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before the
House Transportation Committee
Subcommittee on Highways and Transit

Hearing on
NAFTA : Arbitration Panel Decision and Safety Issues With Regard to Opening the U.S./Mexican Border to Motor Carriers
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Introduction

I appreciate the opportunity to appear today before this Subcommittee to discuss the issue of cross-border access for motor carriers. My agency, the Office of the United States Trade Representative (USTR), is responsible for negotiating trade agreements for the United States Government, and for overseeing their implementation. The provisions under discussion at this hearing are contained in the North American Free Trade Agreement, NAFTA, negotiated by the United States, Canada and Mexico in 1991 and 1992.

I am testifying here today to express the Administration's support for the twin goals of ensuring that Mexican trucks fully meet U.S. highway safety standards and of fulfilling the international obligations of the United States. Let me start by stating clearly that USTR attaches the utmost importance to ensuring safety on our highways. However, recent action by the House to impose an across-the-board ban on new licensing authority for Mexican trucking companies goes well beyond, and is not justified by, highway safety concerns. Moreover, if enacted into law, that action could jeopardize our relations with Mexico and impede President Fox's efforts to promote openness and reform.

Secretary Mineta has made the case that substantial delays in the implementation of the NAFTA cross-border transportation provisions are not required or necessary in order to protect our legitimate safety concerns. I first will briefly summarize our experience under the NAFTA over the last seven years, and the broad benefits it is producing for the United States and our trading partners. I will then address our NAFTA obligations to allow cross-border trucking and the results of the recent dispute settlement proceedings. Cross-border trucking has become an important symbolic issue for the Government of Mexico, and if mishandled, will have far-reaching ramifications for our trade and broader foreign policy relationship.

NAFTA HAS BEEN A SUCCESS

By any reasonable measure, NAFTA has been a tremendous success. The Agreement created the world's largest free trade area, and trade and investment between our countries have blossomed, leading to greater flexibility and competitiveness for manufacturers, opened new markets for our farmers and ended restrictions that denied service industries access. Together, the result has been more choices and lower costs for consumers. Lower tariffs and other barriers to trade have helped not only to increase overall employment, but they have helped create better paying jobs. The expectations of its architects have been exceeded, while the dire predictions made by skeptics have not come to pass.

Every day, the U.S. conducts nearly $1.8 billion in trade with Canada and Mexico, or about $1.25 million in trade every minute. Since 1993, U.S. exports to Canada and Mexico have more than doubled, while our exports to the rest of the world have grown by half as much. Virtually all trade between the U.S. and Canada is now duty free, and by 2003, all but a handful of goods traded between Mexico and the U.S. will be duty free.

By eliminating tariffs, NAFTA has lowered prices and expanded choices for consumers in all three countries. Large companies aren't the only ones who benefit from higher tariffs. Families pay less for food, clothing, and basic household goods. Because of tariff cuts under the NAFTA, American households enjoy higher income from both the increase in the national income as well as a reduction in taxes. One study estimates the estimated income gains and tax cuts resulting from NAFTA are worth approximately $350 to $930 annually to a family of four.
In 2000, U.S. jobs supported by merchandise exports to NAFTA totaled an estimated 2.9 million jobs, up over 900,000 jobs since 1993, when NAFTA implementation started. Nearly 1.2 million jobs are supported by U.S. exports to Mexico (up nearly 550,000 since 1993) and 1.7 million jobs are supported by U.S. exports to Canada (up over 350,000 since 1993). NAFTA, by helping to increase trade flows, has created higher-wage jobs in all three countries.

A recent study in *Business Week* noted that NAFTA has helped to keep entire industries competitive in the United States. While Mexico has increased the number of factories producing goods for export, the U.S. remains the dominant supplier to those factories. In fact, the U.S. International Trade Commission estimates that the U.S. supplies 82 percent of components to Mexican factories. U.S. industrial production has risen by 43 percent since 1993, hardly evidence of a great sucking sound to the south of the border.

NAFTA'S CROSS-BORDER TRANSPORTATION PROVISIONS

Of course, the success of the NAFTA requires more than eliminating duties. It requires efficient and economical ways to transport goods from one country to another. In the case of Mexico, nearly 80 percent of our trade in goods travels by truck. Until 1982, the United States allowed Mexican firms free access to the United States for international transportation service, while Mexico did not provide reciprocal access for the United States. Reacting to this disparity, Congress limited Mexico's access to the border zone until such time as Mexico agreed to allow U.S. trucking services access to its market.

Thus today, government restrictions currently require that trucking companies use a time-consuming and inefficient system to transport goods back and forth across the border. To transport goods from Mexico to the United States, a long-haul truck carries the freight from the interior of Mexico to a location near the border, the freight is transferred to a short-haul or "drayage" truck, the drayage truck carries the freight across the border into a narrow commercial zone, and the freight is then transferred to a long-haul U.S. truck for carriage into the United States. In all, three different trucks are typically used to carry a single load of freight from Mexico to the United States. The same inefficient procedure, in reverse, must be used to carry goods from the United States to Mexico. Imagine if we insisted upon such a system for interstate transport in the United States. The obvious inefficiency and waste of resources would be protested by businesses and consumers alike.

When the NAFTA negotiations began in 1991, the United States urged that the agreement include cross-border trucking provisions that would allow a single truck to carry a load of cargo from the United States to Mexico and back. We knew this system was both more efficient and practical, because for years U.S. and Canadian trucks have been operating in both countries under each country's respective safety standards. Moreover, U.S. carriers are better-capitalized and more competitive than their Mexican counterparts, and would be expected to gain most of the market share in cross-border trucking. For this reason, a large sector of the U.S. trucking industry strongly supports the removal of the cross-border trucking restrictions.

We succeeded in including reciprocal cross-border trucking provisions in the NAFTA. Those provisions authorized U.S. trucks to carry cargo to and from Mexico – and Mexican trucks to carry cargo to and from the United States – beginning in December 1995. Under the NAFTA, <u>the United States may apply all of its own safety standards to Mexican trucks operating in the United States</u>, and may take reasonable measures to enforce those standards.

The NAFTA trucking provisions only cover the transport of *international* cargo. The transport of domestic cargo is and will continue to be reserved for U.S. carriers. In other words, Mexican carriers are not authorized to transport domestic cargo from one point to another within the United States.

In 1993, Congress approved the NAFTA, including the cross-border trucking provisions. More than five years after the 1995 implementation date, we have yet to comply with the trucking commitments that we ourselves asked to be included in the agreement.

THE NAFTA PANEL

When the last Administration refused to implement the cross-border trucking provisions, Mexico brought the issue to a formal NAFTA dispute resolution panel. Mexican officials believed that if the United States were allowed simply to ignore important NAFTA obligations, the Government of Mexico would have no response when Mexican interests asked that Mexico ignore its own NAFTA obligations.

Earlier this year, the panel found that an across-the-board ban on all Mexican trucks was inconsistent with the obligations of the United States under the NAFTA Instead, the United States is obligated to examine Mexican carriers on a case-by-case basis. The panel confirmed that the United States may require that Mexican trucks and drivers abide by U.S. safety standards, and that the United States may take reasonable steps to enforce such standards.

Up to this point, Mexico has been working with the Department of Transportation as it develops its procedures for ensuring that Mexican trucking companies meet U.S. safety rules. If, however, the blanket ban in the House appropriations bill were to become law, it would place the United States in a direct and willful breach of our obligation to Mexico.

Implications for U.S.-Mexico Relations

If we refuse to comply with the NAFTA's cross-border trucking provisions, such action could lead Mexico to withdraw some of the valuable trade concessions it has made to us under the NAFTA. As noted above, between 1993 – the year prior to NAFTA's entry into force – and 2000, U.S. merchandise exports to Mexico rose 170 percent, with the value of U.S. exports in 2000 at $112 billion. These exports supported some 1.2 million American jobs, nearly double the amount in 1993. And Mexico has now supplanted Japan as our second largest trading partner - - exceeded only by Canada, our other NAFTA partner.

Moreover, an outright refusal by the United States to comply with the NAFTA could result in harm to more than our trading interests. Since implementing the NAFTA in 1994, Mexico has made dramatic progress in reforming its economy and in moving toward true democracy. The NAFTA has been a key element in Mexico's reform process, by helping to open Mexico's economy and by ensuring clear and transparent government rules. The United States has been working closely with President Fox to accelerate the reform process. Now is not the time to tell Mexico that the United States will not abide by the NAFTA, the linchpin of our relations with our southern neighbor.

For these reasons, we look forward to working with you to craft legislation that ensures Mexican motor carriers will satisfy U.S. highway safety standards and that meets our international commitments.