

TESTIMONY OF STEPHEN P. VAUGHN

Field Hearing in San Antonio, Texas

November 20, 2017

Good morning. My name is Stephen Vaughn and I am the General Counsel of the Office of U.S. Trade Representative. It's great to be here in Texas and specifically in San Antonio, where leaders from the United States, Canada and Mexico signed the original NAFTA 25 years ago. It is important to note Texas is our largest exporting state and Mexico is Texas' largest export market. We are confident a new NAFTA will create new opportunities for Texans. I am grateful for the opportunity to testify about USTR's efforts to upgrade and improve NAFTA for all Americans. Before taking questions, I would like to emphasize a few key points.

It is important to understand that all of us at USTR – led by Ambassador Lighthizer – are focused on getting a new agreement. We are both aware of – and have concern for – those Americans who benefit from NAFTA 1.0. We have heard from many Americans – including many in the agriculture sector and from Border States like Texas – who are very concerned about the future of NAFTA. We share those concerns, which is why we have moved at unprecedented speed to press for a new and improved agreement. Since August, we have had five separate rounds of negotiations – an unheard of pace for major trade talks. At this moment, there are hundreds of U.S. officials, from agencies throughout the government, in Mexico City negotiating with their counterparts from Mexico and Canada. And this is only part of our ongoing effort.

We at USTR have reviewed more than 12,000 public comments on NAFTA 2.0. Since August 16, Ambassador Lighthizer and USTR staff have met personally with dozens of Members of Congress, spending more than 700 hours discussing NAFTA with Congressional members and Staff during that time. Furthermore, throughout this process, we have held extensive consultations with members of the private sector, labor representatives, ranchers,

farmers, and leaders of the NGO community. There have been dozens of scheduled briefings to advisory committees, hundreds of hours of stakeholder consultations, and a continuing open door policy. All of this work was undertaken to comply with Congressional rules, build support for NAFTA 2.0, and ensure a seamless transition to a new agreement. As you know, it is very unusual to attempt such a major trade negotiation at this pace. But we are doing it, in large part, because we want to eliminate uncertainty and resolve concerns about NAFTA as quickly as possible.

At the same time, I must emphasize that Ambassador Lighthizer agrees strongly with the President's view that the current version of NAFTA is a bad deal for America. Of course, there are Americans who benefit from NAFTA. And we want to avoid harming them. But USTR must look at trade deals from the perspective of the country as a whole – and from that perspective, there are serious problems with NAFTA. Let me just mention two.

First, NAFTA is outdated. It went into effect on January 1, 1994 – before most Americans had even heard of the Internet. NAFTA lacks the type of provisions on labor standards, the environment, intellectual property, state-owned enterprises, or digital trade that Americans now expect in deals of this kind. To address this problem, Ambassador Lighthizer has put forward extensive proposals to upgrade and modernize NAFTA.

Second, NAFTA is unbalanced. We do enormous volumes of trade with countries like Japan, the United Kingdom, Germany and China pursuant to WTO rules, even in the absence of a specific free trade agreement with those countries. Against this background, the purpose of an agreement like NAFTA is to create special rules – to give certain countries unique access to this market, access that other countries lack. In exchange, of course, we expect those countries to

give American workers, farmers, ranchers, and businesses comparable access to their home markets.

Meanwhile, in the last ten years, our trade deficit in goods and services with Mexico has exceeded \$500 billion. Our trade deficit in goods and services with Canada over the same period was more than \$100 billion. Together, that's a difference of over \$600 billion in the last decade. And if we looked at trade in goods alone, that difference would be almost \$1 trillion. The President and Ambassador Lighthizer are both very concerned that these enormous deficits do not represent the type of fair and reciprocal relationship that should exist when the United States gives special privileges to another country. Accordingly, they believe that NAFTA must be changed to give American workers a fairer chance to compete. Again, we have put forward a number of proposals designed to create a more level playing field.

We do not expect these negotiations to be easy. For a very long time, our NAFTA partners have enjoyed an agreement that is tilted in their favor. They do not want to give up that advantage, and we can understand why they feel that way. But our job at USTR is to represent the people of this country – and they deserve a better deal. We intend to do everything possible to get it for them.

I want to thank Chairman Cornyn for hosting this field hearing, and for giving me the opportunity to testify. I am happy to answer any questions.