



City of San Antonio

Agenda Memorandum

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In Control: City Council A Session

DEPARTMENT: Economic Development

DEPARTMENT HEAD: Rene Dominguez

COUNCIL DISTRICTS IMPACTED: City Wide

SUBJECT:

Consideration for adoption of a resolution supporting the United States-Mexico-Canada Agreement (USMCA), an update to the North American Free Trade Agreement (NAFTA).

SUMMARY:

Approval of a resolution expressing support for the USMCA due to the positive economic impact that the multinational trade agreement will have on the local economy, on par or greater than the economic impact that NAFTA has generated. On November 30, 2018, U.S. President Donald Trump, Mexican President Enrique Peña Nieto, and Canadian Prime Minister Justin Trudeau signed the USMCA. Legislatures of all three countries must ratify the agreement before implementation.

BACKGROUND INFORMATION:

NAFTA, the original treaty between the United States, Canada, and Mexico, has been in effect since January 1, 1994. Some of the key NAFTA provisions include open markets, reduced tariffs, rules of origin, foreign investment incentives, intellectual property rights protection, government procurement opportunities, and dispute resolution. Labor and environmental provisions were included in separate NAFTA side agreements.

San Antonio hosted the leaders of the three countries in 1993 for the formal signing of NAFTA. San Antonio is also home to the North American Development Bank (NADBank), facilitated by passage of NAFTA. Further, Canada and Mexico are key components of our international economic development strategy to increase foreign direct investment, exports, and global collaborations. The City of San Antonio maintains a trade office in Mexico City (Casa San Antonio) and has official Sister City relationships with Monterrey and with Guadalajara.

According to a report by the City's economist, Dr. Steve Nivin, from 1994 through 2016, NAFTA created 63,204 direct jobs in the San Antonio economy. These direct jobs paid incomes of about \$3.8 billion and added \$5.1 billion in gross regional product to the local economy. When multiplier effects are taken into account, the total employment supported by NAFTA totaled 135,511 with incomes of \$7.2 billion. Overall, NAFTA played a role in the generation of \$10.6 billion in gross regional product and \$20.5 billion in output across the San Antonio economy.

On May 18, 2017, the United States commenced NAFTA negotiations with Canada and Mexico. Through these negotiations, the United States sought to support higher-paying jobs in the United States and to grow the U.S. economy by improving opportunities for trade with Canada and Mexico. Preliminary terms were reached by trade negotiators from all three countries on October 1, 2018.

On November 30, 2018, leaders of the three countries signed the USMCA during a meeting of the G-20 Summit in Buenos Aires, Argentina. On April 19, 2019, the International Trade Commission released a report that estimates positive economic impact of the USMCA. Ratification of the USMCA is pending in all three countries.

ISSUE:

The main achievements of the USMCA include preserving the integration of the North American economy, providing certainty, and ensuring duty-free market access. The USMCA also modernizes 23 chapters of the original agreement and adds 11 new chapters, notably relating to labor, the environment, small and medium-sized enterprises, and digital trade.

The full legal text of the USMCA has yet to be presented to Congress. Once presented, Congress will have 90 days to consider ratification. Once ratified by the legislatures of all three countries, the USMCA will be implemented no sooner than three months from the date of the last country's notice. The existing requirements under NAFTA will remain in place until the USMCA is formally implemented. To encourage Congressional action, staff is recommending a resolution be sent to Congress expressing support for the USMCA due to the positive economic impact that the multinational trade agreement will have on the local economy, on par or greater than the economic impact that NAFTA has generated.

Key provisions in the new agreement include the following:

Market access and economic effects

NAFTA eliminated tariffs and most non-tariff barriers on North American goods, as long as they meet specific rules of origin. The USMCA maintains NAFTA market access provisions and adds new provisions for transparency in import licensing and export licensing procedures.

Automotive rules, including rules of origin

The USMCA retains tariff-free motor vehicle imports and tightens auto rules of origin by including:

- New motor vehicle rules of origin and procedures requiring 75% North American content;
- Wage requirements stipulating that 40%-45% of North American auto content be made by workers earning at least \$16 per hour;
- A requirement that 70% of a vehicle's steel and aluminum must originate in North America; and
- A provision aiming to streamline the enforcement of manufacturer's rules of origin certification requirements.

Foreign direct investment

NAFTA removed significant foreign direct investment barriers and ensured basic protections for NAFTA investors. The USMCA maintains the state-to-state and the binational dispute settlement mechanisms.

Intellectual property rights

NAFTA was the first U.S. free trade agreement to include intellectual property right protections. The USMCA retains NAFTA's core protections and adds new protections, including ten years of data protection for biologics among other protections.

Energy

The USMCA utilizes the current legal framework for private energy projects in Mexico, which is an expansion compared to NAFTA, by granting equal opportunities for U.S. companies to participate in energy and electricity contracts in Mexico.

Worker rights and the environment

NAFTA marked the first time that provisions on worker rights and the environment were associated with a free trade agreement. The USMCA maintains NAFTA provisions and adds additional requirements that parties adopt and maintain specific labor and environmental laws. On April 30, 2019, Mexican legislators passed key labor laws as prescribed by the USMCA.

Innovation

NAFTA was implemented in the early days of the Internet and does not contain digital provisions. The USMCA includes new digital trade provisions, including prohibiting customs duties on electronically-transmitted products and limits on source code disclosure requirements.

ALTERNATIVES:

City Council could decide to not approve the proposed resolution of support for the USMCA; however, this may compromise San Antonio's role as a leader in advocacy for free trade.

FISCAL IMPACT:

This resolution has no fiscal impact.

RECOMMENDATION:

Staff recommends approval of the resolution supporting free trade and the USMCA.