

## The Effect of International Trade Agreements on the Consumer

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Over the last few years, the Federal Trade Commission (FTC) has made a series of changes to its consumer protection rules in order to facilitate free trade between Canada, the U.S. and Mexico in accordance with the North American Free Trade Agreement (NAFTA). Today, I would like to review some of those changes and discuss their impact on the consumer.

NAFTA is making it easier for manufacturers to do business in Canada and Mexico. Many companies such as this one (Slide 1) have expanded their markets and are now selling their products throughout North America, as you can tell from the three languages on this label -- English for the U.S., French for Canada, and Spanish for Mexico.

One overlooked problem is that tri-lingual labels may make it difficult for some consumers to find important disclosures on the label. For example, the number of watts, lumens and hours that this bulb will burn are disclosed on this label, but are somewhat difficult to read due to all the various languages (Slides 2,3,4,).

Moreover, the English language instructions for the safe use of this product (Slides 5,6) cannot be found on the outside of this package; although they are listed on the bottom of the box in French. To find them in English, one must open the product and look for them on the inside flap. What is the impact on the consumer? The simple answer is that we don't know. It seems that these types of problems were overlooked when we entered into free trade agreements.

The rush to put different languages on a label so that the same product can be sold in various countries is somewhat ironic given that manufacturers, when faced with proposed disclosure regulations, often claim that the label is too crowded and that there is no space for the information, or that consumers will suffer from information overload. Such factors, however, do not seem to be a barrier when it comes to loading up labels with different languages. Perhaps it is time that we reexamine the Fair Packaging and Labeling Act to make sure that multi-lingual labels do not mislead consumers.

The Federal Trade Commission has actually been a willing participant in the drive to facilitate trade at the price of compromising traditional consumer protection regulations. Just last week, the FTC made it more difficult for consumers to identify what fabrics clothes are made of by permitting manufacturers to substitute international jargon for commonly known materials like Rayon or Spandex.

This dubious measure was first proposed in 1996 when the FTC, at the urging of the American textile industry, published amendments to its textile content labeling rules to allow the use of international fiber names in place of names commonly known by American consumers. The FTC proposal was solely to help achieve the goals of NAFTA. As the FTC put it, "manufacturers will have more flexibility in labeling products for both domestic and international sale."<sup>2</sup>

So, when an American consumer looks at a garment to see what it is made of, he or she will now see the term "Viscose" for the fabric commonly known as Rayon or the term "Elastane" for fabric commonly known as Spandex (Slide 7). These international terms, by the way, were developed by the International Standards Organization (ISO) -- an organization with little input from U.S. consumer organizations.

What is the impact on the consumer? Will the cost savings to manufacturers be passed on to the public? The FTC said that it "believes that consumers will not be harmed" by the use of international terminology. "Although the immediate result may be a few new and unfamiliar names on the label, consumers will learn these fiber names quickly."<sup>3</sup> That is quite an assumption. What is the real impact on the consumer? We don't know. Where is the cost/benefit study to back up this assumption? There isn't one.

Similarly, the FTC is making it more difficult for consumers to use energy labels on home appliances. The FTC's appliance labeling rule, in effect since 1980, is designed to help consumers comparison shop for energy efficient appliances. It requires manufacturers to attach to most major home appliances an "Energy Guide" label that provides an estimate of the product's annual energy consumption (Slide 8).<sup>4</sup> This requirement was also a consumer protection landmark of the last decade. Much work went into designing the label in order to facilitate its use by consumers.

In 1995, the Whirlpool corporation asked the FTC for permission to use a single, one-sided label showing the FTC Energy Guide next to, or above, the Canadian "EnerGuide" which is in French and English (Slide 9) and the

“energy use” label required by Mexico which is in Spanish (Slide 10). Citing the NAFTA agreement, Whirlpool told the FTC that consolidation of the three labels would advance the cause of free trade.<sup>5</sup>

The FTC “observed that U.S. consumers may not be confused or misled by the presence of multiple appliance energy use labels because the FTC’s energy guide is clearly identified as being based on U.S. government tests and is the only label of the three that is printed in English.”<sup>6</sup> That may be true, unless of course you are a Spanish speaking American and think that the Spanish language label was put there as part of a good will effort to support bilingual disclosures.

What is the real impact on the consumer? We don’t know. Where is the cost/benefit study? There wasn’t one.

Perhaps the greatest disservice done by the FTC to American consumers in the name of free trade is the Commission’s recent amendments to its textile care-labeling rule. The care-labeling rule, a vital consumer protection measure published in 1971, requires clothing manufacturers and importers to attach labels to garments giving full care and laundering instructions.<sup>7</sup>

For example, a knit sweater may have a label that says “machine wash warm, tumble dry low, use only non-chlorine bleach, do not iron,”(Slide 11). Simple enough. But in order to “reach more goals of NAFTA,” the FTC amended its rules about a year ago to allow the use of international symbols for laundering.<sup>8</sup> The change, according to the FTC, will facilitate trade.

As you see, the FTC has made it very “simple” for consumers -- Here is what the new symbols look like (Slide 12). There are 5 basic symbols with several dozen variations, more than 40 in all! It’s about as simple as learning a new alphabet.

Manufacturers are free to use the new international symbols -- the only catch was for the first 18 months they had to provide hang tags or other materials to explain what the new symbols mean. That educational requirement will expire soon and, we’ll all be on our own. A simple error interpreting that railroad crossing symbol (a circle with an X through it), which means do not dry clean, could cost any one of us hundreds of dollars if a garment is accidentally ruined.

The FTC found that “(fabric) care symbols are used in many other countries, and presumably the symbols communicate the information they contain to the consumers in those countries.”<sup>9</sup> What is the actual impact on consumers abroad and here in the US? The FTC doesn’t know. Where was the cost/benefit study that is so often demanded before regulatory agencies take major actions? There wasn’t one.

In closing, let me say that it is time we ask, “What is the true price of free trade?” As leading researchers in the field of consumer protection, I encourage you all to find out. Let’s examine consumer understanding of the new care labels, of tri-lingual energy guides, and new names for old fabrics.

In the past year, CSPI has committed itself to becoming active on international issues that affect domestic consumer policy. I encourage each of you to expand your efforts internationally as well. If I can leave you with just one thought, it is that the consumer community must become involved on a global level. This is no longer just work for international affairs specialists, but for each of us to integrate into our everyday activities.

#### Endnotes

1. Director of Legal Affairs.
2. Rules and Regulations Under the Textile Fiber Products Identification Act, 63 Fed. Reg. 7508, 7510 (1998) (to be codified at 16 C.F.R. pt. 300).
3. *Id*
4. Appliance Labeling Rule, 16 C.F.R. pt. 305 (1997).
5. Federal Trade Commission Press Release, *For Your Information...*, Feb. 22, 1996.
6. *Id*.
7. Textile Care Labeling Rule, 16 C.F.R. pt. 423 (1997).
8. Federal Trade Commission Press Release, *FTC Harmonizes Care Label Regulations with Canada, Mexico: Effort to Reach More Goals of NAFTA*, Nov. 14, 1995.
9. Trade Regulation Rule on Care Labeling of Textile Wearing Apparel and Certain Piece Goods, 60 Fed. Reg. 57,552, 57,553 (1995) (codified at 16 C.F.R. pt. 423).