

# Modernization of the North American Free Trade Agreement (NAFTA)

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Since 1894, the San Antonio Chamber of Commerce has advocated for the interests of its more than 2,100 members. It works to build and sustain a vibrant business community by engaging business owners, policymakers and influencers to address the issues and opportunities vital to the success and prosperity of San Antonio.

San Antonio has a rich history with the North American Free Trade Agreement (NAFTA), beginning with the initialing of the historic agreement in this very same location in San Antonio in 1992. The impact of NAFTA, however, is far more than ceremonial and affects companies of all sizes in our community – many of whom are members of the Chamber.

As the seventh largest city in America and with projections of continued growth over the next 20 years, San Antonio is a hub of growing industries like healthcare, biosciences, information technology, cybersecurity, energy and advanced manufacturing. It is a thoroughfare of international trade, with four of the six major rail gateways in Texas.

This community, like many across Texas, has benefited greatly from NAFTA. Texas leads the nation in worldwide exports by a wide margin. In 2016, Texas's exports to other countries totaled \$232 billion, including more than \$90 billion to Mexico alone. Mexico is Texas's most important market – accounting for 40 percent of the state's exports in 2016, the most of any state.

As we look to the future, the uncertainty surrounding the upcoming renegotiation has had a chilling effect on growth and new investment throughout the region, putting our existing record of prosperity in doubt. The Chamber would, therefore, like to offer several areas where this vital agreement should be strengthened and modernized.

## **Energy**

The continued integration of the U.S. and Mexican energy markets is beneficial to both nations, but requires regulatory certainty – both within and across borders – to function effectively.

With such certainty, we know the economic growth and investment that follows. For example, as a direct result of the 2013 Mexican Energy Reform and the free flow of hydrocarbons allowed under NAFTA, San Antonio-based Howard Energy will be investing in projects totaling more than \$1 billion over the next five years in Northern Mexico and South Texas. These projects

will create more than 950 temporary construction jobs and 22 permanent jobs; generate almost \$1.5 million per year in local property taxes and \$230 million per year in direct economic value; and move approximately \$2.1 billion of hydrocarbons per year between the two countries. None of this includes NAFTA's indirect and implied effects of creating new markets for American producers.

## **Automotive**

NAFTA contains the strictest automotive rules of origin requirements of any U.S. Free Trade Agreement, at 62.5%. Any changes to the rules of origin could jeopardize our current production and lead to the unintended consequences of limiting consumer choice, raising costs, reducing U.S. jobs, and increasing competition from other countries.

San Antonio specifically has benefited from NAFTA. The year before NAFTA became law, Toyota had two plants in the United States. Since then, they have built eight more U.S. plants, including one in San Antonio, where they make the Takoma and Tundra trucks. NAFTA has enabled Toyota to be cost competitive in the world market when exporting vehicles from the United States because of their integrated supply chain. A local company, Avanzar Interior Technologies, makes every seat that goes into each of the trucks coming off the line here in San Antonio. Because of the terms of NAFTA and the relationship that they have built with Toyota Motor North America, Avanzar will be supplying every seat that goes into every truck made 700 miles to the south of us in Guanajuato, Mexico. NAFTA supports the local economy here, and allows us to compete as a region in this global marketplace.

## **Retail**

Ensuring that trade remains tariff-free throughout North America is essential to keeping existing retail supply chains moving and maintaining low prices on food and other essential items for American families, thereby preserving the millions of jobs that depend on trade. A stronger, modernized NAFTA can bring greater benefits to U.S. consumers, protect American jobs, and help American retailers and their suppliers in several critical ways:

- A stronger NAFTA will maintain and expand current access for U.S. food and other products to Mexican and Canadian markets while protecting American workers, growers, and manufacturers.
- Reducing non-tariff barriers, such as processing fees and sanitary and phytosanitary measures, will make fresher, healthier, and lower-priced produce and other products more easily available to American families.
- In today's digital economy, it is imperative that a modernized NAFTA include digital and e-commerce provisions like simplified customs requirements and processing for e-shipments, which would make it easier for companies to export goods across the border.
- An improved NAFTA will ensure consistent food and other product labeling requirements across countries, eliminating the need for costly and duplicative efforts to comply with divergent standards.

- Increased resources for customs modernization and improved infrastructure at the border will reduce delays in border crossings, benefitting consumers by minimizing food spoilage and transportation costs.

## **Environment**

Established in 1994, the North American Development Bank (NADB) works to enhance the quality of life for people who live along the U.S.-Mexico border through cleaner water, air, and land. Owned entirely by the United States and Mexican Governments in equal shares, NADB helps develop and finance infrastructure in communities on both sides of the border through a variety of services and programs that encourage sustainable development.

To date, 15 million residents on both sides of the border have benefitted from sustainable infrastructure supported by the NADB.

With an initial \$405 million in total paid-in capital contributions from the United States and Mexico, the NADB has leveraged investments totaling \$6.9 billion for the development of sustainable infrastructure. NADB is the only development bank that finances projects in the United States and has financed 107 projects in economically-distressed areas. In Mexico, NADB has financed an additional 124 projects for a total of 231 projects in both countries.

In light of the NADB's proven track record of significant infrastructure investment and environmental impact along the border, the Administration should include the Bank's first capital increase in its history in the NAFTA renegotiation talks. Because of the importance of Mexico as a trading partner, we would also like to see the Bank participate in the development and financing of natural gas pipelines and power plants in Mexico for North American energy security, as well as trade facilitation projects that still support strong border security at international land crossings.

## **Conclusion**

The NAFTA negotiations must recognize the interdependence of all three economies, guarantee continued access to the U.S., Mexican and Canadian markets, and be conducted in a manner that avoids any prospect of retaliation against American products.

On behalf of the more than 2,100 San Antonio Chamber of Commerce members, I thank you for the opportunity to testify on how we can continue to use and strengthen NAFTA to help our businesses and communities thrive and remain globally competitive.