

Oral Testimony of Thomas J. Gibson  
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For the Hearing on Negotiating Objectives Regarding the Modernization of the  
North American Free Trade Agreement with Canada and Mexico

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Good morning, I am Tom Gibson, President and CEO of the American Iron and Steel Institute. AISI represents both integrated and electric furnace steelmakers, accounting for approximately 70 percent of U.S. steelmaking capacity, employing workers across 41 states. I appreciate the opportunity to testify at this hearing today.

NAFTA has provided significant benefits for the steel industry. NAFTA is the steel industry's most important free trade agreement, as 90 percent of all U.S. steel mill product exports are to Canada and Mexico. Since NAFTA went into force U.S. steel exports to Canada and Mexico increased nearly threefold, and the United States moved from a large steel trade deficit with Canada and Mexico to a relatively balanced trade relationship.

The Agreement has strengthened manufacturing supply chains, contributed to increases in intra-NAFTA trade and investment, and resulted in a stronger relationship with Canada and Mexico. AISI views NAFTA as a successful agreement that should be modernized and strengthened. AISI offers the following five recommendations to improve NAFTA.

**First, strengthen Rules of Origin and enhance Regional Value Content Requirements.** The three countries should agree to update rules of origin and regional value content requirements to further incentivize investment and job growth in the North American region. For example, the rules regarding traced materials for automobiles should be amended to ensure the use of North American steel in NAFTA originating vehicles. NAFTA's 62.5 percent RVC for finished vehicles is the highest of any American free trade agreement, and it has encouraged the use of North American parts and manufacturing.

But while a number of traced materials are steel intensive, steel itself is not a traced material, so NAFTA provides no direct incentive for North American producers of steel-intensive traced materials to use North American steel in their production, or for North American automotive companies to prefer traced goods made with North American steel. A renegotiated NAFTA should address this.

**Second, promote trade enforcement and coordination.** Steel imports into the United States have been at historic highs for several years. This is in large part due to foreign government subsidies and other market-distorting policies. These imports eat into production and market share and contribute to severe job losses. The three governments work together in various forums and this collaboration has been productive. A renegotiated NAFTA offers an opportunity to further collaborate on ways to respond to unfair trade practices by foreign governments.

**Third, establish enforceable currency disciplines.** Currency manipulation makes exports more expensive, imports cheaper, and can subsidize cheaper prices for exports to third-markets. The International Monetary Fund has provisions against currency manipulation, but the lack of an enforcement mechanism has limited their effectiveness. A renegotiated NAFTA should build on IMF commitments and include an enforceable currency discipline. While none of the three NAFTA countries manipulate their currencies, it would set an important precedent for future free trade agreements.

**Fourth, establish disciplines on the conduct of State-Owned Enterprises.** SOEs create market distortions and an un-level playing field for market-based competitors. Former U.S. Trade Representative Charlene Barshefsky described NAFTA's current SOE provisions as "limited and do not reflect the full range of concerns about discriminatory preferences for SOEs that have come to the fore since NAFTA was signed." While there are a small number of SOEs in North America, they are much more common in other parts of the world. The Trans-Pacific Partnership included a chapter on SOEs that was stronger than the NAFTA chapter, and negotiations offer the opportunity to build upon the TPP text. This will also establish an important template for future trade agreements.

**Fifth and finally, improve customs procedures, operations and coordination, and upgrade border infrastructure.** For many steel using-companies and industries, shipping and receiving steel in a timely manner is critical. NAFTA negotiations present an opportunity to streamline existing customs procedures to ensure manufacturers can ship and receive steel in an efficient manner. Reducing burdensome and redundant reporting requirements would facilitate trade, make manufacturing more efficient, and enhance border security by allowing resources to be used more effectively. Upgrading border infrastructure and limiting bottlenecks would also facilitate North American trade and economic growth.

In conclusion, NAFTA has been a beneficial agreement for the American steel industry. The agreement has resulted in stronger and more efficient supply chains, increased exports and investments, and helped the industry remain globally competitive. It has also facilitated better cooperation with Canada and Mexico to address problems with other trading partners. While the Agreement has been beneficial, AISI also believes the recommendations outlined would improve it, make the American steel industry stronger, and create jobs in the process. Thank you for the opportunity to testify today.