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MODERNIZATION OF THE NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE, CUSTOMS, AND GLOBAL COMPETITIVENESS

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

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MODERNIZATION OF THE NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

MONDAY, NOVEMBER 20, 2017

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
CUSTOMS, AND GLOBAL COMPETITIVENESS,
COMMITTEE ON FINANCE,
San Antonio, TX.

The hearing was convened, pursuant to notice, at 9:33 a.m., at the San Antonio Marriott Plaza Hotel, Cavalier Meeting Room, 555 South Alamo Street, San Antonio, TX, Hon. John Cornyn (chairman of the subcommittee) presiding.

Also present: Joshua LeVasseur, Chief Clerk and Historian; and Athena Schritz, Hearing Clerk.

OPENING STATEMENT OF HON. JOHN CORNYN, A U.S. SENATOR FROM TEXAS, CHAIRMAN, SUBCOMMITTEE ON INTERNATIONAL TRADE, CUSTOMS, AND GLOBAL COMPETITIVENESS, COMMITTEE ON FINANCE

Senator CORNYN. We will call the field hearing to order. This is, of course, a field hearing of the Senate Trade Subcommittee of the Senate Finance Committee. I am grateful to Chairman Hatch for allowing us to do this today, given the importance of this topic to Texas and particularly to San Antonio.

I am grateful to all the witnesses for sharing their views on this topic. Of course, as the Mayor indicated, San Antonio is near and dear to my heart for many reasons. I am thrilled to be here today at the exact same location where, 24 years ago, the original North American Free Trade Agreement was signed.

Our topic is the modernization of NAFTA, and today is a very fitting time to hold this hearing, for the reason I mentioned. International trade is an issue that is particularly timely, as negotiations on updating NAFTA have been underway since August of this year, and the fifth round of negotiations is taking place in Mexico City as we speak.

It is my hope that Mr. Vaughn, our first witness, who is the General Counsel to the U.S. Trade Representative, will be able to provide us with an update on where things stand.

We will also later hear from a second panel of witnesses who have a direct stake in the outcome of these negotiations, people whose businesses and livelihoods depend on NAFTA and the many benefits it provides.

But before we launch into a nuanced discussion about ways to modernize the agreement, I must acknowledge the surge in our Nation's economy since NAFTA's enactment. The positive economic impact of the current agreement is no secret to the folks here in this room or to the citizens of Texas. The numbers speak for themselves.

For more than a decade, Texas has led the Nation in exports, with farmers, ranchers, and manufacturers in our State exporting more than $230 billion worth of goods around the globe. More than 8 million U.S. jobs depend on trade with Canada today. More than 5 million U.S. jobs depend on U.S. trade with Mexico. U.S. food and agricultural exports to both our northern and southern neighbors have grown from $9 billion in 1993 to nearly $40 billion in 2015. Texas exports in service-related industries have increased more than $55 million, an 80-percent increase, since 2006.

The data is staggering, and the verdict is clear. NAFTA, by and large, has worked as intended. NAFTA's impact on the State of Texas has been overwhelmingly positive for both our economy and security.

Now, it is true, there are parts of the original agreement that should be updated to reflect our new modern, digital economy and certainly the change in our energy situation, where, as many have pointed out, the Eagle Ford shale does not stop at the Rio Grande. And with Mexico opening up that country to foreign direct investment in the energy industry, we can expect Mexico to become an energy supplier and exporter in the future.

But my message to negotiators and the White House has been consistent when it comes to the modernization of NAFTA, and that is to first do no harm. So much is at stake, and I recognize our negotiators can find common ground to strengthen and improve this agreement for the benefit of Texas and all three nations.

So let me just take a moment to introduce the lone witness on the first panel we have today, who is Mr. Stephen P. Vaughn. Mr. Vaughn currently serves as the General Counsel to the U.S. Trade Representative. In this capacity, he advises the USTR on all legal and enforcement matters.

Mr. Vaughn, thank you for being here today and agreeing to provide testimony. I would ask that your verbal testimony be limited to 5 minutes in length, and then we will have a few questions for you.

So please proceed with your opening statement.

STATEMENT OF STEPHEN P. VAUGHN, GENERAL COUNSEL, UNITED STATES TRADE REPRESENTATIVE, EXECUTIVE OFFICE OF THE PRESIDENT, WASHINGTON, DC

Mr. VAUGHN. Good morning. My name is Stephen Vaughn, and I am the General Counsel of the Office of the U.S. Trade Representative. It is great to be here in Texas and specifically in San Antonio, where leaders from the United States, Canada, and Mexico signed the original NAFTA 25 years ago. Texas is our largest exporting State, and Mexico is Texas's largest export market.

We are confident a new NAFTA will create new opportunities for Texans. I am grateful for the opportunity to testify about USTR's efforts to upgrade and improve NAFTA for all Americans.

Before taking questions, I would like to emphasize a few key points.

It is important to understand that all of us at USTR, led by Ambassador Lighthizer, are focused on getting a new agreement. We are both aware of and have concern for those Americans who benefit from NAFTA 1.0. We have heard from many Americans, including many in the agriculture sector and from border States like Texas, who are very concerned about the future of NAFTA.

We share those concerns, which is why we have moved at unprecedented speed to press for a new and improved agreement.

Since August, we have had five separate rounds of negotiations, an unheard-of pace for major trade talks. At this moment, there are hundreds of U.S. officials from agencies throughout the government in Mexico City negotiating with their counterparts from Mexico and Canada. And this is only part of our ongoing effort.

We at USTR have reviewed more than 12,000 public comments on NAFTA 2.0. Since August 16th, Ambassador Lighthizer and USTR staff have met personally with dozens of members of Congress, spending more than 700 hours discussing NAFTA with congressional members and staff during that time.

Furthermore, throughout this process, we have held extensive consultations with members of the private sector, labor representatives, ranchers, farmers, and leaders of the NGO community. There have been dozens of scheduled briefings to advisory committees, hundreds of hours of stakeholder consultations, and a continuing open-door policy.

All of this work was undertaken to comply with congressional rules, build support for NAFTA 2.0, and ensure a seamless transition to a new agreement.

As you know, it is very unusual to attempt a major trade negotiation at this pace. But we are doing it, in large part because we want to eliminate uncertainty and resolve concerns about NAFTA as quickly as possible.

At the same time, I must emphasize that Ambassador Lighthizer agrees strongly with the President's view that the current version of NAFTA is a bad deal for America. Of course, there are Americans who benefit from NAFTA, and we want to avoid harming them. But USTR must look at trade deals from the perspective of the country as a whole. And from that perspective, there are serious problems with NAFTA. Let me just mention two.

First, NAFTA is outdated. It went into effect on January 1, 1994, before most Americans had even heard of the Internet. NAFTA lacks the type of provisions on labor standards, the environment, intellectual property, State-owned enterprises, or digital trade that Americans now expect in deals of this kind. To address these problems, Ambassador Lighthizer has put forward extensive proposals to upgrade and modernize NAFTA.

Second, NAFTA is unbalanced. We do enormous volumes of trade with countries like Japan, the United Kingdom, Germany, and China pursuant to WTO rules, even in the absence of a specific free trade agreement with those countries. Against this background, the purpose of an agreement like NAFTA is to create special rules, to give certain countries unique access to this market, access that other countries lack. In exchange, of course, we expect those countries to give American workers, farmers, ranchers, and businesses comparable access to their home markets.

In the last 10 years, our trade deficit in goods and services with Mexico has exceeded $500 billion. Our trade deficit in goods and services with Canada over the same period was more than $100 billion. Together, that is a difference of more than $600 billion in the last decade. And if we looked at trade in goods alone, that difference would be almost $1 trillion.

The President and Ambassador Lighthizer are both very concerned that these enormous deficits do not represent the type of fair and reciprocal relationship that should exist when the United States gives special privileges to another country. Accordingly, they believe that NAFTA must be changed to give American workers a fairer chance to compete.

Again, we have put forward a number of proposals designed to create a more level playing field.

We do not expect these negotiations to be easy. For a very long time, our NAFTA partners have enjoyed an agreement that is tilted in their favor. They do not want to give up that advantage, and we can understand why they feel that way.

But our job at USTR is to represent the people of this country, and they deserve a better deal. We intend to do everything possible to get it for them.

I want to thank Chairman Cornyn for hosting this field hearing and for giving me the opportunity to testify. I am happy to answer any questions.

[The prepared statement of Mr. Vaughn appears in the appendix.]

Senator CORNYN. Thank you, Mr. Vaughn.

I do have a few questions for you. I believe we have talked a little bit about the role of trade deficits, and you, I think, have explained to me that trade deficits are not necessarily the target. You think they are really a symptom of other problems, if I understood you correctly. But clearly, the President has said the United States has trade deficits with many countries, and we cannot allow that to continue.

Can you explain?

Mr. VAUGHN. Thank you very much.

Yes, I think that one of the things that we look at, at USTR, when we analyze the trade deficit is, a lot of times the trade deficit is a symptom of underlying problems where markets are being interfered with in ways that are not working properly.

So when we see a trade deficit with another country or with the world that goes on for years and years, our concern is that that represents underlying market-distorting practices, maybe subsidies, maybe restrictions on U.S. exports, maybe things having to do with currency issues. That means that markets are not working the way they should. And that is one of the reasons I think you see the administration talking about trade deficits.

Senator CORNYN. NAFTA was interesting, and I do not know if unique, where you had two highly developed countries, Canada and the United States, entering into a trade agreement with a less developed country. Do you think that might be one reason for the trade deficits? Or are you looking for other issues?

Mr. VAUGHN. What we are thinking about is—one of the things that we want to do, for example, is we want to make sure that we have strong enforcement of our antidumping and countervailing duty laws. That will give us more of an opportunity to push back against examples of unfair trade.

Another thing that we are looking to do, as I think you referenced in your opening statement, is we want to update the NAFTA to cover things like international property, to have fairer labor and environmental standards, to have more opportunities for Americans to compete in the world of digital trade. We have made a lot of progress on a new chapter on small and medium enterprises that we think will give American small businesses more of an opportunity to compete in Mexico.

So what we are looking for here is to rebalance this deal in ways that will not hurt anybody but will simply lead to more market-based competition.

Senator CORNYN. Let's talk a bit about the role of the executive branch and the role of Congress. As you know, Congress passed Trade Promotion Authority and delegated to the executive branch the ability to negotiate, subject to certain parameters. But then once NAFTA 2.0 is concluded, those negotiations are concluded, under the Trade Promotion Authority, that has to come back to Congress to be approved.

I will tell you that trade has gotten a bad name in some quarters, and it has become politically controversial. As I recall, when we passed Trade Promotion Authority, there were 13 Democrats who voted for it, and that is when President Obama was President, and 47 Republicans voted for it. So it was an interesting coalition, but one that I think reflects challenges in both political parties with making the point that trade actually is a positive.

So can you maybe talk us through a little bit of, once the negotiations are concluded by the U.S. Trade Representative, what is the process going to be for you in dealing with Congress and getting NAFTA 2.0 approved by the Congress?

Mr. VAUGHN. Well, as you know, Senator, to begin with, from the beginning of the administration, we have been very concerned about complying with provisions of Trade Promotion Authority. Even before we began the negotiations, I know that Ambassador Lighthizer testified before the Senate Finance Committee as part of his confirmation hearing. After that, he had consultations with your committee, with the Ways and Means Committee, with the House advisory group on negotiations, with the Senate advisory group on negotiations. And it was only after that, in May, that we originally sent up the letter advising Congress that, within 90 days, we would begin these negotiations.

Since that time, we have continued to work very closely with you and your staff and everyone up on the Hill to make sure that we are doing everything we can to comply with the provisions of TPA.

If agreement is reached, we will, of course, continue to comply. We intend to continue to comply with TPA. We would work with your committee and the other committees to make sure that the final text was submitted to the Congress. And then, as you know, of course, under the provisions of TPA, the two houses would have a chance to do an up-or-down vote on the new treaty.

So we believe this is a hugely important part of the process. It is something that Ambassador Lighthizer is personally focused on a great deal, and it drives a lot of what we are doing in these negotiations.

Senator CORNYN. Thank you.

I know we will hear more about this from Mr. Bainwol with the Alliance of Automobile Manufacturers, but, as you know, the United States and Mexico have kind of a unique relationship when it comes to the supply chain for automobile manufacturers. I would like for you to just touch on the rules-of-origin discussion that is occurring.

The original NAFTA provision required a regional content value of 62.5 percent in order to qualify for preferential treatment, but there is some discussion in news reports about whether that threshold might be increased and the reasons for that. Could you please explain?

Mr. VAUGHN. Yes. Obviously, as I indicated in my testimony, what we are thinking about here in terms of the North American Free Trade Agreement is a special set of rules that will act outside the normal rules that the United States has with other countries. In other words, if you have a free trade agreement, you are not subject to the usual tariffs and other procedures that other countries would be subject to. That allows for the type of supply chains that you are talking about.

One of the concerns that we have had at USTR is this is an area, first of all, where the trade is particularly unbalanced. The trade deficit in autos and auto parts with Mexico is quite significant.

So one of the things that we have been focused on with respect to the rules of origin is, can we make sure that if a car or a truck is a NAFTA car or a NAFTA truck and, therefore, claims the special privileges of NAFTA—this would only come into effect if you want to claim the special privileges of NAFTA—are we making sure that the U.S. is getting enough benefit out of that production to justify those special privileges?

That is really what we are trying to do in the rules of origin. Obviously, that is one of the issues that is under negotiation, but that is our goal.

Senator CORNYN. I mentioned the transformation of the energy sector both here in the United States and now also in Mexico. When NAFTA went into effect, the energy sector in Mexico was closed to foreign investment, but that has all changed now for the first time in 100 years.

Texas's and the United States' strength in energy production has positioned its companies to meet Mexico's technical expertise and capital needs to modernize their energy sector. In fact, the energy trade with Mexico supports 9.8 million jobs in the United States, equating to 8 percent of the U.S. economy, and this has provided the United States and North America as a whole with the tremendous opportunity to achieve North American energy independence, something that I think would be laudable.

Does the U.S. Trade Representative agree that codifying Mexico's energy reform should be a priority in the updated NAFTA agreement?

Mr. VAUGHN. Senator, as you know, one of the things that we are required to do under the Trade Promotion Authority is to explain our objectives in the NAFTA negotiation. On Friday, we issued updated negotiating objectives.

In that document, we have an objective on energy, and it says, "Preserve and strengthen investment, market access, and state-owned enterprise disciplines, benefitting energy production and transmission, and support North American energy security and independence, while promoting continuing energy market-opening reforms."

So that is one of our priorities.

Senator CORNYN. Thank you very much.

One of the other things that has caused some questions is some discussion about a sunset of the NAFTA agreement that would see, for example, NAFTA expire 5 years after its enactment unless the U.S., Mexico, and Canada agreed to extend it. Can you elaborate on why the U.S. Trade Representative is seeking a provision that would sunset the agreement?

Mr. VAUGHN. I think one of the things that we want to avoid going forward is another situation like what we are in now, where we have an agreement that is somewhat out of date. It has not been updated in the way it should. One of the things that I think the process shows is that it takes a fair amount of political pressure in order to get nations to come together and work on these agreements.

What we would hope to do with this performance review provision is to ensure that every so often we are analyzing the provision and updating the provision to make sure that it is working in the way that it was intended.

In fact, the way we described this in our negotiating objectives, which we released on Friday, was, "provide a mechanism for ensuring that the parties assess the benefits of the agreement on a periodic basis." That is really what we are focused on here.

Senator CORNYN. It would seem to me that free trade agreements like NAFTA have a protection in place, the same protection you are trying to achieve by a sunset provision, and that is, under current free trade agreements like NAFTA, any one party can initiate a renegotiation at any time.

Are there other ways, other than a sunset provision, that you think you might be able to use to achieve the same goal without creating more uncertainty?

Mr. VAUGHN. Well, obviously, I am not sure exactly what counterproposals we might see from the other side, so I do not want to get into too much of the details of this. But I would say, from our perspective, we anticipate—we are hopeful that the new agreement will be successful, and that it will be popular, and that it will be approved. Then hopefully, when people come to the time to review the agreement and see how it has performed, there will be widespread understanding that the agreement is working and maybe we need to update this or that thing.

But that would be the hope and that would be the goal. I think another benefit of this approach would be that it would put pressure on all the countries to make sure that they were in full compliance with the agreement and that the agreement was working as intended.

So that is our goal here. It is really to make the agreement work better and to give the American people more confidence that the agreement is working as intended.

Senator CORNYN. Mr. Vaughn, thank you very much for being here with us today. Give my thanks to Ambassador Lighthizer for allowing you to come represent the U.S. Trade Representative.

That concludes our first panel. Now we will bring in the second panel of witnesses.

Thank you once again.

Mr. VAUGHN. Thank you. Let me just say, obviously on behalf of Ambassador Lighthizer, we appreciate all the work that you and the Senate Finance Committee are doing on this and on other issues, and that I am very much looking forward to hearing the next panel. Thank you.

Senator CORNYN. Good. Thank you.

The committee will come back to order. I think the audience can see how exciting Senate committee hearings typically are, but now we expect some fireworks from this next panel.

Let me take a few minutes to introduce the next panel of witnesses.

The first witness is Mitch Bainwol. Mr. Bainwol is president and chief executive officer of the Alliance of Automobile Manufacturers.

Our second witness is Ms. Paola Avila. Ms. Avila is chair of the Board of Trade Alliance and also serves as vice president of the San Diego Chamber of Commerce.

Our third witness is Richard Perez. Mr. Perez is president and chief executive officer for the San Antonio Chamber of Commerce.

Our fourth witness is Mr. Jeff Moseley, who is chief executive officer for the Texas Association of Business.

Mr. Russell Boening is our next witness. He is president of the Texas Farm Bureau.

And our last witness on panel 2 is Mr. Todd Staples, who is president of the Texas Oil and Gas Association.

I am grateful to each of you for being here today and hoping to illuminate the concerns that you have and that we all have about this very important negotiation.

I would ask that your initial testimony please be limited to 5 minutes, and then we will have plenty of time for more questions and answers.

So, Mr. Bainwol, please proceed with your opening statement.

STATEMENT OF MITCH BAINWOL, CEO AND PRESIDENT, ALLIANCE OF AUTOMOBILE MANUFACTURERS, WASHINGTON, DC

Mr. BAINWOL. Thank you, Senator Cornyn. I appreciate the chance to come back to San Antonio. The last time I was here was 1998 for the Final Four.

Senator CORNYN. It's about time. [Laughter.]

Mr. BAINWOL. Things have changed.

But I was in Austin and Houston earlier this week. I am delighted to be here. Thank you very much.

I am going to walk through a PowerPoint, and to those of you in the audience, I apologize it is not on-screen, but I will try to make it vivid.

So I do run the Alliance of Automobile Manufacturers. We are 12 members, about 75 percent of the market. Nine of our 12 members have facilities in Texas. There are about a half-million auto-related employment jobs in Texas, so it matters a great deal. We have two plants in Texas, one of which, obviously, resulted after NAFTA.

I am going to run through some historical data just to set the context, because I think the fact pattern is important and helps us understand what the right next steps should be.

We are coming on the heels of 7 straight years of growth. If you look at 7 years of growth, 2010 through 2016, what you see is, we are a cyclical industry. We go up, and we go down. We have had 7 years in a row post-Lehman. So that is the good news.

The bad news is, we seem to have hit the top of the peak. The next slide shows, from January through September, the year-over-year sales for the last 5 years. What you see is, from 2016 to 2017, cars are down 11 percent, trucks up 3. Net-net, we are down 3. We are up 10 percent over the 5-year period. But last year, year-over-year, we are down 3.

So we are beginning to soften, and this discussion takes place at a time when we face some risk in the marketplace.

If you look at the next slide, the global marketplace, that is from 1950 to 2015. What you see is, growth in the marketplace is profound globally, but it has not happened in the U.S. It is happening in China and other non-mature markets.

The next slide, global companies doing global business, drives the point that there are essentially three significant global hubs for production. You have the North American global hub. You have the European global hub. And you have the Asian global hub. All of them have low-cost drivers that enable them to be more competitive.

The next slide, the way we were pre-NAFTA, shows that, in the year before NAFTA, we produced 10.8 million vehicles in the United States. And you can see on the slide the distribution of plants, U.S. manufacturers, European manufacturers, Asian manufacturers.

The slide afterward shows the way we are, and you see a significant increase in the number of plants, particularly by those who chose to invest in the U.S. since NAFTA. We are now producing 12.2 million, so we are up more than a million units post-NAFTA.

If you just look at the question of plant openings since NAFTA, there have been 26 that have come online since NAFTA, 14 in the U.S., 11 in Mexico, one in Canada.

Parenthetically, I would say my first experience in this industry was to go to the Toyota opening in Tupelo, MS of a plant. And what that does to a community is just overwhelming. This was in an economically challenged area of Mississippi, and the folks were crying. It represented a multigenerational opportunity for employment. So the plant openings are huge.

And in the NAFTA time period, we have done quite well. Fourteen plants—significant. Two more are on the way. Volvo has obviously broken ground in South Carolina, and Toyota and Mazda both will be investing shortly.

We have more plants in the U.S., but we have less world access. Mexico has free trade agreements with a number of countries that give them access to 47 percent of the world, in terms of auto purchasers. We have access to 9 percent. So I would briefly suggest that the challenge we face is not one of too much free trade but perhaps not enough.

The broad industry consensus indicates that the alliance, the group that represents just the American manufacturers, the group that represents primarily Asian manufacturers, dealers, the suppliers, the Chamber, and NAM are all united with some core points. And they are: (1) NAFTA has not been perfect, but it has absolutely been a success; (2) it ought to be updated and modernized; and (3) rules of origin strike an effective balance, enough to induce the use of regional content but still maintain competitiveness.

Adding costs will not increase U.S. manufacturing. Adding costs will reduce U.S. manufacturing. If we want stronger U.S. manufacturing, we need to reduce friction, reduce costs in a global marketplace. And reform has market and behavioral implications. The knee bone is connected to the ankle bone. You cannot change one thing and not effect a marketplace reaction.

A few more points. The Chamber came out just a few days ago, the U.S. Chamber, with a study of how different States would be affected. I think Texas was number four in terms of impact in a negative way. It would take a huge blow if the U.S. withdraws from NAFTA. Texas has half of its exports destined for the NAFTA market. Nearly a million jobs are at risk.

The Peterson Institute said that Mexican investments are good for the U.S. When there is an investment in Mexico because of the supply relationships, that produces employment and value in the U.S.

The suppliers have been very, very active. I represent the OEMs, but the suppliers themselves are adamant about the power and value of NAFTA. They say that leaving NAFTA would result, on the suppliers' side, in 25,000 to 50,000 fewer jobs.

There was an analysis not long ago by the Commerce Department that talked about content and value added in vehicles produced in Mexico. We found that analysis deeply flawed. It provided the argument that you ought to go with higher rules of content, but the analysis was through 2011, and in the middle of the recovery. And we believe, methodologically, it had some challenges.

So the content level, we believe, has been fairly steady in the high 30s.

So to strengthen and update NAFTA, we would suggest maintaining the current rules of origin and then modernizing. There are lots of things you can do: definitely improve regulatory cooperation; formally recognize the U.S. standards; facilitate trade flow by modernizing Customs; enable cross-border data flows; and improve the labor and environmental standards, as was indicated. And more free trade means more market access.

I will make two more points, and I will conclude.

The first is, this last week, 70 members, and I think 14 from Texas, in the House, the other chamber, sent a letter to Ambassador Lighthizer making the point that NAFTA has led to increased vehicle production, as it has, and that NAFTA should be updated to help our companies better address the challenges of the

21st century. The North American supply chain that NAFTA helped create is essential to the success of American companies, and the public agrees.

My last slide shows that, in a survey of adults, the question was: should we renegotiate, modernize, revoke entirely, or leave as is? A lot of folks did not have an opinion, 34 percent. But of the 66 percent who did, 40 percent said renegotiate, modernize; 15 percent said leave as is; 11, revoke entirely.

So the public opinion is clearly consistent with that expressed in the letter by the members of the House and by the statement you made earlier to kick off the hearing.

So thank you, sir.

[The prepared statement of Mr. Bainwol appears in the appendix.]

Senator CORNYN. Thank you, Mr. Bainwol.

Ms. Avila?

STATEMENT OF PAOLA AVILA, CHAIR, BORDER TRADE ALLIANCE, SAN DIEGO, CA

Ms. AVILA. Thank you, Chairman Cornyn.

I wanted to, first of all, start off by saying hello to Ambassador Reyna Torres, the Ambassador representing the Mexican consulate here in San Antonio. You did serve some time in California, and being from California, I have to recognize you. It is nice to see you today.

Chairman Cornyn, my name is Paola Avila. I am vice president of the San Diego Regional Chamber of Commerce, but today I am testifying in my role as chair of the Border Trade Alliance, an organization that for the last 30 years has been a leading advocate for policies that help support and promote cross-border commerce and increased security, which is believed to be essential to North America's competitive standing.

We appreciate the opportunity to testify here today and provide our collective insight on the importance of the North American Free Trade Agreement. I have submitted a more in-depth written testimony for the record.

The importance of this meeting anniversary has been mentioned a couple times today. At the ceremony that day, President Bush marveled at the impact of trade on Texas. He boasted Texas export strength that day, which at that time totaled $47 billion. Today, that figure stands at over $230 billion, with $90 billion of that value destined for Mexico.

Even trade skeptics would acknowledge that this level of trade growth is remarkable. For Texas and, indeed, the United States, trade generally and NAFTA specifically mean jobs—for Texas, more than 380,000 jobs that depend on Mexico alone.

In San Diego, I have seen the impact that trade has had on the region's competitiveness, where trade supports more than 110,000 jobs.

This type of economic integration is not limited to just the U.S.-Mexico border. Our northern border friends benefit as well. Michigan's number one export market is Canada, followed by Mexico. Their top import market? Mexico. Michigan's exports account for

7.4 percent of its gross State product, which leaves the State uniquely exposed if the agreement were unwound.

So you see, for the constituency of the Border Trade Alliance, NAFTA is not a "nice to have." It is a "must have." It is the essential trade agreement that has enhanced prosperity not only in the United States but throughout the continent, making North America the world's most competitive region.

This is why we have urged the administration to be guided by the following principal in approaching renegotiation: do no harm. Too much is at stake where the outcome could be a renegotiation that delivers self-inflicted economic harm.

Let me give you a practical example of how NAFTA is impacting everyday Americans. If you have not already done so, many of you will soon be heading to the grocery store to shop for ingredients for Thanksgiving celebration. Because of trade's increasingly sophisticated cross-border supply chains, when the winter chill hits the United States, Americans can count on produce imports from Mexico to fill our store shelves with a breadth of variety and freshness that could not have been predicted just decades ago.

The nearly 25-year-old agreement's contribution to this broader consumer choice is significant. Consumers win with the variety and lower prices made possible by trade, resulting in approximately $10,000 of savings per year for the average American household of four.

And communities like Pharr in the Rio Grande Valley win as well. The port there has seen the importation of produce skyrocket, dramatically cutting shipping costs to the U.S. Midwest and east coast, contributing to one in seven Texas jobs that are connected to agriculture, and fueling growth in warehouses, brokerages, and freight-related jobs.

While we are proponents of NAFTA, it does not mean we ought to be satisfied with the status quo. An agreement that came into force in the dial-up age ought to be updated to reflect the broadband economy.

The BTA has taken particular interest in the cargo inspection process at our Nation's borders. We believe that inspections can be done more securely and efficiency than they are today. A NAFTA renegotiation presents an opportunity to modernize the inspection process between all three partner countries.

We also believe that a modernized NAFTA presents an opportunity for greater cooperation on infrastructure, ensuring that shipping delays do not result from facilities that are not outfitted to meet the demands of today's trade volumes.

We also believe that greater cooperation on environmental infrastructure can be reflected in a new NAFTA.

In San Diego, we have been struggling with the impacts of northward flow of sewage from Mexico, something we believe can be avoided in the future through improved binational collaboration.

I will conclude my remarks here, Mr. Chairman, and I welcome any questions that you may have. And I appreciate, again, the opportunity to testify today.

[The prepared statement of Ms. Avila appears in the appendix.]

Senator CORNYN. Thank you, Ms. Avila.

Listening to your testimony reminded me of the fact that, during the recent recovery from the Great Recession of 2008, if you did not have the GDP, the growth generated by Texas alone, the rest of the country would have been in a recession for much longer.

So, while some people might say that the benefits of NAFTA perhaps disproportionately benefit certain States and certain regions, I think that bears further examination. But even if that is true, why would you want to harm the economy of the leading exporting State in the country by failing to renegotiate and modernize NAFTA?

So I just think it is a point that is important to make, because that certainly affects the entire national economy mission.

Mr. Perez, please, let's hear from you on your opening statement.

STATEMENT OF RICHARD PEREZ, PRESIDENT AND CEO, SAN ANTONIO CHAMBER OF COMMERCE, SAN ANTONIO, TX

Mr. PEREZ. Thank you, Senator. We appreciate you being here today and bringing this august group here.

I am Richard Perez, president and CEO of the San Antonio Chamber of Commerce.

Since 1894, the San Antonio Chamber has advocated for the interests of its more than 2,100 different businesses. San Antonio has a rich history with NAFTA, beginning with the initialing of the historic agreement here years ago. The impact of NAFTA, however, is far more than ceremonial, and it affects companies of all sizes in this community and this region.

As the seventh largest city in America, and with projections of continued growth over the next 20 years, San Antonio is a hub of growing industries like health care and biosciences, information technology, cybersecurity, energy, and advanced manufacturing. It is a thoroughfare of international trade with four of six major rail gateways in this State.

Our community has benefitted greatly from NAFTA. As we look to the future, the uncertainty surrounding the upcoming renegotiation has had a chilling effect on growth and new investment throughout the region, putting our existing record of prosperity in doubt.

The Chamber would, therefore, like to offer several areas where the vital agreement should be strengthened and modernized.

I will begin with energy. The continued integration of the U.S. and Mexican energy markets is beneficial to both nations but requires regulatory certainty, both within and across borders, to function effectively. With such certainty, we know the economic growth and investment that follows.

For example, as a direct result of the 2013 Mexican energy reform and the free flow of hydrocarbons allowed under NAFTA, San Antonio-based Howard Energy will be investing in projects totaling more than $1 billion over the next 5 years in northern Mexico and South Texas. These projects will create more than 950 temporary construction jobs and 22 permanent jobs. They will generate almost $1.5 million in local property taxes and $230 million per year in direct economic value. None of this includes NAFTA's indirect and implied effects on creating new markets for American producers.

In the area of automotive, NAFTA contains the strictest automotive rules of origin requirements of any U.S. free trade agreement at 62.5 percent. Any changes to the rules of origin could jeopardize our current production and lead to unintended consequences.

The year before NAFTA became law, Toyota had two plants in the United States. Since then, they have built eight more in the U.S., including one in San Antonio, where they make the Toyota Tacoma and Tundra trucks. NAFTA has enabled Toyota to be cost-competitive in the world market when exporting vehicles from the United States because of their integrated supply chain.

A local company, Avanzar Interior Technologies, makes every seat that goes into those trucks right here in San Antonio. Because of the terms of NAFTA and the relationship that they have built with Toyota Motor North America, Avanzar will be supplying every seat that goes into every truck made 700 miles south of us in Guanajuato, Mexico.

NAFTA supports the local economy here and allows us to compete as a region in this global marketplace.

In the area of retail, ensuring that trade remains tariff-free throughout North America is essential to keeping existing retail supply chains moving and maintaining low prices on food and other essential items for American families, thereby preserving the millions of jobs that depend on trade.

A stronger, modernized NAFTA can help American retailers and their suppliers in several critical ways. Number one, reducing non-tariff barriers such as processing fees and sanitary and phytosanitary measures will make fresher, healthier, and lower-priced produce and other products more easily available to American families. Number two, in today's digital economy, it is imperative that a modernized NAFTA include digital and e-commerce provisions, like simplified Customs requirements and processing for each shipment, which would make it easier for companies to export goods across the border. And number three, increased resources for Customs modernization and improved infrastructure at the border will reduce delays in border crossings, benefitting consumers by minimizing food spoilage and transportation costs.

In the area of the environment, as you well know, the North American Development Bank was established in 1994 and works to enhance the quality of life for people who live along the U.S.-Mexico border through clean water, air, and land. It helps develop and finance infrastructure in communities on both sides of the border.

With the initial $405 million in total capital contributions from the U.S. and Mexico, the NAD Bank has leveraged investments totaling $6.9 billion for the development of sustainable infrastructure, totaling 231 projects in both countries. In light of NAD Bank's proven track record of significant infrastructure investment and environmental impact along the border, the administration should include in the agreement the bank's first capital increase in history since NAFTA was negotiated.

Because of the importance of Mexico as a trading partner, we would also like to see the bank participate in the development and financing of natural gas pipelines and power plants in Mexico for

North American energy security, as well as trade facilitation projects that will support strong border security at international crossings.

In conclusion, the NAFTA negotiations must recognize the interdependence of all three countries; guarantee access to the U.S., Mexican, and Canadian markets; and be conducted in a manner that avoids any prospect of retaliation against American products.

On behalf of our chairman of the board, Rad Weaver, I thank you for the opportunity to be here.

We believe in NAFTA. It makes sense. And we ask for your help in continuing going forward.

Thank you.

[The prepared statement of Mr. Perez appears in the appendix.]

Senator CORNYN. Thank you, Mr. Perez.

Mr. Moseley?

STATEMENT OF JEFF MOSELEY, CHIEF EXECUTIVE OFFICER, TEXAS ASSOCIATION OF BUSINESSES, AUSTIN, TX

Mr. MOSELEY. Good morning, Senator. Thank you so much for this kind invitation to be a part of this distinguished panel. Thank you for your leadership on NAFTA.

As a side note, thank you for your leadership on Hurricane Harvey relief for Texas. We appreciate what you are doing there.

This is a wonderful opportunity to be here before the committee on behalf of the Texas Association of Businesses and our Texas business community as a whole. From large multinational corporations to small businesses and startups, the Texas Association of Businesses works to improve the business climate, and really to help make our State's economy what we are very proud of, the strongest in the world.

Given our broad membership base, we have a unique perspective on the strength of the economy, as you mentioned earlier, Senator, and the effects of public policy across regulatory, legislative, and diplomatic levers of power.

As a neighbor to Mexico, Texas, the 10th biggest economy in the world by gross domestic product, has a significant stake in the health of free trade, particularly with the success of the North American Free Trade Agreement.

Our Texas Association of Businesses has been a vocal supporter of NAFTA dating back to its original negotiation and implementation, and we remain a fervent supporter today.

With the parties to NAFTA currently embarking on renegotiation, we offer these comments to the subcommittee to highlight NAFTA's achievements for the Texas economy and explain the importance of the NAD Bank to border communities, and to identify the areas where we believe that the trade agreement can better serve the people of Texas.

Across our great State, more than 1 million jobs are reliant on trade, with 387,000 jobs directly tied to exchanges with our southern neighbor. According to most estimations, NAFTA has created 190,000 Texas jobs on its own and led to double-digit growth in 24 of the 32 industries that export to Mexico. These gains have been balanced in populations across the State, as well as all 11 metro areas in Texas, which have seen increased exports both to Mexico and Canada since NAFTA was signed, including many areas where the export rate increases have been as significant as 100 percent to 200 percent.

These statistical gains are borne out in individual experiences as well, and you have heard some of them this morning.

The Texas Cattle Feeders Association reports that the total value of beef trade between the three NAFTA countries has grown from less than $1 billion in 1995 to an average of more than $4 billion between 2014 and 2016. More than just providing an additional market for Texas beef, imports of Mexican and Canadian cattle play an integral role in our own cattle-feeding industry, accounting for about 6 percent of U.S. slaughter.

In short, NAFTA has allowed North America to become a key global supplier of beef, while allowing beef availability to increase in North American markets themselves.

Another illustration: for cities just like San Antonio, NAFTA, of course, has had a significant positive impact on economic growth and development. And according to the Free Trade Alliance of San Antonio, which is a 23-year-old organization focused on developing the international business capabilities of South Texas businesses, NAFTA is credited for creating jobs in professional services, education, and health sectors, creating an average of 12,000 jobs in each one of these sectors. And it is particularly in the service industry that NAFTA has created the most opportunities and benefits for the city.

In 2015, San Antonio companies exported a total of $10.7 billion.

And then a third example—you heard my colleague describe this—resides right here in San Antonio, and this is the Toyota assembly facility. The Toyota Motor Manufacturing assembly plant began production in late 2006. Of course, it boosted the State's profile, but especially San Antonio's manufacturing profile.

In addition to employing thousands of Texans, San Antonio's Toyota Manufacturing Facility really is a key example of a NAFTA win for the city. And border cities that have typically ranked among the Nation's poorest are now home to prosperous warehousing and logistics sectors serving this facility.

There is little doubt that Texas will be a major loser, should the United States elect to pull out of NAFTA. Texas enjoys an $11-billion trade surplus with Mexico, which is almost entirely dependent on the continued success of free trade. Since 2006, Texas exports of goods to NAFTA signatories have grown 71 percent, while exports of services have risen 45 percent. An undermining of the tariff policies that have allowed that growth would have huge, detrimental effects in most sectors of the Texas economy.

Given the pace of technological change and the changing nature of developing economies, there is little doubt that free trade agreements could use a facelift during the 21st century. A stronger NAFTA would reflect the value of American intellectual property and promote greater information-sharing among NAFTA partners. Primarily, this involves protecting Texas innovators with clear and enforceable rules on cross-border data flows and intellectual property rights.

Additionally, with Texas's prominent role as a trade hub, speeding Customs and transportation processes will lead to increased trade volume and maximize the benefits that NAFTA's other provisions can provide. So every minute, Senator, that a truck-load is stopped at the border is clearly a wasted opportunity to make additional deliveries on the trade arteries that bind our 1,300-mile border with Mexico.

With smarter Customs regulations, we can ensure the safety of products reaching Texas consumers while really opening up the movement of goods to market on both sides of the borders.

One area that also deserves a fresh look is, as my colleague mentioned, just some new opportunities for the North American Development Bank. Following NAFTA, NAD Bank really enjoyed having strong support for the United States and Mexico to provide financial assistance to entities involved in environmental infrastructure, and they have been very successful in helping communities finance these critical infrastructure projects related to water and solid waste and street paving.

We think that there is also an opportunity to put money into NAD Bank to focus on the border infrastructure, to open up the system of bridges getting goods to market.

If the NAD Bank were expanded, these areas could receive financing to help mature their energy infrastructure as well, helping families and Texas businesses.

Mr. Chairman, I am pleased that you have proposed a real solution as well. Your S. 1385 would expand NAD Bank's ability to invest in natural gas projects and other areas, including the pipeline and electrical generation facilities, cross-border energy distribution, and energy security that could provide a market for Texas excess natural gas. And further, additional investments in NAD Bank proposed by the bill would spur additional border infrastructure development across the State and help Texas energy companies provide more jobs.

And we fully endorse these efforts and look forward to working together on this important legislation.

Thank you very much, Senator.

[The prepared statement of Mr. Moseley appears in the appendix.]

Senator CORNYN. Thank you, Mr. Moseley.

I will come back to you with some more questions, but I just want to highlight one thing you said. I think you said that Texas has an $11-billion trade surplus with Mexico?

Mr. MOSELEY. Yes, sir.

Senator CORNYN. So if something happened which reduced the ability of Texas to export, the trade deficit with Mexico would actually be worse, not better, right?

Mr. MOSELEY. Yes, sir.

Senator CORNYN. I thought that was a noteworthy point. Thank you.

Mr. Boening, I know, on behalf of the Texas Farm Bureau, you are here to talk about the impact on Texas and U.S. agriculture. Thank you for being here.

STATEMENT OF RUSSELL BOENING, PRESIDENT, TEXAS FARM BUREAU, WACO, TX

Mr. BOENING. Thank you, Chairman Cornyn. I appreciate the opportunity to talk about the impact on agriculture.

And thank you for holding this in San Antonio. I think it is very appropriate, the relationship San Antonio has. But it was also very convenient. It was 45 minutes from my back door to get here this morning, so that was really great.

My name is Russell Boening. I am president of the Texas Farm Bureau, and I am here to share how important NAFTA is to agriculture.

The Texas Farm Bureau is the largest farm organization in the State. We represent over 500,000 member families. These families and many others in this State work hard to provide food and fiber across the world. They rely heavily on foreign trade in order to do that.

Agriculture is one of the most important industries in Texas. Food and fiber produced in Texas contribute over $135 billion to our State economy. The top agriculture goods produced in Texas are beef, cotton, wheat, and feed grains. These commodities account for about two-thirds of our State's agriculture products, and they are at the top of the list when it comes to exports to Mexico and Canada.

More than 25 percent of all U.S. ag production ultimately goes into markets outside the United States. This is just one reason trade agreements such as NAFTA are critically important to farmers and ranchers.

Due to NAFTA, U.S. ag exports to Canada and Mexico have quadrupled from $8.9 billion in 1993 to over $38 billion today. This trade agreement has made these two countries, Canada and Mexico, our second and third largest ag export markets.

In 2016, Texas agricultural exports to Mexico totaled approximately $834 million. The top four ag exports to Mexico were beef and veal, cotton, sweeteners, and corn.

The thousand-mile border between Texas and Mexico surely gives us an obvious marketing advantage over other States, but it is important to the entire country. And it is important that we not only keep this market strong, but that we actually work to expand it through this NAFTA renegotiation.

In Texas alone, agricultural exports to Canada totaled more than $875 million in 2016. Again, the top four agricultural goods exported to Canada were horticulture products at $230 million, beef and veal at $110 million, processed grains at $78 million, and food preparation at $77 million.

So as you can see, these two countries alone accounted for $1.7 billion from Texas alone.

Additionally, as has been mentioned before by my colleagues on the panel, it has strongly benefitted the U.S. and Texas economies. U.S. agriculture exports to these two countries accounted for over 509,000 jobs. Texas ag exports to these countries employ over 19,000 people. There is no doubt to us in agriculture that it has increased the demand for agricultural goods, lowered input and production costs, and spurred our economy.

We hope that leaders who are involved in NAFTA renegotiations recognize the gains achieved by American agriculture and ensure that trade with Canada and Mexico remains strong.

While we recognize the many achievements of NAFTA, we understand that this trade agreement is over 2 decades old. We commend the administration for looking at ways to break down existing trade barriers and produce a better deal for all of America. We welcome any modernizations to NAFTA that will further expand market opportunities for our farmers and ranchers.

But at the same time, it is important to note that net farm income in this country has dropped 50 percent from just 4 years ago. This is the largest 4-year percentage decrease since the Great Depression. Due to this current state of the farm economy, we feel that a full withdrawal of the U.S. from NAFTA would devastate the entire agriculture community and would cause severe economic harm to our economy. We must make certain that this does not happen.

The Texas Farm Bureau looks forward to our continued work with congressional leaders and the administration to make NAFTA the best it can be for our farmers and ranchers.

Again, I thank you for the opportunity to be here, and I will be glad to try to answer any questions.

[The prepared statement of Mr. Boening appears in the appendix.]

Senator CORNYN. Thank you, Mr. Boening. I am sure Mr. Staples, a former Secretary of Agriculture, agrees with everything you have just said.

Mr. STAPLES. Absolutely.

Senator CORNYN. But today, he is here representing the Texas Oil and Gas Association.

Mr. Staples, please proceed with your opening statement.

STATEMENT OF HON. TODD STAPLES, PRESIDENT, TEXAS OIL AND GAS ASSOCIATION, AUSTIN, TX

Mr. STAPLES. Thank you very much, Senator Cornyn. Thank you for your leadership for Texas, and thank you for your leadership for our Nation. It is an honor to be here with you today as president of the Texas Oil and Gas Association.

The Texas Oil and Gas Association is a statewide trade association representing the men and women who produce the natural gas that heats your home and the fuel that runs your vehicles. And our members include exploration and production companies, midstream businesses, refiners, and service companies. We represent the entirety of the oil and gas industry here in Texas.

There have been many comments already today on the billions of dollars of direct economic impact from the oil and gas industry for our Nation and the millions of jobs that are created, so I will not reiterate that.

What I will say is that, as renegotiation of NAFTA continues, it is imperative that we maintain the current strong provisions that enable our industry to remain competitive, continue to provide domestic job growth, and to invest with certainty and confidence, most importantly, the provisions surrounding the investor-state dispute settlements.

Preserving ISDS means preserving the necessary legal protections in place that defend our property rights, ensure the absence of discrimination, and promise fair treatment from governments while doing business both at home and abroad. ISDS acts as the very backbone to our constitutional rights, and we must keep that intact and strongly enforced.

Without these provisions, our industry will lose value, our Nation's position as an energy superpower will be endangered, and thousands of American jobs that fuel our economy will be jeopardized.

Other important issues to consider include items like tariffs and market access policies. The U.S. benefits from providing energy resources to our neighbors in the form of profits, job growth, and the stimulation of our own economic activity, like manufacturing and construction. As the agreement is being considered, we must not forget these important benefits.

You mentioned in your comments earlier, Senator, that according to the American Petroleum Institute, as early as 2020, and I want to emphasize this, the United States will have the ability to meet its liquid fuel needs completely through domestic energy production and trade with our North American partners. Our agreement with Mexico and Canada has been fundamental to our economy, keeping our fuel process fair and our petroleum and natural gas products both competitive and favorable.

Ultimately, NAFTA has served as the very foundation that has allowed the oil and gas industry to see the growth and prosperity it has today that has resulted in countless jobs for Texans and all Americans. And it is imperative that we preserve these policies that have allowed this industry to provide our Nation's energy needs.

I urge you to consider these issues as you work to strengthen NAFTA on behalf of the American people, and consider the impact that any changes would have on this very important sector of our Nation's economy.

I appreciate your leadership on this and your attention to these issues, and I look forward to continuing our visit today. Thank you.

[The prepared statement of Mr. Staples appears in the appendix.]

Senator CORNYN. Thank you very much. I do have a few questions for the panel. Let's make this a conversation—so we can set aside too much formality. If you have a comment on something somebody else has said, or want to add—we are trying to get as much information as we can in a short time here.

But, Mr. Bainwol, the role of the supply chain in the auto industry, to me, is just very intriguing. Of course, with the rules of origin at 62.5 percent of U.S. content, the idea that that might be changed somehow in a new NAFTA negotiation, can you explain, for example, what the impact would be on, let's take, for example, the San Antonio Toyota assembly plant, which employs 3,000 workers here?

My understanding is auto components can cross the border five times or more before final assembly. I am not sure most Americans know that. Could you explain?

Mr. BAINWOL. Sure. As Richard, I think, noted, the rules of origin presently are the most restrictive anywhere, at 62.5 percent.

Senator CORNYN. Sixty-two and a half percent of U.S. content.

Mr. BAINWOL. Of NAFTA content.

Senator CORNYN. NAFTA content.

Mr. BAINWOL. Correct.

So as I noted in my prepared presentation, there have been 14 new plants added here since NAFTA. And every plant, both those that preceded NAFTA and those that came about as a result of NAFTA, create a cluster of suppliers that support that operation. I think that was expressed as well in the San Antonio context.

So the challenge with rules of origin is, when you drive them up, there is an impact on cost. So it sounds simple, but they are challenging to execute, especially for small business. It is very complex. It is very burdensome. And the smaller the supplier you are, the more difficult it is to comply.

It also introduces new costs. So it may change the calculation for plants in Mexico to not source from the U.S., so some of the San Antonio employment could suffer. So you are rearranging the incentive structure in a broader market that is globally super-competitive, and you cannot do this without impacting cost.

So the bottom line is, it makes the U.S. product less competitive. It changes the incentive structure in terms of where you put new plants, like the plant in San Antonio, and that can change over time. And it changes that impact on suppliers who may no longer be able to supply in Mexico and Canada because the costs have risen.

Senator CORNYN. So when you talk about increased costs, would those be costs that would be ultimately passed on to consumers in terms of increased costs for their trucks and cars?

Mr. BAINWOL. Absolutely. One of the things I am struck by is—we are talking today in the NAFTA context, but a consumer buys a car. They do not buy a piece of a car. And there is a cost to government that goes with that car.

So you have safety regulations. You have environmental regulations, and you have potentially trade-related costs that go into the price of the vehicle. At a time when the marketplace is softening, that is scary, especially as interest rates rise.

The average cost of a vehicle is now about $35,000. Loans have been stretched out to 7 years. Interest rates are at historic lows but will not stay historically low. So the challenge here is, as the cost to government rises, we are going to imperil the demand for cars, the ability for people to afford cars, and it has an impact all the way down.

So the people who work in plants producing those cars will suffer, and it is a broader challenge.

Senator CORNYN. Could changes in the rules of origin have the unintended effect of driving manufacturers abroad?

Mr. BAINWOL. Absolutely. So it is a globally competitive industry, and you are doing everything you possibly can to make the product as affordable as possible. You change the rules of origin and that absolutely has that risk.

Senator CORNYN. Ms. Avila, I believe you were alluding in your testimony on behalf of the Border Trade Alliance that people think of NAFTA and our border and our relationship with Mexico as being a local or regional issue, but I believe you alluded to winners and losers in other States, in other parts of the U.S. that are far removed from the border. You talked a little bit about Michigan, I believe.

Could you talk a little about other States that are impacted by NAFTA that could be vulnerable, if changes were made that had unintended consequences?

Ms. AVILA. Absolutely. The States furthest from the border actually have the most to lose.

You mentioned earlier about the huge dependence for Texas on trade with Mexico. Obviously, because of its geographic location, that makes sense. Everything is in relative terms.

No other State has the amount of export volume that Texas does. But for their particular State, it would be devastating. For the States in the Rust Belt, exports to Mexico and Canada are half of their total exports. So that total amount of exports may not be as great as Texas, but for them, it is half of their exports, so it means everything.

I think it is important to point out that, relative to that State, it is their economic sustainability.

Senator CORNYN. Thank you.

Mr. Perez, Mr. Bainwol talked a little bit about the supply chains for the auto industry. But obviously, retailers depend generally on complex supply chains that are heavily embedded in all three countries.

How has NAFTA benefitted retailers, for example, here in San Antonio and in Texas? And what would the impact be on retailers throughout the United States, if unintended consequences occurred?

Mr. PEREZ. As you know, Senator, H-E-B has their headquarters here. They are one of the facts and figures that I talked about on the additional dollars to infrastructure on the border. It helps them and effects them directly.

That product goes into all of our houses. Those are the eggs that we eat. Those are the avocados that we eat. Tortillas, meat, everything affects us directly.

So if we are not able to keep NAFTA in place and modernize it, then I think we suffer greatly. In spite of the fact that we have a robust agriculture economy here, there is still a lot of the trade that we talked about that actually comes from Mexico in the winter, and it keeps us fed; it keeps us going; it keeps the energy in our tank.

So if we are not careful, we really can upset that apple cart, and it really will be devastating for our families in Texas.

Senator CORNYN. Thank you.

Mr. Moseley, both you and Mr. Perez talked about NAD Bank, the North American Development Bank. Representative Cuellar, as I thank you alluded to, and I have sponsored a bill that would expand NAD Bank's ability to invest in infrastructure along the border region.

Could you expand on how you think NAD Bank has benefitted the lives of Americans and Mexicans on the other side of the border in a way that has been mutually beneficial?

Mr. MOSELEY. Thank you, Senator.

NAD Bank is incredibly cost-efficient for taxpayers. Basically, NAD Bank has taken $400 million in capital contributions from the United States and Mexico, and that has been leveraged into $7.1 billion in actual infrastructure. As Congress considers how to finance $1 trillion in new infrastructure to spur economic development, the Texas Association of Businesses really believes that NAD Bank can be a fundamental key response to this and be a model for the Nation.

Along this border, many communities still rely on old coal- and biomass-fueled power plants. Many homes along this region do not have gas lines, and they rely on more expensive means to heat their homes and cook their food. If NAD bank is able to expand, these areas could receive financing to help mature their energy infrastructure and help these families and grow Texas businesses.

So we really think there is a wonderful chance to take a fresh look at the strengths NAD Bank offers today, but just look at how to amplify and add to the mission.

Senator CORNYN. Talking about infrastructure, one of the things we have been focused on a long time here in Texas is the cross-border trade, obviously given its important impact on our economy and on the Mexican economy, but also getting the Federal Government to live up to its obligation to improve the ports of entry, our aging infrastructure, as well as provide additional staffing that allows the flow of trade to go more quickly.

I think you know, Congressmen Hurd and Cuellar and I sponsored a bill we call the Cross-Border Trade Enhancement Act, working with the Border Trade Alliance and others, which created a successful pilot program which allowed local jurisdictions to partner with the Federal Government to provide additional infrastructure, hours of operation, staffing, and the like.

But it strikes me that this is a fragile situation, that if you start pulling at one string or another, that it could have detrimental consequences.

But if there is one thing that I think the Federal Government could do that would enhance trade and make it less expensive and make it faster, spend less time backed up at the ports of entry entering the country, that would be to invest in more infrastructure at our ports of entry. That is actually one of the things that we are trying to do, working with the administration on a border security bill which also would include roughly $5 billion of additional Federal investment in ports of entry and staffing.

Do you think that would be an important factor in improving the flow of commerce, improving the environment and the cost of doing business?

Mr. MOSELEY. Senator, we thank you for your leadership.

The bridge crossings from Texas to Mexico are really a patchwork quilt. A lot of the bridges were built under the Eisenhower administration.

So we would agree wholeheartedly that having a system of getting goods to market by having a comprehensive set of bridges for pedestrians, for automobiles, for trains, similar to what Otay Mesa enjoys in southern California going into Tijuana, if we had that same comprehensive level of border crossings getting goods to market, we would not see 14,000 trucks stacking up in Laredo and having perishable commodities not get to the marketplace.

At the same time, it could provide that enhanced border security where you could use technology that would, again, move goods to market more efficiently.

Senator CORNYN. Mr. Boening, thank you for being here representing the Farm Bureau. I think one of the amazing things to me about American agriculture is how many people the agriculture sector feeds, and not only here in the United States. And we are spoiled, I guess, I think, when it comes to the cost of what consumers pay for the food they consume and the fiber that is produced.

Talk to me a little bit more about the types of exports that are specifically involved in Mexico and Canada that are important to Texas agriculture.

Mr. BOENING. Thank you, Senator. I mentioned several of them earlier, and I think Mr. Moseley mentioned beef.

Beef and cotton are two of the biggest commodities in Texas, the two biggest commodities grown and raised in Texas. Beef is a very important product to both Mexico and Canada. But it works both ways, as Mr. Moseley said.

We feed cattle over here that come out of Mexico. We feed cattle and hogs in the Midwest that come out of Canada. So it is a two-way street.

And cotton, in mentioning cotton, even though Mexico and Canada are not huge importers of our cotton, they are a regular, stable importer of cotton and cotton products. Cotton is very important to the State of Texas, and 70 percent of raw cotton raised in the country is exported somewhere. Ninety-five percent of cotton and cotton products, when you go into textiles, is exported.

So I think any time you would lose any market for those products, even though it may not be, in the case of cotton, the major one or the biggest one, it is going to have a serious disruption on agriculture. We think it is so important to keep those markets and strengthen them where they need to be strengthened.

Senator CORNYN. As you talk about the net benefit to Texas and U.S. agriculture of NAFTA, can you think of anything specifically that you would recommend the U.S. Trade Representative look at in terms of updating it or tweaking it to make it even better?

Mr. BOENING. There are several things, I am sure, when it comes to biotechnology. There were some updates there. Twenty-plus years ago, biotech was just getting started. It was really a word that people did not understand. So there are things there.

There are things in the sanitary and phytosanitary measures, geographic indicators. Those are things that need to be looked at.

I did not mention much about dairy. There are some issues with some dairy barriers, mostly going into Canada, that we think need to be looked at.

But those are things that need to be part of the updated NAFTA, NAFTA 2.0, so to speak.

Senator CORNYN. Right.

Mr. BOENING. So those are just some things that we think can be looked at.

Senator CORNYN. That is very helpful.

Mr. Staples, I do not think most people appreciate the extent to which our energy sector is so integrated with the Mexican economy. We have refineries here in Texas, and the U.S.-refined heavy crude is actually produced in Mexico, but then Mexico buys a lot of our natural gas because they do not yet produce enough there.

Can you further elaborate on the relationship of the U.S. and Mexico when it comes to energy? And what do you expect to come in the next 5 to 10 years in terms of foreign direct investment in Mexico and their opened-up energy economy?

Mr. STAPLES. Texas's and the United States' partnership with Mexico has really been a phenomenal benefit to all Americans. We do rely heavily upon imported heavy crude oil, different weights of crude oil, to use in our refineries.

While we spend a lot of time talking about the benefits to Texas, this truly benefits people across the country. There are plants in Illinois that employ 600 workers that rely upon products imported from Mexico in order to refine that product here. Then that refined product is distributed all across the world, not only in Illinois but Indiana, Mississippi. Thousands of workers truly benefit.

Because of the hydraulic fracturing and horizontal drilling, we are at a unique opportunity for energy security like never before. The fact that we are building new capacity pipelines to go to Mexico to sell clean-burning natural gas to our neighbors—there are environmental benefits, there are job benefits. And the equipment sales to Mexico are phenomenal.

So it is very deep. It is very integrated. And it only has the opportunity to expand and grow if the reforms in NAFTA are conducted appropriately and we do not lose some important elements that we think are so important to this three-way treaty with all three countries.

Senator CORNYN. As I understand it, the fact that we import heavy crude from Mexico is because our refineries are set up to refine that type of product, as opposed to the lighter-weight oil that comes from places like the Eagle Ford shale. But we can export that elsewhere, can't we?

Mr. STAPLES. We can. In fact, we are, thanks to Congress lifting the export ban. I appreciate your leadership on that very much. We are now exporting crude oil. We are exporting refined product at unprecedented rates, and LNG and natural gas.

But our refineries are set up to use blends, and we do not produce those blends here, but we do import that from Canada and Mexico. These are the types of benefits that create jobs in America when we have good trading policies.

Senator CORNYN. Finally, in your testimony, you alluded to the ISDS, or the investor-state dispute settlement mechanisms in NAFTA. Energy companies make a huge up-front investment with the expectation of recovering that investment over time.

Can you talk a little bit more about the importance of the investor-state dispute settlement provisions in NAFTA, and sort of give us some indications of yellow or red lights that the U.S. Trade Representative ought to be paying attention to as they negotiate these provisions?

Mr. STAPLES. I was very encouraged to hear the U.S. Trade Representative General Counsel mention that the objective that they just announced was North American energy security and energy independence. I took good notes on that. I think that can be achieved when we recognize that the investor-state dispute settlement process is very important to preserve.

Unfortunately, disagreements occur when companies enter agreements and governments interpret their policies differently. So ISDS allows for a neutral arbitration system that is a protection of property rights, allows for due process, nondiscrimination, and fair treatment by the government in which you are located. I think to make certain that ISDS is broad and encompasses all areas of trade would be very beneficial to ensure that continued investment occurs.

Senator CORNYN. As we have seen in this area and in other areas of life, things can have intended and unintended consequences. But I want to ask you a little bit about, if the U.S. Trade Representative believes that a sunset provision should be included in the next round of NAFTA, does that raise any concerns on the panel's behalf?

Mr. Bainwol?

Mr. BAINWOL. It does. The nature of auto manufacturing is very long product cycles. So certainty is essential to product planning and to logistics of the whole enterprise. So a sunset threatens that certainty.

Ms. AVILA. I just wanted to mention that the uncertainty that we are experiencing right now during this renegotiation period has already had a negative impact with some businesses delaying investment or expansion in their businesses. That uncertainty would carry over for 5 years then during that period.

That is something certainly to be conscious of.

Senator CORNYN. Does anybody else have anything they want to add on that front?

Mr. STAPLES. Sunset is very appropriate for units of government and legislatures. That works very well. But I think for a trade agreement, it would be a chilling impact.

Senator CORNYN. As you know, Congress is in the midst of tax reform discussions and debates. One of the things as we look at tax policy, keeping in mind what Mr. Bainwol mentioned, is the large investments in the business models that depend on some certainty and stability, and certainly taxes is one of those. We are looking at ways to make these provisions permanent rather than temporary, recognizing that a temporary provision could well have an unintended negative impact on economic growth, because it would dissuade investors from investing in long-term investments as well.

Mr. Boening?

Mr. BOENING. Senator, if you do not mind, I do have a little bit to add. It kind of goes along the same way with what Mr. Bainwol said.

You know, in agriculture, not only is the investment large, but the investment is long-term, both on the production side and in infrastructure. If you go out to West Texas where it is cotton and cotton and more cotton, if you lose markets, or you have even the potential to lose markets, and you lose some of that infrastructure, you may never get it back.

That is scary, for lack of a better term. So I think anything that creates uncertainty would have a very negative impact on our industry. Thank you.

Senator CORNYN. Let me, again, thank the panel for participating in today's hearing to highlight the interest of the various stakeholders who will be so directly impacted by NAFTA modernization. I know you have talked specifically about how it would affect your sector of the economy, but clearly, when you start talking about increasing costs to consumers, when you talk about jobs, when you talk about losing market access, those are all things that we should care about as Texans and as Americans.

So I am very grateful to each of you for being with us today, for sharing this information. I am sure the Senate Finance Committee staff will dutifully report this back to the rest of the Finance Committee. Really, Texas has benefitted from NAFTA, and I think some might argue that it is disproportionate. But I think to the extent that the whole of Texas benefits, I think the rest of the Nation benefits. But you have also described how it has tentacles that reach throughout the country in creating jobs when it comes to small refineries in places far removed from the border.

I would just, finally, note I have had conversations with both Canadian and Mexican officials who have also cautioned me and cautioned U.S. representatives about some of the rhetoric surrounding trade, and perhaps some backlash that could occur in upcoming elections in both of those countries. So this is a very sensitive and fragile discussion of the trade agreement, and one that we want to make sure we improve, but also, in the process, do not create other unintended consequences, political consequences, because our relationship with both Canada and the United States is so important to the well-being and welfare of all Americans. That is just something I think we should note.

I want to thank the Mayor for being here today, and the city of San Antonio, and certainly the Marriott Hotel, for hosting us.

We will have an opportunity for additional questions or statements for the hearing record for a full 2 weeks. We want to make sure that if there is anything else that you or anyone else wants to provide us by way of input, that we have 2 weeks to do that. We will then consider that as the complete record for today's hearing.

So with my thanks, the Senate Committee on Finance stands adjourned.

[Whereupon, at 11:03 a.m., the hearing was concluded.]

A P P E N D I X

Additional Material Submitted for the Record

Prepared Statement of Paola Avila, Chair,
Border Trade Alliance

The Border Trade Alliance thanks the committee for the opportunity to provide this written testimony for the record and to provide oral testimony at the field hearing in San Antonio, TX on November 20, 2017.

The BTA is committed to working with the administration, Congress, and stakeholders in the public and private sectors across North America in order to craft a modernized North America Free Trade Agreement. For reasons we will discuss, we believe exiting the agreement would be terribly damaging to the U.S. economy and the economies of our trade partners.

THE BORDER TRADE ALLIANCE

For over 30 years, the BTA has provided a forum for analysis and advocacy on issues pertaining to the U.S.-Canada and U.S.-Mexico border regions. A network of public and private sector representatives from all three NAFTA nations, our organization has been involved in a number of important border issues, ranging from the implementation of the North American Free Trade Agreement, to the original organization of the Department of Homeland Security to the perennial issues of staffing, infrastructure and trade processes.

NAFTA RENEGOTIATION: DO NO HARM

The BTA approaches a renegotiation of NAFTA through the lens of an organization that was a vocal supporter of NAFTA at the time of its original negotiation and implementation. We remain a supporter today and we view a revisiting of the agreement as an opportunity to modernize the agreement to align with the realities of today's economy, not as a step toward dismantling the agreement. First and foremost, renegotiation should **do no harm.**

Nearly 9 million U.S. jobs depend on trade with Canada. Five million U.S. jobs can be attributed to trade with Mexico. Our three nations' supply chains are deeply integrated, which has created a highly efficient, just-in-time manufacturing environment that has resulted in an enhanced quality of life throughout the region. Just moving goods across the continent was responsible for nearly 50,000 jobs in the trucking industry alone in 2016.[1]

There are several other trade pacts globally in addition to NAFTA, however, offering manufacturers, importers, and exporters, other options for investment.

While the BTA was initially encouraged that U.S. Trade Representative Robert Lighthizer used the word "modernization" in a letter to congressional leaders that opened the congressional consultation period over NAFTA's renegotiation, and that he stressed that the administration is focused on economic growth as it contemplates renegotiation, we are growing increasingly concerned about rhetoric from the administration that would indicate it believes a dismantling of the agreement would be a wise course of action.

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[1] American Trucking Associations' Economics Department.

THE RISKS OF EXITING NAFTA

We believe dismantling NAFTA would be terribly damaging to the U.S. economy, and would make the administration's stated goal of achieving 3 percent annual economic growth a near impossibility.

Our opinion is not an outlier. A recent *Wall Street Journal* survey found that over 80 percent of economists the paper polled believe that a NAFTA withdrawal would result in lower economic growth for the United States. Seven percent of those polled believe an exit would result in a recession.[2]

The risks for border States are acute.

In a post for *Texas Monthly,* Justin Yancy, president of the Texas Business Leadership Council, wrote:[3]

> But whether you are a banker in Dallas or a farmer in Lubbock, make no mistake—withdrawing from NAFTA would be devastating for Texas.
>
> Not only is Mexico the Lone Star State's largest trading partner, but more than 380,000 jobs in Texas directly depend on trade with Mexico.

Yancy goes on to write that leaving NAFTA will immediately make Texas exports less competitive and make the cost of living more expensive, as businesses likely eye shifting entire supply chains to new countries and the higher tariffs get passed along to consumers in the form of higher prices.

The integration of the NAFTA partners Mexico and Canada into U.S. supply chains is significant. In my State of California, Mexico is our leading export destination by a long shot. Number 2 is Canada. The same can be said of fellow border State Arizona.

We observe a similar phenomenon on the northern border. For example, Michigan's number 1 export market is Canada, followed by Mexico. Michigan's top import partner? Mexico. In fact, an analysis by the credit ratings agency Fitch finds that Michigan is especially at risk if NAFTA is dismantled. Michigan's exports account for 7.4 percent of its gross State product, which Fitch says leaves the State "uniquely exposed" if the agreement were unwound.[4]

A modernized NAFTA will help all of North America remain competitive against other trade blocs, preserving U.S. jobs and discouraging the outflow of capital. And the modernized agreement will also ensure that products made in the United States can compete on store shelves abroad, while lowering prices and expanding consumer choice here at home.

Furthermore, exiting NAFTA will weaken the trilateral diplomatic relationship North America currently enjoys. In fact, strengthening the relationship was a primary reason NAFTA was created in the first place.

We are also concerned that binational collaboration on national security, environmental issues will be weakened, and that siting, designing and management of future ports of entry may become more difficult.

We share Ambassador Lighthizer's desire that an updated NAFTA reflect the dramatic changes that have occurred in our economy since the agreement's implementation nearly 25 years ago. For example, cross-border electronic commerce scantly existed at the time the agreement came into force, while some industries that sought specific treatment under NAFTA are mere shells of their former selves. We encourage all three nations to approach renegotiation as an opportunity to shape a 21st-century trade agreement and to do so in the spirit of friendship that has defined these cross-border relationships for generations.

Recommendations for the U.S. Negotiating Position

The BTA believes the U.S. negotiating position should be characterized thusly:

- It should be future-focused, seeking to ensure that the next NAFTA is aligned with today's economy;
- That it recognizes that tariff-free trade enhances the competitiveness of all of North America, including and especially U.S. manufacturers;

[2] "Forecasters Predict NAFTA Withdrawal Would Slow U.S. growth," *https://www.wsj.com/articles/forecasters-predict-nafta-withdrawal-would-slow-u-s-growth-1510239602.*

[3] "Texas Has Most to Win or Lose With NAFTA Renegotiation," *https://www.texasmonthly.com/burka-blog/texas-win-lose-nafta-renegotiation/.*

[4] Fitch Ratings analysis: *https://www.fitchratings.com/site/uspf/trade-in-time-of-trump.*

- That the agreement enhances the quality of life of U.S. consumers through greater choice, increased competition, and lower prices;
- That the renegotiation should be conducted trilaterally;
- That negotiations should be conducted with urgency, so as to minimize the uncertainty injected into the North American economy;
- That a new NAFTA should continue to seek to remove non-tariff barriers to trade, which add needless costs and delays to the conduct of cross-border business;
- That the agreement should develop a mechanism for facilitating the movement of workers needed to fill the labor gaps that exist today; and
- That renegotiation offers the opportunity for the three nations to memorialize security protocols toward promoting consensus over a shared definition of what constitutes adequate border security.

Recommendations for a Modernized NAFTA

The BTA, which is comprised of business representation from both the U.S. northern and southern border, including customs brokers, private bridge owners and operators, manufacturers, third party logistics providers, trucking companies, the banking industry, chambers of commerce, as well as and local governments, was a vocal supporter of NAFTA dating back to its original negotiation and implementation. We remain a strong supporter today.

It is with the insight of years of experience in cross-border commerce and a firm belief that free trade is a catalyst for economic growth that we submit the following recommendations.

A Robust Stakeholder Process

As the three NAFTA nations set about a reopening of the terms of the agreement that unites our economies, we would encourage the establishment of a robust stakeholder process that solicits a wide diversity of viewpoints and unique insights about NAFTA's role in particular industries and/or communities.

To that end, we would recommend another public comment period after the three nations arrive at an agreement in principle so that stakeholders can react to it and provide recommendations where they might prove necessary. NAFTA is one of the most consequential trade agreements in global commerce. The U.S. Government's stakeholder outreach should reflect that fact.

Amending Rules of Origin, Averting the Tariff Shift

The current contours of NAFTA allow for a sort of international free riding, which the next NAFTA should seek to eliminate.

Under the current tariff shift rules, components originating in other countries can be imported to Mexico duty-free under Mexico's "Rule 8" program, then assembled with other components to form a new, NAFTA-eligible product that is then imported into the U.S. duty-free. The new NAFTA should eliminate these types of loopholes by a thorough review of the tariff shift rules. If another qualification method is required, in addition to the minimum regional value content, the new agreement should reduce the special tariff shift exclusions and standardize the rules. We also recommend considering qualification by changes to subheading or heading level for all tariff classifications.

Improve Customs Processing

The revised NAFTA should implement the North American Single Window proposal, which would allow one set of data to be used for all import and export transactions within the region.

The informal entry and export value limits for both Canada and Mexico should be raised to match U.S. limits.

Strengthen Regional Customs Administration

We recommend that a modernized NAFTA feature an improved dispute settlement tool so that governments can work to resolve differences in classifications.

We would also recommend the adoption of a regional tariff numbering system (similar to the European Union Integrated Tariff of the European Communities or TARIC code) to allow the use of a single Harmonized System classification to identify the same goods throughout the region.

Facilitating Cross-Border Movement for Business Purposes

The agreement should be forward-thinking and allow for professionals to move back and forth across NAFTA borders with little bureaucratic delay. For example, a skilled U.S. technician should be able to repair and service sophisticated equipment in Canada or Mexico, which not only reflects today's business environment, but also ensures the highly skilled position remains in the United States. Such an approach should apply to professionals involved in the administration of the supply chain, as well, such as customs brokers and freight forwarders.

We also recommend using this period as an opportunity to negotiate with Mexico to extend the duration of that country's FMM permit, which is currently valid for only 6 months and is required to visit manufacturing facilities in Mexico.

Finally, we urge the preservation of the TN Visa in any forthcoming agreement.

Trucking From Point of Origin to Destination

The BTA has supported and continues to support a cross-border trucking regime between the North American trade partners that permits commercial trucks to convey freight from the point of origin to the point of destination.

Our position recognizes the paramount importance of traffic and truck safety, which should define a cross-border trucking system.

We also encourage a modernized NAFTA to allow and encourage cross-border investment by the trucking industry to develop a more competitive North American transportation market.

Furthermore, access to trusted traveler programs like SENTRI and NEXUS, or trusted trader programs like FAST lane access, should be open to drivers regardless of whether they are citizens or permanent residents of the NAFTA nations.

Streamlined Sales to Mexico

The modernized NAFTA should develop a more coherent import-export system for products leaving Mexican maquiladoras.

Under the current system, a finished product manufactured in a Mexican maquiladora, but destined for the Mexican market, must be exported out of Mexico, imported into the United States or Canada, and then exported back to Mexico.

This is needlessly bureaucratic and time-consuming. Products manufactured in Mexican maquilas should be able to remain in Mexico without first being exported out of the country.

A Single Company Identifier

A modernized NAFTA should develop a single identifier for firms conducting cross-border trade.

Under today's NAFTA, U.S. companies are identified by their Federal tax ID, Canadian firms are identified by their business number, while Mexican firms are identified by their RFC, or *registro federal de causantes.*

These multiple identifiers promote confusion for companies attempting to monitor their supply chains throughout the three partner countries. A renegotiated NAFTA presents an opportunity to develop a single NAFTA identifier.

A Liberalized Services Market

The BTA encourages the United States to advocate for a liberalized market for professional services, including in the financial, accounting, and insurance sectors.

U.S. providers of such services should be able to reach customers with little red tape in Canada and Mexico.

Improved Cross-Border, Inter-Agency Coordination

The next NAFTA should establish a formalized inter-agency body between all three countries comprised of all governmental agencies with cargo hold authorization.

Such an organization could focus on promoting better coordination between North American governmental agencies with responsibility for the movement of trade, continually seeking greater efficiencies and establishing a coherent process for addressing conflicts.

A Three-Nation COAC

In the United States, the Commercial Operations Advisory Committee, or COAC, has been an effective mechanism for members of industry to communicate their unique needs directly to Customs and Border Protection leadership and to develop lasting policies and procedures to make cross-border trade more efficient and more secure. Legislation in the United States has codified COAC in U.S. statute.

COAC provides a model that ought to be adopted across all three nations and be reflected in the next iteration of NAFTA. Private sector entities in all three countries should have a central forum for discussing emerging challenges in NAFTA trade and present their recommendations to customs authorities in Canada, the United States, and Mexico.

A three-nation COAC could provide a forum for identifying industries that have left North America, industries whose businesses models are radically changing, and emerging industries that North American leaders should work together to attract and retain through regulatory reforms.

A Unified Approach to Infrastructure That Reflects Today's Trade Volumes

The condition and capacity of trade-facilitating infrastructure throughout the North American marketplace should be a major priority of a modernized NAFTA.

The BTA recommends that the three partner countries commit to a framework for jointly developing border infrastructure like port campuses and access roads that reflects not only rising trade volumes, but that acknowledges that all three countries' economic competitiveness is affected by one another's infrastructure.

A unified approach to infrastructure development, which includes greater availability of broadband Internet access and advanced non-intrusive inspection technology, should be focused on eliminating congestion and bottlenecks. Joint facilities will reduce redundant, time-consuming inspections and reflect a cooperative spirit consistent with NAFTA.

Finally, we recommend that the administration approach the renegotiation with the posture that revenues generated at each border from trade be reinvested to support the infrastructure and staffing needs of the borders before remitting dollars to each country's treasury.

Unified Cargo Processing

The BTA is very encouraged by the concept of unified cargo processing (UCP) that has been deployed at ports of entry along the Mexico border.

Under UCP, U.S. and Mexican customs personnel work side by side on U.S. soil to conduct outbound and inbound inspections. Each country's officer can make the determination as to whether to send a shipment to secondary inspection. Even in the case where a more invasive inspection is required, UCP ensures that a shipment is only unloaded once, if at all, rather than what exists today, whereby a truck could be unloaded in its country of origin and its country of destination.

UCP represents an example of making our ports of entry more efficient through better regulations, while ensuring security and increasing capacity. Coupled with new technology that increases non-intrusive cargo searches, the port of the future will deliver real improvements in security and freight mobility, which will expand job-creating commerce and trade.

In the case of the international bridge in Rio Grande City, TX, for example, 70 percent of cargo there will be eligible for UCP, essentially doubling the bridge's importing infrastructure capacity. The port still maintains the ability to electronically scan 100 percent of cargo and share inspection images with Mexico.

UCP represents an approach to inspections that should be the norm in a 21st-century economy in the world's most consequential trade pact. It also reflects the incremental progress achieved in previous pilot programs conducted between the United States and Canada and the United States and Mexico to inspect cargo before it leaves its country of origin.

Improved Cross-Border Financial Transactions

We have been concerned by increased challenges faced by the U.S. banking industry in its ability to conduct cross-border transactions between the United States and Mexico. The Bank Secrecy Act and Anti-Money Laundering law (BSA/AML) have proven a major factor in banks not only de-risking by closing account relationships for entire industry segments, but also in closing branches throughout the U.S.-Mexico border region.

The large number of closures has resulted in fewer banking options for border region businesses and their customers, which harms the economic climate of the region. Many institutions are refusing to process international wires and transactions, and in some cases, are even actively encouraging their customers to seek new banking partners. Due to new capital requirements under Dodd-Frank, forming *de novo* banks has become almost an impossibility.

A new NAFTA should anticipate that frequent, small-value banking transactions are part of cross-border commerce and a trilateral regulatory regime should be designed accordingly to accommodate such transactions.

A Modernized North American Development Bank

The North American Development Bank has benefitted 15 million residents on both sides of the U.S.-Mexico border through sustainable infrastructure since its formation in 1994.

With an initial $405 million in total paid-in capital contributions from the United States and Mexico, NADB has leveraged investments totaling $7.1 billion in the development of sustainable infrastructure. NADB is the only development bank that finances projects in the United States and has financed 107 projects in economically-distressed areas. In Mexico, NADB has financed an additional 124 projects for a total of 231 projects in both the United States and Mexico.

We would encourage the United States to seek the first capital increase in NADB's history in the NAFTA renegotiation talks. As an acknowledgement of Mexico as a trading partner, we would also recommend expanding the Bank's ability to participate in the development and financing of natural gas pipelines, power plants in Mexico for North American energy security, as well as trade facilitation projects at our international land crossings while supporting border security.

Furthermore, public-private partnerships should remain eligible for NADB financing.

Once again, we appreciate the opportunity to provide these comments on NAFTA. Please count on our organization's over 30 years of experience in cross-border commerce and our board of directors, which is comprised of trade professionals throughout North America, as a resource as you and your colleagues consider the future of the agreement.

PREPARED STATEMENT OF MITCH BAINWOL, CEO AND PRESIDENT, ALLIANCE OF AUTOMOBILE MANUFACTURERS

Thank you, Chairman Hatch, Chairman Cornyn, and members of the subcommittee. The Alliance of Automobile Manufacturers (Alliance) is a trade association of 12 car and light truck manufacturers comprised of BMW Group, FCA US LLC, Ford Motor Company, General Motors Company, Jaguar Land Rover, Mazda, Mercedes-Benz USA, Mitsubishi Motors, Porsche Cars, Toyota, Volkswagen Group and Volvo Cars. Together, Alliance members account for roughly three out of every four new vehicles sold in the U.S. each year.

On behalf of the Alliance, I appreciate the opportunity to offer our views on the modernization and re-negotiation of the North American Free Trade Agreement (NAFTA). The ongoing re-negotiations are at a critical juncture. The fifth round is currently taking place in Mexico City and this is the first time the three partners are re-grouping since the U.S. tabled a number of contentious proposals during the last round in early October. It is also very fitting that we are here in San Antonio, TX to discuss this important issue, as this is where the existing agreement was signed 25 years ago by President George H.W. Bush, Mexican President Carlos Salinas, and Canadian Prime Minister Brian Mulroney. And I remain hopeful that we will return here in 2018 to mark the signing of NAFTA 2.0—a modernized NAFTA that builds on the agreement's existing benefits to further enhance this Nation's global competitiveness and grow U.S. manufacturing and jobs.

Much has changed since 1992 and when NAFTA went into effect in 1994. Today, trilateral trade between the U.S., Canada, and Mexico exceeds $1 trillion—growing 370 percent since NAFTA went into effect.[1] Canada and Mexico are our largest export markets, and 14 million U.S. jobs depend on trade with these two countries.

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[1] Americas Society/Council of the Americas. Accessed at *http://infogram.com/nafta-by-the-numbers-1g9vp13ed6elm4y.*

In the auto sector, NAFTA has played a key role in our manufacturing renaissance. In 2016, 13 automakers manufactured 12.2 million vehicles in the U.S.—over 1 million more vehicles that were manufactured in the U.S. in the year before NAFTA took effect. The auto sector is the leading exporter of manufactured goods in the Nation—shipping $137 billion in vehicles and parts to Mexico, Canada, and the rest of the world in 2016. Last year, the industry invested $8 billion in U.S. plants and equipment and nearly $20 billion in R&D. In total, the U.S. auto industry currently supports more than 7 million American jobs—generating $500 billion in annual compensation and $205 billion annually in tax revenue. Thus, America's automotive industry has a significant economic stake in the outcome of the renegotiations of NAFTA—perhaps more than any U.S. industrial sector.

The significant growth of auto production in Mexico is often cited within the contentious debate surrounding the future of NAFTA. While it is true that Mexico has experienced an increase in auto production since the implementation of NAFTA, the U.S. has seen major growth as well. According to the Organisation Internationale des Constructeurs d'Automobiles (OICA), in 2016, the United States ranked 2nd in total global vehicle production, Mexico 7th, and Canada 10th.

Since NAFTA took effect, 15 new manufacturing plants have been launched in the United States (more than Mexico and Canada, combined) and there has been substantial, multi-billion-dollar reinvestment in existing plants. These 15 new manufacturing plants have resulted in the creation of more than 50,000 direct and 350,000 indirect auto jobs throughout the United States. In total, 13 automakers currently operate 44 assembly plants across 14 States and more are on the way—Volvo is currently constructing a $1.1 billion facility in South Carolina and Toyota-Mazda announced plans to build a new $1.6 billion facility in the United States as part of a new joint venture. Clearly, NAFTA has succeeded in attracting significant U.S. investment from within the global auto industry.

NAFTA has also incentivized investment in the North American region, as a whole, and strengthened the U.S. auto industry's global competitiveness. Global companies have shifted production from other automotive regions, like Asia and Eastern Europe, to North America to utilize the benefits of NAFTA and increasingly rely on North American supply chains. And it's important to note that facilities in Canada and Mexico support U.S. jobs as well. On average, a 10 percent increase in employment at a Mexican affiliate operation leads to a 1.3 percent increase in U.S. employment, a 1.7 percent increase in U.S. exports, and a 4.1 percent increase in U.S. R&D.[2] Auto manufacturing throughout the NAFTA region has helped anchor automaker and supplier engineering and R&D operations largely within the United States. In doing so, it creates and supports thousands of high-wage auto sector jobs.[3]

While NAFTA has provided numerous benefits to the automotive sector, automakers recognize that much has changed in the global economy since NAFTA went into effect in 1994. As such, we support the administration's aim of modernizing this trilateral trade agreement and offer recommendations to further enhance the benefits of NAFTA. If implemented, these recommendations will significantly advance the guiding principles underlying the administration's trade policy agenda by encouraging fair and free trade, increasing economic growth, promoting job creation in the United States, and strengthening the U.S. manufacturing base:

- **Maintain strong and effective market access provisions within NAFTA:** Many of the aforementioned benefits created by NAFTA are due in part by the effective market access provisions granted for autos and auto parts. Specifically, duty-free access granted under the existing rules of origin generates the free flow of autos and auto parts throughout the North American region. It is important to note that the 62.5 percent regional vehicle content (RVC) requirement is the highest rule of origin of any trade agreement. A recent study by the Peterson Institute for International Economics concluded that making rules of origin stricter "would be bad for producers and lead to higher prices for con-

[2] Moran, T.H., and Oldenski, L., Peterson Institute for International Economics, "How U.S. Investments in Mexico Have Increased Investment and Jobs at Home." *In NAFTA, 20 Years Later,* July 2014.

[3] Center for Automotive Research, "NAFTA Briefing: Trade benefits to the automotive industry and the potential consequences of withdrawal from the agreement," January 2017.

sumers, without guaranteeing more U.S. content will end up in final products."[4]

- **Improve Regional Regulatory Cooperation:** A modernized NAFTA should encourage more effective regulatory cooperation on future standards to avoid unnecessary divergence. Regulatory streamlining across the region will further facilitate trade and reduce unnecessary costs and administrative burdens. Regulatory cooperation among the three NAFTA partners will help spur cooperation on the global stage, within the United Nations Working Party 29.
- **Formal recognition of U.S. motor vehicle safety standards (FMVSS) throughout the NAFTA region:** We recommend the United States utilize this opportunity to formally enshrine existing practice and include commitments in the agreement requiring Canada and Mexico to recognize FMVSS. This need not come at the expense or exclusion of other global standards.
- **Streamline customs procedures to facilitate cross-border trade flow:** As indicated above, in many cases automotive parts and components may cross the border as many as eight times before reaching final assembly. A modernized NAFTA should expressly allow true electronic signatures, (*i.e.,* those that do not require the integration of a reproduced hand-written signature), requiring all three party-countries to accept them on NAFTA certificates. Reducing existing inefficiencies and burdensome border delays will help facilitate the free flow of these goods.
- **Update NAFTA's labor and environmental provisions:** The Alliance supports efforts to strengthen NAFTA's labor and environmental provisions to reflect a strong commitment to maintain a level playing field with parties to the agreement.
- **Promote cross-border data flows:** Since NAFTA is more than 20 years old, it lacks language on cross-border data flows. A modernized NAFTA should ensure that automakers are able to move data freely across borders to enable them to compete fairly to serve customers in North America and around the world.

While we support the administration's goal to modernize NAFTA to bring the agreement into the 21st century, we remain concerned by the current trajectory of the renegotiations. As previously noted, a number of contentious proposals were tabled by the United States during the last round of renegotiations. I'd like to briefly discuss our industry concerns with two of the proposals: the auto rules of origin proposal and the proposed sunset provision.

With regards to rules of origin, it warrants emphasizing that the existing rule (62.5 percent regional vehicle content requirement) is the highest of any free trade agreement in the world. It has been effective in striking the right balance to ensure there are no free riders and that to take advantage of the NAFTA tariff preferences, manufacturers must source significantly from the North American region. During the previous round, it is our understanding that this administration proposed the following changes to the auto rules of origin:

(1) Increasing the RVC requirement from the existing 62.5 percent to 85 percent.

(2) Establish a U.S. content requirement of 50 percent.

(3) Expanding the "tracing list" to include all parts and materials using in the production of a vehicle or part.

Each element alone would have a negative impact on the auto sector. But, taken in its entirety, this proposal is unprecedented and would have significant ramifications on our industry and the U.S. economy, as a whole. No vehicle produced today could meet such an onerous standard. It is unlikely that any vehicle ever could, even if sourcing changes were made in an attempt to do so. Adding to the compliance challenge is the insufficient 2-year phase-in of the requirements. Auto manufacturing is a very capital-intensive process with long lead-time requirements for production changes. Sourcing new components and implementing the necessary changes would certainly be a lengthy, multi-year process.

Rather than attempt to comply with such stringent rule of origin requirements, it may make more economic sense for manufacturers to pay the 2.5 percent vehicle tariff when exporting within NAFTA and/or shift production to other low-cost re-

[4] Freund, C., Peterson Institute for International Economics, "Streamlining the Rules of Origin in NAFTA," June 2017.

gions. This will increase an automaker's vehicle costs, but that increase is less than the cost of complying with the proposed U.S. rule of origin.

While we wholeheartedly support this administration's goal of growing U.S. manufacturing and jobs, making NAFTA's auto rules of origin more stringent will have the opposite effect. By increasing vehicle costs and/or causing production to shift, the proposed rules of origin would reduce demand for U.S. built vehicles. This shift will have a cascading effect—leading to reductions in U.S. production, component sourcing, investment, exports, and auto jobs, and ultimately increase vehicle costs for American consumers.

The Alliance wishes to echo the concerns of the broader business community regarding the administration's proposal for a so-called sunset clause, which would cause NAFTA to expire every 5 years unless the three partners agree it should continue. If adopted, the resulting uncertainty would render any revised NAFTA agreement, meaningless—chilling investment in the United States, Canada, and Mexico and further weakening the region's competiveness globally.

Such contentious proposals like those related to auto rules of origin and the proposed "sunset clause" beg the question, is an agreement amongst the three negotiating partners on a modernized NAFTA possible? Both Mexico and Canada have announced that they are strongly opposed to these provisions. At this point, it appears the renegotiations are headed towards either an unworkable NAFTA or no NAFTA. Both outcomes would make the industry less competitive globally and raise vehicle costs.

Adding unnecessary costs to new vehicles is problematic in any circumstances. The average price of a passenger vehicle today is $35,000 and that figure is expected to continue to increase due to various safety and environmental requirements. Reduced U.S. sales volumes, increasing interest rates combined with extended loan terms and increasing lease rates are threatening vehicle affordability for consumers. Additional costs associated with an unworkable NAFTA rule of origin or no NAFTA would only add to this burden.

It should be noted that Mexico has free trade agreements (FTAs) with 45 countries, giving automakers access to nearly half the global auto market tariff-free. The United States, on the other hand, has FTAs with 20 countries, representing about 9 percent of the global market. To grow U.S. jobs and reduce the trade deficit, the United States should be seeking to secure additional market access and new trade agreements with its key trading partners. The bottom line is, the problem isn't free trade, but rather it is that we don't have enough free trade agreements.

The Alliance stands ready to be a constructive stakeholder as the administration moves forward with the modernization of NAFTA. In his remarks at the signing of NAFTA, 25 years ago, President George H.W. Bush declared "this agreement will remove barriers to trade and investment across the two largest undefended borders of the globe and link the United States in a permanent partnership of growth with our first and third largest trading partners." NAFTA has succeeded in creating a strong regional bloc and enhancing American competitiveness in this global economy. Modernizing this trade agreement provides a unique opportunity to expand the benefits that this North American partnership has provided to our Nation's economy and further expand job creation within the United States.

Thank you for the consideration of our views.

Prepared Statement of Russell Boening, President, Texas Farm Bureau

Chairman Cornyn, I am Russell Boening, president of the Texas Farm Bureau. Thank you for the opportunity to testify and share how important the North American Free Trade Agreement is to agriculture.

The Texas Farm Bureau is the largest general farm organization in the State and represents over 500,000 member families. These families and many others work hard daily to provide food and fiber across the world. They rely heavily on foreign trade in order to meet this important goal.

Agriculture is one of the most important industries to Texas. Food and fiber products produced in Texas contribute over $135 billion dollars annually to our State economy. The top agricultural goods produced in Texas are beef, cotton, wheat, and feed grains. These commodities account for about two-thirds of our States' agricultural products.

More than 25 percent of all U.S. agricultural production ultimately goes to markets outside of the United States. This is one reason trade agreements, such as NAFTA, are critically important to farmers and ranchers.

Due to NAFTA, U.S. agricultural exports to Canada and Mexico have quadrupled from $8.9 billion dollars in 1993 to over $38 billion dollars today. This trade agreement has made these two countries our second and third largest agricultural export markets.

In 2016, Texas agricultural exports to Mexico totaled approximately $834 million dollars. The top four agricultural exports to Mexico were beef and veal valued at $142 million dollars, cotton at $125 million dollars, sweeteners at $65 million dollars, and corn at $63 million dollars.

The thousand-mile border between Texas and Mexico gives us an obvious marketing advantage over other States. It is important that we keep this market strong and work to expand it through the NAFTA renegotiation.

In Texas alone, agricultural exports to Canada totaled more than $875 million dollars in 2016. The top four agricultural goods exported to Canada were horticultural products at $230 million dollars, beef and veal valued at $110 million dollars, processed grains at $78 million dollars, and food preparations at $77 million dollars.

Additionally, NAFTA has strongly benefited the U.S. and Texas economies. U.S. agricultural exports to Canada and Mexico account for over 509,000 jobs according to the Center for North American Studies. Texas agricultural exports to these countries employ approximately 19,000 people.

There is no doubt that NAFTA has increased demand for U.S. agricultural goods, lowered input and production costs, and spurred our economy. Leaders involved in NAFTA renegotiations must recognize the gains achieved by American agriculture and assure that trade with Canada and Mexico remains strong.

While Texas Farm Bureau recognizes the many achievements of NAFTA, the trade agreement is over 2 decades old. We commend the administration for looking at ways to break down existing trade barriers and produce a better deal for America. We welcome any modernizations to NAFTA that will further expand market opportunities for farmers and ranchers.

It is important to note that net farm income has dropped 50 percent from just 4 years ago. This is the largest 4-year percentage decrease since The Great Depression. Due to the current State of the farm economy, a full withdrawal of the United States from NAFTA would devastate the entire agricultural community and our Nation. We must make certain this does not happen.

The Texas Farm Bureau looks forward to our continued work with congressional leaders and the administration to make NAFTA the best it can be for our hard-working farmers and ranchers. Thank you again for this opportunity to testify.

PREPARED STATEMENT OF JEFF MOSELEY, CHIEF EXECUTIVE OFFICER, TEXAS ASSOCIATION OF BUSINESSES

Thank you for the opportunity to submit comments before this committee on behalf of the Texas Association of Businesses (TAB) and the Texas business community as a whole. From large multi-national corporations to small businesses and start-ups, TAB works to improve the Texas business climate and help make our State's economy the strongest in the world. Given our broad membership base, we have a unique perspective on the strength of the Texas economy and the effects of public policy across the regulatory, legislative, and diplomatic levers of power.

As a neighbor to Mexico and the 10th biggest economy in the world by gross domestic product (GDP), Texas has a significant stake in the health of free trade and particularly in the success of the North American Free Trade Agreement (NAFTA). TAB has been a vocal supporter of NAFTA dating back to its original negotiation and implementation. We remain a fervent supporter today.

With the parties to NAFTA currently embarking on a renegotiation of the agreement, we are offering these comments to the subcommittee to highlight NAFTA's achievements for the Texas economy, explain the importance of the North American

Development (NAD) Bank to border communities, and identify the areas where we believe that the trade agreement can better serve the people of Texas.

HOW NAFTA HAS IMPACTED THE TEXAS ECONOMY

NAFTA has had a significant impact across the gamut of economic sectors in Texas, from energy to beef production to education. Most of those effects come from our close proximity and partnership with Mexico, which serves as the number one export and import market for our State. As a State, Texas' trade partnership with Mexico has become integral to our economic engine over the past 2 decades, with about $173 billion worth of goods exchanged between our two economies every year. That figure is a result of the whopping 540 percent growth in Mexico-Texas trade since NAFTA was signed in 1994.

Across the State, more than 1 million jobs are reliant on trade, with 387,000 jobs directly tied to exchanges with our southern neighbor. According to most estimations, NAFTA has created 190,000 Texas jobs on its own and led to double-digit growth in 24 of the 32 industries that export to Mexico. And those gains have been balanced in populations across the State as all 11 metro areas in Texas have seen increased exports to Canada and Mexico since NAFTA was signed—including many areas with export rate increases of 100–200 percent or more.

These statistical gains are borne out in individual experiences as well. For example, the Texas Cattle Feeders Association reports that total value of beef trade between the three NAFTA countries has grown from less than $1 billion in 1995 to average more than $4 billion between 2014–2016. More than just providing an additional market for Texas beef, imports of Mexican and Canadian cattle play an integral role in our own cattle feeding industry, accounting for about 6 percent of U.S. slaughter. In short, NAFTA has allowed North America to become a key global supplier of beef while allowing beef availability to increase in North American markets themselves.

For Texas cities like San Antonio, NAFTA has had a significant positive impact on economic growth and development. According to Free Trade Alliance San Antonio, a 23 year old not for profit focused on developing the international business capabilities of South Texas businesses, the Agreement is credited for creating jobs in professional services, education and health sectors creating on average, 12,000 jobs in each sector. It is particularly in the service industry that NAFTA has created the most opportunities and benefits for the city. In 2015, San Antonio companies exported a total of $10.7 billion. A 2013 Brookings Institution study noted that the U.S. economic downturn that began in 2008 did not affect San Antonio as badly as other parts of the country, in part due to the diversified markets that served to minimize job loss and facilitate business stability. San Antonio businesses continue to thrive due to increase exporting activity in the NAFTA region.

Another example also resides here in San Antonio, which is home to a large Toyota manufacturing facility. The Toyota Motor Manufacturing assembly plant began production in late 2006, which significantly boosted San Antonio's manufacturing profile. In addition to employing thousands of Texans, San Antonio's Toyota manufacturing plant is an example of a NAFTA win for the city, and border cities that have typically ranked among the Nation's poorest are now home to prosperous warehousing and logistics sectors.

TEXAS WILL LOSE IF THE U.S. PULLS OUT OF NAFTA

There is little doubt that Texas will be a major loser should the United States elect to pull out of NAFTA. Texas enjoys an $11 billion trade surplus with Mexico, which is almost entirely dependent on the continued success of free trade. Since 2006, Texas exports of goods to NAFTA signatories has grown 71 percent, while exports of services has risen 45 percent. An undermining of the tariff policies that have allowed that growth would have hugely detrimental effects in most sectors of the Texas economy.

As an example of a non-traditional industry that would be impacted by NAFTA withdrawal, the Texas A&M International University (TAMIU) has offered a perspective on how education would be harmed, not only in terms of higher education as an export, but in the value of creating more high-skilled jobs in the United States that require education. In comments to the United States Trade Representative (USTR), TAMIU notes that the role of U.S. services, such as higher education, is generally unheralded in NAFTA consideration and warns that drastic changes to the agreement could "be undermined by undue focus on the deficit in U.S.-Mexico trade in goods." Finally, education plays a vital role in the "emerging pattern of specialization" driven by trade and technological progress, making access to educational services essential for American workers.

Perhaps the most significant economic sector that would be negatively impacted by NAFTA withdrawal is the natural gas industry. Texan pipelines carry more than 4 billion cubic feet of natural gas a day to Mexico, and American partnership with the Mexican energy sector has been critical to fueling that nation's electricity demands. For the United States, Mexico provides a critical market to help mitigate the effects of a glut in American natural gas production, allowing for that sector to continue its tremendous growth despite stalling American demand. Undermining NAFTA could jeopardize that development and force the Mexican Government to look to Peru and other South American countries to satisfy its energy demands.

The simple act of trade also provides a critical economic boon for Texas. Approximately 14,000 tractor-trailer rigs cross a single port of entry—the Gateway to the Americans International Bridge in Laredo, TX—every day, each paying a toll that contributes to local tax coffers and carrying everything from dishwashers to car batteries. The mayor of Laredo has described his town as "NAFTA on wheels," and local officials have estimated that 1 in every 3 jobs are positively impacted by international trade.

BUILDING A STRONGER NAFTA

Given the pace of technological change and the changing nature of developed economies, there is little doubt that free trade agreements could use a facelift for the 21st century. A stronger NAFTA would reflect the value of American intellectual property and promote greater information sharing among NAFTA partners. Primarily, this involves protecting Texas innovators with clear and enforceable rules on cross-border data flows and intellectual property rights.

Additionally, given Texas's prominent role as a trade hub, speeding customs and transportation processes will lead to increased trade volume and maximize the benefits that NAFTA's other provisions can provide. Every minute that a truckload is stopped at the border is a wasted opportunity to make additional deliveries on the trade arteries that bind our 1,300 mile border with Mexico. With smarter customs regulations, we can ensure the safety of products reaching Texan consumers while bolstering the economic benefits of the trade that creates jobs on both sides of the border.

THE NORTH AMERICAN DEVELOPMENT (NAD) BANK

Following on NAFTA and the North American Agreement on Environmental Cooperation in 1993, the United States and Mexico established the North American Development Bank (NAD Bank) to provide financial assistance to entities involved in developing environmental infrastructure projects that support NAFTA. The NAD Bank has been successful in helping communities finance critical infrastructure relating to water, solid waste, street paving, and other quality of life improvements in border communities.

The Bank does all this while being incredibly cost-efficient for taxpayers. They've taken $400 million in capital contributions from the United States and Mexico and leveraged that into $7.1 billion in actual infrastructure. In fact, as Congress considers how to finance as much as $1 trillion in new infrastructure funding to spur economic growth, TAB believes that the NAD Bank could be a model across the Nation and could help Texas energy companies provide more jobs.

Along the border, many communities are still reliant on old coal and biomass-fueled power plants. Many homes in the region do not have access to gas lines, instead relying on less efficient, more expensive means to heat their homes and cook their food. If the NAD Bank was expanded, those areas could receive financing to help mature their energy infrastructure, helping families and Texas businesses.

Recognizing these problems, Senator John Cornyn has proposed a solution (S. 1385) that would expand the NAD Bank's ability to invest in natural gas projects and other areas. This includes important pipeline and electric generation facilities, cross-border energy distribution, and energy security that could provide a market for Texas's excess natural gas. Further, additional investments in the NAD Bank proposed by the bill could spur additional border infrastructure development across the State and the Nation, and could help Texas energy companies provide more jobs. We fully endorse these efforts and look forward to working together on this important legislation.

What happens along our border impacts the Nation, and the NAD Bank represents one of the most important tools in our toolbox to increase the flow of goods across the border. With that in mind, I would encourage members of the subcommittee to join Senator Cornyn in supporting the NAD Bank Improvement Act of 2017.

CONCLUSION

NAFTA and the NAD Bank have proven to be economic engines for the State of Texas, creating high skill jobs and providing renewed economic mobility for Texas workers. With billions of dollars in goods and services flowing through the State's borders every year, NAFTA has positively reshaped the Texas economy over the past 2 decades and made it a key port in both regional and global trade dynamics.

While we appreciate the administration's effort to "Put America First" and strengthen any and all trade agreements, any renegotiation of NAFTA should reflect that critical role that free trade will play in the economic future of the Texas. Broadening the promise of the NAD Bank as proposed by Senator Cornyn would provide critical investment for a burgeoning natural gas sector that has sparked significant growth in both Texas and Mexico energy markets. We would also urge the Trump administration to resist withdrawing from the agreement and endangering all of the gains that have been made since 1994.

Thank you for the opportunity to speak on this critical issue for Texas businesses. We look forward to working with you to foster economic growth for Texas businesses and secure the benefits of a booming economy for all Americans.

PREPARED STATEMENT OF RICHARD PEREZ, PRESIDENT AND CEO, SAN ANTONIO CHAMBER OF COMMERCE

Since 1894, the San Antonio Chamber of Commerce has advocated for the interests of its more than 2,100 members. It works to build and sustain a vibrant business community by engaging business owners, policymakers and influencers to address the issues and opportunities vital to the success and prosperity of San Antonio.

San Antonio has a rich history with the North American Free Trade Agreement (NAFTA), beginning with the initialing of the historic agreement in this very same location in San Antonio in 1992. The impact of NAFTA, however, is far more than ceremonial and affects companies of all sizes in our community—many of whom are members of the Chamber.

As the seventh largest city in America and with projections of continued growth over the next 20 years, San Antonio is a hub of growing industries like health care, biosciences, information technology, cybersecurity, energy and advanced manufacturing. It is a thoroughfare of international trade, with four of the six major rail gateways in Texas.

This community, like many across Texas, has benefited greatly from NAFTA. Texas leads the Nation in worldwide exports by a wide margin. In 2016, Texas's exports to other countries totaled $232 billion, including more than $90 billion to Mexico alone. Mexico is Texas's most important market—accounting for 40 percent of the State's exports in 2016, the most of any State.

As we look to the future, the uncertainty surrounding the upcoming renegotiation has had a chilling effect on growth and new investment throughout the region, putting our existing record of prosperity in doubt. The Chamber would, therefore, like to offer several areas where this vital agreement should be strengthened and modernized.

ENERGY

The continued integration of the U.S. and Mexican energy markets is beneficial to both nations, but requires regulatory certainty—both within and across borders—to function effectively.

With such certainty, we know the economic growth and investment that follows. For example, as a direct result of the 2013 Mexican Energy Reform and the free flow of hydrocarbons allowed under NAFTA, San Antonio-based Howard Energy will be investing in projects totaling more than $1 billion over the next 5 years in northern Mexico and south Texas. These projects will create more than 950 temporary construction jobs and 22 permanent jobs, generate almost $1.5 million per year in local property taxes and $230 million per year in direct economic value, and move approximately $2.1 billion of hydrocarbons per year between the two countries. None of this includes NAFTA's indirect and implied effects of creating new markets for American producers.

AUTOMOTIVE

NAFTA contains the strictest automotive rules of origin requirements of any U.S. Free Trade Agreement, at 62.5%. Any changes to the rules of origin could jeopardize our current production and lead to the unintended consequences of limiting consumer choice, raising costs, reducing U.S. jobs, and increasing competition from other countries.

San Antonio specifically has benefitted from NAFTA. The year before NAFTA became law, Toyota had two plants in the United States. Since then, they have built eight more U.S. plants, including one in San Antonio, where they make the Takoma and Tundra trucks. NAFTA has enabled Toyota to be cost competitive in the world market when exporting vehicles from the United States because of their integrated supply chain. A local company, Avanzar Interior Technologies, makes every seat that goes into each of the trucks coming off the line here in San Antonio. Because of the terms of NAFTA and the relationship that they have built with Toyota Motor North America, Avanzar will be supplying every seat that goes into every truck made 700 miles to the south of us in Guanajuato, Mexico. NAFTA supports the local economy here, and allows us to compete as a region in this global marketplace.

RETAIL

Ensuring that trade remains tariff-free throughout North America is essential to keeping existing retail supply chains moving and maintaining low prices on food and other essential items for American families, thereby preserving the millions of jobs that depend on trade. A stronger, modernized NAFTA can bring greater benefits to U.S. consumers, protect American jobs, and help American retailers and their suppliers in several critical ways:

- A stronger NAFTA will maintain and expand current access for U.S. food and other products to Mexican and Canadian markets while protecting American workers, growers, and manufacturers.
- Reducing non-tariff barriers, such as processing fees and sanitary and phytosanitary measures, will make fresher, healthier, and lower-priced produce and other products more easily available to American families.
- In today's digital economy, it is imperative that a modernized NAFTA include digital and e-commerce provisions like simplified customs requirements and processing for e-shipments, which would make it easier for companies to export goods across the border.
- An improved NAFTA will ensure consistent food and other product labeling requirements across countries, eliminating the need for costly and duplicative efforts to comply with divergent standards.
- Increased resources for customs modernization and improved infrastructure at the border will reduce delays in border crossings, benefitting consumers by minimizing food spoilage and transportation costs.

ENVIRONMENT

Established in 1994, the North American Development Bank (NADB) works to enhance the quality of life for people who live along the U.S.-Mexico border through cleaner water, air, and land. Owned entirely by the United States and Mexican Governments in equal shares, NADB helps develop and finance infrastructure in communities on both sides of the border through a variety of services and programs that encourage sustainable development.

To date, 15 million residents on both sides of the border have benefitted from sustainable infrastructure supported by the NADB.

With an initial $405 million in total paid-in capital contributions from the United States and Mexico, the NADB has leveraged investments totaling $6.9 billion for the development of sustainable infrastructure. NADB is the only development bank that finances projects in the United States and has financed 107 projects in economically-distressed areas. In Mexico, NADB has financed an additional 124 projects for a total of 231 projects in both countries.

In light of the NADB's proven track record of significant infrastructure investment and environmental impact along the border, the administration should include the Bank's first capital increase in its history in the NAFTA renegotiation talks. Because of the importance of Mexico as a trading partner, we would also like to see the Bank participate in the development and financing of natural gas pipelines and power plants in Mexico for North American energy security, as well as trade facilitation projects that still support strong border security at international land crossings.

CONCLUSION

The NAFTA negotiations must recognize the interdependence of all three economies, guarantee continued access to the U.S., Mexican and Canadian markets, and be conducted in a manner that avoids any prospect of retaliation against American products.

On behalf of the more than 2,100 San Antonio Chamber of Commerce members, I thank you for the opportunity to testify on how we can continue to use and strengthen NAFTA to help our businesses and communities thrive and remain globally competitive.

PREPARED STATEMENT OF HON. TODD STAPLES, PRESIDENT, TEXAS OIL AND GAS ASSOCIATION

Chairman Cornyn and committee members, thank you for the opportunity to testify on this important topic. The Texas Oil and Gas Association is a statewide trade association representing the men and women who produce the natural gas that heats your home, and the gasoline for your cars. The mission of the Texas Oil and Gas Association is to promote a robust oil and natural gas industry and to advocate for sound, science-based policies and free-market principles. Our members include exploration and production companies, midstream businesses, refiners, and service companies. We represent all sectors of the energy industry in Texas.

As the renegotiation of the North American Free Trade Agreement continues, it is imperative that we urge President Trump and his administration to maintain the current strong provisions that enables our industry to remain competitive, continue to provide domestic job growth and the ability to invest with certainty and confidence; most importantly, the provisions surrounding the investor-state dispute settlements (ISDS). Preserving ISDS means preserving the necessary legal protections in place that defend our property rights, ensure the absence of discrimination, and promise fair treatment from governments while doing business both at home, and abroad. ISDS act as the very backbone to our Constitutional rights, and we must keep them intact, and strongly enforced. Without these provisions, our industry will lose value, our position as an energy superpower will be endangered, and the thousands of American jobs that fuel our economy will be jeopardized.

Other important issues to consider include items like tariffs and market access policies. The U.S. benefits from providing energy resources to our neighbors in the form of profits, job growth and the stimulation of our own economic activity like manufacturing and construction. As the agreement is being considered, we must not forget these important benefits.

According to the American Petroleum Institute, as early as 2020 the United States will have the ability to meet its liquid fuel needs, completely, through domestic energy production and trade with our North American partners. Our agreement with Mexico and Canada has been fundamental to our economy, keeping our fuel prices fair, and our petroleum and natural gas products both competitive, and favorable. Ultimately, NAFTA has served as the very foundation that has allowed the oil and natural gas industry to see the growth and prosperity it has today, and this has resulted in countless jobs for Texans and Americans, jobs right here at home. Now, it is imperative that we conserve the polices that have allowed this industry to provide for our Nation's energy needs.

I encourage you today to consider these issues, and as you work to strengthen NAFTA on behalf of the American people. Please consider the impact that any changes could have on the oil and natural gas industry, that not only fuels our Texas economy, but promotes American national security.

I know I can speak for all of us when I say we appreciate you coming to Texas, home to two-thirds of our southern border, to hear about this important topic. Please do not hesitate to contact me if you have any questions.

PREPARED STATEMENT OF STEPHEN P. VAUGHN, GENERAL COUNSEL, UNITED STATES TRADE REPRESENTATIVE, EXECUTIVE OFFICE OF THE PRESIDENT

Good morning. My name is Stephen Vaughn, and I am the General Counsel of the Office of the U.S. Trade Representative. It's great to be here in Texas and specifically in San Antonio, where leaders from the United States, Canada, and Mexico signed the original NAFTA 25 years ago. It is important to note Texas is our largest exporting State and Mexico is Texas' largest export market. We are confident a new NAFTA will create new opportunities for Texans. I am grateful for the opportunity to testify about USTR's efforts to upgrade and improve NAFTA for all Americans. Before taking questions, I would like to emphasize a few key points.

It is important to understand that all of us at USTR—led by Ambassador Lighthizer—are focused on getting a new agreement. We are both aware of—and have concern for—those Americans who benefit from NAFTA 1.0. We have heard from many Americans—including many in the agriculture sector and from border States like Texas—who are very concerned about the future of NAFTA. We share those concerns, which is why we have moved at unprecedented speed to press for a new and improved agreement. Since August, we have had five separate rounds of negotiations—an unheard of pace for major trade talks. At this moment, there are hundreds of U.S. officials, from agencies throughout the government, in Mexico City negotiating with their counterparts from Mexico and Canada. And this is only part of our ongoing effort.

We at USTR have reviewed more than 12,000 public comments on NAFTA 2.0. Since August 16th, Ambassador Lighthizer and USTR staff have met personally with dozens of members of Congress, spending more than 700 hours discussing NAFTA with congressional members and staff during that time. Furthermore, throughout this process, we have held extensive consultations with members of the private sector, labor representatives, ranchers, farmers, and leaders of the NGO community. There have been dozens of scheduled briefings to advisory committees, hundreds of hours of stakeholder consultations, and a continuing open door policy. All of this work was undertaken to comply with congressional rules, build support for NAFTA 2.0, and ensure a seamless transition to a new agreement. As you know, it is very unusual to attempt such a major trade negotiation at this pace. But we are doing it, in large part, because we want to eliminate uncertainty and resolve concerns about NAFTA as quickly as possible.

At the same time, I must emphasize that Ambassador Lighthizer agrees strongly with the President's view that the current version of NAFTA is a bad deal for America. Of course, there are Americans who benefit from NAFTA. And we want to avoid harming them. But USTR must look at trade deals from the perspective of the country as a whole—and from that perspective, there are serious problems with NAFTA. Let me just mention two.

First, NAFTA is outdated. It went into effect on January 1, 1994—before most Americans had even heard of the Internet. NAFTA lacks the type of provisions on labor standards, the environment, intellectual property, State-owned enterprises, or digital trade that Americans now expect in deals of this kind. To address this problem, Ambassador Lighthizer has put forward extensive proposals to upgrade and modernize NAFTA.

Second, NAFTA is unbalanced. We do enormous volumes of trade with countries like Japan, the United Kingdom, Germany, and China pursuant to WTO rules, even in the absence of a specific free trade agreement with those countries. Against this background, the purpose of an agreement like NAFTA is to create special rules—to give certain countries unique access to this market, access that other countries lack. In exchange, of course, we expect those countries to give American workers, farmers, ranchers, and businesses comparable access to their home markets.

Meanwhile, in the last 10 years, our trade deficit in goods and services with Mexico has exceeded $500 billion. Our trade deficit in goods and services with Canada over the same period was more than $100 billion. Together, that's a difference of over $600 billion in the last decade. And if we looked at trade in goods alone, that difference would be almost $1 trillion. The President and Ambassador Lighthizer are both very concerned that these enormous deficits do not represent the type of fair and reciprocal relationship that should exist when the United States gives special privileges to another country. Accordingly, they believe that NAFTA must be changed to give American workers a fairer chance to compete. Again, we have put forward a number of proposals designed to create a more level playing field.

We do not expect these negotiations to be easy. For a very long time, our NAFTA partners have enjoyed an agreement that is tilted in their favor. They do not want to give up that advantage, and we can understand why they feel that way. But our job at USTR is to represent the people of this country—and they deserve a better deal. We intend to do everything possible to get it for them.

I want to thank Chairman Cornyn for hosting this field hearing, and for giving me the opportunity to testify. I am happy to answer any questions.

COMMUNICATIONS

FREE TRADE ALLIANCE SAN ANTONIO
203 S. St. Mary's Street, Suite 130
San Antonio, Texas 78205

Free Trade Alliance San Antonio was formed in 1994 after the passage of the North American Free Trade Agreement (NAFTA) for the purpose of developing the export capabilities of the San Antonio business community. The Alliance is a member organization focused on providing export assistance, attracting foreign direct investment and advocating laws and policies that support and facilitate international trade. We have over 100 small, medium and large private and public sector member companies.

Benefits of NAFTA and the Risks of U.S. Withdrawal From NAFTA

Over the more than 20 years since the passage of the North American Free Trade Agreement (NAFTA), the flow of goods and services between the U.S., Canada and Mexico has increased. In the case of trade with Mexico, it has more than quintupled. Regional trade has increased sharply from roughly $290 billion in 1993 (before the Agreement) to more than $1.1 trillion in 2016. Cross-border investment has also surged, with U.S. foreign direct investment stock in Mexico increasing in that period from $15 billion to more than $100 billion. The NAFTA began a long process of business integration which has allowed cross-border sales as well as shared production processes, for example with the Toyota Motor production facilities in San Antonio and the suppliers in Mexico. San Antonio, like many across Texas, has benefitted greatly from NAFTA. Texas leads the nation in worldwide exports by a wide margin. In 2016, Texas's exports to other countries totaled $232 billion, including more than $90 billion to Mexico alone. Mexico is Texas's most important market—accounting for 40 percent of the state's exports in 2016, the most of any state.

Experts say that it is difficult to tease out NAFTA's direct effects from other factors, including rapid technological advancement, expanded trade with other countries such as China, and unrelated domestic developments in each of the three countries. Debate persists regarding NAFTA's legacy on employment and wages, with some workers and industries facing painful disruptions as they lose market share due to increased competition, and others gaining from the new market opportunities that were created.

For San Antonio and South Texas businesses, it is undeniable that the increased ability to trade with Mexico and Canada because of reduced trade barriers has been a significant factor in maintaining consistent business growth, even in times of economic downturn. This has been particularly true for small and medium sized businesses but has been equally true for San Antonio's larger companies such as H-E-B and Toyota Manufacturing. Combined, these two large companies have created over 100,000 direct jobs and thousands of indirect ones. The business stability that diversified markets have facilitated has served to minimize job loss and has played a significant role in the economic growth of the city and the region.

NAFTA has benefitted San Antonio and South Texas businesses in many ways:

(1) NAFTA has provided San Antonio and South Texas companies with the opportunity to be price competitive and efficient by increasing the import of competitively priced goods and the export of services. This has led to growth in local businesses and the local economy.

(2) NAFTA has helped San Antonio and South Texas manufacturers to source inputs (not readily available in the U.S.) they need to produce competitive products.

(3) NAFTA has made San Antonio and South Texas an attractive destination for foreign investment. Companies from Mexico have increasingly expanded their business operations into San Antonio and the South Texas region and this has served as an important source of economic development and job creation in the region.

(4) NAFTA and the geographical proximity to Central and South American markets have made San Antonio and South Texas attractive to U.S. and non-U.S. companies interested in exporting. For example:

- *Portenntum de Mexico* in a Joint Venture with Provision ISR Israel, manufacturer of CCTV equipment, strategically established its first U.S. office in San Antonio with operations in Mexico. Its main consumer base is in the U.S., and with NAFTA they can provide easier access to inventory and benefit from low cost production.
- *Cerealto,* a Spanish company, has a manufacturing facility in Mexico City and has enjoyed the NAFTA benefits of importing raw materials and work in process products as well as final goods without extra duties or tariffs. Cerealto can now satisfy both U.S. and Mexican markets by producing "Made in Mexico" and "Made in U.S." products.
- *Friedrich* produces residential and commercial/industrial air conditioning units. The company is headquartered in San Antonio with 150 employees and another 100 employees in its manufacturing facility in Monterrey, Mexico. About 30% of the company's annual export sales are in Mexico and constantly growing year by year as the company creates brand awareness and develops a distributor network. The company also does several million dollars of annual sales in the Canadian market.
- *Concord Supply Inc.* is a research and development company, producing innovative packaging and construction materials. Concord is based in San Antonio and employs 38 employees. The company also has distribution and manufacturing facilities in Monterrey Nuevo Leon, Mexico employing 100 workers. The company exports 80% of its products to Mexico since the benefits under NAFTA have enabled the company to remain price competitive.

Recommendations

Cross-border Trade and Movement of Labor

Considering that U.S. companies, especially small businesses, rely on affordable labor costs and a readily available labor supply in order to remain competitive in the domestic and global market, it would be beneficial to continue to have access to sources of affordable labor. U.S. business would greatly benefit from more flexible labor provisions. Free flow of labor must be allowed.

Reducing barriers to U.S. companies, particularly small and medium sized companies, to enter the Canadian and Mexican markets to bid for government contracts would create greater demand for U.S. professional services, skilled and specialized labor and related goods and services. Small and medium sized companies should not be restricted from bringing their equipment and experienced personnel in order to execute contracts. Only reasonable registration requirements and reporting should be included.

Customs Administration

Increased resources for customs modernization and improved infrastructure at the border will reduce delays in border crossings. Delays at the border currently cost U.S. consumers every year due to damage to agricultural and other perishable goods, and higher transportation costs.

Sanitary and Phytosanitary Measures

Reducing non-tariff barriers, such as processing fees and sanitary and phytosanitary measures, will make more fresh, healthy, and lower-priced produce available to U.S. consumers.

An improved NAFTA can ensure consistent food and product labeling requirements across countries, eliminating the need for costly and duplicative efforts to comply with divergent standards.

Cross-border Trucking

NAFTA negotiations should not slow down but should seek to enhance and codify the great work that is being done on the border and customs. **Smart borders and better use of the infrastructure is needed.**

The busiest land port on the Southern Border is Laredo, Texas with 2,083,864 trucks processed last year just in Laredo. That is 39,963 trucks per week, and with only 90 hours a week to cross, that is 444 trucks per hour. If the border were open 24 hours, 7 days per week, approximately 237 trucks could be cleared per hour thus allowing fresher and less expensive products to get to the U.S. consumer.

Environment

NADB was established in 1994 by the U.S. and Mexican Governments for the purpose of developing and financing infrastructure projects along the U.S.-Mexico border in order to improve the quality of life for people living in the region. After more than 20 years of operation, NADB is having a transformative impact on the border region.

To date, NADB has contracted U.S.$2.76 billion in loans and grants for 228 infrastructure projects aimed at supplying safe drinking water, adequately treating wastewater, properly disposing of solid waste or improving air quality through street paving or clean energy generation. The total investment represented by these projects exceeds U.S.$8.24 billion—evidence that the NADB development model is succeeding in its intended goal of complementing and leveraging other sources of funding, including private capital and other public resources.

Inclusion of capital increase for the North American Development Bank in the NAFTA renegotiation talks to ensure the continuation of infrastructure projects that improve the quality of air, water and land along the U.S./Mexico border as a mechanism to fulfill the environment objectives proposed in the U.S. NAFTA renegotiating objectives.

Conclusion

We fully support a strengthened and updated NAFTA which takes into account innovations and factors that did not exist when the Agreement was signed over 20 years ago. This is an opportunity to optimize North American's competitiveness on the global stage. Now is the time to IMPROVE NAFTA and remove the remaining red tape and protectionism that slows trade or raises the cost of trade.

We do not support a U.S. withdrawal from NAFTA as this would cause significant economic upheaval to San Antonio and Texas businesses overall. Disrupting the $1.3 trillion in annual trade across the North American borders or reverting to higher tariffs and trade barriers that preceded NAFTA could put at risk the millions of jobs that depend on North American trade.

There are still untapped opportunities in Mexico and Canada. The Mexican economy has been on an upward trajectory and its markets are evolving and beginning to offer new opportunities. Over the past few years San Antonio businesses have increased their interest and exporting activity in Canada. Similarly, Canadian companies have an increased interest in expanding into the U.S. through exporting activity and investment. San Antonio's longstanding relationships and contacts make us well positioned to take advantage of opportunities as they arise.

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November 29, 2017

U.S. Senate
Committee on Finance
Dirksen Senate Office Building
Washington, DC 20510–6200

Dear Sirs:

With the renegotiation of the North American Free Trade Agreement well underway and in light of recent threats by President Donald Trump to withdraw from NAFTA, the City of Laredo seeks your assistance in working to ensure that the spirit of NAFTA to promote free trade among the United States and its neighboring countries of Mexico and Canada be strengthened and solidified.

- NAFTA was founded on core values that included the removal of trade obstacles; trilateral circulation of goods and services; promotion of fair competition; increase in investment opportunities; protection and enforcement of intellectual property rights; and the creation and implementation of procedures to further the cooperation among partner countries. While we recognize that the Trade Agreement after 23 in force requires modernization to incorporate industry changes and address commonalities that hinder trade growth as well as environmental and labor protections, NAFTA's core values should continue to be protected.

- NAFTA has supported the economic transformation of the United States, Canada, and Mexico and ultimately improved the welfare indexes of the partners' respective populations. Specifically, NAFTA has generated a significant flow of investments among the partner nations, effectively tripling the value of trade. Laredo, as the largest inland port and the third largest customs district reporting a total trade value of over $283 billion in 2016, has witnessed firsthand this explosion of trade and trade related economic opportunities as driven by NAFTA.
- The City of Laredo commissioned the preparation of a study regarding the Impact of the Renegotiation of the North American Free Trade Agreement (NAFTA) on the local economy. Included is a copy for your review and consideration. The Study was based on published reports and feedback from business trade professionals. Points of consensus include:
    - NAFTA Partners enjoy a strong and mutually beneficial economic relationship. These business relationships should be supported and new opportunities for collaboration within the service and trade sector discussed.
    - In order for the renegotiation of NAFTA to be successful, concessions must be made that benefit all three partner nations.
    - The issue of trade deficit reduction should not merit consideration as an issue of contention in NAFTA renegotiation. Sixty-three percent (63%) of the U.S. trade deficit ($505 billion) is attributed to China, Japan, and Germany, while only 8% is attributed to Mexico and 2% to Canada. Negotiation should focus on how to improve the expansion of trade and investment, and not on regulations that reduce the same.
    - The opening of energy in Mexico can greatly increase the loading operations through Laredo.
    - An important aspect of NAFTA renegotiation is to ensure that federal budgetary allocations and/or systems be put in place that provide the necessary funding in support of critical infrastructure and services that facilitate trade and the movement of commerce. Current day infrastructure capacities are strained and require renewal and/or enhancement to better meet existing and future needs.
- It is further critical that the United States reconsider its protectionist demands in regard to the U.S. content of vehicles manufactured in Canada and Mexico and the placement of limits on the level of U.S. public procurement that Canada and Mexico can bid on. These actions are counterproductive in that they will drive up manufacturing costs and ultimately costs for U.S. consumers.
- Beyond promoting trade and economic opportunities among its partner countries, NAFTA symbolizes the collaboration, respect, and friendship of neighboring countries. In this age of conflict and disharmony, it is so very important that the bonds that unite the United States with Mexico and Canada be safeguarded.

Again, I ask for your continued support of NAFTA and your assistance in helping to ensure the renegotiation and modernization of NAFTA results in increased trade opportunities that further bind us and not divide us as neighboring countries but further optimize North America's competitiveness.

Sincerely,

Pete Saenz
Mayor

Horacio A. De Leon, Jr.
City Manager

ANALYSIS

THE RENEGOTIATION OF NAFTA IMPACT ON THE ECONOMIC ACTIVITY OF THE CITY OF LAREDO

Prepared for

The City of Laredo

September 1, 2017

This document was prepared by the World Organization of Cities and Logistics Platforms (WOCLP), its content and rights belong to the City of Laredo, TX.

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Executive Summary

During the conference given by Mr. Dennis E. Nixon, CEO of the International Bank of Commerce on September 27, 2016 in the 23rd Annual Logistics and Manufacturing Symposium with the theme of *International Trade and Border "Own the Message,"* he reflects on the role of having a responsible attitude towards all of the economic and political sectors of the City of Laredo, in order to promote international trade, maintain leadership in the border region, and make NAFTA a tool of economic development.

This important message makes us reflect on the fact that the *fringe of comfort* that most of the business sector and policymakers have, comes from the continuity of their activities in which they are commonly found and that in many occasions lose the objectivity to create differentiation and maintain the levels of regional competitiveness of a city like Laredo.

The outsourcing of a vision different from that of a city can be a very positive economic tool. As part of this economic analysis, proposed is a new generation of ideas, outside of the common regional interests that allow the adjustment of specific work programs that are required to promote the economy and the positioning of the city.

The World Organization of Cities and Logistics Platforms (WOCLP), proposes the implementation of regional and border development objectives, trade corridors and logistics platforms that allow Laredo to focus on intra-regional common benefits and international trading blocks.

The decision of the authorities of the City of Laredo to commission an analysis of NAFTA Negotiations and its local economic impact is an important step in maintaining Laredo's leadership role in international trade.

During the last 23 years, the North American Free Trade Agreement has in a general sense, supported the economic transformation of the three partner countries and ultimately improved the welfare indexes of the respective populations.

This global trade of 23 years has generated a significant flow of investments among the partner nations, effectively tripling the value of trade to over $1 trillion in 2016.

The competitiveness of the trade treaty has been strengthened by the great capacity of the development of strategic infrastructure in ports, roads, and railroad accesses, as well as in the modernization of the border system and in the security of the systems related to the protection of merchandise handling.

Misplaced emphasis has been given to the extent of the United States trade deficit with Mexico and Canada as a result of NAFTA; *together both nations represent only 10% of the total trade deficit of the United States. This is not a problem for the U.S. economy, compared to China's total trade deficit of 46%.*

The main topics of United States agenda for renegotiating NAFTA are the following:

- ➢ Trade in Goods. The objective is improving the U.S. trade balance and reducing the trade deficit with the NAFTA countries.
- ➢ Customs, Trade Facilitation, and Rules of Origin. The objective is increasing transparency regarding all customs laws, regulations, and procedures.
- ➢ Trade in Services. The objective is securing commitments from NAFTA countries to provide fair and open conditions for services trade, including telecommunications and financial services.
- ➢ Investment. The objective is establishing rules that reduce or eliminate barriers to U.S. investment in all sectors in the NAFTA countries.
- ➢ Intellectual Property. The objective is promoting adequate and effective protection of intellectual property rights.
- ➢ Currency. The objective is ensuring that the NAFTA countries avoid manipulating exchange rates in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage.
- ➢ Energy. The objective is preserving and strengthening investment, market access, and state-owned enterprise disciplines benefitting energy production and transmission and supporting North American energy security and independence, while promoting continuing energy market-opening reforms.
- ➢ Anti-Corruption. The objective is securing provisions committing each NAFTA party to prosecute government corruption.
- ➢ Trade Remedies. The objective is eliminating the Chapter 19 dispute settlement mechanism and preserving the ability of the United States to enforce rigorously its trade laws, including antidumping, countervailing duty, and safeguarding norms.
- ➢ Environment. The objective is bringing the environmental provisions into the core of the Agreement rather than as a side agreement.
- ➢ Labor. The objective is integrating labor provisions into the core of the Agreement rather than as a side agreement and requiring NAFTA countries to adopt and maintain in addition to their laws and practices the internationally recognized core labor standards as recognized in the International Labor Organization (ILO) declaration.

This analysis further considers the impact of NAFTA in terms of who has won or lost. Although the trade agreement has increased trade between the three nations in a positive way, there are sectors of the respective economies that were negatively affected.

Within free trade agreements, the countries know that there will always be productive sectors that can benefit and others that cannot.

NAFTA for the United States has allowed the increase of supply chains of raw materials that are necessary for the production sectors of Canada and Mexico. The technology and capital goods that the United States produces have also benefited. This shows that in Mexico, for example, in certain industrialized products the *U.S material component is of $0.40 cents for every dollar produced.*

In general, there are no losers in this 23-year agreement. Actually, all three countries have won, fundamentally reflected more so in Mexico because in 1994 it had an economy with a different economic asymmetry to that of the United States and Canada, both industrialized nations of greater world power.

Also, to achieve a better understanding of how the renegotiation of NAFTA would impact Laredo's economy, we developed a series of conversations with various local trade professionals to obtain their perspective.

Trade professionals in Laredo commented that Laredo is known as the best logistic city and therefore, it must continue to specialize in this.

As the largest inland port and the third largest customs district of the United States with $283 billion in trade in 2016, we recognize Laredo's importance as a trade corridor since it is geographically situated within the entire NAFTA market.

Laredo is a city that cannot go unnoticed before the world, a city that must continue to position itself commercially at an international level, and a city strategically located on the U.S. Mexico border that must continue to take advantage of being a principle international trade corridor in order to grow its economy.

Every single person that was interviewed agrees that this renegotiation of NAFTA will provide new opportunities for the entire service and trade sector of the City of Laredo.

It should also be mentioned that in the Industrial Trends Report of Laredo [1] for the second quarter of 2017, only 1.05% of the industrial inventory market is available. Today Laredo has about 1 million square feet of warehousing under construction, which indicates that there is confidence in the continued investment in Laredo's real estate market.

The opening of energy in Mexico is also mentioned, as it can greatly increase the loading operations through Laredo; the business sector has to take advantage when this occurs.

The IBC Bank document, "Reasons Why Laredo and Its Infrastructure Are Critical,"[2] notes that jobs in Texas and the rest of the United States depend heavily on trade with Mexico.

An important aspect of NAFTA renegotiation is to ensure that federal budgetary allocations and/or systems be put in place that provide the necessary funding in support of critical infrastructure and services that facilitate trade and the movement of commerce, including but not limited to international bridge improvements, highway/roadway construction and expansion, railway and railway crossing enhancements, border station improvements and environmental protections and safeguards. Current day infrastructure capacities are strained and require renewal and/or enhancement to better meet existing and future needs.

Conversely, cities, such as Laredo, that are located along the NAFTA trade corridor, have long borne the responsibility of funding trade related infrastructure improvements that not only impact the local economy but also that of the state and nation. Changing the status quo is integral to not only ensuring the expansion of NAFTA trade opportunities but also the economic vitality of trade corridors and logistic centers of trade.

Finally, included as a recommendation are those areas in which the City of Laredo may choose to focus its economic efforts centered on the idea that:

TRADE CORRIDORS SHOULD NOT BE ONLY LOAD CORRIDORS

Our recommendation is that the City of Laredo as an important center of international trade services, generate greater integration, sustainability, and social inclusion of trade operations, and be able to develop more concepts on fair trade and fair logistics.

It is recommended that during the process of renegotiation of NAFTA, the City of Laredo, in conjunction with the business sector, direct efforts in the preparation of development of programs in:

- ➢ Reverse Logistics.
- ➢ Logistic HUB (opening of energy sector in Mexico).
- ➢ Trading Companies (small and medium-size enterprises).
- ➢ Environmental Sustainability of the NAFTA Corridor.
- ➢ Fair Trade and Fair Logistics.
- ➢ Improvement of the Strategic Logistics Infrastructure.

Through these programs, jobs will increase in the City of Laredo, new businesses will be created, and regional and international trade activities will be strengthened.

NAFTA's Perspective 23 Years Later

When we speak of free trade, we cannot dismiss the classic school of Adam Smith, who thought that all countries could profit from trade through the international division of labor, in which each country had to specialize in the production and export of those products they produced relatively more efficiently. In this way, countries would specialize in what was best produced and import those goods that were the

[1] Industrial Trends Report, Laredo Q2 2017, Forum Commercial Real Estate.
[2] "Reasons Why Laredo and Its Infrastructure Are Critical," Gerald Schwebel, IBC Bank.

most inefficient and costly to produce. In this manner, trade would be beneficial for both countries.[3]

Likewise, this trend of trade liberalization is mentioned by Robert Gilpin, stating that, “free trade increases competition in domestic markets, and consequently limits monopoly practices, lowers prices, increases consumer buying options, and the efficiency of markets.”[4]

In short, the North American Free Trade Agreement (NAFTA) signed by the United States, Canada, and Mexico has been an important instrument of economic and commercial development of these three nations since its implementation on January 1, 1994.

Here it is worth recalling the core values of the spirit that motivated the interest of these nations and that carries the essence of the treaty.

The objectives outlined were as follows:

(1) Remove trade obstacles to commerce and facilitate the trilateral circulation of goods and services between the territories of the countries.

(2) Promote conditions of fair competition in the free trade zone.

(3) Substantially increase investment activities in the territories of the countries.

(4) Protect and enforce, adequately and effectively, the intellectual property rights in the territory of each of the countries.

(5) Create effective procedures for the application and enforcement of this treaty, for their joint administration and for the settlement of disputes.

(6) Establish guidelines for further trilateral, regional and multilateral cooperation aimed at expanding and improving the benefits of this treaty.

Despite the lack of balance that Mexico’s economy showed regarding the other powers of the treaty, NAFTA set out very clearly the objectives in the harmonization of rules and economic integration that in this case gave Mexico an important boost to its export sector and investments in the development of strategic logistics infrastructure for transportation.

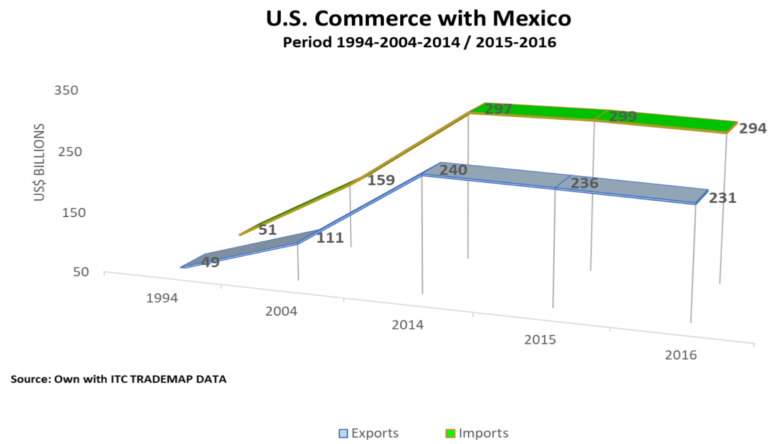
What we are interested in showing in this document, without having to delve into controversies of different sectors, is that since 1994, the global trade of these nations has tripled the value of trade to reach $1 trillion dollars by the end of 2016.

This important triparty trade relationship has been growing very positively, where at the end of 2016, Canada is in second place and Mexico in third, as the main trading partners of the United States, only surpassed by China. It should be noted in the specific case of Mexico that trade with its main partner, the United States, has grown in the last 23 years by an average of 9.5% annually from $100 billion in 1994 to $525 billion in 2016.[5]

Mexico, too, is one of the main buyers of U.S. goods: since the beginning of NAFTA until 2016, Mexican imports had an annual average growth of 7.7%.

The following table reflects how trade with Mexico has evolved since NAFTA’s inception.

[3] Adam Smith, *Research on the Nature and Causes of the Wealth of Nations,* 1776.
[4] Gilpin, R., “Global Political Economy: understanding the international economic order,” Chapt. 8. Ed., Princeton University Press, 2001.
[5] “NAFTA Facts and Figures,” Secretary of Economy, Government of Mexico.



As you can see, there is a significant commercial exchange that denotes a balance very close in the trade gap between the United States and Mexico from 1994 until 2016.

The important thing to note is that both countries have taken advantage of the juncture of the Treaty of Free Trade to be more competitive in the international market by integrating a greater value added to their final goods and improving supply chains.

For certain industrial and manufacturing sectors, it is estimated that for every dollar that Mexico exports to the world, $0.40 cents represent raw materials that come from the United States and $0.25 from Canada, reflecting NAFTA's trade integration of the goods produced.[6]

By 2016, the largest exports of Mexican products to the United States are concentrated in manufactured goods, most notably transportation equipment, electronic products and computers, electrical equipment, household goods and spare parts and non-electrical machinery.

Another of the main export products is related to the agricultural sector, which, at the end of 2016, reached $9 billion dollars, mainly in fruits and vegetables. These exports far exceeded sales of crude oil, which reached $6 billion in the same year.

Consider the following table of the U.S.-Mexico trade balance in the last 3 years.

United States of America
Trade Balance With Mexico
2014–2016
U.S.$ billions

Subject	2014	2015	2016
Exports	$240	$236	$231
Imports	$297	$299	$294
Global Trade	$537	$535	$525
Trade Balance	$(57)	$(63)	$(63)

Source: Own with ITC TRADEMAP DATA.

Although it is true that there is a deficit in the trade balance of the United States with Mexico, this should not be a factor affecting the new renegotiation of NAFTA.

[6] "NAFTA Facts and Figures," Secretary of Economy, Government of Mexico.

There are many economic factors that affect the global economy of the United States and these factors make it have a negative economic balance. But these are not factors that can be attributed to a free trade agreement like NAFTA.

Let's look at the trade balances of United States with Canada and Canada with Mexico.

United States of America

Trade Balance with Canada
2014–2016
U.S.$ billions

Subject	2014	2015	2016
Exports	$312	$281	$266
Imports	$354	$302	$283
Global Trade	$666	$583	$549
Trade Balance	$(42)	$(21)	$(17)

Source: Own with ITC TRADEMARK DATA.

Canada

Trade Balance with Mexico
2014–2016
U.S.$ billions

Subject	2014	2015	2016
Exports	$5	$5	$6
Imports	$26	$24	$25
Global Trade	$31	$29	$31
Trade Balance	$(21)	$(19)	$(19)

Source: Own with ITC TRADEMARK DATA.

As noted in the previous tables, the U.S. trade balance with both NAFTA countries is negative; Mexico shows a surplus.

As mentioned above, the issue of deficit is something that MUST NOT be seen in a linear way, clearly, when economies trade with each other, always one will have at a given time a deficit or a surplus; this is the product of market forces.

Therefore, renegotiation of NAFTA on the part of the United States to include reduction of the trade deficit, is perceived to be very political and illusory since having a trade deficit does not necessarily imply a detriment to the economy.

The deficit as such reflects the natural trade relationship between nations. China, for example, without having a Trade Agreement with the United States was able to increase its trade surplus with the United States six times more than Mexico.

This fact demonstrates that there are factors, other than trade agreements, that account for most of the trade balances.

Let's take a look at the following table on the composition of the trade balance of the United States for the year 2016.

United States of America
Global Trade Balance
2016
U.S.$ billions

Subject	2016
Exports	$1,453
Imports	$2,250
Trade Balance	$(797)

Canada	%	Mexico	%	China	%	Japan	%	Germany	%	Other Countries	%
$(19)	2%	$(63)	8%	$(366)	46%	$(72)	9%	$(67)	8%	$(212)	27%

Source: Own with ITC TRADEMAP DATA

This pie chart assists in better understanding, how the United States trade deficit is distributed for 2016, where 63% of it ($505 billion) is represented by China, Japan, and Germany, while Mexico represents 8% and Canada 2%.

One of the reasons for this deficit is largely due to the consumption levels of its economy. This pace has forced more money to circulate as further stimulated by the reduction of global interest rates.

In summary, the trade policies that the United States can implement to reduce the cost of doing business including, reducing non-tariff barriers and taxes can increase the economy's growth rate.

Here we must note that the decline in the unemployment of the manufacturing sector in the United States, is not due to international trade, but more so due to changes in productivity and increases in technological innovation which have contributed to lower employment.[7]

We are at the start of a renegotiation process that will take a long time. It is anticipated that we will not see concrete results of the negotiations at least in the coming 6 months.

The United States agenda to renegotiate NAFTA includes consideration of the following points:

- ➢ Trade Deficit. This is the first time that the Office of the U.S. Trade Representative has included the trade deficit as a specific objective of the NAFTA negotiations. As previously mentioned, we see this as a mercantilist theme, that is not in the spirit of the NAFTA; renegotiation should focus on how to improve the expansion of trade and investment, and not any regulation or reduction of the same.
- ➢ Exchange Rates. NAFTA can monitor the risks in the handling of the exchange rate of each signatory because this cash adjustment affects the balance of payments.
- ➢ Chapter 19, Trade Dispute Settlement. The proposal for the elimination of Chapter 19, the trade dispute settlement mechanism which Canada had driven within NAFTA, is not something that Canada wants to give up at this point.
- ➢ Rights of Local Investors. Ensuring that investors from NAFTA partner countries have the same rights as local investors in each country is very acceptable and puts regulations and clear rules of the game within the Treaty. This point is reflected in the opening of Mexico's energy.
- ➢ Environmental and Labor Disputes. After the departure of the United States from the agreements of the United Nations Climate Change Conference or COP 21 in Paris, the issue of environmental and labor disputes for arbitration panels became a more complicated subject because it requires improving labor and environmental conditions. This can lead to tariffs and other technical barriers which can prevent the logical flow of the treaty and restrict trade as such.
- ➢ Telecommunications, Financial Services and Agriculture. These topics are being included: Canada is pushing to lift protections and liberalize them.
- ➢ Rules of Origin. The updating of the rules of origin of trade between the countries of NAFTA will come to shield the market against foreign investments that do not generate the added values of regional integration.
- ➢ Other Issues. Other sensitive issues are electronic commerce and intellectual property which should be included in the main document and not as parallel agreements. Aspects such as freedom of association, minimum wage, child labor and many others will be reviewed in the renegotiation. Finally, it is requested to include provisions to prosecute government corruption. It will be very interesting to see the progress on these topics when discussed.

The United States has defined the objectives of the negotiation and that is positive for the parties. The scope of proposals during the first round of negotiations held August 16, 2017 reflects a commitment from all three countries to work towards a positive outcome and reaffirms the importance of updating the rules governing free trade.

It is important to follow up on the second round of talks to be held on September 1–5, 2017 in Mexico.

A Modern NAFTA: Who Gains and Who Loses?

The important role the City of Laredo plays in trade and services and its success on the international stage is not a product of chance. Through the years and through various international economic events, Laredo has become an international

[7] "Recent U.S. Labor Force Dynamics: Reversible or Not?", International Monetary Fund, 2015.

reference not only because of its great increase in international trade flow due to NAFTA but also because of its logistic capabilities and integration of cultures.

The significant growth and economic development of the city is attributed to NAFTA. Through the years in which NAFTA has been active, there have been many questions and approaches that are still worth analyzing for its renegotiation.

After 23 years, who won and lost with the North American Free Trade Agreement (NAFTA) is a question that many have asked.

According to specialists, the economy of the three countries is very different from the one that existed before 1994, because there are some sectors that have benefited greatly from the agreement and others that have experienced severe problems.

In various meetings held with representatives of various business sectors, university and public administration, as well as various chambers and organizations in various cities in northeastern Mexico in regard to the flow of trade with the United States across the border of Laredo, Texas, it was possible to capture some peace of mind as to what will happen in this renegotiation.

Most people have commented that commercial development, jobs, infrastructure, and economic interests have created great opportunities throughout the three signatory countries.

Regardless of that noted above, being positioned within the great NAFTA trade corridor has allowed the City of Laredo to benefit from the exchange of different productive sectors, more so than any other region of the United States or Mexico.

There are those who think that the great winner of NAFTA has been the consumer, since the consumer can freely choose goods according to quality and price.

The idea of a NAFTA update is not new. Since mid-2010 legislators from Mexico and the United States have pointed out that the commercial partnership between these countries and Canada is exhausted, and a relaunch is necessary.

Trade between the United States and Mexico has quadrupled since the signing of the Free Trade Agreement; each day there are more than $1 billion in commerce traded between both countries.[8]

For the Confederation of Employers of the Mexican Republic (COPARMEX), the Coahuila Delegation, through its Logistics Commission, renegotiation of the North American Free Trade Agreement represents not only the opportunity to fulfill the internal agenda of President Donald Trump but also the opportunity to strengthen those sectors in which foreign investment in Mexico and Canada are still in the process of consolidation.

NAFTA is the largest free trade zone in the world, with about 474 million inhabitants forming part of a commercial region compared to the European Union alone.

The three partner countries must ensure that businesses on both borders prosper and improve the lives of people in their respective communities.

NAFTA members today enjoy a strong and mutually beneficial economic relationship. These business relationships should be strengthened and new opportunities for collaboration discussed.

Discussions have been held about the challenges and how the three governments can propose a more constructive dialogue, join efforts with United States and Canadian entrepreneurs, find solutions to deepen free trade and address the great need the United States has for the creation and protection of jobs; and understand that Mexico and Canada are in the same circumstances.

We believe that in this process of opening NAFTA for its revision and updating, there are three basic principles that must be established:

- ➢ Propose that there be a shared consensus that as a result of NAFTA, there have been deep gains in all three partners' economies: to say only one or two of the three parties have excelled is incorrect.
- ➢ The second principle will be to recognize that an agreement that has existed for 23 years has room for updating and modernization.
- ➢ The third principle is that successful renegotiation requires that there must be benefits for all.

[8] United States International Trade Commission, *https://www.usitc.gov/*.

It is inconceivable that the renegotiated agreement only benefits one nation or two and not all three partner nations.

According to the Confederation of Associations of Customs Agents of the Mexican Republic (CAAAREM), at its 78th annual Congress in the "NAFTA and Other North American Challenges" panel, and in accordance with the opinion of the Nuevo Laredo Customs Agents in Tamaulipas, the NAFTA revision does not end the activity of customs and logistics services. Professionals in the field interviewed indicate that commerce will not stop and the suppliers of services and logistic products, as well as the development of infrastructure and new businesses in the City of Laredo and its Mexican counterpart will continue.

For example, if there was no NAFTA, 36% of the $300 billion dollars in goods that the United States imports from Mexico would enter without zero customs duties. This is because the United States has zero customs duties as per the harmonized tariff.

However, another 43% would pay a duty of 5 percent or less, which brings us to about 80% of Mexican exports that would enter with a duty of 5 percent or less.

There is only one group of exports that are above the 20% payment, which have specific duties and equate to 16% of exports, which surely would have to pay higher duties.

The U.S. trade deficit is by no means tied to imports from Mexico, but rather to the fact that Mexico's spending is greater than its income, mainly tax-related.

As we mentioned in our previous chapter, the U.S. trade deficit will not be solved with the modernization of NAFTA or in an extreme case, with its annulment.

The United States faces the risk of losing employment to Asian nations if trade with Mexico deteriorates. The relationship with Mexico is important in order for the United States to maintain its leadership in the world.

It is agreed that the commercial relationship with Mexico, which since 1994 is based on the opening and liberalization set in NAFTA, definitively improves the competitiveness of the United States and generates jobs for the United States; a stronger region benefits the United States.

As an example, 40 percent of Mexican products have components manufactured in U.S. territory; 70% of U.S. imports of manufactured goods in Mexico cross the common border several times before becoming a finished item.

The City of Laredo has witnessed firsthand the increase in percentages and volumes of trade merchandise represented, and recognizes the importance of this international relationship. The exchange with Mexico and Canada utilizing land ports has benefited the economy of the United States but especially the City of Laredo.

It is clear that there is a strong relationship to the north with Canada and to the south with Mexico. This definitely benefits many in the United States and it helps make it more competitive.

Based on the opinions of the transportation sector of Mexico, the Asociación Nacional del Transporte Privado (ANTP) and the Cámara Nacional del Autotransporte de México (CANACAR), there is no winner or loser within the new negotiation of the treaty because for them everything would remain the same. During the course of the implementation of NAFTA, the United States did not comply with the opening of cross-border transportation. This affected the City of Laredo since this stopped the arrival and opening of greater investments in the transport sector.

If North American exports increase and Mexican exports decline because of NAFTA negotiation, Mexican transporters would eventually benefit as they would move exports from the north to Mexico's final destination.

Similarly, this transport association does not consider its activities in danger due to the renegotiation of NAFTA and, on the contrary, considers that this process of modernization will bring benefits to all parties.

NAFTA in the Economic Activity of the City of Laredo

Before referring to the aspects related to the renegotiation of NAFTA and whether this will affect the economic development of the City of Laredo, it is very important that we have an understanding of the importance of this trade corridor.

We must also recognize, in a very elementary way, the various Macro Zones in which the Continental territory is segmented.

It is important to distinguish that all these regions have logistic freight corridors adapted to their geographies and needs. However, in most nations there are no corridors developed as such. Others are internal corridors with many limitations of having to share them with other activities, which, usually not being designed for this purpose, cause a lot of traffic chaos in their cities. Few are binational and even trinational and not thought of as such. Few are also Bioceanic (those that connect the Atlantic with the Pacific).

We believe that much more investment is needed to further develop the rail system inside the NAFTA Corridor, as Europe or Asia has. China now with the *New Silk Route* comes to manage a geostrategic and geopolitical change in the positioning of world merchandise trade and logistics, using extensively the new generation high-speed railway system with less impact on the environment.

Latin America, for its part, was totally behind on railroad interconnections, and roads, among other infrastructure. The consequence of all these factors is that exporters and importers lose competitiveness, and logistic costs are much higher.

Trade corridors over time and before the advances in world trade, are now very relevant for the development of cities, regions and countries that comprise it.

With the NAFTA experience, the Latin American countries realized that integration in commercial blocks was the basis of foreign trade, at least for 90% of companies in Latin America (which included Mexico) that sought to progress and thought that export could be the solution. But they saw it very far away! Thus, through the GENERATION OF FREE TRADE AGREEMENTS, an important increase of trade blocks is generated between the regions in pursuit of greater economic development. These mega trade blocks such as the Trans-Pacific Partnership (TPP), have allowed the globalization of international trade and a significant increase in logistics activities.

Trade corridors have been transforming for the better to make logistics more integral and non-conventional, using multimodal routes that are favoring transit times and operating costs.

It is through the trade corridors that business relations, investments, technological exchange, and social, cultural, and educational aspects with neighboring countries have been able to integrate and increase social inclusion and sustainable development.

Because of its geographic location, the City of Laredo has historically been one of the most important natural border crossings between the United States and Mexico along the 1,980-mile border. Its strategic position is due to its important network of interconnection of roads leading to the main productive centers of Mexico.

Within global trade, the City of Laredo is today the third most important customs district of the United States generating at the end of 2016, $283 billion dollars in commerce, after Los Angeles with $398 billion dollars and New York with $357 billion dollars.[9]

Significantly, the Laredo customs district handled 51.5% of U.S.-Mexico trade,[10] totaling $270 billion in commerce in 2016. A very important figure of trade between both nations.

Because of the importance this inland port has in the trade of both nations, interviews were conducted with different trade professionals from Laredo that are linked to different economic activities that have a close relationship with NAFTA.[11]

In summary, the following comments were presented:

➢ They do not perceive that the renegotiation of NAFTA will affect the economic activities of Laredo because trade as such, whether with NAFTA or not, will always continue to flow through this region.

➢ They feel more relaxed about the existence of a United States agenda with an interest in modernizing NAFTA, since previously there existed uncertainty as to what was going to happen.

➢ They do not know how the United States Government can reduce the gap that exists in the trade deficit with Mexico, understanding that there is much production shared between both nations and a lot of added value.

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[9] U.S. Trade Numbers Magazine, *https://www.ustradenumbers.com/customs-districts/*.
[10] Laredo Development Foundation, *http://ldfonline.org/site-selection/economic-indicators/*.
[11] Interviews with logistics operators, Customs brokers, transporters, commerce, and services.

- ➢ They consider that, within the renegotiation, the rules of origin will affect those operations in Mexico that are not integrated with high added values.
- ➢ They indicate that the load movement through Laredo of the automotive industry sector that has a high component of operations of value added between both nations, will not be affected.
- ➢ There are some logistic companies that handle sensitive raw materials such as iron and steel from Mexico to the United States. They fear the possible reduction of these imports if the United States opts to declare these products to be strategic materials This situation can affect the raw material load movements between both countries.
- ➢ The companies believe that renegotiation of NAFTA, far from bringing problems, brings more confidence, more business, and new rules that will strengthen the market.
- ➢ The opening of the energy sector of Mexico will bring more business for the Laredo companies, because this is the best logistic site for gas and petroleum companies.
- ➢ At the commercial level, what concerns this sector is the fluctuation of the Mexican Peso against the dollar, even though the Mexican currency has been revalued the first half of this year. The arrival of buyers from northern Mexico to the City of Laredo is largely due to fluctuations of the Mexican Peso relative to the global economic environment and of course any instability arising from the commercial or economic policy of the United States.
- ➢ According to the Industrial Trends Report of Laredo [12] for the second quarter of 2017, only 1.05% of the industrial inventory market is available. Today Laredo has about 1 million square feet of warehousing under construction, which indicates that there is confidence in the real state market investment for this City.
- ➢ IBC Bank has developed economic and commercial analysis documents [13] for focusing efforts on improving the capacity of Laredo's strategic logistics infrastructure and improving efficiency and facilitation in cross-border trade.

Finally, these trade professionals consider that the strengthening of the new NAFTA will benefit the commercial relationship of the three countries.

Where to Direct the Efforts?

The World Organization of Cities and Logistics Platforms (WOCLP), was tasked to develop an executive analysis regarding NAFTA, its renegotiation and its impact on the local economy.

We understand very well that this process of renegotiation will take at least one year, in addition to the subsequent process of obtaining governmental administrative approval in all three countries that will follow.

Given these aspects, it is important to consider initiatives that can strengthen the border trade relationship between the United States and Mexico during this period of renegotiation.

TRADE CORRIDORS SHOULD NOT BE ONLY LOAD CORRIDORS

- ➢ It is time for cities that comprise the NAFTA trade corridor to take a more active role in the development of innovative trade related opportunities.
- ➢ Our proposal is not only to maintain the ever-harmonious development of the Trade Corridor support, but also to generate greater modern attributes regarding integration—sustainability—and social inclusion.
- ➢ Being the City of Laredo, a large logistics platform with all the attributes of commercial facilitation and having an important border with two states in Mexico (Tamaulipas and Nuevo Leon), it is important that the city carry out a regional strategy based on Reverse Logistics.
- ➢ Today, Reverse Logistics occupies the attention in the business world as an important strategic competitiveness tool based on improving compliance with environmental standards, reducing production costs in the supply chain com-

[12] Industrial Trends Report, Laredo Q2 2017, Forum Commercial Real Estate.
[13] "Reasons Why Laredo and Its Infrastructure Are Critical," Gerald Schwebel, IBC Bank.

plying with norms and policies of aftermarket, and generating new varied business opportunities.

- ➢ Through Reverse Logistics, it is possible to reactivate the engine to attract new investments in remanufacturing, recycling, stockpiling, reintegration of supplies into the supply chain, management of obsolete inventories, and doubling the logistical capacity, manufacturing and above all, the workforce that our border may have.
- ➢ We want to become the Border Capital of the development of Reverse Logistics and join our border programs to give shape and common drive to achieve this goal.
- ➢ One of the important factors in this process is that we can encourage the creation of small and medium-sized enterprises (SMEs) within this Reverse Logistics value chain, so that it can improve the economy of border cities and generate new sources of employment.
- ➢ An important aspect that should be part of the renegotiation of NAFTA, which is important for the three countries, is a commitment to invest in strategic infrastructure that facilitates trade and trade related services and the movement of commerce. Moreover, amid strained and limited local budgets, it should not be the responsibility of the cities along the trade corridors of NAFTA to bear the financial burden of funding necessary trade related infrastructure improvements that not only impact the local economy but also that of the state and nation. For the City of Laredo this issue is critical.

  Instead, the governments of the three nations at the federal level, should focus their efforts on generating budgetary allocations that will be invested in planned and proposed infrastructure projects including but not limited to international bridge improvements, highway/roadway construction and expansion, railway and railway crossing enhancements, border station improvements, and environmental protections and safeguards.
- ➢ It is fundamental to brand Laredo as one of the important centers and logistics platforms for all business activity between the United States with Mexico.
- ➢ There is an important business correlation in the energy sector that will be developed on the Mexican side that will require a base of operations on the American side; the City of Laredo is an ideal logistic service cluster site for all the gas and petroleum companies.
- ➢ It is very common to see companies that are coming to Laredo looking to open new businesses to sell new products and reach new markets. The strength of this great strategic logistics platform of Laredo is that it has a high-quality business climate to benefit foreign trade between both nations. It is important to promote the creation of Trading Companies.
- ➢ It is important that within this corridor green policies be integrated to improve the conditions of the "carbon footprint" that this zone has. Therefore, it is fundamental to support efforts of different groups that have been organized in order to minimize and/or eliminate the environmental impact along the trade corridor.

  This effort will allow the integration of new commercial activities and new jobs along the corridor that are working towards the region's environmental sustainability.
- ➢ Finally, it is fundamental to promote Fair Trade and Fair Logistics programs to bring new businesses to Laredo.

The City of Laredo does not want to be absent from the advances that will come from the renegotiation of NAFTA; this analysis supports the need of maintaining current information regarding the progress of NAFTA negotiations.

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Collaboration

We thank all those who collaborated with their comments and information for the development of this document.

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Kevin L. Faulconer

Mayor

November 30, 2017

The Honorable John Cornyn
Chairman
U.S. Senate
Committee on Finance

The Honorable Robert P. Casey, Jr.
Ranking Member
U.S. Senate
Committee on Finance

Subcommittee on International Trade,
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RE: Modernization of the North American Free Trade Agreement (NAFTA)

Dear Chairman Cornyn and Ranking Member Casey:

On behalf of the City of San Diego, I am writing to provide the following comments for the record following the subcommittee's November 20, 2017, field hearing titled "Modernization of the North American Free Trade Agreement (NAFTA)."

For the last 23 years, NAFTA has bolstered the economy of the San Diego region. NAFTA has created a highly efficient manufacturing environment that has resulted in an enhanced quality of life throughout the region. San Diego's top export market is Mexico, with $5.5 billion in exported goods in 2016. San Diego and Baja California have leveraged NAFTA to create a $2.5 billion manufacturing supply chain that supports co-production between the two cities. Concurrently, Canada is San Diego's sixth largest source of foreign direct investment and sixth largest employer, with 3,500 jobs directly tied to trade with Canada.

A modernized NAFTA will help all of North America remain competitive against other trade blocs, preserving U.S. jobs and discouraging the outflow of capital. A modernized agreement will also ensure that products made in the U.S. can compete abroad, while lowering prices and expanding consumer choice here at home. We welcome the opportunity to modernize the trilateral agreement to meet the needs of the 21st century economy, and commend your efforts and those of your colleagues in Congress to ensure the United States continues to benefit from NAFTA.

Debate over trade policy unfolds for the largest part at the national and international levels, between federal governments, multinational businesses and other major stakeholders. However, the effects of trade are most acutely felt at the local level. Municipal governments play a key role in developing and expanding trade, promoting job creation, and attracting foreign investment. I encourage the Committee to continue robust consultations with local and state level stakeholders on NAFTA and the development of trade policy.

Canada, Mexico, and the United States should continue to approach renegotiation as an opportunity to shape a 21st-century trade agreement and should do so in the spirit of friendship that has defined cross border relations for generations. As private sector witnesses highlighted during your recent hearing, the United States' withdrawal from NAFTA would have serious, and perhaps irreversible, consequences for American business owners, farmers, ranchers, and local communities.

Thank you for the opportunity to comment on the modernization of NAFTA. I would welcome the opportunity to further discuss with you and other members of the Senate Finance Committee how local communities can best contribute to NAFTA modernization and the development of trade policy more broadly.

Sincerely,

Kevin L. Faulconer
Mayor

TEXAS BORDER COALITION
327 Congress Avenue, Suite 450
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RESOLUTION

REAFFIRMING SUPPORT FOR

THE NORTH AMERICAN FREE TRADE AGREEMENT

WHEREAS the mission of the Texas Border Coalition is to provide vision and leadership to develop, encourage, promote, and protect the business, tourism, industry, and community interests of the Texas-Mexico border region;

WHEREAS the Texas Border Coalition works to provide a better quality of life for the residents of the border region by providing economic development opportunities and sustainable incomes in a healthy and safe environment;

WHEREAS the Texas Border Coalition is attentive to issues regarding an increase in population, border health, and environment, the management of shared resources, limited water supply, and conservation;

WHEREAS the implementation of the North American Free Trade Agreement (NAFTA) in 1994 brought together and created economic prosperity for the United States of America (U.S.), the United Mexican States (Mexico) and Canada with tri-national trade up 250 percent since its inception;

WHEREAS NAFTA has been successful in its purpose to increase trade and investment in North America by creating the world's largest trade region, with more than 480 million people, and in particular U.S. trade with Canada and Mexico has nearly quadrupled to $1.3 trillion;

WHEREAS fourteen (14) million U.S. jobs depend on trade with Canada and Mexico, and 43 of 50 U.S. states list Canada or Mexico as their 1st or 2nd largest export market;

WHEREAS the United States, Mexico, and Canada are robust democracies, significant trading partners, and strategic allies and share the belief in free market principles;

WHEREAS the Texas Border Coalition advocates for and works to make the flow of goods between Texas and Mexico as efficient as possible;

WHEREAS after 24 years, NAFTA should be renegotiated and modernized to assure the U.S. remains competitive against other trade blocs, to preserve U.S. jobs and to discourage the outflow of capital; and

WHEREAS, the purpose of this resolution is to provide a unified voice for the border region and to advocate for a clear economic and business case in support of fair competition;

NOW, THEREFORE BE IT RESOLVED, that the Texas Border Coalition reaffirms its support for the North American Free Trade Agreement, understanding that it:

1. Urges the President and the Congress of the United States to recognize the importance of trade between the U.S., Mexico, and Canada as an opportunity to renegotiate, modernize, and optimize North America's competitiveness;
2. Supports that the first rule of renegotiation should be "do no harm";
3. Provides for clear, straight-forward rules of trade to insure that all business, in particular small to medium-sized businesses, have the opportunity to participate;
4. Provides for modernization, by adopting advances in technology not in existence in 1994, and improving cross-border coordination and efficiency;
5. Recognizes that a one-size-fits-all barrier approach to border security is not the solution. In addition to utilizing state of the art technology, it is vital to work with the border terrain and topography to create an effective barrier which would include a virtual barrier instead of a physical barrier; and
6. Supports that renegotiation should be conducted with urgency, so as to minimize economic uncertainty, currently present in the U.S. economy.

Signed this 20th day of November 2017

Pete Saenz
Mayor, City of Laredo
Chairman, Texas Border Coalition