AAPC
AMERICAN AUTOMOTIVE POLICY COUNCIL

June 12, 2017

Via Electronic Filing
Edward Gresser
Chair
Trade Policy Staff Committee
Office of the United States Trade Representative
Docket No. USTR-2017-0006

Dear Mr. Gresser:

The American Automotive Policy Council (AAPC), on behalf of our member companies—FCA US, Ford and General Motors—submits the attached comments and requests the opportunity to testify at the public hearing scheduled for June 27, 2017, on the "Negotiating Objectives Regarding Modernization of the North American Free Trade Agreement with Canada and Mexico" (NAFTA). The testimony will be presented by:

Governor Matt Blunt
President
American Automotive Policy Council
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The following is a summary of Governor Blunt's testimony:

The U.S. automotive industry makes significant contributions to the U.S. economy, and NAFTA has contributed to that by helping the U.S. auto industry remain competitive in the global marketplace. Nevertheless, we welcome the opportunity to modernize the now 23 year old NAFTA, and as part of that process strengthen the competitiveness of the U.S. automotive industry and create additional American jobs.

The duty-free trade generated through NAFTA has played an important role in the competitiveness of the North American automotive sector and the success the industry is currently experiencing. We recommend that in preparing to renegotiate NAFTA, the Administration adopt an approach that accounts for the critical role of America's automotive industry in the U.S. economy and preserves NAFTA provisions that support U.S. competitiveness, including:

- Duty-free automotive trade among NAFTA trade partners, and

- An automotive Rule of Origin (RoO) with a Regional Value Content (RVC) of 62.5%, which is the highest of any trade agreement in the world, and strikes the right balance of discouraging free riders and allowing those that have invested in the region to enjoy the duty-free benefits.

We also recommend leveraging the existing, deep integration of North America's auto sector to drive additional economic growth and job creation in the United States. This may be accomplished by, among other specific recommendations included in the attached written comments, achieving recognition of U.S. automotive safety standards across the region and adding strong and enforceable currency manipulation disciplines.

Thank you for the opportunity to testify and for considering our written comments. We look forward to working with you to modernize NAFTA and advance our shared goals of strengthening the American economy and securing a positive future for both U.S. industry and workers.
Regards,

Matt Blunt
President
American Automotive Policy Council

Attachment

AAPC
AMERICAN AUTOMOTIVE POLICY COUNCIL

**Comments of the American Automotive Policy Council on the Modernization of the North American Free Trade Agreement**

June 12, 2017

The American Automotive Policy Council (AAPC), representing the common public policy interests of its member companies – FCA US, Ford Motor Company, and General Motors Company – welcomes the opportunity to provide the Administration with input on the negotiations with Canada and Mexico to modernize the North American Free Trade Agreement (NAFTA). As part of NAFTA modernization, we recommend that policy makers adopt an approach that enables America's automotive industry to continue building on the current high levels of success in the United States, the NAFTA region and globally.

In support of such an approach, this submission will address the following four topics:

**I.** Economic Contributions of the U.S. Automotive Industry
**II.** NAFTA Industry, Market and Trade
**III.** Maintaining the Elements of NAFTA that Benefit the United States
**IV.** Negotiation Guidance and Recommendations

## Summary

The U.S. automotive industry makes significant contributions to the U.S. economy, and NAFTA has contributed to that by helping the U.S. auto industry remain competitive in the global marketplace. Nevertheless, we welcome the opportunity to modernize the now 23 year-old NAFTA, and as part of that process strengthen the competitiveness of the U.S. automotive industry and create additional American jobs.

The duty-free trade generated through NAFTA has played an important role in the competitiveness of the North American automotive sector and the success the industry is currently experiencing. We recommend that in preparing to renegotiate NAFTA, the Administration adopt an approach that accounts for the critical role of America's automotive industry in the U.S. economy and preserves NAFTA provisions that support U.S. competitiveness, including:

- Duty-free automotive trade among NAFTA trade partners, and
- An automotive Rule of Origin (RoO) with a Regional Value Content (RVC) of 62.5%, which is the highest of any trade agreement in the world, and strikes the right balance of

discouraging free riders and allowing those that have invested in the region to enjoy the duty-free benefits.

We also recommend leveraging the existing and deep integration of North America's auto sector to drive additional economic growth and job creation in the United States. This may be accomplished by:

- Achieving recognition of U.S. automotive safety standards across the region;
- Adding strong and enforceable currency manipulation disciplines;
- Streamlining customs procedures;
- Updating NAFTA's labor & environmental provisions;
- Improving border infrastructure; and
- Eliminating Investor-State Dispute Settlement (ISDS) provisions for OECD countries like the United States, Canada and Mexico.

The U.S. automotive industry is capital intensive, with long product cycles (4-5 years). The massive investments already made in the United States and the billions of dollars invested each year, as noted below in the next section on Economic Contributions of the U.S. Automotive Industry, require a consistent and predictable policy environment.

In modernizing NAFTA, we look forward to working with the Trump Administration to advance our shared goals of strengthening the American economy and securing a positive future for both U.S. industry and workers.

## I. Economic Contributions of the U.S. Automotive Industry

Today, the U.S. automotive industry is manufacturing, selling, investing, exporting and growing jobs in the United States at or near record levels. The duty-free trade generated through NAFTA has played an important role in the competitiveness of the North American automotive sector and the success the industry is currently experiencing.

The U.S. automotive industry makes significant contributions to the U.S. economy, with FCA US, Ford Motor Company, and General Motors Company representing the largest portion of the following 2016 economic contributions.[1]

- Directly employing/supporting more than 7.3 million American jobs - including manufacturers of auto parts, steel, glass, plastics, rubber and semi-conductors;
- Exporting $137 billion in vehicles and parts, more than any other U.S. industry sector;
- Manufacturing 12.2 million cars and trucks;

[1] Representing the entire U.S. automotive sector. U.S. exports 2016: U.S. Dept. of Commerce International Trade Administration. U.S. production and sales 2016: Automotive News Data Center. R&D and Capital Investment 2016: Estimated based on the American Automotive Policy Council's State of the U.S. Automotive Industry 2016. American Jobs 2016: Center for Automotive Research, and Contribution of the Automotive Industry to the United States 2015 and the BLS Employment growth from the Current Employment Statistics survey 2015-2016.

- Representing 8% of the manufacturing sector's contribution to GDP on a value-added basis;
- Investing $8 billion in U.S. plants/equipment and nearly $20 billion in R&D; and
- Selling a record 17.5 million cars and light trucks.

Each job created at a U.S. automotive assembly plant generates more supporting jobs throughout the U.S. economy than any other U.S. industry sector.[2] Additionally, as America's number one export industry, the U.S. automotive sector's $137 billion in exports support more than 800,000 U.S. jobs.[3] These facts underscore the broad, positive impact that a strong, globally competitive and healthy U.S. auto sector can have on employment in the United States.

## II. NAFTA Industry, Market and Trade

The United States is the gravitational center of the North American automotive market and industry, and NAFTA anchors this central role. A growing Mexican market and a healthy Canadian market support both the interests of the U.S. economy and America's workers.

| NAFTA Auto Market (Millions of Motor Vehicles 2016)[4] | |
|---|---|
| **NAFTA partner** | **Motor Vehicle Sales** |
| United States | 17.9 |
| Canada | 2.0 |
| Mexico | 1.6 |
| TOTAL | 21.5 |

The United States exported $80 billion in auto parts and components and $56.6 billion in cars and light trucks globally in 2016. Of that, 62 percent went to NAFTA partners- Canada and Mexico. While the United States has a trade deficit with our NAFTA partners, the deficit is not the result of unfair trade and investment distortions. Instead, it is attributable to an integrated North American industry that has developed complementary trilateral automotive trade patterns that result in a net positive outcome for the U.S. automotive sector and the millions of American workers it supports, as well as U.S. consumers.

When considering the merits of NAFTA, the trade balance figures are misleading, since they fail to consider several important auto-related and more general factors, including:

- The composition and complementary nature of the North American automotive supply chain;
- The contribution that the supply chain makes to the global competitiveness of the U.S. auto industry;
- The benefits attributable to a nearby cost competitive source of auto inputs;

[2] Center for Automotive Research, Contribution of the Automotive Industry to the United States (Jan. 2015).
[3] U.S. Department of Commerce - every $1 billion in U.S. exports supports about 6,000 U.S. jobs.
[4] Source: OICA.net – total motor vehicle sales.

- High levels of U.S. auto content included in Canadian and Mexican built vehicles;
- The GDP of Mexico on a gross and per capita basis relative to U.S. GDP;
- Imports relative to GDP in Mexico and the U.S.;
- The value of the Mexican peso relative to the U.S dollar; and
- The $8 billion U.S. trade surplus in services.

## III. Maintaining the Elements of NAFTA that Benefit the United States

In 2016, automotive products represented the single largest sector of trade in North America. It accounted for 22 percent, or $240 billion, of the $1.2 trillion in trilateral trade, giving America's automotive industry the largest economic stake of any U.S. industrial sector in the outcome of the modernization of NAFTA. Retaining a dynamic, open and mutually beneficial trade relationship with our NAFTA trade partners is critical to the continued success of the U.S. domestic automotive industry.

### 1. Duty-Free Access to Mexican and Canadian Markets

NAFTA provides U.S. automakers duty-free access to the Canadian and Mexican auto markets. By not having to pay those tariffs, the U.S. automotive sector saves approximately $4.7 billion each year. This allows U.S. automakers to be competitive in the Canadian and Mexican markets, competitively export vehicles and auto parts from the United States to other markets, and support American jobs.

**NAFTA Partners MFN Automotive Import Tariff Rates (Percent 2016)**

| Country | Passenger Vehicles | Commercial Vehicles | Auto Parts *(Average)*[5] |
|---|---|---|---|
| United States | 2.5% | 25% | 2.5% |
| Canada | 6.1% | 6.1% | 6.1% |
| Mexico | 20% | 20% | 2.7% |

Additionally, there are only 14 auto markets globally (considering the EU as a single market) that have one-million or more annual vehicle sales. NAFTA provides the United States with duty-free access to two of those markets: Canada and Mexico. At 2.0 million units annually, Canada ranks 7th in sales, and Mexico ranks 9th with sales of 1.6 million units.[6]

Moreover, American brands are popular in both the Canadian and Mexican markets. In Canada, American nameplate brands account for 43% of the 2.0 million vehicles sold. In Mexico, American nameplate brands have secured 30% of the 1.6 million vehicle market — a market that is expected to steadily grow.

[5] Based on auto parts HTS 10-digit definition by the U.S. Department of Commerce Automotive Industry Office trade weighted averages (trade with world).
[6] Source: OICA.net - Total motor vehicles sales in 2016 ranked by country, with the EU counted as one market

## 2. Automotive Rule of Origin

NAFTA's automotive RoO includes a 62.5% minimum content requirement. This is the highest RVC requirement in any trade agreement in the world. NAFTA's strong automotive RoO, combined with the elimination of tariffs within the NAFTA region, have helped to:

- Drive economic growth in the U.S., Canada and Mexico;
- Facilitate regional integration to the benefit of all three countries;
- Enhance the global competitiveness of the U.S. automotive sector; and
- Allow the U.S. to continue to be the gravitational center of auto production, manufacturing, investment, sales, research and development (R&D), and employment in North America.

NAFTA's automotive RoO should be maintained. It has largely performed as planned and we see no evidence that the NAFTA RoO has been abused or circumvented. It is neither too easy to meet — by allowing free riders to enjoy the benefits of the NAFTA agreement without making the necessary investments — nor too stringent, which could prevent those invested in North America from enjoying the duty-free benefits of the agreement.

The NAFTA automotive RoO has numerous interrelated features, whereby a change to a single element of the RoO has a cascading effect on the others. This makes it especially difficult to change and modify the NAFTA automotive RoO while avoiding unintended consequences.

Changes to NAFTA's automotive rule of origin could lead to the reduction of the substantial benefits that the integration of the North American automotive sector has afforded the U.S. auto industry, impair the sector's global competitiveness, eliminate American jobs and inhibit overall U.S. economic growth due to the increased cost of building vehicles in North America.

The perceived link between an increase in the stringency of the NAFTA rule of origin (tightening the methodology, administrative procedures and/or increasing the RVC) and an increase in the purchase of U.S. made auto parts, which would boost auto parts manufacturing and the jobs that that manufacturing supports, is tenuous at best. In fact, as described below, a more stringent RoO could have the opposite effect.

1. Supply Chains: In the over 20 years since NAFTA was negotiated, there have been significant changes to the automotive supply chains, which are now less centralized and more global. The complex, but highly efficient North American supply chain that has developed around NAFTA competes with the similarly efficient supply chains of Europe and Asia. But if the NAFTA RoO was made more stringent, the North American supply chain, on which our automakers rely, would be less efficient, and our domestic carmakers could be forced to purchase parts to meet the RoO requirement even if they are not the most cost-effective source for those parts. This would put U.S. automakers in a less competitive position vis-à-vis their international counterparts, who can take full advantage of the global supply chain without being burdened with a similar penalty.

2. U.S. Exports: A more stringent NAFTA auto RoO could stunt U.S. auto export growth. As costs increase for U.S. automakers through less efficient sourcing, those costs will be passed on to consumers. Foreign manufacturers located outside of the NAFTA region will not see their costs rise in the same fashion as U.S. automakers. This will give foreign automakers the competitive edge in markets in which American automakers' exports compete with European and Asian automakers' exports. U.S. automakers will likely lose market share to foreign competitors, placing American jobs at risk.

3. Different Standards and Consumer Preferences: A more stringent auto RoO that limits sourcing flexibility will make it more difficult to meet foreign standards and consumer preferences. Meeting different foreign auto standards and preferences, which deviate from the typical NAFTA market configuration, can be very expensive, especially for low volume exports. Meeting these needs may require auto parts made only in markets outside the NAFTA region (i.e. small diesel engines and manual transmissions for EU markets). Access to the most cost-competitive inputs to meet the unique and different requirements and consumer preferences from outside the NAFTA region helps keep the U.S. competitive in foreign markets.

4. U.S. Imports: A more stringent auto RoO could incentivize imports. If a higher auto RVC increases the cost of domestic automakers by a level greater than the U.S. import tariff, auto imports would then be provided a comparative advantage, thus incentivizing imports over domestically built cars.

## 3. Other Benefits

AAPC has identified the following as the other significant benefits NAFTA brings to the United States.

**Global Competitiveness**

NAFTA provides the United States with:

- A market and production scale comparable to our global competitors;
- Access to competitively priced components that are located in close proximity to the final assembly location;
- The opportunity to fully leverage just-in-time manufacturing, a production model that increases efficiency and reduces inventory costs by receiving components only when they are needed for the manufacturing process; and
- The resources and scale necessary to support the $20 billion annual investment that the U.S. automotive industry makes in R&D - so vital to the future competitiveness of the U.S. automotive industry.[7]

These benefits conferred by the NAFTA market access provisions are comparable to those enjoyed by our largest global competitors in Europe and Asia.

[7] American Automotive Policy Council, 2016 Economic Contribution Report.

**Access to a Cost Competitive Source of Auto Components that Supports U.S. Manufacturing**

NAFTA provides the U.S. with a source for competitively priced auto products in close proximity to final assembly. These products are not always cost competitive to manufacture or assemble solely in the United States. Having access to competitively priced inputs located near the assembly plant facilitates just-in-time manufacturing practices and supports overall higher NAFTA content in automotive components.

The examples below illustrate how components manufactured in Mexico support jobs in the U.S. and further demonstrate the interconnected nature of NAFTA's automotive supply chain. They also reveal how the complementary assets and attributes of the NAFTA trade partners (U.S., Canada and Mexico) are employed.[8]

- Wiring Harness: Over $7 billion in wiring harnesses were imported from Mexico in 2016. While the harnesses are assembled in Mexico, many of the inputs come from the United States, including some kinds of metal for the wire, wire shields, and the resins used to coat the wire.[9]

- Auto Seat and Floor coverings: $2.6 billion in fabric and leather cut to shape for seats was imported from Mexico in 2016. The majority of the fabric was made in the United States. Additionally, most of the carpet used in motor vehicles assembled in Mexico is sourced from the United States.

- Air bags: $2.3 billion in airbags and airbag parts were imported from Mexico in 2016. The airbag fabric, explosive device, steel back plate and plastic resin are largely sourced from the United States.

- Seat Belts: $58.7 million in safety seat belts were imported from Mexico. The belt contains inputs from the U.S., Mexico and Canada, and the clip, composed of metal (high-carbon steel and chrome) and plastic resin, which is largely sourced from the United States.

Combined, these categories represent about one-quarter of all auto parts imported from Mexico in 2016. The U.S. content contained in these particular auto parts is substantial, but the traditional auto trade data does not fully reveal that.

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[8] Source: AAPC Interview of Oscar R. Albin, President of the Mexico Auto Parts Industry Association Industria Nacional de Autopartes, A.C. (I.N.A) on June 6, 2017.

[9] According to the Motor Equipment Manufacturers Association, only one wire harness manufacturer is located in the United States, and they only produce wire harnesses for medium and heavy duty truck manufacturers.

**CASE STUDY - Wiring Harnesses**

The single largest imported auto part by value from Mexico is wiring harnesses. The U.S. imports virtually all wiring harnesses used in motor vehicles, largely due to constraints in U.S. manufacturing capacity and cost efficiency. Wiring harnesses have not been manufactured in significant numbers in the United States for many years. In fact, according to the Motor Equipment Manufacturers Association, only one wire harness manufacturer is located in the United States, and they only produce wire harnesses for medium and heavy duty truck manufacturers. It is important to also note that, without the benefits of NAFTA, wiring harnesses would most likely be purchased from China, Nicaragua, or Honduras due to their lower-cost labor markets, and contain less U.S. content.

**What is a Car "Wire Harness"?**

A car's "wire harness" system is the network of wires that connect all the electrical components of a car (engine, dashboard, sensors, windows, etc.). A wire harness system ranges in cost from about $400-$700[10]. The images below are helpful to understand what a wire harness system is and how it is used in a vehicle. The first shows the coils of connected wires that make up the wire harness before being installed in a motor vehicle. The next is a 3D graphic showing the network of wires in a car.

**Wire Harness Trade**

In 2016, $7.1 billion in wiring sets were imported from Mexico. That accounts for seven of every ten imported into the U.S. The next four largest sources of imports are China, Nicaragua, Honduras and the Philippines, each with imports under $1 billion. Since the U.S. MFN import duty rate on automotive wire sets is 5%, the duty-free benefits on the imports from Mexico totaled more than $350 million in 2016.

World-wide, the major importers of wire harnesses are the mature developed economies with higher labor costs - U.S., Germany (the EU), Japan, Spain and Korea. The largest exporters are the less developed economies with lower production costs – Mexico, China, Romania, Philippines, Vietnam and Morocco. This provides each of the three major auto production centers with at least one closely located, cost efficient country of supply: North America (Mexico), Europe (Romania, Poland) and Asia (China, Philippines and Vietnam).

Much attention has been paid to how the U.S. runs a trade deficit in auto parts with Mexico. However, similarly, Germany runs a large trade deficit in auto parts with Eastern Europe, including with Bulgaria, Poland, Czech Republic, Slovakia, Hungary, Romania, Serbia, Slovenia, Macedonia and the Ukraine.[11] Both the U.S. and Germany enhance global competitiveness by strategically using lower cost inputs for high labor content components.

[10] Estimated based on the cost for a small car and truck.
[11] UN COMTRADE Database - BEC classification of Auto Parts and Accessories for imports and exports to and from Germany.

It is strongly in the U.S. economic interest to ensure that wire harness manufacturing is retained in Mexico because a large volume of the raw materials and other inputs come from the United States. If, due to cost constraints, automakers are forced to source wire harnesses from Asia or Latin America, these imported goods would contain almost no U.S. content.

The inherent benefits of sourcing from Mexico, outlined above, are evident in the relatively low level of auto parts imported from other international cost competitive sources such as China. In fact, less than 6% of the value of auto parts consumed in the United States is imported from China.[12] Similarly, only 5.8% of the total automotive parts consumed in the Mexican market are imported from China.[13]

**High Levels of U.S. Content Included in Canadian and Mexican Built Vehicles**

In 2016, over half of all motor vehicles imported into the U.S. (4.4 million) came from Mexico and Canada. The remaining 4.2 million vehicles were predominantly sourced from Japan, Korea and Europe.[14] Vehicles imported from outside the NAFTA territory contain very low levels of U.S. auto parts content. In contrast, vehicles assembled in Mexico and Canada contain significant U.S. auto parts content. On average, more than 60% of the auto parts content for vehicles built in Mexico, and nearly 85% of the auto parts content for Canadian manufactured vehicles comes from the United States.[15] The U.S. auto parts content in Canadian and Mexican vehicles supports thousands of auto parts jobs in the United States.

Moreover, the high U.S. auto parts content in vehicles built in Canada and Mexico benefits the United States when those vehicles are exported to non-NAFTA trade partners. Both Canada and Mexico, but especially Mexico, have a network of free trade agreements (FTAs) with other countries, including the EU, Brazil and Argentina. These FTAs provide duty-free access for Mexican assembled cars and trucks in markets that U.S. manufactured vehicles do not have preferential access.

Commonly, motor vehicles exported from Canada and Mexico to non-NAFTA countries are also exported within North America and therefore the sourcing is developed in a manner to ensure compliance with both NAFTA and other FTAs. If the cost of compliance with NAFTA becomes too high, these vehicles will only source content for compliance with non-

[12] AAPC calculation for 2016 using total U.S. auto parts GDP Output ($268 billion- source BEA) less auto parts exported ($80 billion- U.S. trade data) plus import auto parts for consumption ($133 billion- U.S. trade data) equals $321 billion. Imports from China totaled ($16.3 billion- U.S. trade data), so China's auto parts imports totaled 5.1 percent of the auto parts consumed in the United States.

[13] The Mexican Automobile Manufacturers Association (AMIA).

[14] UN ComTrade used to calculate the total U.S. exports and imports of motor vehicles by units, including all new passenger and commercial vehicles (870120, 8702, 870321, 870322,80323, 870324, 870331, 870332, 870333,870390, 870421, 870422, 870423, 870431, 870432, 870490).

[15] AAPC Analysis: The value of U.S. auto parts exported from the United States to Mexico and Canada, discounted by 30% for the estimated value of the aftermarket parts and foreign content embedded in those US parts, divided by the value of the auto parts used in the motor vehicles manufactured in Mexico and Canada. Note on average, auto parts account for half the value of a motor vehicle.

NAFTA Canadian and Mexican FTA markets – eliminating the need to source auto parts from the United States.

Having Canada and Mexico as export hubs indirectly benefits the U.S. automotive industry and the workers it supports. Canada and Mexico, combined, reexport $3.4 billion dollars in U.S. auto parts content, equivalent to the export of more than 161,500 more motor vehicles- an indirect benefit for the United States.[16]

| Indirect Benefit to the United States of Exports from Canada and Mexico to Non-NAFTA Countries | | |
|---|---|---|
| **Country** | **U.S. Auto Parts Content Re-exported to Non-NAFTA Markets ($ billions in 2016)** | **Equivalent to Motor Vehicles Exported (units 2016)** |
| Canada | $1.0 | 42,900 |
| Mexico | $2.4 | 118,600 |
| TOTAL | $3.4 | 161,500 |

## IV. NAFTA Negotiation Guidance and Recommendations

### 1. Achieving recognition of U.S. automotive safety standards across the region

We recommend that, as part of the negotiations, the United States lock in recognition of U.S. auto safety standards throughout the region, within a reasonable timeframe, and facilitate efforts to jointly pursue recognition of those safety standards in other markets. This does not preclude Canada and Mexico from also accepting other auto safety standards, but would add a level of certainty that vehicles certified to U.S. safety standards will be accepted across North America. Most importantly, it would serve as a vital precedent and model for future U.S. free trade agreements, mirroring the approach used by the EU in all of its recent FTAs.

The EU has been pursuing a well-organized and highly successful global effort to persuade other countries to accept vehicles certified to the United Nations Economic Commission for Europe (UNECE) regulatory standards. When UNECE standards are adopted, they can and often do supplant the acceptance of vehicles certified to U.S. Federal Motor Vehicle Safety Standards (FMVSS).

Inaction in the face of the EU's efforts to promote its auto safety standards and inaction in response to the broader global auto regulatory fragmentation the industry is experiencing will

[16] AAPC Analysis: UN ComTrade data 870120, 8702, 870322,80323, 870324, 870331, 870332, 870333, 870421, 870422, 870423, 870431, 870432) used to calculate the total number of motor vehicle and their value exported from Canada and Mexico less the exports to NAFTA trade partners. The average U.S. auto parts content of the motor vehicle built in Mexico and Canada is estimated using the calculation in footnote 15. This provides the basis for estimating the value of the U.S. auto parts exported from Mexico and Canada and the vehicle equivalent.

lead to a further isolation of the U.S. and a shrinking ability to export vehicles to key emerging and growing markets.

## 2. Adding strong and enforceable currency manipulation disciplines

Currency manipulation provides an unfair competitive trade advantage to participating countries' export industries. Allowing a free trade partner to manipulate its currency could easily undermine the expected benefits to the United States under such an agreement.

According to a recent publication by leading international economists, excessive intervention in the currency markets averaged over $600 billion per year from 2003 - 2013, and the result was a shift of more than $300 billion of annual current account balances. The U.S. current account deficit increased by $150 billion to $200 billion annually as a result, and the United States lost more than a million jobs during the Great Recession and the tepid recovery from it.[17]

While nether Canada nor Mexico have manipulated their currencies, including strong and enforceable currency manipulation disciplines in NAFTA would set an important precedent and establish a platform for collaboration in opposition to other countries that use currency manipulation.

Working with leading international experts, AAPC developed three objective criteria to be included in U.S. FTAs:

- Did the foreign country have a current account surplus over the six-month period in question?
- Did it add to its foreign exchange reserves over that same six-month period?
- Are its foreign exchange reserves more than sufficient (i.e., greater than three months' normal imports)?

A country that the U.S. has partnered with in an FTA would be considered to be manipulating its currency if it is found to meet all three criteria. The United States would then be eligible to take swift action, such as revoking the preferential tariff rates enjoyed by the U.S. trade partner, in an effort to compel the trade partner to stop using this unfair trade practice.

## 3. Customs and trade facilitation issues

We recommend that the Trump administration use the NAFTA renegotiation to secure meaningful reforms to Mexican customs-related processes. By doing so, U.S. automakers will be able to reduce their customs and logistics costs, making their products more competitive in the global marketplace. Reforms we recommend for a modernized NAFTA include, but are not necessarily limited to, the following:

[17] *Currency Conflict and Trade Policy*, Joe Gagnon and Fred Bergsten

- Publication and availability of information. Information on Mexican Customs and border agencies' fees, charges or contact information is not available, and what is available is often not accurate. All information should be available online, especially agency information and the publication of applicable fees, charges, and quotas. Such requirements should apply not just to Mexican Customs, but to all agencies with border responsibilities.

- Opportunity to comment, and provide information before entry into force and consultations**.** Mexico's trade-related procedures are neither formalized nor standardized in terms of providing stakeholders with adequate opportunity to comment on proposed rules. Moreover, inadequate time is provided between the issuance of the notice of a final rule and entry into force of that rule.

- Advanced rulings/procedures for appeal review**.** In Mexico, it takes much too long – three to twelve months – to obtain an advanced ruling. The process is not standardized and Mexico does not make rulings public. Rulings should be publicly available in a searchable format. Rulings in the online database should be up to date and identify when a ruling has been overruled or revoked. Finally, Mexico lacks a formal appeal/review process, and this discrepancy should be addressed in a renegotiated NAFTA.

- Disciplines on import/export fees and charges imposed and penalties**.** The determination information used to assess fees, charges and penalties appears to be inconsistent.

- Release and clearance of goods**.** At the southern border, improved efficiencies are needed. Mexico lacks adequate pre-arrival processing rules. It does not separate release of goods and final payment. Risk assessment is random and not automated, resulting in the use of arbitrary inspections as opposed to targeted ones. Mexico does not publish release times and does not have a commercial de-minimis shipment rule. Additionally, while all three countries have "trusted trader" programs, efforts to harmonize them should be undertaken to better facilitate trade. NAFTA modernization also provides an opportunity to facilitate trade through mutual recognition agreements. Reforms in all of these areas, especially as they relate to truck shipments, would reduce costs and crossing times.

- Formalities etc. Mexico persists in requiring hard copies of documents and in some cases (e.g. transit bonds) requires originals. To facilitate trade and improve risk management, all customs-related formalities, including shipment release, should be paperless, relying instead on electronic data. To implement these reforms, Mexico should no longer require a Mexican Customs Broker to keep an original file and signed NAFTA certificates for products being imported into Mexico.

  Mexico should also rescind the requirement that importers/exporters present a physical "pedimento" at time of border crossing. With regard to "pedimento" documentation, Mexico should simplify the procedure for submitting changes to filed import/export "pedimentos" (i.e. rail-to-truck mode, port-to-port, etc.). Also, Mexico should eliminate the manual truck sealing requirement for Mexican import truck shipments, which must currently be carried out by a customs broker at the U.S. carrier's yards.

- Other customs reforms. Mexico should implement an Instrument of International Traffic (IIT) program for importing/exporting empty shipping containers and racks that are used in the automotive manufacturing/shipping process. To do so, Mexico must revise its IMMEX rules so suppliers in Mexico are no longer considered the "Importer of Record" on these containers since they do not own them. Mexico should adopt the U.S. Center of Excellence and Expertise concept to support Mexico Customs process standardization, limit port-to-port process differences, and avoid the knowledge and expertise deficit created by the fact that local port administrators rotate annually. Finally, Mexico limits broker operations, forcing importers to manage multiple brokers' relationships through piecemeal "alliances"; national brokerage licenses should be available.

- NAFTA Certificates and Mexican Export "Pedimentos". Canadian and Mexican suppliers must use the U.S. harmonized tariff schedule (HTS) product code when certifying goods for NAFTA duty-free benefits. However, especially in Mexico, suppliers believe that they are obligated to use the Mexican HTS code for the product on both the export "pedimento" documentation that they generate for Mexican Customs and the NAFTA certificate. In cases where the Mexican HTS code and the U.S. HTS code for the product are not the same, which is not unusual, and where a supplier refuses to use the U.S. HTS code on the NAFTA certificate, an automaker may not be able to claim NAFTA benefits for the imported parts in question. This can also be a problem in Canada, but much less frequently. We would request that United States seek to address this issue in the NAFTA renegotiation by delinking the NAFTA certificate process and the domestic export documentation process.

- HazMat/ "dangerous goods" rules. Through the NAFTA renegotiation, we urge all three countries to harmonize the rules governing the transport of dangerous goods. Because of differences in the rules between the three markets, automakers incur millions of dollars in compliance costs exporting air bags and other goods considered dangerous. For instance, while the U.S. and Canada permit hazmat and non-hazmat goods to be transported in the same container, Mexico requires segregation, which means that for each parts delivery in Mexico, two trucks are required. Harmonization of these rules will reduce export costs and make automakers more competitive without any increase in risk to the public.

**4. Updating NAFTA's labor & environmental provisions**

Strengthening NAFTA labor and environmental provisions will reflect a strong commitment to maintain a level playing field between parties to the agreement. NAFTA was competed 23 years ago, when labor and environmental provisions were new to U.S. FTAs. These provisions are now regularly included in FTAs, and go further than what is currently found in NAFTA.

5. **Improving border infrastructure**

   Improving ports and border crossing facilities will help prevent inefficiencies and bottlenecks, and improve the competitiveness of U.S. exports. Improving the physical infrastructure at many crossings at the U.S.-Canada and U.S.-Mexican borders would facilitate trade and grow the contribution the U.S. manufacturing sector makes to the competitiveness of the North American automotive industry.

6. **Eliminating investor-state dispute settlement (ISDS) provisions**

   The vast majority of U.S. companies doing business in Mexico and Canada have not used or benefited from the ISDS provisions, while the inclusion of ISDS raises significant concerns for other stakeholders. Given the development levels of the countries involved (i.e., members of Organization for Economic Cooperation and Development), we believe including ISDS provisions in NAFTA is unnecessary. We, however, may support the inclusion of ISDS provisions in other U.S. agreements in order to protect investments and citizens outside of the United States.