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**White Paper**
**NAFTA Renegotiations**
September 2017

## I. Summary

A major campaign promise by Donald Trump was his intent to renegotiate the North American Free Trade Agreement (NAFTA). The Administration formally notified Congress of its intention to do so, setting up formal negotiations with Canada and Mexico, which began on August 16, 2017. The Administration laid out specific negotiating objectives including trade in goods, rules of origin, customs matters and enforcement cooperation, technical barriers to trade and intellectual property rights. According to the US Trade Representative (USTR), through the NAFTA renegotiation, the Administration will "seek a much better agreement that reduces the US trade deficits and is fair for all Americans, by improving market access in Canada and Mexico for US manufacturing, agriculture and services."

USTR Ambassador Lighthizer stated the following in his remarks that opened the talks: *"Here are some of the examples of what I believe needs to be changed. We need to assure that huge trade deficits do not continue and that we have balance and reciprocity. This should be periodically reviewed. Rules of origin, particularly on autos and auto parts, must require higher NAFTA content and substantial US content. Country of origin should be verified, not "deemed." Labor provisions should be included in the agreement, and be as strong as possible. The agreement should have effective provisions to guard against currency manipulation. The dispute settlement provisions should be designed to respect our national sovereignty and our democratic processes. We should include provisions to guard against market-distorting practices of other countries, including third-party dumping and state-owned enterprises. We should assure that there is equal access and reciprocity in government procurement and agriculture."*

## II. Status

Negotiations have now begun among the three countries to update and revise the agreement. The consultation process will involve several congressional trade panels, including Senate Finance and House Ways and Means committees, as well as other committees responsible for some element of trade (e.g., the Agriculture, Commerce, Judiciary, and Small Business committees). The final re-negotiated agreement will be sent to Congress for an up-or-down vote, according to Trade Promotion Authority rules. Lawmakers will not be able to make any changes to the agreement.

## III. AWPA Position

AWPA members support the existing NAFTA framework and recognize that in a 27-year old agreement, provisions can be modernized and updated.

One area of concern for AWPA members is the investor-state dispute settlement (ISDS) arbitration system. The Association is one of 113 signatories of a coalition letter to the

USTR and Secretary of Commerce, spearheaded by the National Association of Manufacturers, in support of the inclusion of strong investment rules and enforcement measures in any final NAFTA revision. (See attached.)

The ISDS provision includes basic access, protection and enforcement provisions. It is a strong enforcement tool that helps ensure that the businesses of American investors and their workers will be treated fairly overseas. Investment and ISDS must remain high priorities in NAFTA modernization, to improve protection and enforcement tools against the theft, discrimination and unfair treatment of US property overseas. ISDS is important to ensure fair treatment for US individual, non-profit and business investors and their property.

## IV. AWPA Action

Legislators are asked to weigh-in with Commerce and USTR on strong ISDS provisions, as a negotiating priority.

AWPA will continue to monitor negotiations, as they proceed, and request the support of our legislators, should we have concerns with other issues on the negotiating table.

# NORTH AMERICA DRIVES MANUFACTURING IN THE UNITED STATES—

## and a Modernized NAFTA Would Further Boost U.S. Jobs and Exports

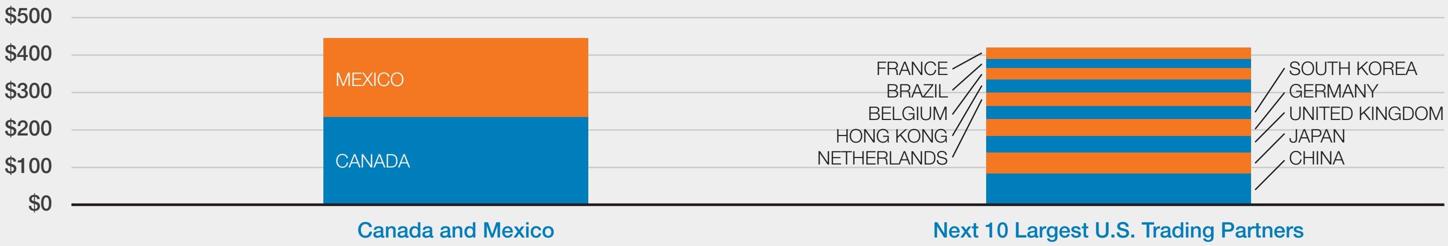
**For manufacturers and workers throughout the United States, the North American commercial market is the most important market in the world. Updating and modernizing the 23-year-old North American Free Trade Agreement (NAFTA)—if done right—will help grow higher-paying American jobs, expand manufacturing in the United States and improve America's global competitiveness.**

### U.S.-Manufactured Goods Exports to Canada and Mexico Already Support Millions of U.S. Workers

Canada and Mexico are the largest foreign purchasers of U.S.-manufactured goods, buying one-fifth of all U.S.-manufactured goods production in 2016 - more than the next 10 U.S. trading partners combined.

### U.S.-Manufactured Goods Exports, in Billions of U.S. Dollars, 2016

**Source:** U.S. Department of Commerce




These exports have more than tripled to Canada and Mexico, from $129 billion in 1993 to $446 billion in 2016. While imports have also increased, U.S. trade with Canada and Mexico is relatively balanced. Notably, 40 percent and 25 percent of the input value of U.S. imports from Mexico and Canada respectively are derived from manufacturing production in the United States.

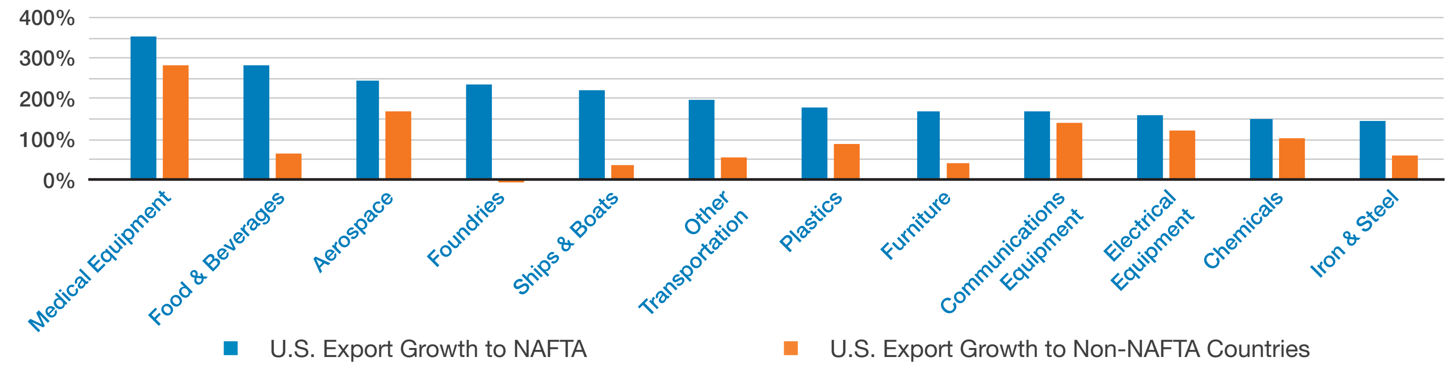
**U.S.-manufactured goods exports to Canada and Mexico alone support the jobs of more than 2 million men and women at more than 43,000 manufacturing firms across the United States. Average manufacturing wages of $81,289 in 2015 were approximately 27 percent higher than overall average nonfarm wages, and export-related jobs pay on average 18 to 20 percent more than jobs not related to exports.**

### Most U.S. Manufacturing Sectors Have Grown Exports to Canada and Mexico More Quickly Than to Other Countries

The outsized role that North America has played in spurring the near doubling of U.S. manufacturing is reflected in the growth of a wide range of manufacturing sector exports to Canada and Mexico, with U.S. exports of major manufacturing goods sectors growing much more rapidly to NAFTA countries since 1997, as compared to the rest of the world.

### U.S. Manufacturing Export Growth to NAFTA Countries vs. Rest of World, 1997 to 2016

**Source:** U.S. Department of Commerce

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**www.nam.org/trade**

## Canada and Mexico Are Also Top Export Markets for Most U.S. Manufacturing Sectors and States

Most U.S. manufacturing sectors (36 out of 42) count Canada or Mexico as their top foreign purchasers. Canada or Mexico is also the first- or second-largest export market for manufacturers in 46 U.S. states.

## Importance of Canada and Mexico as Markets for U.S. State Manufacturing Exports

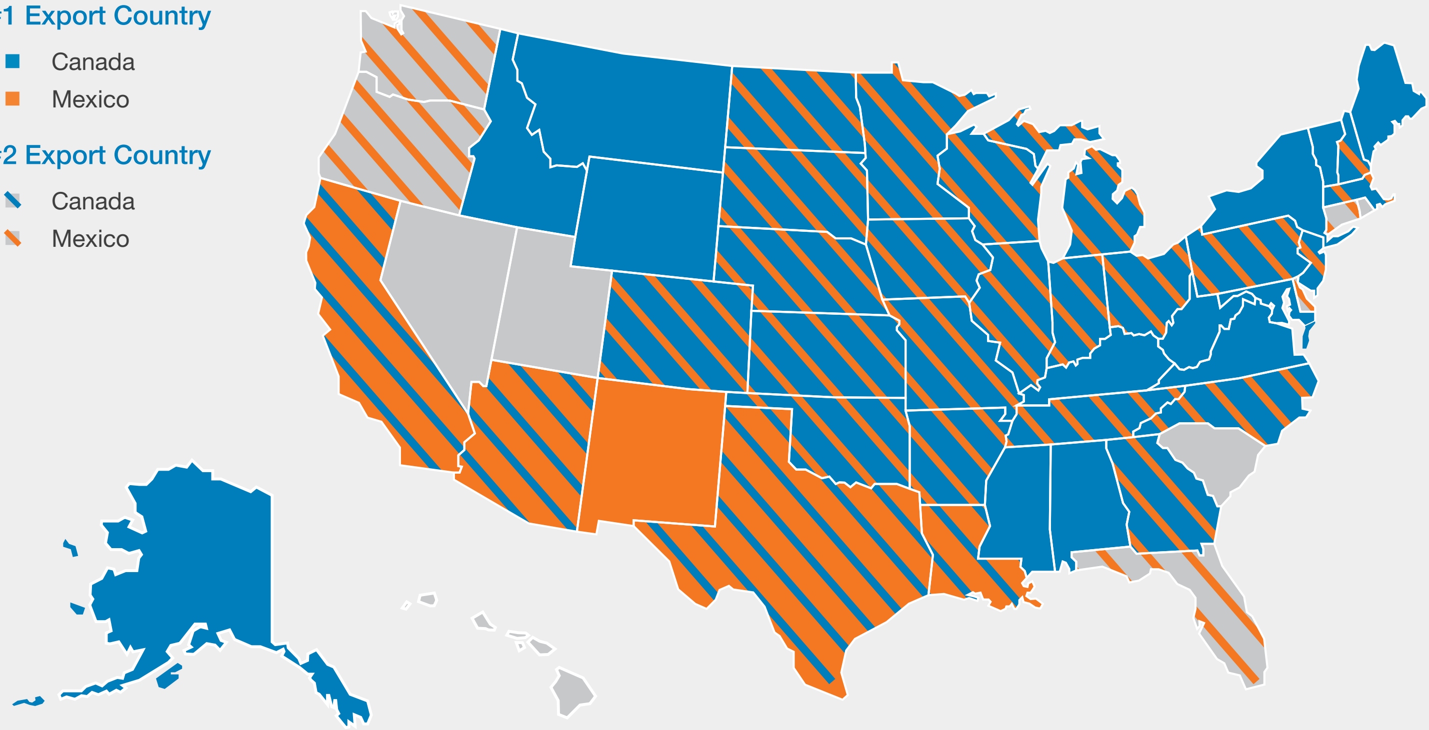
**Source:** U.S. Department of Commerce

**#1 Export Country**

- Canada
- Mexico

**#2 Export Country**

- Canada
- Mexico



## Manufacturing Priorities for a Renegotiated NAFTA

NAFTA entered into force 23 years ago—before major technological and energy innovations helped transform what and how we manufacture in the United States. While U.S. negotiators sought to level the playing field fully in the original NAFTA, barriers and weaker standards remain in both Canada and Mexico.

To that end, the NAM welcomes work to modernize and improve NAFTA through outcomes that will:

- Eliminate remaining distortions and barriers in Canada and Mexico;
- Raise standards to U.S. levels, including with respect to science-based regulatory practices, transparency, competition, the protection of private property and investment overseas and intellectual property;
- Update the agreement to include new digital trade provisions important to small manufacturers and those creating and relying on new technologies;
- Remove unnecessary red tape at the border and duplicative regulations that are holding manufacturers back;
- Seek greater collaboration by the United States, Canada and Mexico to take action to stop trade cheating from third countries; and
- Maintain and enhance neutral and strong enforcement mechanisms, including investor-state dispute settlement.

At the same time, it is vital to ensure that any renegotiation does not set back U.S. manufacturing or manufacturing jobs. Changes to NAFTA that would increase red tape and complexity, substitute government decision-making for the free market or raise taxes, tariffs, merchandise processing fees and other cost barriers, including with respect to rules of origin or barring access to foreign procurement markets, will undermine, rather than incentivize, manufacturing in the United States and North America more broadly.