American Iron and Steel Institute

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United States-Mexico-Canada Agreement:
Likely Impact on the U.S. Economy and on Specific Industry Sectors
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Good morning, Mr. Chairman and members of the Commission. My name is Kevin Dempsey and I am the Senior Vice President for Public Policy and General Counsel at the American Iron and Steel Institute. I am pleased to testify here today on behalf of our U.S. producer members on the positive impact that the United States-Mexico-Canada Agreement will have on the American steel industry. Our association is comprised of both integrated and electric arc furnace steelmakers, accounting for approximately 70 percent of U.S. steelmaking capacity with facilities in 41 states, as well as 120 associate members who are suppliers to or customers of the steel industry.

I. Introduction

The North American Free Trade Agreement (NAFTA) has provided significant benefits for the American steel industry since it went into effect in January of 1994. The Agreement has resulted in strengthened manufacturing supply chains throughout North America, especially with key customer groups like the automotive industry. As a result, exports of U.S. steel mill products to the other two NAFTA countries have increased by 249 percent since NAFTA entered into force. And we have gone from a trade deficit in steel products with Canada and Mexico in the early 1990s to a trade surplus in recent years. Today the vast majority of U.S. steel exports are made within the region: For example, 88 percent of U.S. steel exports in 2017 were to Canada and Mexico. In addition, NAFTA has resulted in a strong trade policy and enforcement relationship with Canada and Mexico on key steel issues, including the ongoing global steel overcapacity crisis and the need to maintain strong and effective trade remedy laws and to address transshipment, circumvention and evasion of trade law measures.

II. Key Aspects of the USMCA for the Steel Industry

The American steel industry therefore views NAFTA as a successful agreement, but after almost 25 years in effect, one that can and should be modernized and strengthened. And in AISI's view, key provisions in the proposed United States-Mexico-Canada Agreement do just that. Today I would like to highlight five areas in which the USMCA improves upon the original NAFTA and which are of significant benefit to steel producers in the United States.

A. Strengthened Rules of Origin

First, a key priority for the steel industry in the negotiations to modernize the NAFTA was to strengthen the rules of origin and regional value content (RVC) requirements in the Agreement in order to incentivize the consumption of North American steel in the manufacturing of steel-intensive goods in the North American region. For example, while the original NAFTA's 62.5 percent RVC for passenger vehicles and light trucks is the highest of any American free trade agreement to date, it did not provide clear incentives for North American automotive producers and other manufacturers of steel-intensive goods to use North American steel in their production. This was because the original NAFTA relied on tariff-shift rules for many steel-intensive products, allowing goods made from non-originating steel to be considered originating when substantially transformed in North America.

The USMCA addresses this issue by adopting new rules that establish enhanced RVC requirements for a number of steel-intensive products, including autos and key auto parts, welded pipe and tube, and a number of other goods made primarily from steel. The Agreement also mandates that automakers purchase 70 percent of their steel from North America in order for their vehicles to be considered originating. These new origin rules will increase incentives for the use of North American steel in these products, which will benefit steel producers in the United States by increasing demand for domestically produced steel.

B. <u>Trade Law Enforcement and Coordination</u>

Second, the Agreement also includes important provisions to promote greater trade law enforcement by the three North American governments. Repeated surges of unfairly traded imports of steel products into the United States have injured the U.S. steel industry, and foreign exporters and importers have resorted to numerous schemes to circumvent and evade U.S. trade remedy orders. The steel industries in Canada and Mexico have faced similar import-related injury due to unfairly traded steel imports from offshore. In response to these common North American steel industry concerns, the USMCA includes provisions to promote increased cooperation and information sharing between the three North American governments to address circumvention and evasion of trade remedy orders. This was another important priority of the steel industry in the negotiations.

C. <u>Enforceable Currency Disciplines</u>

Third, the USMCA is the first U.S. trade agreement which includes a chapter on currency manipulation in the body of the trade agreement and AISI views this as an important improvement over previous agreements. Foreign government currency manipulation makes U.S. exports more expensive, imports into the United States cheaper, and can subsidize cheaper prices for foreign exports to third-markets. AISI has therefore long advocated that U.S. trade agreements include enforceable provisions to address currency manipulation. While the substantive provisions prohibiting manipulation of currency values in the USMCA largely restate commitments already made in the context of the International Monetary Fund (IMF), the Agreement does establish new transparency and reporting requirements that are enforceable under the terms of the Agreement.

D. <u>Disciplines on the Conduct of State-Owned Enterprises</u>

Fourth, improving on the work done during the Trans-Pacific Partnership (TPP) negotiations, the USMCA includes a chapter governing the conduct of state-owned enterprises (SOEs) that sets an important template for future trade agreements. If not subject to clear rules, SOEs can create market distortions and an un-level playing field for market-based competitors, and establishing new disciplines on trade-distorting SOE practices has been a priority for AISI. In particular, we are pleased that the USMCA SOE provisions include a more expansive definition of SOEs as compared to the TPP. This is an important step forward in establishing new disciplines on SOEs, although we would like to have seen the disciplines applied to sub-central entities as well.

E. <u>Improved Customs Enforcement</u>

Fifth, the USMCA also includes important provisions to strengthen and expand customs enforcement and cooperation among the three North American governments. These include new provisions to facilitate the sharing of confidential information between customs authorities for the purpose of enforcing customs measures, as well as provisions to permit cooperation between the governments in customs compliance verification efforts. AISI views these provisions as valuable improvements to the cooperative efforts between the North American governments that have been undertaken under the NAFTA.

III. Conclusion

In conclusion, AISI believes the provisions of the proposed USMCA I have outlined will make valuable improvements to the text of the original NAFTA that will provide important benefits to the U.S. steel industry and to the U.S. economy in general. I would be pleased to answer any questions.