Statement of Governor Matt Blunt
President of the American Automotive Policy Council

Hearing on the Modernization of the North American Free Trade Agreement

June 28, 2017

I am Matt Blunt, President of AAPC – the American Automotive Policy Council – which represents the common public policy interests of America's automakers: FCA US, Ford Motor Company, and General Motors Company.

We thank you for the opportunity to share our views and recommendations on NAFTA, which has played a key role in the domestic auto industry's domestic, regional and global success, including record sales for the past seven years, and a U.S. workforce that grew to over 240,000 directly employed on a full-time basis last year – and that is just for Ford, FCA and GM, who employ roughly 2 out of 3 U.S. autoworkers.

Despite this success, after 23 years NAFTA needs to be updated, and in AAPC's written submission we suggest six specific areas of improvement. And while we see areas for real improvement in NAFTA, we are also mindful that certain changes to NAFTA's market access provisions could lead to unintended and potentially negative consequences for America's automotive sector.

NAFTA has provided American automakers with duty-free access to two of the largest vehicle markets in the world, where our companies have been incredibly successful. In Canada, our brands now account for 43 percent of the 2 million vehicles sold. And in Mexico, American nameplates have secured 30 percent of the 1.6 million vehicle market — a market that is expected to steadily grow in the future.

The vehicles we sell throughout the NAFTA region have very high levels of American content. In fact, on average, U.S. parts and components make up over 60 percent of the auto parts content of vehicles built in Mexico. This percentage is nearly 85 percent for vehicles built in Canada. These high U.S. content levels support thousands of auto parts jobs here at home, and are due – in part – to a rule of origin that has the highest regional value content of any free trade agreement in the world.

The current rule of origin strikes the right balance: discouraging “free riders” who might use NAFTA as a conduit for outsourcing, while allowing those that have invested in the region to enjoy the agreement’s duty-free benefits.

Some may claim that the NAFTA rules of origin encourage the use of imported auto parts from non-NAFTA countries such as China. This is just not the case. In fact, based on the dollar value of total auto parts consumption, less than 6 percent of the auto parts consumed in the United States and Mexico are imported from China. We encourage the Administration to examine all aspects of the automotive supply chain before accepting these kinds of claims and making any changes to the NAFTA rules of origin.

As we are hopeful that a modernized NAFTA can be a model for future FTAs, we strongly support including the acceptance of U.S. automotive safety standards in the modernized agreement and enforceable measures to deter currency manipulation by our trade partners.

In recent years, the EU has used a well-organized and highly successful global effort to persuade other countries to accept vehicles certified to European auto standards. This can often have the effect of supplanting acceptance of U.S.-built products. AAPC, along with other industry partners and the U.S. government, is working to counter this trend. New provisions in NAFTA that “lock in” recognition of U.S. auto safety standards would bolster this public-private partnership, and serve as a vital precedent for future U.S. free trade agreements.

Another vital precedent that should be set in a modernized NAFTA is the inclusion of enforceable measures to prevent currency manipulation. Currency manipulation provides an unfair competitive advantage to America’s trade partners and often undermines the expected benefits of our trade agreements. This has had a particularly harmful effect on U.S. automakers, who have been severely damaged by Japanese currency manipulation over the years here in the U.S. and in third markets where they compete.

And while neither Canada nor Mexico have manipulated their currencies, strong and enforceable disciplines in NAFTA would set an important precedent for other would-be U.S. trade partners that manipulate their currencies – something President Trump and members of his Cabinet have promised to crack down on.

These two changes, as well as several other recommendations, are described in the written comments AAPC submitted on behalf of America’s automakers. We look forward to working with you to modernize NAFTA and advance our shared goals of strengthening the American economy. I look forward to answering your questions.