




Footwear & Politics in Focus: 2017 NAFTA Renegotiation



FOOTWEAR DISTRIBUTORS AND RETAILERS OF AMERICA

- 
- **What is NAFTA?**
 - **President Trump and Congressional Authority**
 - **Footwear Provisions in NAFTA**
 - **Recent Actions**
 - **Potential Goals from the U.S. and Mexico and Canada**
 - **Key Players in NAFTA Renegotiations**

Key elements of the North American Free Trade Agreement (NAFTA)



NAFTA is a free trade treaty between the United States, Canada and Mexico that went into effect on January 1994 and made the three countries the largest free market in the world



The agreement opened the border and interior of Mexico to U.S. truckers and streamlined border processing and licensing requirements for commercial ground transportation



NAFTA was created to eliminate tariff barriers to agricultural goods, manufacturing, and services; to remove investment restrictions; and to protect intellectual property rights



The three NAFTA countries agreed to strengthen and standardize health, safety, and industrial standards

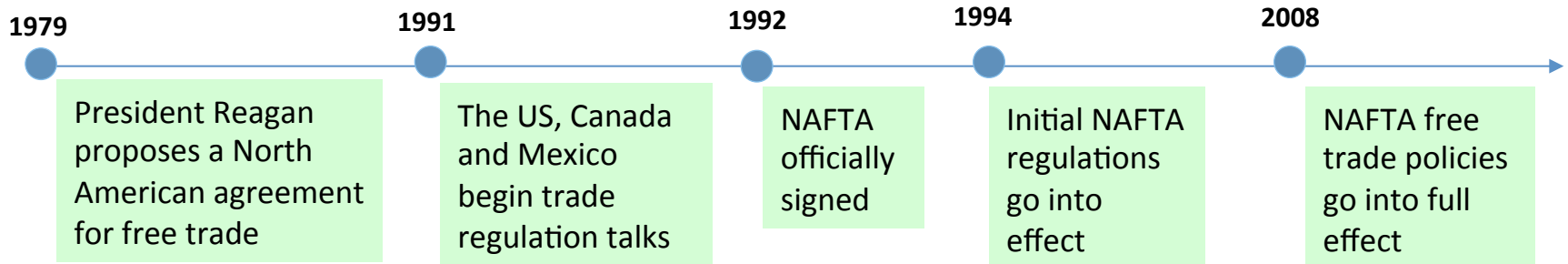


Around 50% of tariffs were abolished immediately when the agreement took effect, and the remaining tariffs were gradually eliminated



NAFTA created commissions with the power to impose fines against the signatory governments if they failed to implement the agreement's labor and environmental standards

NAFTA implementation timeline





Key numbers for the North American Free Trade Agreement



14 million
U.S. jobs that depend on trade with Canada and Mexico



\$11 billion
U.S. trade deficit with Canada in 2016



370 percent
Percentage by which total trilateral trade between Canada, Mexico and the United States grew between 1994 and 2016



\$63 billion
U.S. trade deficit with Mexico in 2016



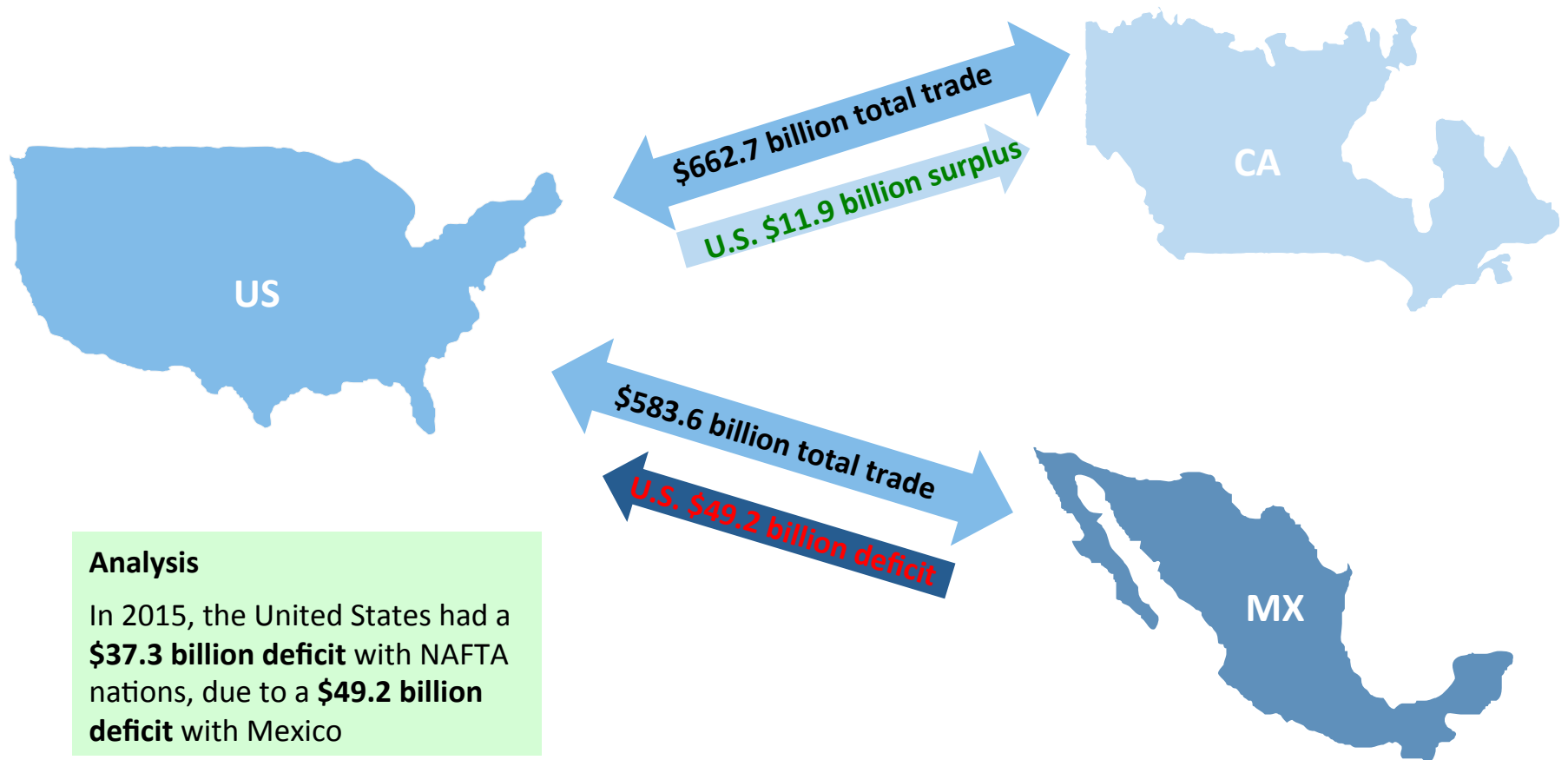
16 percent
Percentage of global trade generated by NAFTA countries



58 percent
Percentage of international tourists to the U.S. who come from Canada or Mexico; 56% of all trips US tourists take abroad are to those two countries

Breakdown of overall trade between NAFTA nations and the U.S.

Based on United States Trade Representative data for 2015 (combined goods and services)

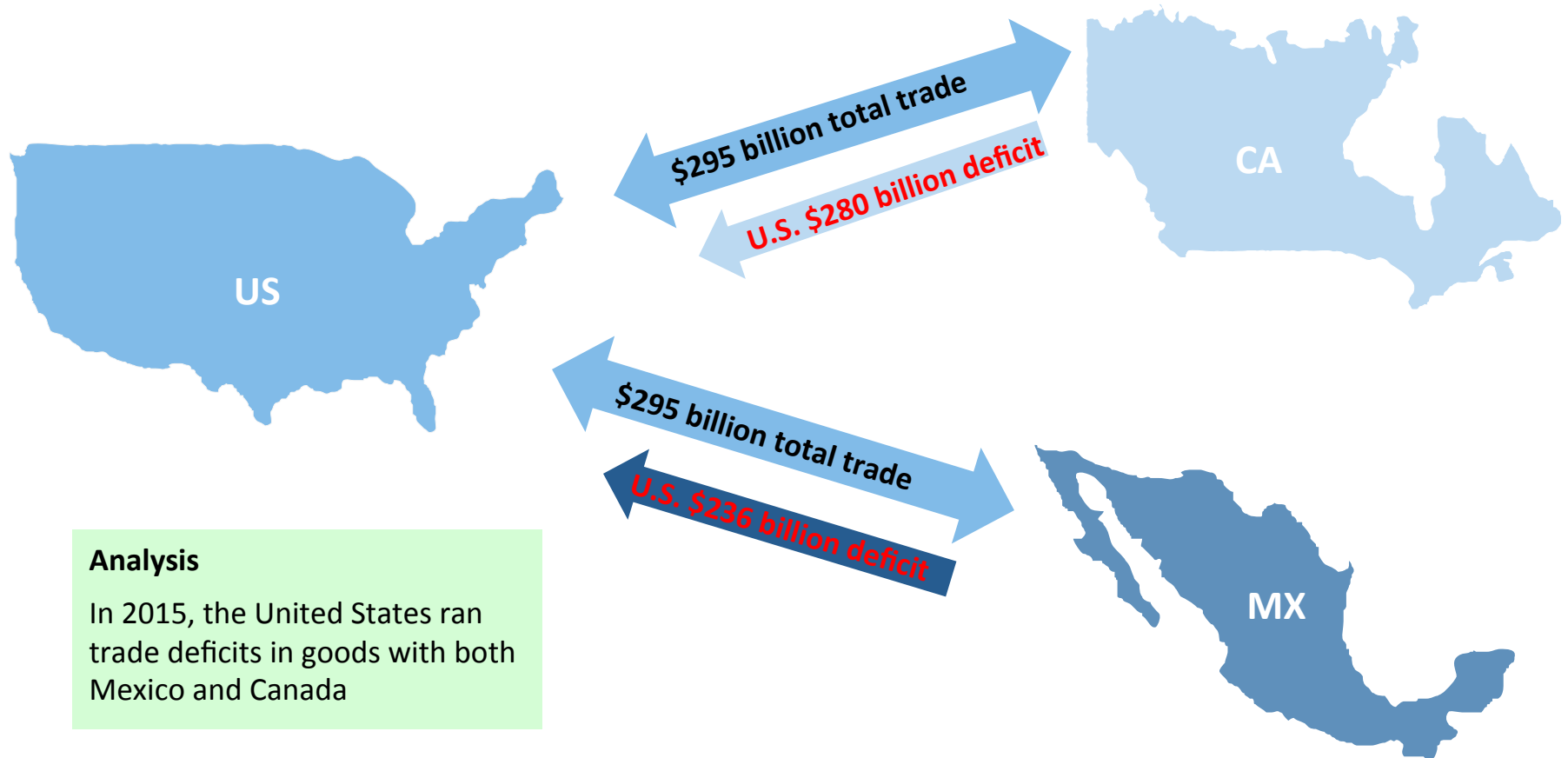


Analysis

In 2015, the United States had a **\$37.3 billion deficit** with NAFTA nations, due to a **\$49.2 billion deficit** with Mexico

Breakdown of overall trade between NAFTA nations and the U.S.

Based on United States Trade Representative data for 2015 (goods only)

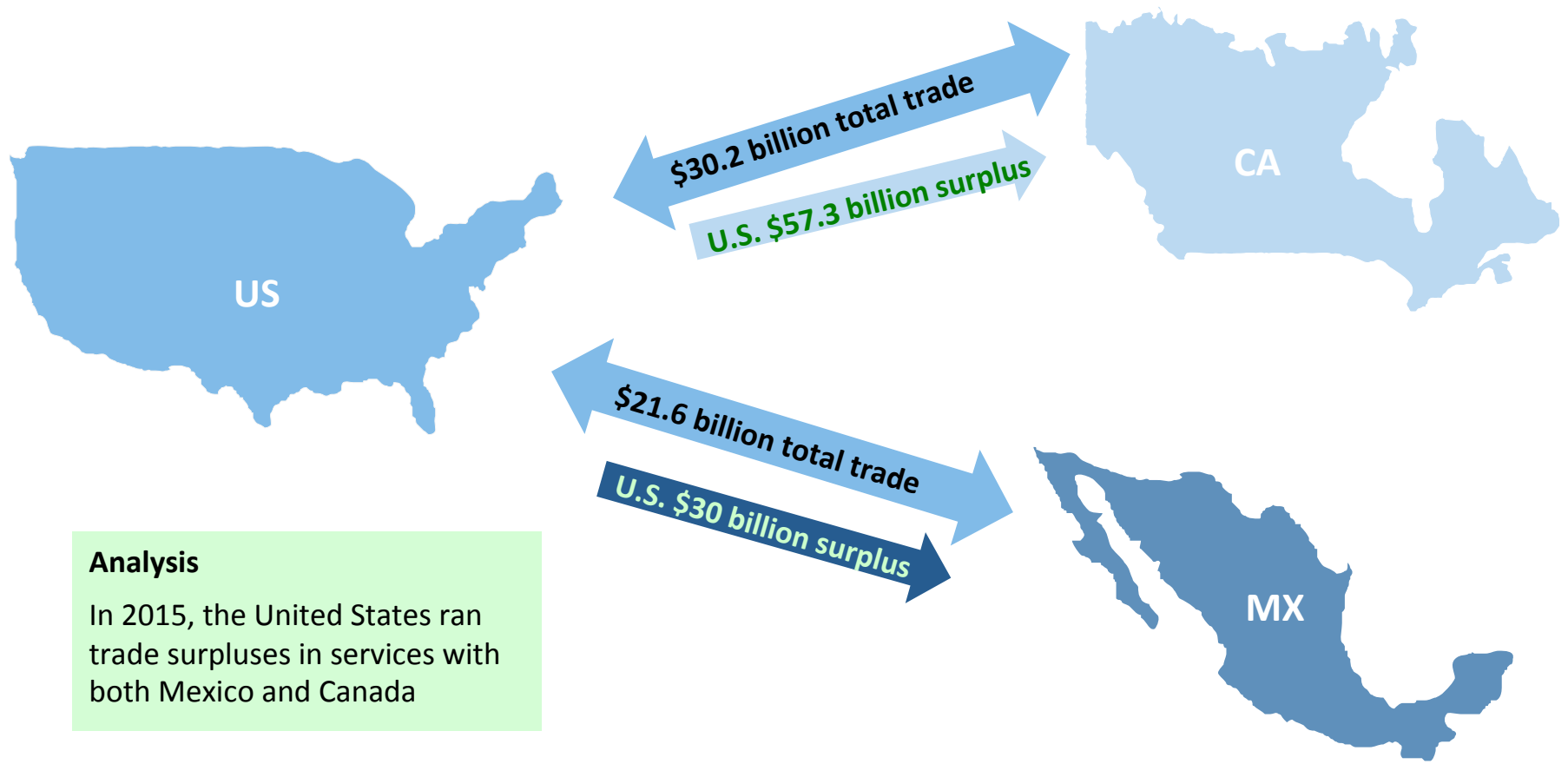


Analysis

In 2015, the United States ran trade deficits in goods with both Mexico and Canada

Breakdown of overall trade between NAFTA nations and the U.S.

Based on United States Trade Representative data for 2015 (services only)

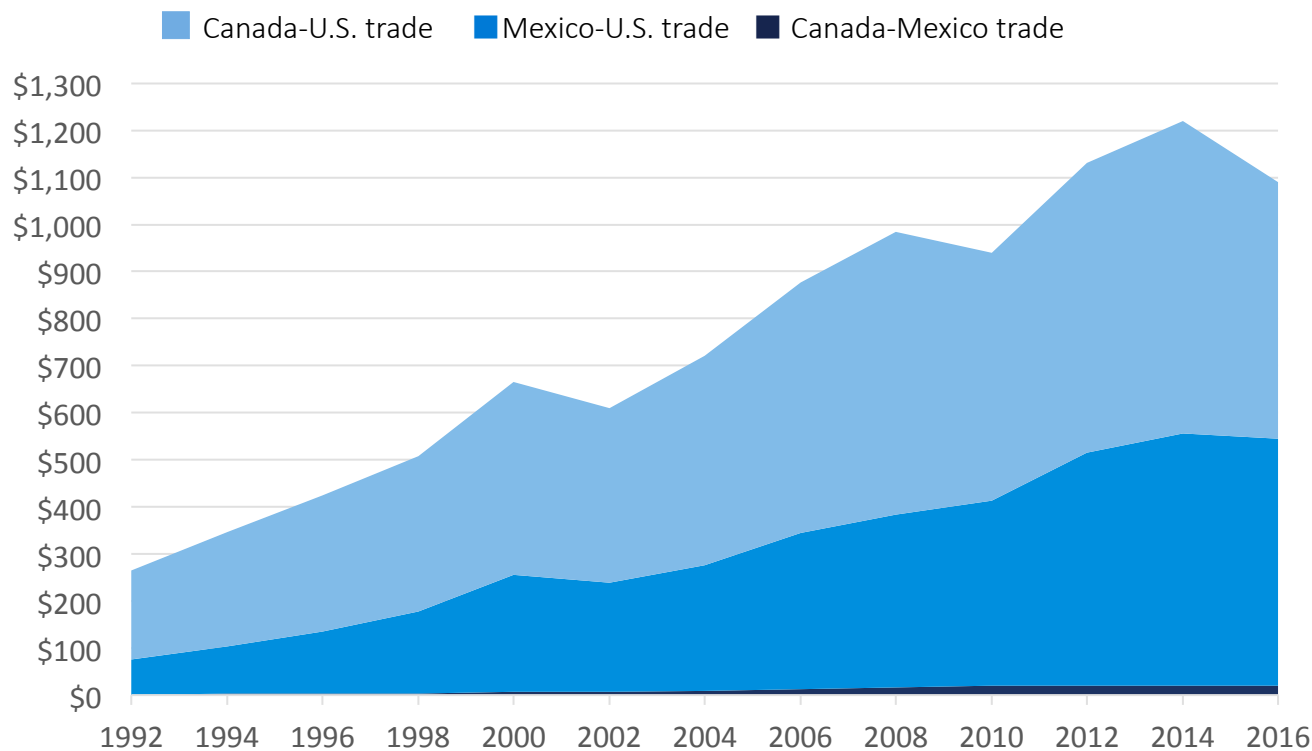


Analysis

In 2015, the United States ran trade surpluses in services with both Mexico and Canada

Trade between NAFTA countries has increased from around \$350 billion in 1994 to over \$1 trillion today

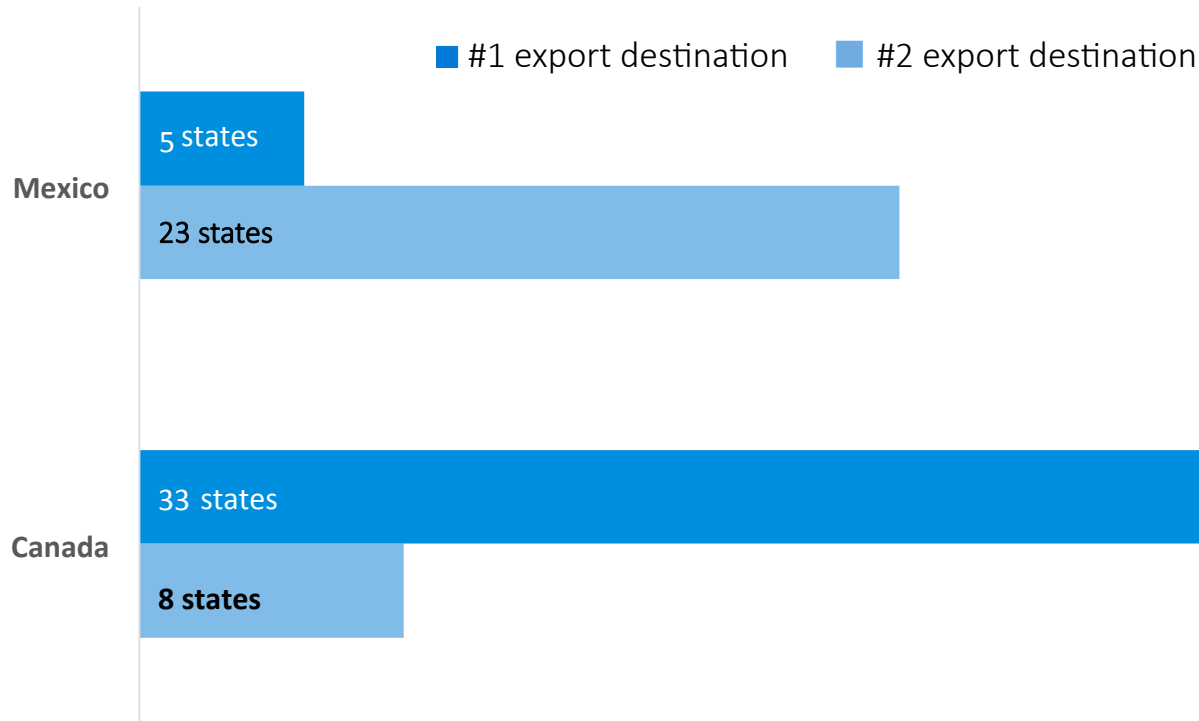
Trilateral trade between NAFTA countries *In billions of USD*



Analysis
Trilateral trade between Canada, Mexico, and the United States first broke the **\$1 trillion** mark in 2011

Canada and Mexico are the most important trade partners for over half of U.S. states

Number of states with NAFTA countries as top export destinations



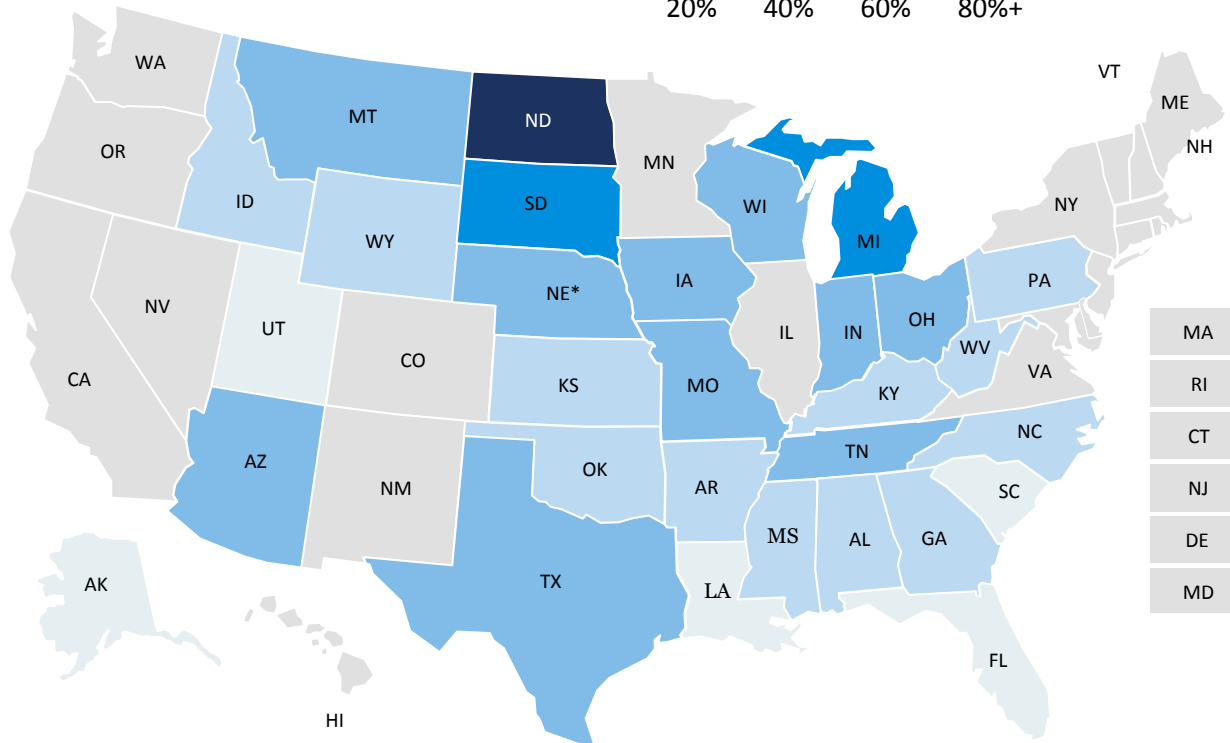
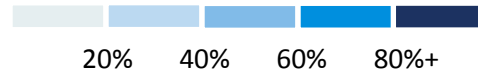
Analysis

Canada and Mexico hold both of the top two export destination spots for **26 U.S. states**, including **8 of the 10 biggest state economies**

Many states that voted for Trump send a large share of their total exports to Mexico and Canada

Share of 2016 exported goods to Canada and Mexico

In states won by Trump



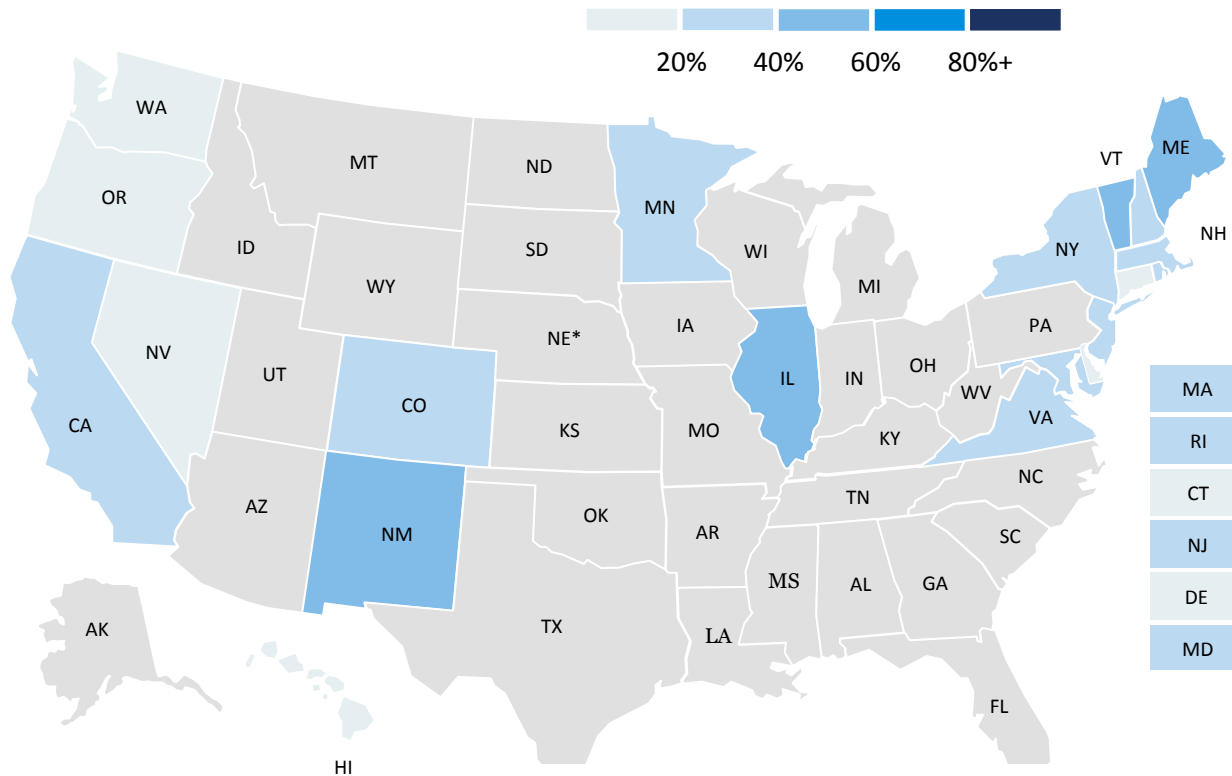
Analysis

- The five states with the largest percentage of exports to Canada and Mexico went for Trump
- Trump also won the 10 states with the largest trade surpluses with Canada and Mexico

Most states that voted for Clinton send less than 40% of their exports to other NAFTA countries

Share of 2016 exported goods to Canada and Mexico

In states won by Clinton





The President can renegotiate or withdraw from NAFTA and similar FTAs without Congressional approval

NAFTA exit provisions



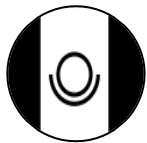
NAFTA Chapter 22

- Chapter 22 of NAFTA allows its parties to withdraw from the agreement after giving six months' notice to the other member countries
- Trump, exercising the presidency's authority over foreign affairs, could unilaterally withdraw the United States from the agreement



NAFTA Implementation Act, Section 201

- Additionally, Section 201 of the NAFTA Implementation Act of 1993 allows the president to proclaim "additional duties" if they are found necessary or appropriate to maintain the balance of reciprocal concessions between the US, Canada and Mexico
- The president would have to consult with Congress before invoking Section 201 to create new tariffs, but would not require Congressional approval



Presidential trade proclamations

- US withdrawal from NAFTA would not automatically raise US tariffs on imports from Canada and Mexico. Trump would have to issue an additional presidential proclamation in order to bring back the pre-NAFTA 'Most Favored Nation' rates on Mexican and Canadian imports – averaging around 3.5%, but with higher rates for specific items like clothing and footwear



Some changes to NAFTA do not explicitly require Congressional approval

Background

- The federal statutes that provided the foundation for the negotiation, legislative consideration, and implementation of NAFTA do not appear to explicitly address Congress’s role in amending the agreement

Negotiation

- While the Executive is expected to consult with Congress before engaging in trade negotiations, there is no formal requirement for Congressional approval in order to discuss changes to NAFTA with representatives of Canada and Mexico



Amendments

- The NAFTA implementation Act allows for limited changes to certain aspects of the agreement and their implementation in domestic law without further legislative approval:
 - **Tariff rates:** Congress has delegated limited authority to the President to adjust tariffs in various provisions of federal law
 - **Rules of origin:** past revisions to NAFTA’s rules of origin appear to have been implemented by presidential proclamation pursuant to existing statutory authority in the NAFTA Implementation Act. This implementation followed congressional consultation but not specific legislative approval.



Applicable statutes

- Trade Act of 1974
- Omnibus Trade and Competitiveness Act of 1988
- NAFTA implementation Act



Timeline of actions related to NAFTA renegotiation

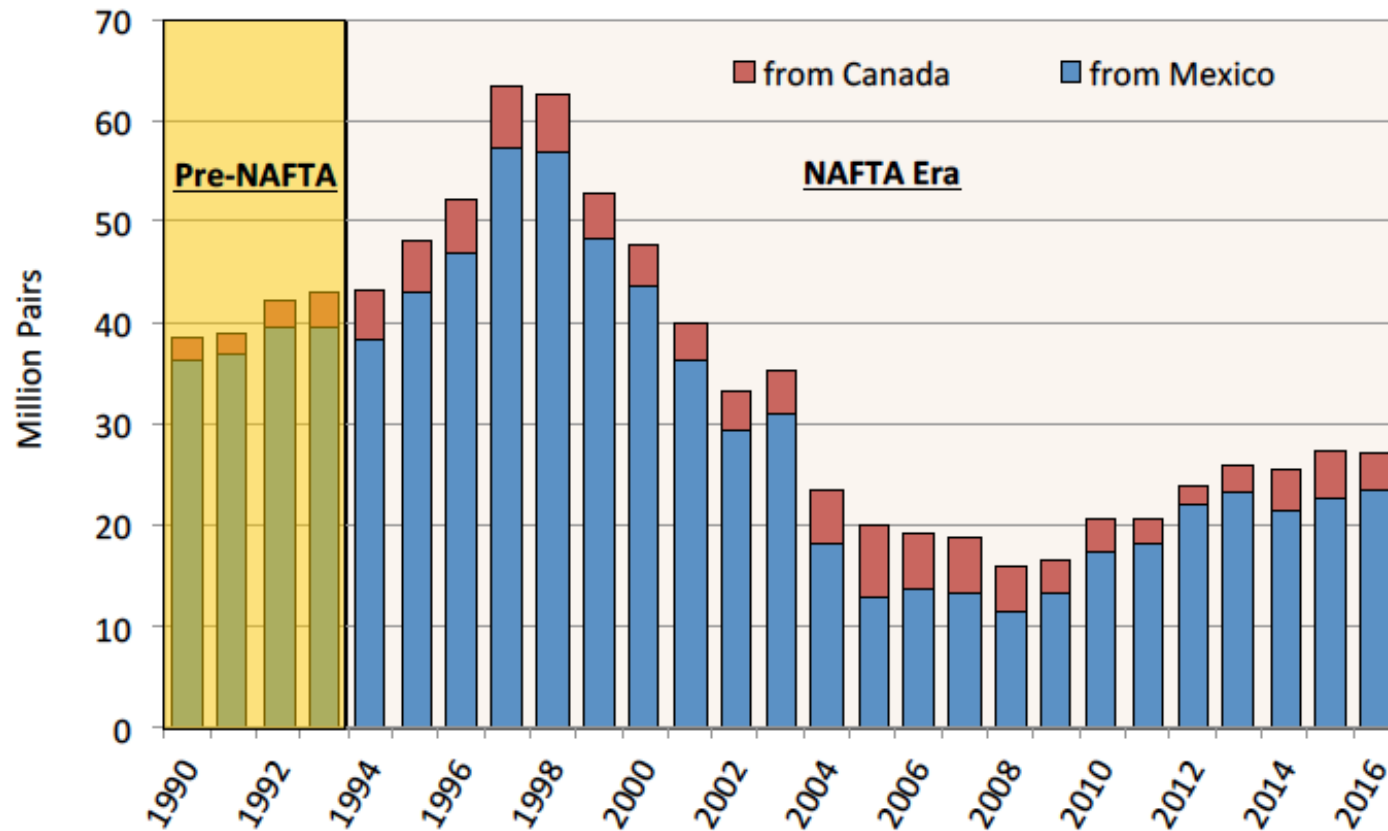
- Jan 21, 2017 ○ **Trump pledges to renegotiate or repeal NAFTA**
 After signing an executive order removing the United States from TPP, the President pledges to negotiate “tough and fair” trade deals and hold a new round of NAFTA negotiations
- Jan 26 ○ **Mexican president cancels White House visit**
 Enrique Peña Nieto declines to visit after renewed tensions erupted over Trump's plan to build a wall on the US-Mexico border
- Feb 1 ○ **Mexico announces NAFTA consultation**
 The Mexican government begins a 90-day consultation with the country’s Senate and private sector before engaging in NAFTA renegotiation talks with the United States and Canada
- Apr 26 ○ **US threatens withdrawal:** News breaks that President Trump is considering pulling the US out of the trade deal. After conversations with the Canadian and Mexican heads of state, Trump recommits to negotiations
- May 2 ○ **Mexico concludes consultation process:** Mexico’s government concludes its own 90-day consultation process with business leaders and other stakeholders
- May 15 ○ **US confirms USTR:** The Senate confirms Robert Lighthizer as United States Trade Representative
- May 18 ○ **USTR sends official notice of renegotiation:** Lighthizer sends Congress a formal notification of the intent to renegotiate NAFTA, kicking off a 90-day consultation period prior to talks
- Jun 3 ○ **Canada announces consultation:** Canada begins its own pre-negotiation talks with stakeholders

Key Future Dates

- **July 18, 2017** – conclusion of Canada’s consultation period
- **August 16, 2017** – conclusion of the US consultation period
- **July 2018** – Mexican presidential elections
- **November 2018** – US midterm elections

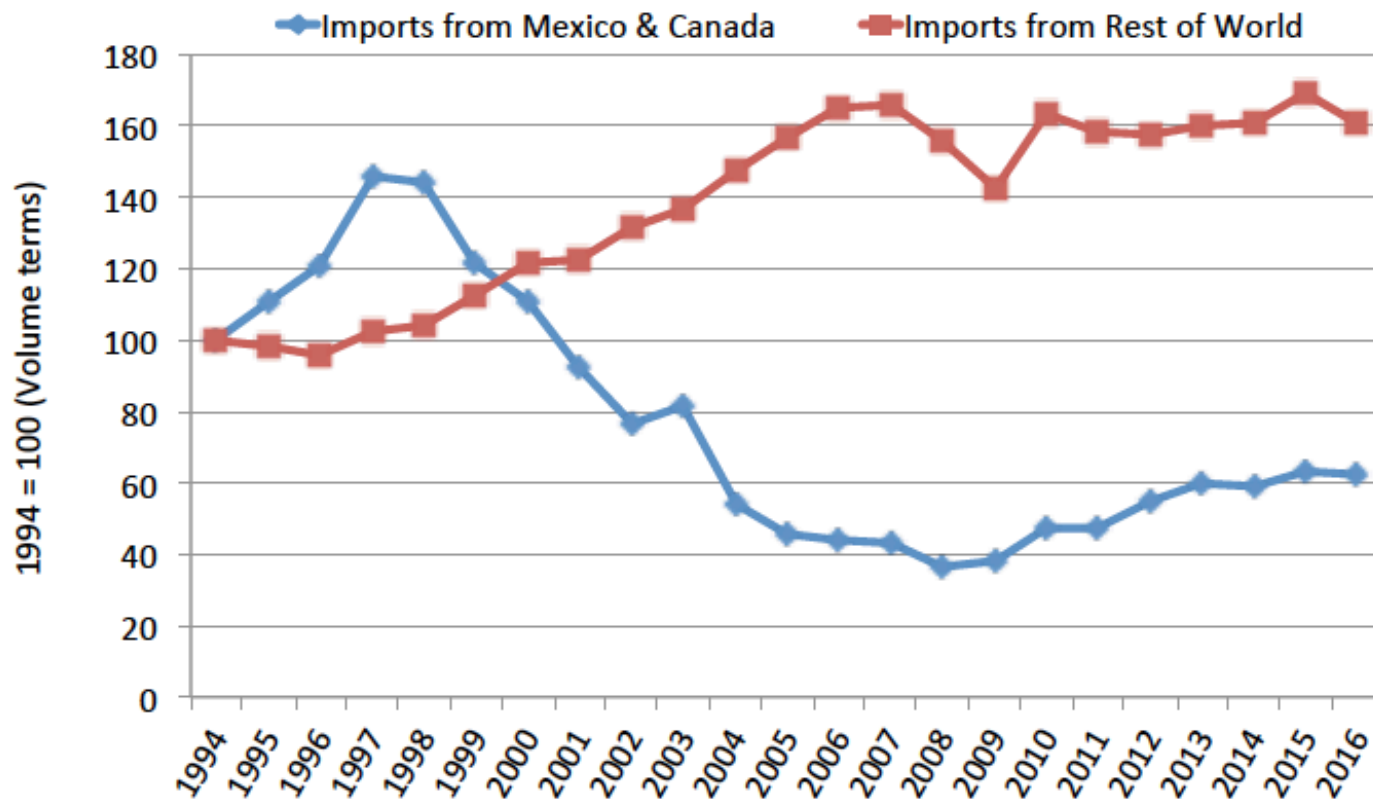
Footwear and NAFTA

Figure 1: U.S. Footwear Imports from Mexico and Canada See Little Growth with NAFTA



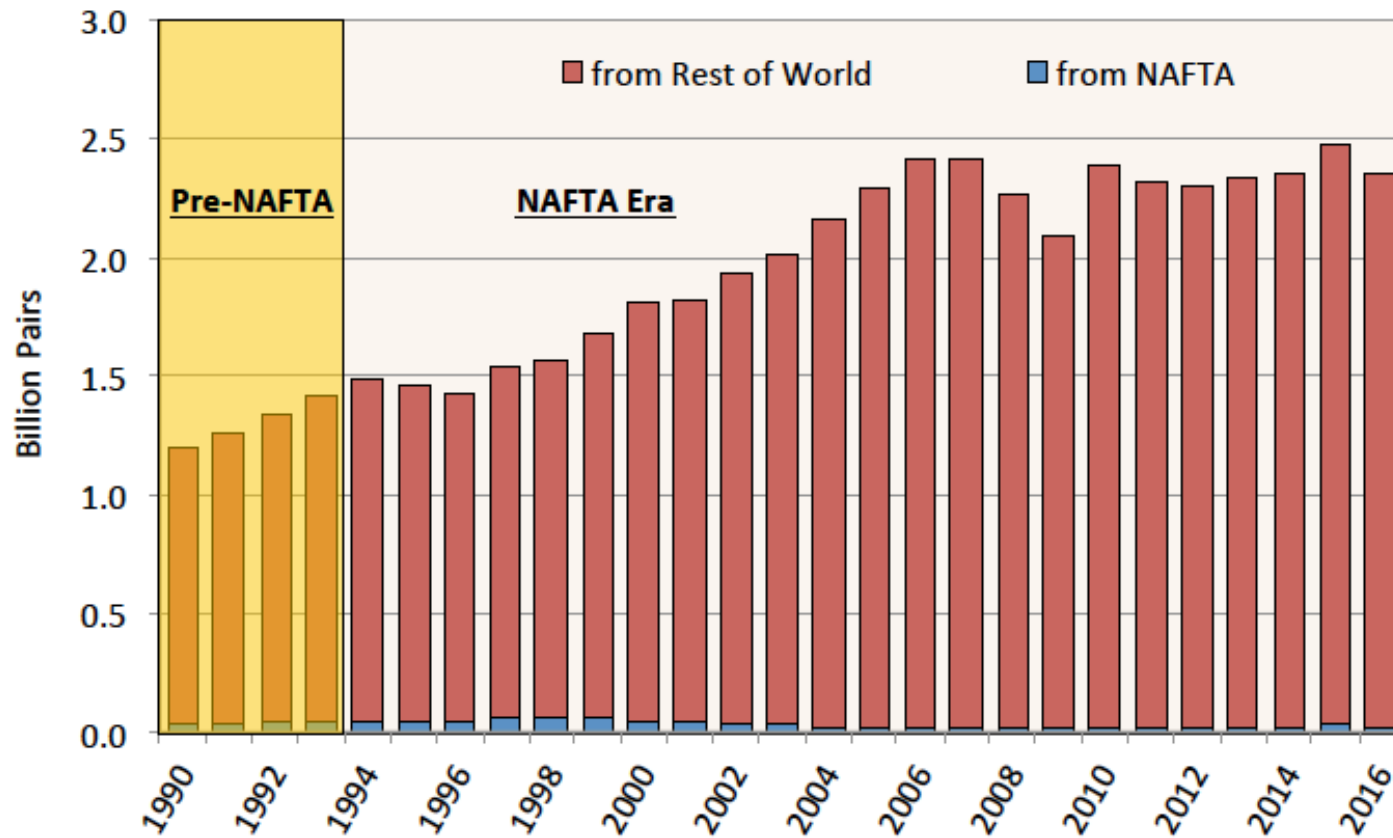
Footwear and NAFTA

Figure 2: U.S. Footwear Imports from Mexico and Canada See Little Growth with NAFTA



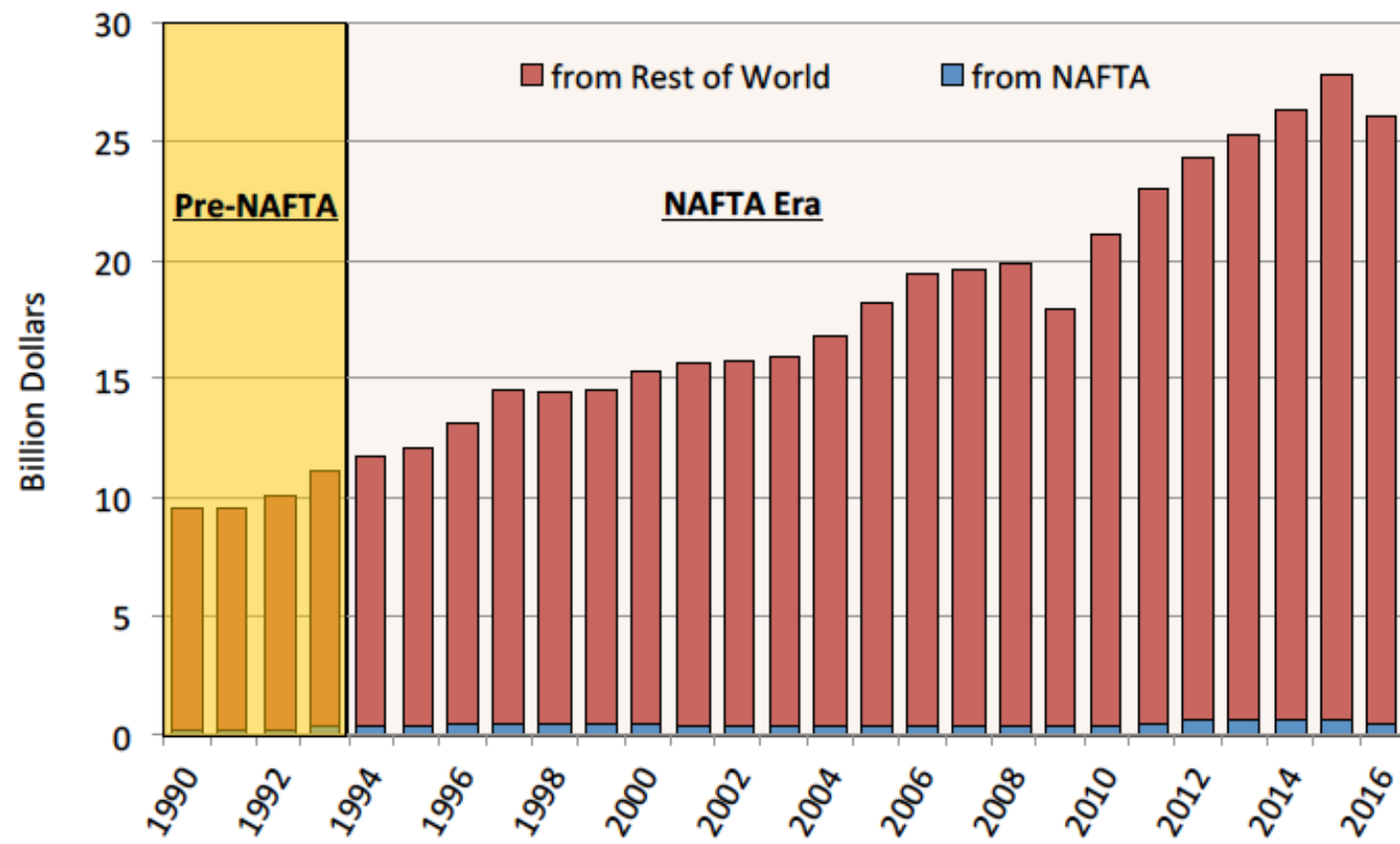
Footwear and NAFTA

Figure 3: Mexico and Canada Still a Small Share of U.S. Footwear Import Market



Footwear and NAFTA

Figure 4: Mexico and Canada Still a Small Share of U.S. Footwear Import Market



Source: U.S. International Trade Commission



Footwear and NAFTA

“The [current NAFTA rule of origin] has greatly inhibited the ability of the footwear sector to develop in North America. A change in the NAFTA rule of origin would, we believe, enable FDRA members to seek producers in the region. Greater flexibility would allow companies to have access to important materials while building greater production capacity and increasing footwear manufacturing in North America.”

Matt Priest, FDRA President & CEO

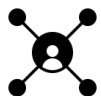
Comments to the Trump Administration on NAFTA Modernization

June 12, 2017

Potential Key US goals in NAFTA renegotiation



Reduce the US trade deficit in certain industries with Canada and Mexico*



Reduce outsourcing of US manufacturing jobs and establish stricter rules of origin for NAFTA products, particularly for auto imports



Create and enforce stricter labor, intellectual property and environmental regulations similar to the ones originally proposed in the Trans-Pacific Partnership

Eliminate the NAFTA binational dispute settlement process for challenging anti-dumping (AD) and countervailing (CVD) measures

**while Trump previously proposed tariffs and countervailing duties, the USTR's recent letter to Congress did not mention such measures*

Background

Commerce Secretary Wilbur Ross has stated that the administration's main renegotiation principle is "do no harm" to US exports to Mexico and Canada

"Our aim is that NAFTA be modernized to include new provisions to address intellectual property rights, regulatory practices, state-owned enterprises, services, customs procedures, sanitary and phytosanitary measures, labor, environment, and small and medium enterprises"



Ambassador Robert Lighthizer, United States Trade Representative (USTR)

Potential Mexican and Canadian goals for NAFTA renegotiation



Maintain trilateral negotiations, rather than engaging in separate bilateral deals with the US



Challenge the NAFTA Chapter 11 framework for investor-state disputes



Demand greater access to compete for US public sector procurements, which are currently protected by "Buy America" laws



Bring back labor, intellectual property and environmental standards included in the Trans-Pacific Partnership



Expand the categories and availability of NAFTA worker visas to the U.S.



Put in place regulations for e-commerce and the digital economy

Background

Recent US trade disputes over Canadian softwood lumber and dairy, as well as Mexican sugar, have set the template for NAFTA negotiations over key commodities





USTR and top Trump trade advisors will likely lead NAFTA negotiations for the U.S.

Key U.S. negotiators in NAFTA negotiations



Robert Lighthizer

US Trade Representative

- Responsible for conducting bilateral and multilateral trade negotiations



Wilbur Ross

Secretary of Commerce

- Responsible for leading the Trump administration's trade negotiations with Mexico



Peter Navarro

Head of the National Trade Council

- Helped develop the U.S. NAFTA renegotiation proposals and held talks with key Mexican officials





Mexican economy and foreign affairs secretaries will likely lead trade negotiations

Key Mexican negotiators in NAFTA negotiations



Ildefonso Guajardo

Secretary of the Economy

- Leads negotiations with the U.S. and consultations with Mexico's private sector



Luis Videgaray

Secretary of Foreign Affairs

- Organized Trump's campaign visit to Mexico in August





Canadian trade and foreign policy ministers will likely lead trade negotiations

Key Canadian negotiators in NAFTA negotiations



Francois-Philippe Champagne

Minister of International Trade

- Responsible for conducting bilateral and multilateral trade negotiations



Chrystia Freeland

Minister of Foreign Affairs

- Has expressed Canada's preference for trilateral negotiations

