

TRADE WORKS FOR AMERICA

Statement for the Record

Submitted to the Senate Finance Committee

Full Committee Hearing on “The United States-Mexico-Canada Agreement”

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

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 the outsourcing of jobs and 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 a report by the International Trade Commission (ITC), the agreement will add an estimated 176,000 new American 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 it specifically limits the amount of research and development costs as well as 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.

Mexico has already made several concrete steps towards meeting its obligations under the USMCA, particularly as it relates to labor enforcement. Earlier this year, Mexico enacted landmark labor reforms to fulfill its obligations under the agreement. Mexico was also the first of the three nations to ratify the agreement and recently hosted a congressional delegation to provide additional insight into the steps Mexico has taken to comply with the USMCA.

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 as well as millions of American jobs. The USMCA is a

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.

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.

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 them 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 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 do not 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

⁸ National Association of Manufacturers.

⁹ U.S. Small Business Administration.

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.

Bipartisan Support for the USMCA

The USMCA has received support from experts and elected officials across the political spectrum. This strong bipartisan support demonstrates that the agreement is an effective compromise and a balanced trade deal for all parties.

Recently, the Progressive Policy Institute (PPI) released a report stressing the importance of “getting to yes” on the USMCA and detailing the many benefits of the agreement. The report stresses the importance of the North American economic relationship and the 12 million American jobs this partnership supports. According to PPI, Canada is the number one goods export market for over 30 states, and Mexico is the top market for an additional seven states. Specifically, the report highlights how America’s small- and medium-sized businesses rely heavily on exports to Canada and Mexico.

In this report, PPI provides an analysis on how the USMCA modernizes and improves the North American Free Trade Agreement (NAFTA) to ensure it is a better deal for the United States.

According to the report, the USMCA will:

- Establish strong and enforceable labor and environmental rules, which were not included in the text of NAFTA;
- Establish the most comprehensive set of rules on digital commerce in any international trade agreement;
- Cut red tape for U.S small businesses with the first chapter on small- and medium-sized businesses in a U.S. trade agreement;
- Provide greater access to Canada’s once-restrictive dairy market;
- Enhance protections and enforcement for copyrights, patents, trademarks, and trade secrets; and
- Update provisions on cross-border data transfers, to allow more financial services trade among the three nations.

Furthermore, PPI’s analysis shows that boosting the ability of small businesses to trade and export with our neighbors will “democratize” trade by allowing more diverse businesses to thrive.

PPI goes on to explain that trade with Mexico and Canada has been hugely beneficial to local American communities:

- The San Diego region’s economy is now larger than Vietnam’s;
- Texas border cities have been transformed by cross-border trade, creating thousands of small businesses and cutting unemployment; and

- Kansas City, although located nowhere near either border, sends over half of their exports to Canada and Mexico, providing significant support to the local economy.¹⁰

Additionally, Republican governors unanimously called for passage of the USMCA in a letter released on June 20, 2019. The letter to Congressional leadership urged ratification of the agreement to ensure continued economic growth. In part, the letter stated, “[c]ompletion of the trade agreement is critical to our states as we seek to boost economic development and encourage new investment that leads to job creation.”¹¹

Former Iowa Governor, and former Agriculture Secretary under former President Barack Obama, Tom Vilsack, has also been a strong supporter of the agreement, urging ratification of the USMCA as quickly as possible.¹²

A group of 14 House Democrats recently urged Speaker Pelosi to bring the USMCA to the House floor before the end of the year. These 14 members represent a variety of regions and districts across the country, demonstrating how the USMCA will benefit every state and every industry spanning the nation. The letter urges negotiations to continue over August recess and notes that Canada and Mexico are the United States’ most important trading partners.¹³

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. The USMCA requires 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 the U.S. will never again be trapped under an outdated agreement like NAFTA, ensuring the USMCA continues to support the best interests of the American economy and American worker.

¹⁰ Progressive Policy Institute.

¹¹ Republican Governors Association.

¹² *Sioux City Journal*.

¹³ *Axios*.

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.