts to bring international labour standards under the ambits of the multilateral trading system since the late 1940’s. In 1987 and 1990, the US Government suggested to the GATT Council that a working group be formed to consider the relationship between international trade and internationally recognised workers’ rights, but both suggestions were rejected. The debate on whether to include a social clause in the WTO agenda continued in various international fora until the Singapore Ministerial of 1996. Among others the Singapore Declaration reiterated members’ commitment to the observance of internationally recognised core labour standards, stating that “...the ILO is the competent body to set and deal with these standards, and we affirm our support for its work in promoting them.....We reject the use of labour standards for protectionist purposes and agree that the comparative advantage of countries especially insofar as developing countries, particularly low wage developing countries, must in no way be put into question..” (WTO) The Statement further states that the WTO and ILO Secretariats will continue to collaborate- that is, participation by the WTO in relevant meetings of ILO bodies, the exchange of documentation, and informal cooperation between the two Secretariats. This position holds to date.

Regional Trade Agreements

Between them, the EU and US accounted for 42% of exports and 46% of imports in 2013 globally. Both blocs have a network of bi-lateral and regional agreements, and are negotiating deeper, more extensive mega-regional trade agreements. They also have several preferential market access regimes for LDCs and other vulnerable economics. However, there is a marked difference in the approach taken with regard to labour standards.

European Union

Social issues, including labour, have been part and parcel of the integration process in Europe. This eventually led to the ‘Community Charter of the Fundamental Social Rights of Workers’ in 1989 which sets out the scope and broad principles of labour issues in the EU including employment and remuneration; improvement of living and working conditions; social protection; liberty of association and collective bargaining; equality of treatment between men and women, among others.\(^1\)

In considering labour standards in trade agreements with third countries, the EU follows a somewhat graduated approach as illustrated in the GSP+, the Cotonou Agreement and FTAs with selected developing countries. The EU’s Generalised System of Preferences (GSP) which was introduced in 1971 granted LDC duty free reductions on 66% of tariff lines of products imported into the EU. The GSP’s focus was solely tariff reduction. However, EU’s Council (EU) Regulation n° 980/2005(1)
established the ‘GSP Plus’. This offers deeper tariff cuts on the same tariff lines but for ‘vulnerable’ countries. To qualify, countries must:

- have ratified and effectively implemented 27 specified international conventions in the fields of core human and labour right, the environment and good governance’ and
- give an undertaking to maintain the ratification of the conventions and their implementing legislation and measures, and accept regular monitoring and review of the implementation record in accordance with the implementation provisions of the relevant conventions;

GSP Plus privileges may be temporarily withdrawn for serious and systematic violations of core labour principles.

Signed in 2000, the Cotonou Agreement is a comprehensive agreement between the EU and 79 former colonies of EU Member states in Africa Caribbean and Pacific (ACP). The section on labour relations, set out in Article 50 (‘Trade and Labour Standards’) reaffirms parties’ commitment to the ILO core labour standards, and states that labour standards shall not be used for protectionist purposes. Further, the Parties agree to co-operate on labour matters and to exchange information on questions of regulation and compliance with legislation, amongst others. The Cotonou Agreement expires in 2020. In the intervening period, the EU is set to sign Economic Partnership Agreements (EPAs) with regional groupings comprising the ACP countries. To date only CARICOM has signed an EPA, with six more still under negotiation. The CARIFORUM EPA contains a comprehensive set of principles and standards concerning labour rights. Chapter 5 (Title IV), contains a reaffirmation of the commitment to ILO conventions defining core labour standards. It also underscores that the parties have the right to establish their own labour standards, while prohibiting any abuse for protectionist trade purposes: each party shall ensure ‘that its own social and labour regulations and policies provide for and encourage high levels of social and labour standards consistent with the internationally recognised rights’. The text specifies that no lowering or derogation from labour legislation should be used to gain a competitive advantage. The provisions of Chapter 5 are covered by the dispute settlement procedure of the EPA, but trade sanctions are specifically excluded from the permissible ‘appropriate’ measures to be taken in case of a dispute relating to the chapter (Article 213). Cooperation to enhance labour and social standards is considered as priority under Chapter 5 and in Article 7 on development cooperation. The ‘General Exception Clause’ (Article 224) defines national measures, which may not be prevented by the Agreement. Measures for combating child labour are explicitly included.

As regards EU new generation FTAs with selected developed countries, the approach to labour standards varies with the countries in question. For instance, the EU-Korea FTA reaffirms the parties’ commitment to “respecting, promoting and realising, in their laws and practices, the principles concerning the fundamental [labour] rights” as outlined in the 1998 Declaration. Furthermore, this obligation to “respect, promote and realise” internationally recognized labour rights is binding to the bilateral mechanisms agreed upon in the agreement’s Chapter on dispute
settlementiv. The EU-Singapore FTA stipulates an identical obligation to adopt and maintain the internationally recognized labour principles in the 1998 Declaration and implement the Conventions already ratified by the respective country. The provisions similarly include reaffirmation of commitments under the 2006 Ministerial Declaration of the UN Economic and Social Council on Full Employment and Decent Work and Article 13.3.4, which states that the “Parties will make continued and sustained efforts towards ratifying and effectively implementing the fundamental ILO conventions ... Parties will also consider the ratification and effective implementation of other ILO conventions, taking into account domestic circumstances.”v

United States

The 2007 Bipartisan Agreement negotiated between the then-US administration and Congress sets the framework for the treatment of labour in US trade agreements. Among others, the Bipartisan Agreement stipulates that US trade agreements must incorporate enforceable obligations whereby parties must adopt and maintain in their national legislation five internationally recognized labour principles identified in the 1998 Declaration:

- Freedom of association;
- Effective recognition of the right to collective bargaining;
- Elimination of all forms of forced or compulsory labour;
- Effective abolition of child labour and prohibition of the worst forms of child labour; and
- Elimination of discrimination in respect of employment and occupation.

Violations of labour obligations under the bipartisan deal’s model provisions, defined as infractions that solely affect trade or investment between parties, are addressed by government-to-government dispute settlement procedures using the same remedies and procedures used to address commercial obligations on a bilateral basis. Like commercial dispute settlements, remedies for labour disputes under the bipartisan agreement include fines and trade sanctions.vi FTAs between the US and Colombia, Panama, Peru and Korea reflect these wider obligations with regard to labour. Similarly, US preference regimes such as the Africa Growth and Opportunity Act (AGOA)- which came into force in 2000 with the aim of enhancing qualifying African countries’ access to the US market- follow the same principles. The eligibility criteria for AGOA includes a range of political, economic and social issues, including ‘protection of internationally recognized worker rights, including the right of association, the right to organise and bargain collectively, a prohibition on the use of any form of forced or compulsory labour, a minimum age for the employment of children, and acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health. Moreover, qualifying countries have to demonstrate that they are making continuous progress in meeting the requirement or risk losing the preferential access.
**Megaregional- The Trans-Pacific Partnership Agreement (TPP)**

The Trans-Pacific Partnership Agreement (TPP) is a mega-regional FTA under negotiation among 12 countries - Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Viet Nam. The current membership of the TPP comprises a total GDP of US$27.75 trillion, and 37.5 per cent of global economic output.vii

As regards labour, the US considers the TPP to be ‘a unique opportunity to create the first enforceable standards for our new partners; to reform and modernize several of our existing agreements; and, ultimately, to set the foundations of a region-wide commitment to labor practices which meet international standards, ensure a level playing field for competition, and share the benefits of trade fairly.’viii The TPP goes beyond the 1998 ILO Declaration in several respects as outlined below:

**i) Scope of fundamental standards:** The labour chapter in TPP is based on the *ILO Declaration on Fundamental Principles and Rights at Work and its Follow up (1998).* However, like other US FTAs, the scope of labour standards is wider than the ‘core’ labour standards in the ILO Convention in that it elevates *conditions of work* (i.e., minimum wages, hours of work, and occupational safety and health) to the same level as core standards, making them fully enforceable and backed by trade sanctions. The ILO has several conventions to address conditions of work. As regards working hours, an ILO report notes that internationally established rules contribute to creating a level playing field so that no country has a comparative advantage in the international market. However, the report acknowledges that the Convention No. 1 (hours of work) does not fully reflect modern realities. Obstacles to its ratification are related mainly to the Convention’s requirements, which are seen as overly prescriptive, rigid and fitting poorly to current demand for greater flexibility.ix Further, the importance of working conditions varies: hours of work may be less critical for some types of seasonal and unskilled labour, than for health professionals, for example. Enforcing conditions of work has the potential to bootstrap improved working conditions across the board, leading to progressive improvements in the livelihoods of a wide range of workers. On the other hand, it raises questions whether this does not chip away at competitive advantage based on labour costs. Moreover, some analysts argue that tougher labour standards are negatively associated with exports of labour intensive products, and that enforcing working conditions may result in more tasks being outsourced to the informal sector as a means of reducing labour costs.

**ii) Non-derogation for trade and investment purposes:** While non-derogation from the fundamental labour standards is in line with the principles of the ILO, the TPP goes further by elaborating the scope of non-derogation with regard to trade and investment. Specifically, the non-derogation and waiver applies to ‘special trade or customs area, such as an export processing zone or foreign trade zone.’ (Art 19.4) This would go a long way in stemming labour malpractices and potentially protects
seasonal and migrant workers for whom such special zones provide a less restrictive entry into the workforce particularly for unskilled and migrant workers. However, it raises fundamental questions on the role of labour as a source of competitive advantage. In developing countries a deregulated labour market can be an important source competitive advantage, albeit in the short to medium term.

iii) Forced labour: ILO Convention 105 (Abolition of forced labour convention) commits members to suppress and not to make use of any form of forced or compulsory labour:

- as a means of political coercion or education or as a punishment for holding or expressing political views or views ideologically opposed to the established political, social or economic system;
- as a method of mobilising and using labour for purposes of economic development;
- as a means of labour discipline;
- as a punishment for having participated in strikes;
- as a means of racial, social, national or religious discrimination.

Art 19.6 of the TPP goes further than the Convention as it discourages Members from the importation of goods from other sources produced in whole or in part by forced or compulsory labour, including child labour.

iv) Enforcement: ILO Conventions are generally enforced through national systems. Through monitoring, reporting and inspection mechanisms, Members are encouraged to make progress on commitments made. ILO also provides technical assistance and capacity building to Members in specific areas in order to put in place effective enforcement measures. TPP Article 19.5 states that ‘No Party shall fail to effectively enforce its labour laws through a sustained or recurring course of action or inaction in a manner affecting trade or investment between the Parties. If a Party fails to comply, a decision made by that Party on the provision of enforcement resources shall not excuse that failure.’ Member countries are therefore fully committed to providing all the necessary technical and financial resources to ensure enforcement.

But experience from the ILO shows that the record for ratification is on the whole unsatisfactory. ILO Conventions are legally binding international treaties which come into force in a country one year after ratification by national parliaments. A key principle embodied in the ILO constitution is that member countries should undertake ratification freely, and has several mechanisms in place to monitor, encourage and support countries with the process. The ILO Report of the Governing Body for Oct-Nov 2015 (GB.325/INS/4) shows that a number of TPP Members are yet to ratify elements of the ILO Declaration of Fundamental Principles and Rights at Work. These include:

- USA (C.87-Conventions related to freedom of association and C-98 collective bargaining); Forced labour (C.29). Child labour (C.138) and Discrimination in employment and occupation (C.100 and C.111)
- Malaysia (C.87; Forced labour (C.105) and C.111)
- Brunei Darussalam (c.87, C.98; Forced Labour (C.29 and C.105) and Discrimination (C.100 and C.111)

Nonetheless, since ILO core conventions are based on the ILO constitution, members are obliged to respect, promote and realize the principles concerning the fundamental rights which are the subject of those Conventions, regardless of whether they have ratified them.\[^x\]

Lack of enforcement is therefore long standing issue due in part to the relative (low) costs of non-compliance. It could be argued that TPP’s higher penalties are an effort to correct this. However, the underlying reasons need to be examined- these include insufficient technical, financial and human resources at multiple levels, as well as social and cultural norms, among others. Without putting in place mechanisms to addressing these issues, the labour provisions of the TPP could become an additional strain on administrative systems that are already strained. Developing countries could be disadvantaged further should they be subject to trade sanctions as a result of non-compliance. The approach of ILO is to therefore to facilitate compliance in good faith, exercising sanctions only when all other avenues have been exhausted. It remains to be seen if a similar approach will be adopted in the TPP.

In providing for trade sanctions to be imposed on countries that fail to enforce labour standards, the TPP may well be establishing the principle of conditioning tariff reductions on non-tariff matters in megaregional trade agreements. This approach is the norm in preferential market access regimes such as AGOA and GSP+, which are granted unilaterally in line with the enabling clause. However, in agreements between equal parties such provisions could lead to trade distortions, and uncertainty for instance, where a tariff phase down is already in process, where parties require more time to investigate, or where findings are disputed.

In other areas, such as public awareness, consultation and dialogue, the TPP largely follows the principles outlined in ILO instruments, but uses different structures. For instance, labour dialogue in ILO is tripartite (ie, Government, recognised workers representatives and workers) and on specific matters including items on the agenda of the International Labour Conference, submissions to competent national authorities of newly adopted ILO standards, re-examination of unratified Conventions and Recommendations, reports on ratified Conventions, and proposals for denunciations of ratified Conventions. In TPP (Art 19.14) public engagement covers ‘interested persons’. ‘Each Party shall establish or maintain, and consult, a national labour consultative or advisory body or similar mechanism, for members of its public, including representatives of its labour and business organisations, to provide views on matters regarding this Chapter’. Similarly, the International Labour Conference is the main forum for addressing Members’ labour-related concerns in the ILO. Each Member state is represented by a delegation consisting of two government delegates, an employer delegate, a worker delegate, and their respective advisers. To serve a similar purpose, the TPP establishes a Labour Council.
(Art 19.12) comprising ‘senior government representatives at ministerial or other designated level’.

This creates parallel structures in countries whose membership straddles both ILO and TPP, increasing administrative costs and further stretching the already limited capacity in developing countries.

It is worth noting the impact of technology on international labour standards. There is no doubt that technological progress has increased productivity. However, analysts are beginning to question the impact of artificial intelligence on labour and employment, especially with the growing use of robots. Research in this field is still developing. A study on the impact of robots on the average manufacturing worker found that while industrial robots increase labour productivity, total factor productivity and wages, they may be a threat to low- and middle-skilled workers. The proliferation of labour standards and increased costs of compliance may drive enterprises towards adopting technology in order to reduce their labour force with far reaching implications on society at large. Richer countries have better developed mechanisms for dealing with such adjustments in the labour market for example, through fully or partially facilitating retraining, providing income support and facilitating re-employment. Developing countries without access to the resources required to put such measures in place may see a rise in unemployment as a result.

**Conclusion**

There is no doubt that international labour standards can deliver a range of socio economic benefits. Global value chains and the growing trend towards ethical consumption have brought labour standards into the international commercial arena. Over time, core labour standards have permeated both international structures that govern international trade, labour and commerce. This is a positive development to the extent that it entrenches fair treatment of workers around the world. There has been long standing debate on whether international labour standards should be brought under the ambit of multilateral trading system/ World Trade Organisation. The debate appears to have been settled partly as a result of the imminent collapse of the single undertaking in the WTO, and the emergence of opt-in mega regional agreements such as the TPP. The ILO provides the framework for labour issues in the TPP, hover, the TPP goes further in a number of areas. Many of the issues and challenges faced by Developing countries and LDCs still stand, but there appears to be no real effective mechanism to ameliorate institutional and financial costs.


viii. ILO: General Survey of the reports concerning the Hours of Work (Industry) Convention, 1919 (No. 1), and the Hours of Work (Commerce and Offices) Convention, 1930 (No. 30), Report III (Part 1B), ILC, 93rd Session, 2005, Geneva.


www.wto.org
The Trade Competitiveness Section provides technical assistance to Commonwealth member countries in four areas, namely market access; export development; export of services; and trade facilitation, in order to exploit opportunities offered by international trade. The Section works with government ministries, agencies, regulators and their stakeholders to provide assistance to develop their trade competitiveness. Areas of recent intervention include national trade policy formulation, export strategies, aid for trade strategies, competitiveness implications of trade agreements, trade facilitation and gendering trade policy.

---


ix ILO: General Survey of the reports concerning the Hours of Work (Industry) Convention, 1919 (No. 1), and the Hours of Work (Commerce and Offices) Convention, 1930 (No. 30), Report III (Part 1B), ILC, 93rd Session, 2005, Geneva.


www.wto.org