

TRADE WORKS FOR AMERICA

Statement for the Record

Submitted to the House Ways & Means Trade Subcommittee

Hearing on “Enforcement in the New NAFTA”

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Submitted by Trade Works for America

<https://tradeworksforamerica.com/>

Trade Works for America is a bipartisan, 501(c)(4) coalition advocating for passage of the United States-Mexico-Canada Agreement (USMCA). The coalition is led by former Republican Governors Association Executive Director Phil Cox and former Senator Heidi Heitkamp (D-ND).

As you are aware, the USMCA is a trilateral free trade agreement meant to replace the North American Free Trade Agreement (NAFTA) negotiated by the United States, Mexico, and Canada in 1994. The USMCA is a modernized, updated agreement that addresses a number of the issues we have seen with NAFTA over the past 25 years, including issues regarding enforcement. The USMCA will benefit many sectors of the United States' economy, including American innovators and technology companies, autoworkers, farmers and ranchers, energy workers, manufacturers and small businesses.

Passage of the USMCA will not only maintain the 14 million jobs¹ supported by trade with our closest neighbors, but according to an independent federal agency, the agreement will add an estimated 176,000 new jobs, as well as contribute \$68.2 billion to the U.S. economy.²

American Innovators Win

High-tech industries are essential to the American economy. They provide high-skilled, high-wage jobs for America's workers. Technological superiority is also vital to our national security. It is imperative that America remains the world leader in the technology industry. NAFTA was approved in 1994 when technology was vastly different than today. USMCA recognizes those changes and modernizes the agreement to support 21st-century jobs and protect our national interests.

The USMCA includes ways to protect Intellectual Property (IP), which will protect U.S. technology firms and start-ups, and by extension, protect U.S. technology jobs. Additionally, the agreement includes provisions to support the expansion of digital trade in a fair and balanced way, prohibiting customs duties on products that are traded electronically. The USMCA will also help to limit forced technology transfer, preventing Mexico and Canada from undercutting American businesses and jobs through the theft of source code and algorithms.

American Autoworkers Win

The USMCA will support growth in the auto industry while ensuring that a level playing field protects American jobs and businesses. The agreement requires Mexico to pass certain labor reforms, including giving workers the right to collective bargaining if they so choose. Mexico has already passed these labor reforms in compliance with the agreement.

¹ U.S. Chamber of Commerce.

² United States International Trade Commission.

The USMCA also includes new labor protections to protect workers in all three countries. Specifically the USMCA will prevent Mexico from undercutting American autoworkers and underpaying their own workers by requiring that 40 to 45 percent of auto content be made by workers earning at least \$16.00 per hour. The USMCA’s Labor Value Content (LVC) formula is a completely new formula not used in any previous U.S. trade agreements, and specifically limits the amount of research and development costs and technology costs that can be used in the calculation of the LVC to ensure that the calculation emphasizes high-wage manufacturing costs.³ This reform will help prevent outsourcing of American auto jobs.

American Farmers & Ranchers Win

The USMCA is supported by the American Farm Bureau, farmers, and ranchers across the country. That’s because this modern trade agreement will provide new access to American agricultural products while protecting farmers and ranchers from unfair labor and environmental practices in other countries.

The USMCA will open up Canadian markets to American dairy products after years of unfair practices. Under current law, many U.S. products are subject to tariffs from Canada that are as high as 313.5 percent.⁴ Under the USMCA, the number of dairy, poultry and egg products that can be exported from the U.S. to Canada without being subject to tariffs will greatly increase. In fact, under the USMCA, the amount of tariff-free egg products sold to Canada will increase by 600 percent (1.67 million to 10 million dozen eggs).⁵ The deal will continue to allow U.S. farmers to access \$39 billion⁶ in exports and support the 325,000 U.S. jobs that are supported by agricultural exports.⁷

American Energy Wins

The energy sector continues to play a central role in North American trade, representing tens of billions in imports and exports and millions of American jobs. The USMCA is a modernized trade agreement that renews commitments to market-opening practices and secures American energy security and independence.

The agreement will ensure the free flow of energy within North America by maintaining the zero-tariff policy on energy products traded between the three countries. This will ensure energy costs remain affordable for American consumers, while also strengthening North American energy security and independence. The USMCA will also safeguard U.S. investors and provide needed confidence and certainty, from the practice of “direct expropriation,” whereby the Mexican government takes private American investments to use for its own purposes.

³ Ibid.

⁴ Congressional Research Service.

⁵ Office of the United States Trade Representative.

⁶ American Farm Bureau.

⁷ Office of the United States Trade Representative.

American Manufacturing Wins

American manufacturing jobs rely on certainty in the North American market, the biggest U.S. export market in the world. Manufacturers support the USMCA because it gives the needed certainty while protecting the 2 million jobs that are dependent on exports to our North American trading partners. The National Association of Manufacturers (NAM), the largest manufacturing association in the nation, supports the quick consideration and implementation of the USMCA.

The same LVC calculation that will protect American autoworkers and prevent outsourcing will also protect American manufacturing jobs and keep manufacturing jobs in the United States. Additionally, the agreement will modernize NAFTA and open up additional access for manufactured goods. Overall, the agreement will support the more than 2 million manufacturing jobs that rely on trade with Mexico and Canada.⁸ Not only will the agreement support U.S. manufacturers, it will also support small businesses; many of the U.S. manufacturers that export to Canada and Mexico are small or medium-sized enterprises.

American Small Businesses Win

Many Americans believe that free trade agreements only help the larger corporations and big companies. The fact is that small businesses account for 98 percent of the United States' exporters,⁹ and tariff and non-tariff barriers can disproportionately affect these businesses that don't have the resources to comply. This modern trade agreement will provide new access to Mexican and Canadian markets while protecting business owners' intellectual property and limiting the regulatory burdens of exporting to other countries.

The USMCA contains a number of first-of-its-kind small business provisions, including the establishment of a standing, trilateral committee to collaborate on and expand opportunities for small and medium-sized businesses. The agreement also helps lower barriers to e-commerce, raising the minimum cost of exports shipments that are subject to taxes in Mexico and Canada. It also encourages the involvement of diverse and under-represented small businesses with the creation of a framework for engagement with these partners. Finally, the agreement makes it easier for small businesses, including smaller sellers that operate exclusively online, to participate in the 21st century economy, prohibiting duties on products like e-books, software and games.

Addressing Enforcement Concerns

We understand and appreciate that some members of Congress have concerns about the enforcement mechanisms in the USMCA, particularly in light of some of the failures of NAFTA. However, the benefit of having 25 years under NAFTA is that U.S. trade negotiators and policy

⁸ National Association of Manufacturers.

⁹ U.S. Small Business Administration.

experts truly understand the shortcomings of NAFTA and have updated the USMCA accordingly.

The USMCA has the most comprehensive enforcement provisions of any trade agreement, and puts particular emphasis on addressing enforcement of labor and environmental provisions.

Labor Enforcement

Our neighbors in Mexico have already demonstrated their commitment to following through on the labor requirements of the USMCA. Under the USMCA, Mexico was required to pass legislative action to ensure the right to collective bargaining. Late last month, Mexico passed these required reforms into law.

The USMCA also requires that all parties to the agreement adopt and practice labor rights that are recognized by the International Labor Organization, and, more than that, it requires that all three countries enforce their compliant labor laws. The agreement also prohibits the importation of goods that are made by forced labor, and protects migrant workers.

Additionally, as previously mentioned, the USMCA implements a new LVC formula which will encourage Mexico to pay their workers more; 40 to 45 percent of auto content must be made by workers earning at least \$16.00 per hour. Mexico will lose out if they continue to pay their autoworkers lower wages.

Environmental Enforcement

The USMCA has the most comprehensive environmental chapter of any free trade agreement to which the United States is a party. The provisions are all fully enforceable. It includes requirements to combat wildlife trafficking, as well as trafficking in timber and fish, and strengthens law enforcement networks to combat trafficking.

It also provides new protections for certain marine species, requirements to enhance customs inspections, and first-of-its kind measures to improve air quality, reduce pollution and support forest management.

Conclusion

We believe the USMCA represents a fair, balanced and rules-based approach to free trade with our closest neighbors, updating and modernizing our past agreements to reflect our modern economy and implementing important enforcement mechanisms that fell short under NAFTA.

This is an agreement that will benefit American workers and small businesses, while also requiring commitments from our trading partners in Mexico and Canada to ensure the United States is operating on a level playing field, and trading with countries that uphold high-quality labor and environmental standards.

Notably, the USMCA also includes a safeguard to address concerns and issues going forward. The agreement can be reviewed and reopened every six years, so we will no longer need to worry about being trapped under an outdated agreement like NAFTA, and can ensure that the agreement continues to support the best interests of the American economy and American worker.

Trade Works for America believes the USMCA is the best path forward for modernizing our important trade relationship with Mexico and Canada, and we encourage Congress to move forward with consideration of the agreement.