

FULL TRANSCRIPT: National Taxpayers Union's North American Trade Media Call
6/13/17 at 11:30 a.m.

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Operator: Good day, everyone, and welcome to the Media Conference Call on North American Trade Relations in 2017. At this time, all participants are in a listen-only mode. Later, you will have the opportunity to ask questions during the question-and-answer session. You may register to ask a question at any time by pressing the * then 1 on your touchtone phone. Please note this call may be recorded. I will be standing by should you need any assistance.

It is now my pleasure to turn the conference over to Brandon Arnold with National Taxpayers Union. Please go ahead, sir.

Brandon Arnold: Hey, thanks so much. This is Brandon Arnold speaking from National Taxpayers Union. I'm thrilled to be participating in this call today talking about NAFTA and renegotiation thereof. I'll be joined in a few moments by Marc Busch and Matthew Kronby, two topnotch trade experts who have a great deal of expertise in trade broadly and NAFTA in particular, but before I turn it over to them, I thought I just set the stage here for why these negotiations are so important, and even before that, why National Taxpayers Union is so concerned and interested in making sure that these negotiations go properly.

National Taxpayers Union has long been an organization committed to the important principles of free market economics, that means lower taxes, a lighter regulatory touch, and free trade. Free international commerce unhindered by government regulations and restrictions whenever possible, leads to more efficient economic output, leads to more job creation, and it leads to a stronger economy for all parties involved. So that's why we've

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been strong advocates of things like Trade Promotion Authority, of NAFTA, of CAFTA, of even smaller provisions like the Miscellaneous Tariff Bills, which recently passed through Congress and are now poised to cut taxes on thousands of domestic manufacturers here in the United States.

So, turning our attention to NAFTA, frankly, we've been a little bit troubled by the rhetoric coming out of the Trump administration and Donald Trump, when he was a candidate for president. NAFTA's a critically important trade agreement to our economy, 14 million jobs in the United States dependent on trade with Canada and Mexico, \$1.3 trillion in goods and services cross borders each and every year. Needless to say, getting these negotiations done right is really important to our economy, to the Mexican economy, and to the Canadian economy.

That being said, we knew going into this administration that there would be some degree of tension between the United States and Mexico. A lot of that stems from immigration, but of course, there were some trade-related issues threatening to not only withdraw from NAFTA but also threatening some tariffs on specific companies that were looking to move operations into Mexico.

What's been even more troubling I think is the worsening relationship from an economic perspective with Canada. We've seen some older trade disputes pop up once again in relatively short order. I would say one of them would be softwood lumber, which was related to dispute over dairy and ultra-filtered milk products which are used in cheese making. The softwood lumber tariffs that we slapped on Canadian imports back in April I think could have a devastating impact on the housebuilding business, the homebuilding industry here in the United States. that's

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something of great concern to us.

In addition, more recently, we've seen a trade dispute between Boeing and Bombardier over aircrafts that were imported or going to be imported into the United States via Delta in coming months move to the US ITC and that process is going forward as Boeing is petitioning for Countervailing duties and Antidumping action. That's troubling and we've already seen that have a subsequent impact on F18 military acquisition on the Canadian side.

So, all of this is cause for some degree of pessimism I would say going into NAFTA renegotiation. I think there's a bit of a dark cloud over US-Mexican as well as US-Canadian economic relationships and I think that makes it very, very important for trade experts, for free-market groups like National Taxpayers Union, for policymakers here in Washington to make sure it is communicated to the USTR, to the Trump administration broadly just how important free trade is to our economy and just how important it is to enter into the NAFTA renegotiation with an eye on modernization, with an eye toward additional trade liberalization, not to use this as a tool to impose protectionist policies on our economy that would ultimately be shooting ourselves in our foot and doing ourselves a great disservice economically speaking.

With that, I'll stop and I'm going to turn things over first to Mark Busch for some comments on NFATA renegotiation. Marc?

Marc Busch:

Thanks so much. It's hard to believe, but NAFTA has been front and center since at least the 2008 democratic primaries and it's useful to put their current state of play in that perspective.

I think we can all remember when Barack Obama and Hillary Clinton

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were trying to outdo each other in who would be the fastest to either exit or at least renegotiate the North American Free Trade Agreement back in '08. We had a reprieve from the rhetoric in 2012 and then all of a sudden, largely because of Bernie Sanders, we ended up getting a good dose of it in 2016.

On the one hand, we've always known that NAFTA was a little dated. After all, it's pretty much just the extension of a 1989 free trade deal between Canada to the US to Mexico and up against the architecture of the WTO, it really does show its age and there was a hope that if anything, the Trans-Pacific Partnership was going to be the upgrade that we were all hoping for. It's important to remember what both Canada and Mexico offered in TPP negotiations because that should be the starting point for NAFTA 2.0. That is assuming, as you pointed out, that this is an honest effort at modernization and not just a disguised way of reintroducing 1980s and 1990s-type protectionism back into some of America's most important trading relationships.

In my own view, the problem is that we are going back to the 1990s in a lot of awkward ways. There is the aircraft dispute that you mentioned, which was at that time, in 1990, a Boeing Airbus dispute and has now taken on new parameters given the entrance into the regional jet market and their ability now to go above 100 seats and to enter the very lucrative replacement work for the 737 and the A320.

The Anti-dump and Countervail now going forward look like a throwback. The numbers are staggering. The expectation by some analysts that Boeing is looking for 75% on both strikes me as an indication that this is really a side show that if those kinds of numbers were within the realm of feasibility that Boeing would've asked the United States to take Canada to

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the World Trade Organization and pursue litigation under the Subsidies Agreement, but in a bigger way, it is important to revisit this dispute for Boeing, for Bombardier and Embraer and Airbus because in all honesty, since 1992, we've needed a better Large Civil Aircraft Agreement to finally bring peace to this very troubled and very subsidized industry.

It is time to reedit the 1992 Large Civil Aircraft Agreement rather than do piecemeal, transactional-based Anti-dump and Countervail, which is not in anyone's interest least of all in setting the stage for renegotiation of NAFTA.

As for softwood lumber, if ever there was a throwback, this is it and I dare say and Matthew can step in on this one as well as the aircraft one, in the event that Canada ultimately seeks a remedy to this at the Court of International Trade, I wonder whether Trump and Tillerson will be happy with the outcome in as much as a decision of the Court of International Trade was exactly what the Lumber Agreement way back when obviated and now you could actually get a real narrowing of the range in which Anti-dump can be applied if in fact the Court of International Trade finally gets this case. In other words, softwood lumber could backfire and for the United States.

So, while we have the kind of new new trade theory angle which is that Home Builders Association and others are upset with the actions, I wonder whether something more deep is at risk namely, American Antidumping and Trade Remedies actions more generally which as we all know are now very much in vogue not least with the Trump administration.

I will end by just pointing out that the one area in which I think a lot of improvement and a lot of global value chain inducement could be offered

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under a NAFTA modernization is in the area of technical barriers to trade. The US Department of Commerce just estimated that almost 93% of US exports fall victim to some technical regulation abroad and it is important to begin to map better language onto a NAFTA modernization. Canada and the US both can benefit substantially from such an effort and my hope is that especially since Canada has the language of CETA to draw on and since the United States undoubtedly will either begin to invest in TTIP or at least the UK-US free trade deal that we use the language that the US has already negotiated under TTIP as the basis for modernizing regulatory efforts under the NAFTA renegotiation.

In other words, let's not go back to TPP, which [tells] a much more heterogenous membership. Let's use state-of-the-art legal architecture which is in TTIP and offer that as the gold standard going forward in today's global economy. There are a lot of jobs that could be impacted by that, a lot of sales and that might be, in my view, the single best thing to result from a NAFTA modernization. Thank you.

Brandon Arnold: Thanks so much. Next, we'll turn things over to Matthew Kronby. Matthew?

Matthew Kronby: Thank you, Brandon. I just want to pick up on what the two of you have raised which is the opportunity a NAFTA renegotiation presents. Clearly, it was the Trump administration that pushed for or has led the push for this renegotiation and the rhetoric of the administration has been all over the place in terms of what it wants to achieve.

The notice to Congress of the intention note to negotiate, May 18th, did speak to modernization of the NAFTA and that is some limited reason for optimism here. I think all three parties to the NAFTA are interested in

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modernizing, updating or would be interested in modernizing and updating the agreement or certainly, at least Canada and Mexico would.

The NAFTA agreement is now almost 25 years old, more than 25 years old from when negotiations really began on it, and there is room to update and improve it. The question is whether the US administration and the administration with the influence of Congress is genuinely interested in modernizing and updating the NAFTA rather than using the renegotiations as a basis for retrenchment and moving backward toward more protectionist policies, the kind of policies we saw in the 1980s and that predated the NAFTA and the Canada-US Free Trade Agreement.

In terms of where those updates could occur, the rules of origin which are the rules that determine which products qualified for duty free treatment under the NAFTA could be made more flexible in keeping with the sort of thing that was done or have been negotiated in the TPP.

The provisions on temporary entry, which are provisions that facilitate business travel and temporary relocation by professionals and business persons to the other parties could certainly do with an update to make them more flexible and allow business to operate better on a cross-border basis by moving the people it needs to the places where they need to be and by making it easier to service customers in the other NAFTA countries.

The area that Marc spoke in particular about regulatory cooperation is an area where there is ample opportunity for further modernization and to really permanently institutionalize and certainly between Canada and the US and broaden work that had been done over the last several years by a regulatory cooperation council, but with a view to improving technical

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collaboration and the joint development and recognition of standards that would allow goods and services to move more freely among the NAFTA countries.

Another area that is right for improvement is the energy chapter, not between Canada and the US where the energy trade has operated very smoothly, but in Mexico in particular. Mexico has, in the last few years, undertaken significant liberalization of its energy market particularly in oil and gas, but that liberalization is not locked in under the NAFTA as it now stands and there's an opportunity to use the renegotiations to lock in that liberalization to provide security and predictability of access for US and Canadian investment and services particularly in the oil and gas sector. So that's really how, in an optimistic scenario, how the NAFTA could be improved.

So, I'll touch very briefly on softwood lumber, which is something that Marc mentioned. The softwood lumber dispute has been ongoing in various iterations since the early 1980s. The current dispute known as Softwood Lumber V was launched prior to the US election and is not directly reflective of the policies of the Trump administration, but we've seen with the Trump administration a propensity towards an extremely aggressive use of trade remedies which will not make it easy to resolve the softwood lumber dispute. The concern here in my view is not so much what might happen in the Court of International Trade, but at a highest level that the aggressive use of trade remedies by the Department of Commerce becomes a model for other countries to emulate and including against US and Canadian exports and further undermines global trade flows and hence serve, in many cases, really protectionist ends.

I think the history of the softwood lumber dispute where the Canadian

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parties had been consistently successful over the years in challenging the use of Countervailing and Antidumping Duties by various US administrations at the behest of the US industry, successful in challenging them at the WTO, challenging them under dispute settlement provisions of the NAFTA, Chapter 19, and also, to some extent, at the Court of International Trade have demonstrated the inherent lack of merit in the complaints brought by the US industry. I certainly hope that a resolution can be achieved there that would result in a genuine free trade in softwood lumber, which was certainly a promise of the NAFTA that has over years largely gone unfulfilled.

With that, I will finish and turn it back over to Brandon.

Brandon Arnold: Great. Thank you so much for those comments. Before we open up for questions, let me just make a quick note that the USTR is holding a hearing on NAFTA renegotiation on the 27th of this month. The comment period or at least the initial comment period for that, just closed that yesterday. I'm told there were approximately 12,000 comments submitted to the USTR as well as numerous requests to testify directly before the Office of the USTR on the 27th.

NTU was one of the 12,000 who submitted comments. I encourage you to access those via our website where they'll probably be easier to track down than trying to sift through 12,000 other sets of comments.

In addition to that, on our website, you can find a coalition letter that we organized in support of modernizing and pursuing trade liberalization through the NAFTA renegotiation process signed by about a dozen other conservative and libertarian center-right organizations, and we'll also send that around to participants of this call.

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With that, if there are any questions, I'd be happy to field them.

Operator: Certainly. At this time, if you would like to ask a question please press the * then 1 on your touchtone phone. You may withdraw yourself from the queue at any time by pressing the # key.

Once again, to ask a question, please press the * then 1 on your touchtone phone. We will pause a moment to allow questions to queue. [Pause]

It appears at this time, we have no questions on the phone.

Brandon Arnold: Well, if there are no questions, I suppose we can go ahead and wrap up. I'd like to certainly thank Marc and Matthew for their excellent comments, for their participation today, and for everyone who dialed in to listen to us.

This is going to be an interesting issue going forward and one that's going to require a very close eye from the free trade community to make sure that we achieve an outcome that is positive for the United States and for our neighbors to the north and south.

I know we'll be working on that quite a bit at National Taxpayers Union and I know Marc and Matthew are going to be weighing in quite a bit as well. So, thank you again and look forward to continuing this conversation going forward.

Matthew Kronby: Thank you, Brandon.

Marc Busch: Thank you, guys.

Matthew Kronby: Thank you, Marc.

Marc Busch: Bye-bye, Matthew.

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Matthew Kronby: Bye-bye.

END