

The Honorable Robert E. Lighthizer
United States Trade Representative
600 17th Street, N.W.
Washington, D.C. 20508

Dear Ambassador Lighthizer:

In accordance with section 105(b)(4) of the Bipartisan Congressional Trade Priorities and Accountability Act of 2015, and section 135(e) of the Trade Act of 1974, as amended, I am pleased to transmit the report of the Agricultural Technical Advisory Committee for Trade in Tobacco, Cotton, and Peanuts on the Trade Agreement, reflecting the consensus advisory opinion on the proposed Agreement.

Respectfully submitted on behalf of the TCP ATAC,

Don Koehler

Don Koehler
Chair

Trade Agreement

Report of the Industry Trade Advisory Committee on Tobacco, Cotton, and Peanuts on the Trade Agreement, September 27, 2018

Ambassador Robert Lighthizer, United State Trade Representative, and
Secretary Sonny Perdue, United States Secretary of Agriculture

The members of the ATAC for Tobacco, Cotton, and Peanuts appreciate the opportunity to make comments concerning the recently negotiated US/Mexico Free Trade Agreement. This report is the result of several hours of volunteer time, several emails and conversations, and thoughtful discussion.

Mexico is not only a close neighbor but also an important trading partner for US Agricultural Commodities.

The impact on the segments represented varies and to craft this document representatives from each commodity discussed the impact on their commodity and then a unified document has been prepared from the full membership of the Committee.

The ATAC is encouraged this agreement promotes the economic interests of the United States and achieves an improvement from the status quo.

Tobacco provisions

Tobacco leaf growers along with most American farmers are generally supportive of our President's directive to examine and update Trade Agreements.

We growers think we are neutral in the proposed agreement. Shipment of leaf and products are negligible with Mexico.

We remain firm in our suggestion to be vigilant in customs enforcement with inspections to guard against transshipment of leaf strip.

We encourage continued adequate protection in ISDS matters to protect the trademarked products of any manufacturer using USA sourced leaf.

From a public health perspective the ISDS provisions are not ideal, but they are an improvement over the current NAFTA ISDS provisions.

Cotton provisions

The U.S. - Mexico agreement appears to provide for equity and reciprocity in trade in cotton fiber between the United States and Mexico. With respect to cotton fiber trade between the United States and Mexico, the agreement continues to provide for duty free and quota free trade as established under the original North American Free Trade Agreement (NAFTA).

Members of the cotton industry cannot fully evaluate any free trade agreement without consideration of the provisions of the agreement that affect trade in cotton textiles. The cotton members of the TCP ATAC favorably note some improvements with the U.S. and Mexico agreement over the original NAFTA concerning the rules governing textile trade. While the cotton members of the TCP ATAC support the reduction of two of the Tariff Preference Levels (TPLs) under the agreement, we are disappointed that the reductions apply only to previously unused portions of TPLs. TPLs divert critical benefits under the agreement to non-agreement countries, particularly China. The cotton members feel that more significant benefits could have been possible for U.S. and Mexican textile manufacturers had the TPLs been completely eliminated or reduced by a greater level.

The cotton members of the TCP ATAC are pleased with the new chapter rules for goods in HTS chapters 61, 62, and 63 requiring sewing thread, pocketing, narrow elastic fabrics, and coated fabrics to originate in the countries included in the trade Agreement. However, we are disappointed that the new rules do not take effect immediately upon entry into force of the Agreement or at least within shorter transition periods than the 18 or 30 months in some instances.

The Agreement also contains strong customs enforcement provisions that are consistent with recent U.S. Free Trade Agreements and are beneficial to the cotton and cotton products sectors. The establishment of a Textile and Apparel Committee is supported by the cotton members of the TCP ATAC.

Furthermore, the cotton members of the TCP ATAC support a trilateral agreement with the United States, Mexico, and Canada. In light of global conditions occurring outside of North America, the U.S. cotton and textile industry has relied on the trading relationships that were established between the countries of the original NAFTA for stability. The ongoing success of an integrated North American textile and apparel supply chain has helped ensure the reliable demand for U.S. raw cotton and cotton textile products. We urge the U.S. and Canada to intensify negotiations in order to bring about an updated trilateral agreement.

Peanut Provisions

Mexico is an important trading partner for US Peanuts. We applaud the Administration in the efforts to maintain and even strengthen this opportunity in the new agreement.

The NAFTA was a major milestone for the US Peanut Industry. The NAFTA was negotiated when the US Peanut Program focused on the domestic market and a quota program was in place. Section 22 import protections assured the integrity of the US quota. With NAFTA the border protections were eliminated which necessitated a change in the 2002 farm bill to a market oriented Peanut Program. This change made international markets far more important to US farmers.

The NAFTA language was largely preserved in the proposed US Mexico Free Trade Agreement with one change which we believe will potentially increase the export of US peanut kernels to Mexico.

In an analysis provided us by USDA the change for peanut was best laid out:

Original NAFTA U.S.-Mexico Provision on peanuts:

10. Notwithstanding Chapter Four (Rules of Origin), for purposes of applying a rate of customs duty to a good, the United States may consider as if it were non-originating a good provided for in:

- a) heading 12.02 that is exported from the territory of Mexico, if the good is not wholly obtained in the territory of Mexico;
- b) subheading 2008.11 that is exported from the territory of Mexico, if any material provided for in heading 12.02 used in the production of that good is not wholly obtained in the territory of Mexico;

Revised NAFTA U.S.-Mexico Provision on peanuts:

7. Notwithstanding the Specific Rules of Origin provided in [PSR Annex], the United States or Mexico may consider a good classified in heading 1202 or subheading 2008.11 to be originating only if any peanuts used in the production of such a good that are classified in heading 1202 are also originating.

This new provision will allow US peanuts processed in Mexico to be marketed in the US as well as other markets. As a practical matter this allows manufacturers who have factories in the US and Mexico to more efficiently supply consumers in the US market while not compromising quality. It also lets Mexican owned processors provide product to US consumers which contains US origin peanuts.

We believe this is a positive change in our trade agreement with Mexico.

Respectfully submitted on behalf of the TCP ATAC,

Don Koehler

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