



Washington Council on International Trade

June 12, 2017

Re: NAFTA Negotiations

Edward Gresser  
Chair of the Trade Policy Staff Committee  
Office of the United States Trade Representative  
600 17th Street, N.W.  
Washington, DC 20508

Dear Mr. Gresser:

Thank you for this opportunity to share the Washington Council on International Trade's (WCIT) views on the modernization of the North American Free Trade Agreement (NAFTA). WCIT is the lead association speaking on international trade issues for Washington state. Our membership includes large and small companies engaged in trade from manufacturing, agriculture, services and innovative industries, as well as Washington's vibrant ports.

It is important to put our views on NAFTA in a broader context. Washington state is the most trade dependent state in the United States, with 40% of our jobs tied to international trade. From apples and aircraft to software, our state thrives on international trade. Last year, Washington state exported \$14.4 billion in agricultural exports around the world. Around 50% of our potatoes and nearly 30% of our apples are exported. We export around \$26 billion in services a year<sup>1</sup>, and over \$70 billion in manufactured goods.<sup>2</sup>

Our industries, including farmers, ranchers, food processors, manufacturers, innovators and service suppliers depend on existing markets and new opportunities created by trade agreements. WCIT has a strong tradition of supporting a rules-based trading system that can create market opportunities so our state can maintain and grow our competitiveness. We strongly believe that trade agreements must be enforced.

We want to work closely with the Trump Administration as it modernizes NAFTA, and welcome the commitment of the administration to follow the procedures of the bipartisan Congressional Trade Priorities and Accountability Act (TPA 2015). TPA includes important consultation provisions and negotiating objectives for the United States to pursue in trade negotiations. WCIT was an active partner with national business associations to secure passage of TPA. We also welcome the comments that the administration will look at previously negotiated agreements, including the Trans-Pacific Partnership, which takes TPA into account, as potential building blocks in important areas like digital trade.

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<sup>1</sup> The Trade Partnership, 2014

<sup>2</sup> National Association of Manufacturers, 2014



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Since NAFTA was implemented, Washington's goods exports to Mexico have grown 700 percent<sup>3</sup>, while our exports to Canada have grown 200 percent<sup>3</sup>, and the two countries are the top export destinations for many of our businesses. An estimated 330,000 jobs in Washington state rely on trade with our NAFTA partners.<sup>4</sup> Washington state sends more of its exports to Canada than any country other than China, and we run a consistent trade surplus with Mexico.

Not surprisingly, our supply chains are closely integrated, and our manufacturers, aerospace companies and retailers rely on the ability to source components, inputs and finished products from our NAFTA partners. In fact, Mexico is the sixth largest aerospace supplier to the United States.

WCIT members have benefited from NAFTA and want to ensure we continue to receive these benefits under the trade deal. That said, we have a number of objectives for its modernization:

1. A modernized NAFTA should be expanded to reflect changes in the 21<sup>st</sup> century economy, notably the inclusion of digital trade provisions.
2. A modernized NAFTA should update existing provisions and rules where enforcement has been an issue, and we should we take the opportunity to address these concerns.
3. Modernization of NAFTA should be done following TPA provisions.
4. The interests of small and medium-sized businesses should be addressed.

In terms of specific issue areas, our members have identified a number of interests:

### **Market access for agriculture, goods and services**

While our NAFTA partners' markets are relatively open to U.S. goods and services, some sectors remain a challenge. For example, Canadian dairy laws favor domestic producers and restrict access for U.S. dairy exports, and Canadian laws prevent U.S. wines from being sold in grocery stores in many Canadian provinces. In manufacturing and services, there are more opportunities to lock in better market access. At a minimum, we should secure new market access opportunities that were realized in TPP.

### **Technical barriers to trade in agriculture**

Technical barriers to trade are an example of policies that can restrict market access. Discriminatory regulations such as sanitary and phytosanitary (SPS) measures that are not based on science should be eliminated, such as the regulations that impede market access for Washington fresh potatoes in Mexico. If U.S. potato producers had full access to the Mexican

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<sup>3</sup> WISER trade database

<sup>4</sup> Estimated by the Canadian and Mexican embassies.



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market, exports could generate an additional \$200 million annually, creating jobs across rural America. A modernized NAFTA should make some of the improvements in SPS measures included in TPP, such as establishing rules to distinguish between true science-based safety measures and those only intended to block U.S. exports, and creating a rapid response mechanism to address conflicts.

### **Regulatory cooperation**

Streamlining regulations to align product testing and certification would be beneficial to many Washington industries. For example, equivalent organic certification requirements between the three countries could facilitate increased Washington agricultural exports.

### **Digital trade**

Since NAFTA was negotiated 25 years ago, it must be updated to reflect the digital economy and 21<sup>st</sup> -century-way of doing business. The TPP made great strides in updating digital trade rules, and ideally NAFTA will include these improvements and establish a framework to govern and support the growth of digital trade. Data should be free to flow across borders without requiring localization of servers and computing facilities - and the internet should remain free and open.

### **E-commerce**

Washington state is a leader in e-commerce, but retailers – including small businesses – can face difficulties successfully selling into Canada and Mexico due to a low *de minimis* threshold (customers must pay duties for items valued above \$20 in Canada and above \$50 in Mexico) and lengthy customs procedures. For example, it can take 44 hours to meet border compliance requirements in Mexico, compared to only 2 hours in the U.S. and Canada. Raising the *de minimis* level and creating express clearance procedures for small shipments would enable small retailers to access the Canadian and Mexican markets.

### **Customs facilitation**

Washington exporters of all sizes would benefit from improved customs facilitation processes. U.S. exporters often face delays with customs procedures in Mexico, such as inadequate prior notification of procedural changes, inconsistent interpretation of regulatory requirements, and uneven enforcement of labeling rules and other standards. There should be increased transparency in customs processes, advance notice for changes in regulations, and expedited procedures for express shipments. It would be beneficial for Customs & Border Patrol (CBP) to coordinate with Mexico and Canada on cross-border data sharing and harmonization.

### **Rules of origin**

Washington retailers and manufacturers have noted that the regional value content (RVC) requirements should remain the same and should not become stricter. Our supply chains are tightly integrated, and a sizable percentage of U.S. exports contain imported components, while many imports from Canada and Mexico include U.S. content (an estimated 40% of the



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components of Mexican imports originated in the U.S.). For this reason, tightening rules of origin requirements would harm U.S. businesses and impede the flow of trade.

Overall, WCIT and its members advocate for a modernized NAFTA that retains the current trade agreement's benefits, while updating it for the 21<sup>st</sup> century, addressing long-standing trade barriers, and seizing new opportunities. WCIT will continue to gather recommendations from our members on how NAFTA can be strengthened. Please let us know if we can answer any questions or provide more information at any time. We hope to work with you in creating a modernized NAFTA that grows economic opportunities for Washington state's workers and employers. WCIT members will be visiting Washington, D.C. in July and again in the fall, and we would welcome an opportunity to engage with you about Washington state's interests.

Sincerely,

Lori Otto Punke,

President, Washington Council on International Trade