



Understanding NAFTA and its Implications for U.S./Canada Trade



Executive Summary

It's been 20 years since the North American Free Trade Agreement (NAFTA) took effect, but debate continues with regard to its net benefit to the U.S., Canadian, and Mexican economies. The agreement [created](#) the world's largest free trade zone, affecting 450 million people and impacting three countries that together produce more than \$17 trillion annually in goods and services. Trade among the three countries has more than tripled, but [many ask](#) at what cost. For example, here in the U.S. some claim jobs were lost to Mexico and that U.S. workers' wages suffered.

While the debate continues, many U.S. businesses are finding NAFTA benefits to be a game changer. NAFTA has leveled the playing field in many important areas, chiefly by eliminating tariffs on domestically produced items moving between the partner nations and by allowing U.S. businesses nearly unfettered access to the Canadian and Mexican markets. But wading through the trade agreement's legalese and technical requirements can be a daunting exercise. As a result, many businesses may be unaware of its key provisions and may not be receiving financial benefits to which they are entitled.

U.S. TRADE IN GOODS WITH CANADA HAS INCREASED 300% SINCE NAFTA				
	EXPORTS	IMPORTS	BALANCE	TOTAL
1993 (NAFTA Takes Effect)	100,444.2	111,216.4	-10,772.2	211,660.6
2013	300,346.9	332,077.9	-31,731.0	632,424.8

All figures are in millions of U.S. dollars.

Source: [U.S. Census Bureau](#)

The following discussion will help explain the role NAFTA has in cross border trade, particularly with regard to U.S./Canada relations. The United States and Canada are each other's largest trade partners, with more than \$1.68 billion in goods crossing the border each day. NAFTA has become an integral part of the trade process, and the information provided will familiarize business managers, logistics managers, finance professionals—and anyone else with an interest in supply chain efficiency—with some of the trade agreement's key provisions, compliance processes, and business implications.

Historical Overview

The idea of a free trade agreement within the North American continent—between the U.S. and Canada specifically—dates back to 1911 and the administration of President William Howard Taft. Taft initiated negotiations with Canadian Prime Minister Wilfred Laurier for a reciprocity agreement that would eliminate, or drastically reduce, tariffs on either side of the border. Taft’s proposal, despite being opposed by the agricultural community which feared that “free admission” of Canada’s agricultural products would reduce the demand for food products back home, was passed by both the U.S. House and Senate. The measure was [not as successful](#) in Canada where, after a vigorous debate in Parliament, it was ultimately defeated in a ballot measure by Canadian voters.

In 1965, the two nations signed the “U.S.-Canada Automotive Products Agreement” that eased trade restrictions on cars, trucks, tires, and automotive parts. This agreement is [viewed widely](#) as having laid the groundwork that enabled the vibrant and integrated U.S./Canada automotive industry that exists today. The [Canadian Vehicle Manufacturers' Association](#) estimates that elimination of the auto pact’s favorable tariff treatment would cost the Canadian economy CAD\$10 billion in lost GDP and a five-year cumulative job loss “estimated at 116,900 Canadian person years.”

A more comprehensive agreement, the U.S.-Canada Free Trade Agreement (FTA) was negotiated by President Ronald Reagan and Canadian Prime Minister Brian Mulroney and took effect in 1989. According to

the Congressional Research Service, that agreement was “probably the most comprehensive bilateral FTA negotiated worldwide and contained several groundbreaking proposals. (Prior to enactment of the U.S.-Canada FTA, the United States’ only bilateral FTA was with Israel.)

Key tenets of the 1989 Free Trade Agreement included:

- elimination of all tariffs by 1998
- continuation of the 1965 U.S.-Canada auto pact but with tightened restrictions
- facilitation of border crossings for business people and professional service providers
- increased bidding opportunities for federal government procurement contracts

Meanwhile, south of the border, Mexico was beginning to dismantle its network of anti-investment and protectionist trade policies. Mexico became a signatory of the General Agreement of Tariffs and Trade (GATT), thereby agreeing to lower its maximum tariff rates to 50 percent. The government of Mexico actually went beyond the GATT mandates by reducing its highest tariff rate from 100 percent to 20 percent. But despite the country’s realization that high tariffs were inhibiting its export markets, Mexico continued to maintain strict barriers on U.S. imports, including licensing requirements and strict quotas.

Discussion about creating a North American free trade zone [began in earnest](#) during 1991. The agreement was [signed](#) in 1992 by U.S. President George H.W. Bush, Canadian Prime Minister Brian Mulroney, and Mexican President Carlos Salinas. The agreement was then subject to intense public debate among citizens in each participating nation. The agreement was passed by Canadian legislators in May 2003 and by the Mexican legislature in November 2003. In the U.S., the agreement was ratified by the U.S. Congress in November 1993 and signed into law by President William Clinton. The NAFTA agreement took effect on January 1, 1994.

Key NAFTA Provisions

How exactly has NAFTA changed the flow of goods between the U.S., Canada, and Mexico?

With regard to trade between the U.S. and Canada, it's important to note the 1989 U.S.-Canada trade agreement was in effect when NAFTA was negotiated, and many of its key provisions—tariff elimination and

expanded market opportunities—were already in place. The [Congressional Research Services](#) notes: “Given that the U.S.-Canada FTA was already in place, most of the market opening measures resulted in the removal of U.S. tariffs and quotas applied to imports from Mexico, and Mexican trade barriers applied to imports from the United States and Canada.”

NAFTA PARTNERS ARE TOP MARKETS FOR U.S. EXPORTS		
EXPORT DESTINATION	VALUE OF EXPORTS	PERCENTAGE SHARE
Canada	\$292.5 billion	18.9
Mexico	\$215.9 billion	13.9
China	\$110.4 billion	0.07
Japan	\$69.9 billion	0.04
United Kingdom	\$54.8 billion	0.03
Germany	\$48.7 billion	0.03
Brazil	\$43.8 billion	0.02
South Korea	\$42.2 billion	0.02
Netherlands	\$40.6 billion	0.02
Hong Kong	\$37.4 billion	0.02

Source: [International Trade Administration](#), based on 2012 U.S. Census Bureau data.

Among NAFTA's key provisions:

Tariff Elimination

NAFTA provided for the elimination of all tariffs and most non-trade barriers on goods produced and traded within North America. The agreement included a phase-out plan that extended for 15 years, although most tariffs were eliminated immediately.

However, with regard to the U.S. and Canada, NAFTA maintained the schedule to eliminate tariffs already in place per the Canada-U.S. Free Trade Agreement, which called for elimination of all tariffs by 1998.

Tariffs on all trade involving Mexico were phased out over 15 years, ending in 2008. Professor William Kehoe of the University of Virginia [noted](#) that “as much as 50 percent of U.S. exports to Mexico and 70 percent of Mexican exports to the U.S. became tax tariff/quota free” when NAFTA took effect.

Elimination of Non-Tariff Barriers

At the time NAFTA was implemented, U.S.-Mexico trade was severely hampered by restrictive and onerous policies imposed by the Mexican government on U.S. goods. Those policies included import licenses, local content and production rules, and export performance requirements. Under NAFTA, Mexico agreed to eliminate all non-tariff barriers.

Uniform Standards

For the first time, the U.S., Canada, and Mexico agreed to adopt similar standards with regard to product characteristics including quality, performance, and labeling. Going forward, companies are no longer required to comply with three different standards in three different countries, and laboratory or other testing certifications obtained in one country are accepted by each NAFTA partner.

Intellectual Property Rights

NAFTA put in place standards for protecting and enforcing intellectual property rights in categories including copyrights, trademarks, and patents. In general, NAFTA requires each country to recognize property rights assigned by each government and to extend property rights protections as outlined in recognized international agreements, including the Berne Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, and the Geneva Convention for the Protection of Producers of Phonograms.

Service Providers

NAFTA maintained and expanded cross-border access and nondiscriminatory treatment for the services trade initially included in the U.S.-Canada Free Trade Agreement and extended application to Mexico. Covered sectors include financial services, accounting, architecture, legal services, and health care management. Certain exemptions were made for industries including aviation transport, maritime, and basic telecommunications.

Government Procurement

NAFTA granted U.S., Canadian, and Mexican businesses immediate and increased access to government procurement markets. Each government committed to offering “fair and open” competition through “transparent and predictable” procurement procedures.

Transportation Providers

Because Canada and the United States already enjoyed free access to each other’s highways, NAFTA’s transportation policies—directed primarily at cross-border trucking—were targeted specifically at Mexico. As originally signed, the agreement stipulated:

- by December 1995, the U.S. and Mexico would allow access to each other’s border states for the delivery and backhaul of cargo
- by 2000, all restrictions on cross-border access would be lifted, with U.S. trucks permitted to travel to and from any point in Mexico, and Mexican trucks able to travel freely within the United States

However, in December 1995, the U.S. Department of Transportation suspended implementation of the NAFTA schedule, citing safety concerns associated with the operation of Mexican trucks in the U.S. The Mexican government responded, after more than a decade of negotiations, in 2009 by imposing retaliatory tariffs on a number of U.S. goods. The two countries launched a [pilot program](#) in 2011, giving approved Mexican trucks access to U.S. highways. In [return](#), Mexico agreed to eliminate the retaliatory tariffs.

Dispute Resolution

NAFTA created a trilateral “Free Trade Commission” to meet regularly to review trade relations and to discuss problems and grievances. The Commission is empowered to create bilateral or trilateral “panels” to investigate specific trade disputes and to issue rulings to resolve those disputes. Panel rulings are binding; although if a country opts not to comply, it must offer an acceptable alternative.

NAFTA did not, however, [end the practice](#) of “trade remedy” actions, including antidumping and countervailing duties, which had been a goal of Canadian negotiators. Disputes involving these practices are generally to be resolved via binational panels.

Some of NAFTA’s most significant provisions were industry-specific and are summarized below:

Textile and Apparel Industries

NAFTA phased out all duties on textile and apparel products that meet specific NAFTA guidelines over a 10-year period. The agreement put in place “Rules of Origin” requirements that define criteria for goods to qualify for preferential treatment. Although CBP notes that NAFTA’s textile provisions are “particularly detailed,” most goods ascribe to a “yarn forward” rule, which requires that “the yarn used to form the fabric (which may later be used to produce wearing apparel or other textile articles) must originate in a NAFTA country.” [CBP](#) cites the example of a wool shirt made in Canada from wool woven in Canada but with yarn that originated

in Argentina. Thus the shirt would not be eligible for preferential treatment under NAFTA, since the yarn did not originate in a NAFTA country. However, if wool fiber was imported into Canada from Argentina, made into yarn, and then used to produce the wool fabric, the shirt would qualify under NAFTA.

Automotive Products

NAFTA included detailed provisions—called “Rules of Origin”—for automotive products. According to CBP, the Rules of Origin for automotive parts are based either entirely on a “tariff change” or a combination of a tariff change and a product’s “regional value content” (see following page for descriptions of tariff change and regional value content). With regard to regional value content, NAFTA outlined the following phase-in schedule:

Agriculture

NAFTA established two separate agreements with regard to agriculture—one between Canada and Mexico and the other between Mexico and the United States. For purposes of U.S./Canada agricultural trade, provisions of the 1989 U.S.-Canada Free Trade Agreement continue to apply. In [general](#), the U.S.-Canada agreement eliminated tariffs on most commodities but maintains restrictions and quotas on “sensitive” commodities, including dairy, poultry, and eggs. The U.S.-Mexico agreement adopted a “no exceptions” approach, which has resulted in 100 percent of U.S./Mexico agricultural trade becoming duty free.

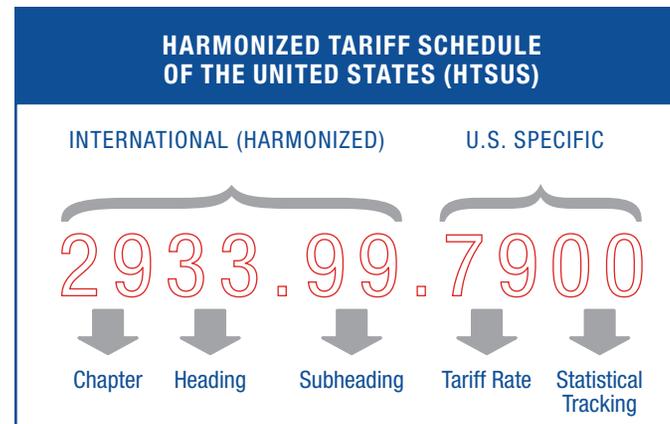
EFFECTIVE DATES	01/01/1994	01/01/1998	01/01/2002
Autos and light vehicles	50 percent	56 percent	62.5 percent
Other heavy duty trucks	50 percent	55 percent	60 percent

Source: [United States Customs Border Protection Agency](#)

The Eligibility Process

Not all goods traveling between North American boundaries are eligible for NAFTA benefits. The most important criteria for eligibility are for a product to have “originated” within a NAFTA country or to meet NAFTA standards for domestic content. According to the U.S. Department of Commerce, goods that contain materials from “outside the NAFTA countries” may not qualify. To determine eligibility, an exporter must have detailed knowledge about a shipment, including production information for every component part.

To begin the process, two key determinations need to be made: A product must be accurately classified as per the product codes contained in the [Harmonized Tariff Schedule of the United States](#), which is rooted in the International Trade Commission. The U.S. code is rooted in the internationally recognized “[Harmonized Commodity Description and Coding System](#).” Once the proper code has been assigned, the appropriate NAFTA “rule of origin” must be applied to determine eligibility.



In general, a product is considered eligible for NAFTA benefits if it was produced entirely in the territory of one or more of the NAFTA countries, exclusively from originating materials, or if non-originating materials undergo processing or assembly sufficient to result in a change in tariff classification.

Rules of Origin

NAFTA includes [special](#) rules that determine what percentage of non-NAFTA components can comprise a finished product and still qualify for preferential treatment. These “rules” are known as the “NAFTA Rules of Origin.” For every product, there is a rule of origin. Some rules are called “tariff shifts” or “tariff classification changes,” while others are called “regional value content” rules.

- **Regional Value Content.** If a product contains component parts that do not come from a NAFTA country but the total content of those non-NAFTA components is less than a designated amount, the product still qualifies for NAFTA duty-free treatment.
- **Tariff Shift/Tariff Classification Change.** For some products, the Rule of Origin may stipulate a tariff shift to occur in order to qualify for NAFTA benefits. This means that the foreign component must have a different heading or subheading than the exported product.

The Rules of Origin will determine a product's eligibility, but care must be taken to determine which rule is applicable.

- To determine if a product is eligible, a tariff schedule classification number must be provided. This includes classification codes for each product's raw materials and component parts. Classification codes are contained in the internationally recognized Harmonized System of Tariffs. In general, every product receives a six-digit Harmonized tariff number that is used for classification.
- Once tariff schedule classification numbers have been identified, an exporter can then determine if the product is eligible for preferential trade treatment. This is done by reviewing the applicable NAFTA "rule of origin." The original "NAFTA Rules of Origin" were outlined in Chapter 4 of the NAFTA agreement, but since many changes have been made in the 20 years since the agreement was signed, an updated version can be found on the International Trade Commission [website](#).
- Once the appropriate assessment has been determined, the tariff schedules maintained by each NAFTA partner will indicate the appropriate rate of duty. In general though, a product deemed to be "NAFTA eligible" will have a duty rate of [zero](#).
- If it is determined that a product qualifies for NAFTA preferential treatment, a Certificate of Origin must be completed.

THE GREAT CUPCAKE ELIGIBILITY MYSTERY

As an example, the U.S. Department of Commerce cites a batch of cupcakes that have been baked in the United States, but are comprised entirely of imported ingredients.

Cupcakes: Harmonized System Code: 1905.90

In this example:

The first two digits (19) are called the Chapter

The first four digits (1905) are called the Heading

The first six digits (1905.90) are called the Subheading

The first step to determine eligibility would be to look up the NAFTA rule of origin with regard to Chapter 19. In this example, the Rule states that a product is eligible for NAFTA preferential treatment if component parts are not also found in Chapter 19. For the sake of our cupcakes:

Flour: Chapter 1101

Sugar: Chapter 2102

Cocoa: Chapter 1806

Baking Soda: Chapter 2836

Eggs: Chapter 0407

Therefore, because none of the ingredients fall under Chapter 19, the cupcakes are eligible for NAFTA benefits.

NAFTA Certificate of Origin

U.S. manufacturers doing business in Canada or Mexico are responsible for determining if their shipments are eligible for NAFTA preferential treatment and for initiating the application process for trade benefits. The government does not automatically bestow NAFTA benefits, and if a business does not apply, no benefits will be applied.

That said, it's essential to understand the role—and the importance—of the NAFTA Certificate of Origin. The Certificate of Origin is the primary document used by customs to determine eligibility for NAFTA benefits. The document details all components of a shipment, including origin of all parts, proper tariff classification, and harmonized coding.

Completing the Certificate of Origin can be a highly confusing, exacting process. Make sure you entrust this responsibility to a highly trained employee or to a qualified customs broker or logistics provider. Improper claims for NAFTA eligibility may result in significant penalties assessed on the individual who signed the form or made the claim.

According to the [U.S. Trade Representative](#), in order to obtain preferential tariff treatment, “this document must be completed legibly and in full by the exporter and be in the possession of the importer at the time the declaration is made.” Worth noting is that a seller is not required to complete a Certificate of Origin. However in the interest of good customer service, most do.

A couple of other points to keep in mind:

- The Certificate is not required to ship goods to Canada or Mexico. It is only required when an exporter decides to seek NAFTA benefits. (Products that [do not qualify](#) for NAFTA benefits are usually subject to “normal” or “most favored nation” tariff treatment.)
- A Certificate of Origin is not required for commercial importation of goods valued at [less than US\\$1,000](#). However, to qualify for NAFTA preferential treatment, the shipment must be accompanied by an invoice that includes language certifying that the goods meet NAFTA Rules of Origin.
- The exporter of the goods is responsible for completing and signing the Certificate of Origin. If, however, the exporter is not the producer of the goods, the exporter may complete the Certificate based on reasonable reliance on the producer's written representation of the goods' origination. Once the [exporter](#) has completed the Certificate of Origin, the original or a copy is provided to the importer.
- NAFTA benefits may be claimed up to one year after date of import. According to the [U.S. Trade Representative](#), in some cases, an exporter may not have the NAFTA Certificate of Origin completed at the time of export. However, “the importer still has up to one year after the goods go through customs to make a claim for the NAFTA tariff preference and to apply for a refund of duties paid at the time of entry.”

DEPARTMENT OF HOMELAND SECURITY U.S. Customs and Border Protection		OMB No. 1651-0099 Exp. 03-31-2014	
NORTH AMERICAN FREE TRADE AGREEMENT CERTIFICATE OF ORIGIN 19 CFR 101.11, 101.22			
1. EXPORTER NAME AND ADDRESS		2. BLANKET PERIOD	
TAX IDENTIFICATION NUMBER:		FROM	
3. PRODUCER NAME AND ADDRESS		TO	
TAX IDENTIFICATION NUMBER:		4. IMPORTER NAME AND ADDRESS	
TAX IDENTIFICATION NUMBER:		TAX IDENTIFICATION NUMBER:	
5. DESCRIPTION OF GOODS(S)	6. HS TARIFF CLASSIFICATION NUMBER	7. PREFERENCE CRITERION	8. PRODUCER
			9. NET COST
			10. COUNTRY OF ORIGIN
<p>I CERTIFY THAT:</p> <ul style="list-style-type: none"> • THE INFORMATION ON THIS DOCUMENT IS TRUE AND ACCURATE AND I ASSUME THE RESPONSIBILITY FOR PROVING SUCH REPRESENTATIONS. I UNDERSTAND THAT I AM LIABLE FOR ANY FALSE STATEMENTS OR MATERIAL OMISSIONS MADE ON OR IN CONNECTION WITH THIS DOCUMENT. • I AGREE TO MAINTAIN AND PRESENT UPON REQUEST, DOCUMENTATION NECESSARY TO SUPPORT THIS CERTIFICATE, AND TO INFORM, IN WRITING, ALL PERSONS TO WHOM THE CERTIFICATE WAS GIVEN OF ANY CHANGES THAT COULD AFFECT THE ACCURACY OR VALIDITY OF THIS CERTIFICATE. • THE GOODS ORIGINATED IN THE TERRITORY OF ONE OR MORE OF THE PARTIES, AND COMPLY WITH THE ORIGIN REQUIREMENTS SPECIFIED FOR THESE GOODS IN THE NORTH AMERICAN FREE TRADE AGREEMENT AND UNLESS SPECIFICALLY EXEMPTED IN ARTICLE 411 OR ANNEX 401, THERE HAS BEEN NO FURTHER PRODUCTION OR ANY OTHER OPERATION OUTSIDE THE TERRITORIES OF THE PARTIES; AND • THIS CERTIFICATE CONSISTS OF <input type="text"/> PAGES, INCLUDING ALL ATTACHMENTS. 			
11a. AUTHORIZED SIGNATURE		11b. COMPANY	
11c. NAME		11d. TITLE	
11e. DATE	11f. TELEPHONE NUMBER(S)	(XXXX)	(XXXXXX)

CBP Form 434 (04/11)

Certificate of Origin example

Recordkeeping

U.S. exporters and importers are required to retain copies of all certificates of origin and accompanying documentation for five years.

Canadian exporters and importers must retain documents for six years, and in Mexico, documents must be kept for 10 years.

As with all government initiatives, failure to maintain proper records and documentation can come at a price. According to [CBP](#), violations of NAFTA provisions are outlined in Chapter 9 of the agreement and can result in criminal, civil, or administrative penalties, depending on circumstances. Violations specifically outlined in the agreement include:

- an exporter who falsely represents on a NAFTA Certificate of Origin that a product qualifies for preferential treatment
- an importer who makes a false claim on customs import documentation
- importers and exporters who fail to retain records as required by NAFTA

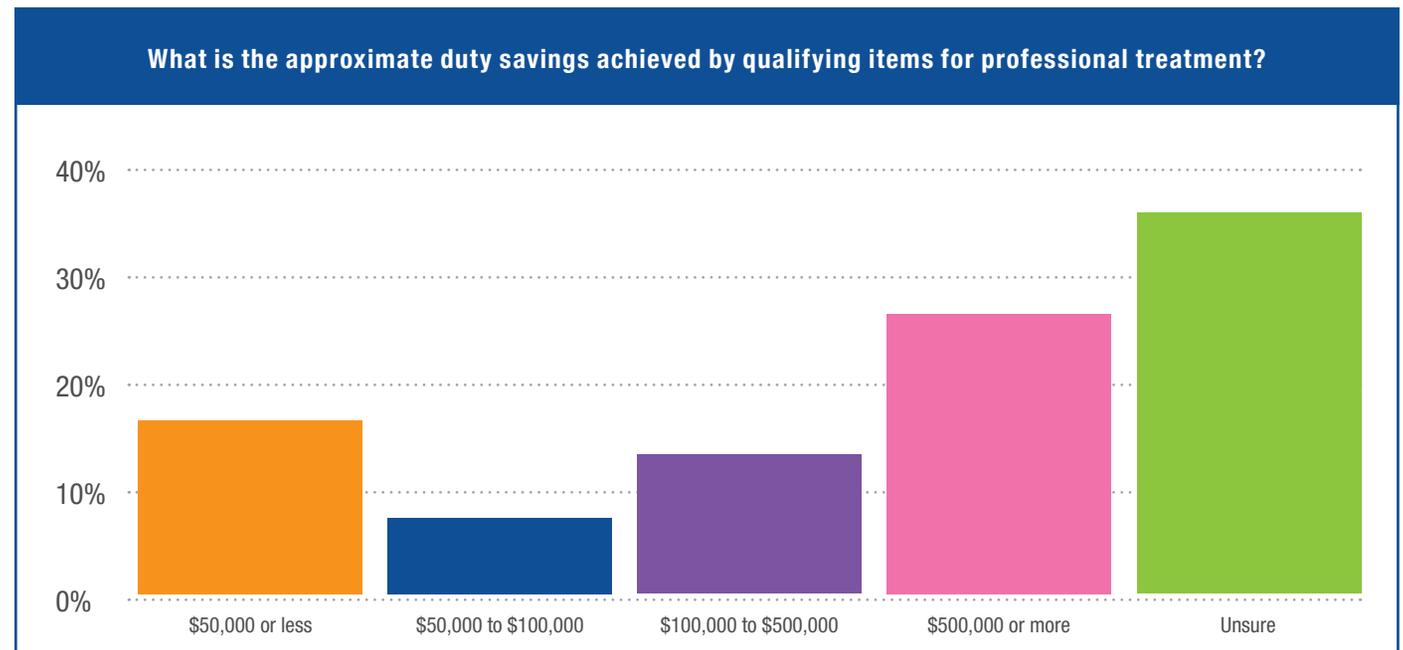
Making NAFTA Work for You

A June 2010 [study](#) conducted by Customs & Trade Solutions, Inc. found businesses that invested the time to comply with a free trade agreement generally reported significant savings. Almost 30 percent of the survey respondents realized savings of \$500,000 or more annually; 12.8 percent saved between \$100,000 and \$500,000; 7.7 percent saved between \$50,000 and \$100,000; and 16 percent saw savings of \$50,000 or less. Clearly, the financial benefits can justify the investment in time and resources spent ensuring accuracy in the filing of NAFTA Certificates of Origin.

But given the exacting demands of NAFTA qualification, and the daunting penalties that can be assessed for inadvertently filing incorrect information, a business should integrate processes and standards. Key provisions should include:

Enlist the services of an expert

Determining a product's NAFTA eligibility and satisfying all paperwork and recordkeeping requirements can be a very time-consuming and demanding process to maintain in-house. Instead, many business choose to offload the



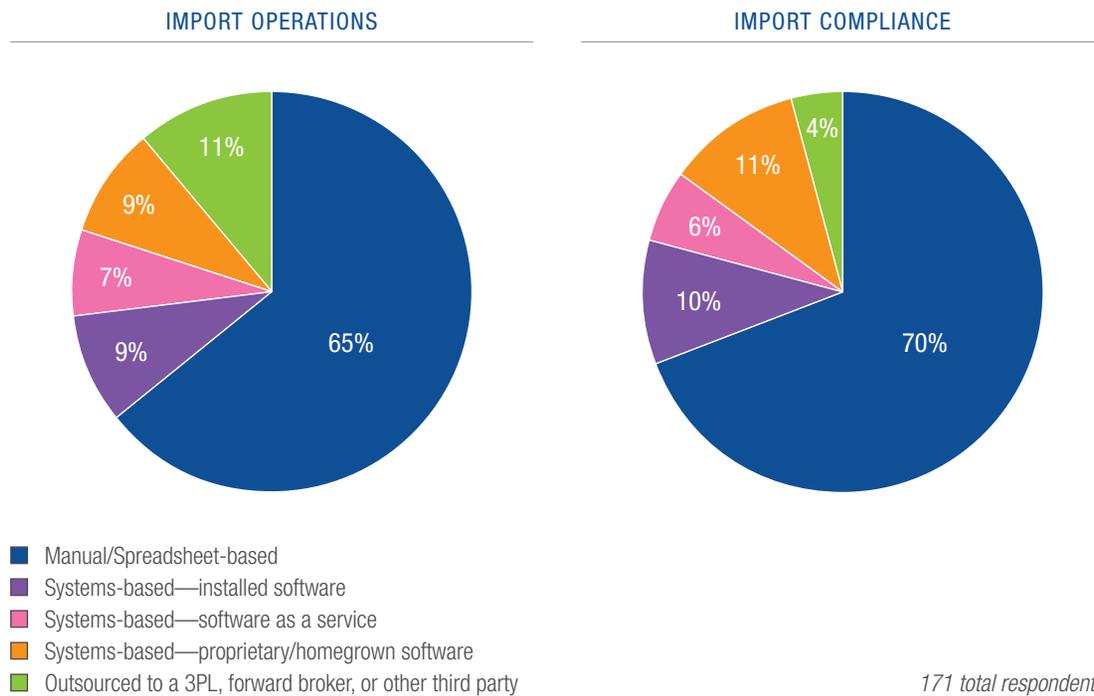
Source: "[Benchmark Report: North American Free Trade Agreement \(NAFTA\) Management](#)," Customs & Trade Solutions, Inc., September 2010.

responsibility to a qualified customs broker or logistics provider. A qualified third party will ensure that all filings are accurate and contain updated information and that your products are receiving full preferential treatment from all applicable free trade agreements and government programs.

Consider automating NAFTA compliance processes

A survey by [American Shipper](#) magazine and BPE Global found that nearly 2/3 of shippers still use a manual or spreadsheet-based process for compliance processes. By automating the compliance process, businesses could take the first steps toward greater efficiencies and greater insight into compliance costs.

ROUGHLY 2/3 OF SHIPPERS STILL USE MANUAL SPREADSHEETS TO MANAGE COMPLIANCE



Build Certificate of Origin requests into your routine

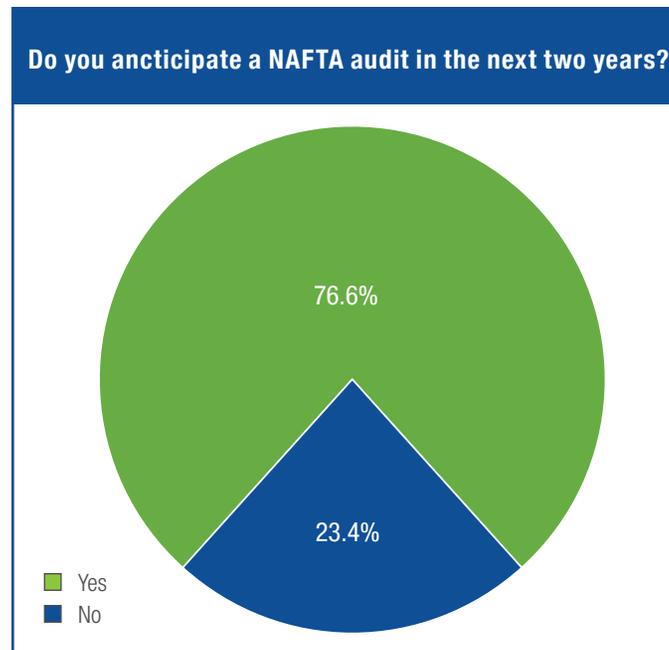
Businesses prefer to receive NAFTA benefits at the time of shipment, as opposed to applying for a reimbursement after the duty has been paid. Although NAFTA allows businesses to seek reimbursement for up to one year, the process entails added paperwork, which many businesses say adds an unwelcome layer of bureaucracy and reduces their financial savings. Since the NAFTA Certificate of Origin is essential to receiving NAFTA benefits, it's important for businesses to communicate with their suppliers and set firm schedules for receipt of all necessary documentation. And since the exporter has the obligation to complete the Certificate, a good "best practice" would be to complete the document prior to shipment, thereby ensuring that the importer can qualify for NAFTA benefits without having to seek reimbursement after the fact.

Chart Source: ["Import Operations and Compliance Benchmark Study: Two Worlds Collide,"](#) American Shipper, May 2013.

Be ready for an audit

Any business that takes advantage of a government program that saves them money has to be ready for the inevitability of a government audit. Thirty-two percent of Customs & Trade Solutions' survey respondents said their free trade compliance processes had been audited. And while the American Shipper survey found a strong awareness of shippers for meticulous recordkeeping, seven percent said they took no steps to proactively prepare for an audit.

One study found that 32 percent of respondents have been audited in the past three years, and almost 77 percent expect an audit within the next two years.



Rethink your supply chain

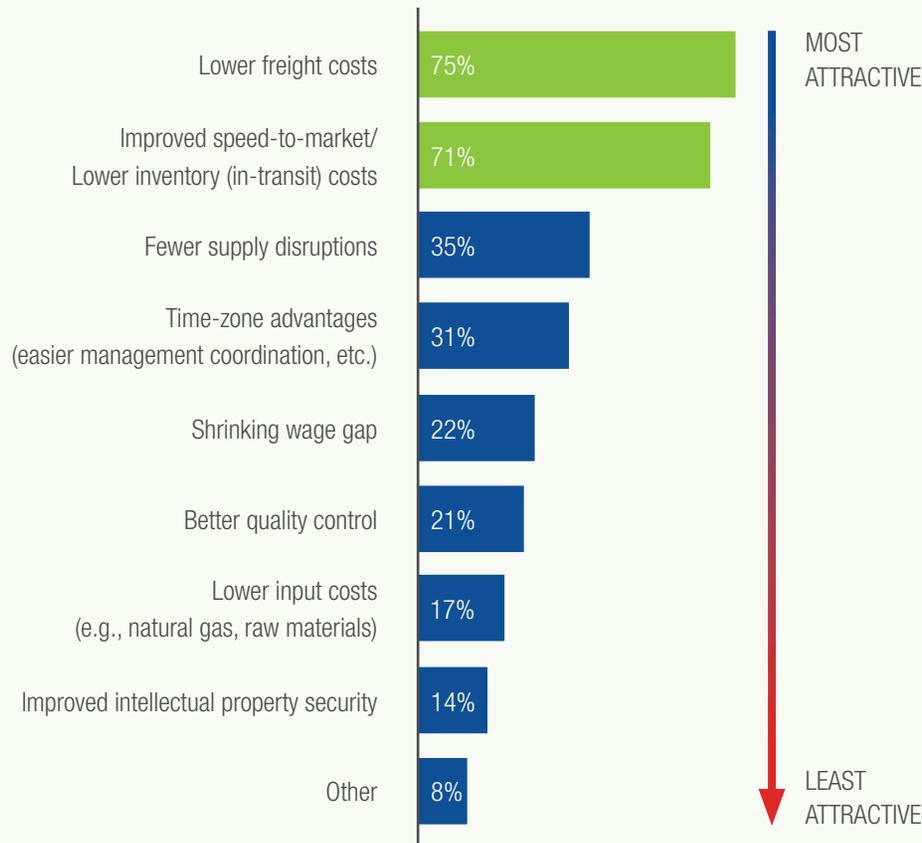
Not only does NAFTA eliminate duties on goods traded between the three member nations, but it also provides incentives for businesses to expand business opportunities throughout North America. A growing number of U.S. businesses have opted to return key manufacturing processes to North America as labor, fuel, and other costs in Asia have surged in recent years. An AlixPartners survey found that 42 percent of senior executives surveyed have already taken steps to return manufacturing operations to North America or plan to do so in the near future. Similarly, a survey by MFG.com found 21 percent of North American manufacturers reported bringing production back to North America within three months of the date of the survey, a 9 percent increase over a similar survey conducted three months prior.

Source: "[Benchmark Report: North American Free Trade Agreement \(NAFTA\) Management](#)," Customs&Trade Solutions, Inc., September 2010.

LOWER FREIGHT COSTS, SHORTER TRANSIT TIMES TOP LIST OF NEARSHORING BENEFITS

Biggest Advantages Expected from a Nearshoring Decision

What are the biggest advantages you would expect from a nearshoring decision?



Respondents were asked to select top three choices; totals will add to more than 100%.

Key LCCS Still Have Lower Total Landed Costs

AlixPartners Manufacturing-Sourcing Cost Index™
Composite Index (Selected Countries)



Source: The Alix Partners, "Manufacturing—Sourcing Outlook," April 2013.

Jobs returning to North America reflect a good cross section of the manufacturing sector. Companies including Whirlpool, Master Lock, Otis Elevator, Caterpillar, General Electric, and Ford Motor Co. have returned production work to the United States. Tech companies have also followed suit. Apple announced plans in late 2013 to build a new facility in Arizona, while Google said it would build its Nexus Q media streamer in San Jose.

Mexico has been the biggest benefactor of the nearshoring trend as its close proximity to the U.S., low-cost labor, and generally favorable supply chain capabilities have caught the eye of U.S. manufacturers. Mexico has seen a surge in aerospace manufacturing at the same time that automotive manufacturing has set new records.

Conclusion

As the North American Free Trade Agreement begins its third decade, it will undoubtedly continue to spark controversy and debate with regard to its effectiveness and benefits to the U.S. economy. Although it is undeniable that trade has grown markedly among the NAFTA partners, some claim that favorable economic conditions would have caused trade levels to increase even without the presence of the agreement. Charges that NAFTA has cost American jobs and driven down wages are also sure to persist.

But absent any significant movement to dramatically alter the terms of NAFTA, the agreement will continue, largely in its current capacity. In fact, much work is underway between member partners to strengthen trade between the NAFTA partners. All three NAFTA partners are [engaged](#) in discussions with nine additional countries regarding a Trans-Pacific Partnership (TPP), which could provide a venue to address some lingering concerns about NAFTA.

More immediately, the U.S. and Canada signed a 2011 [Beyond the Border](#) initiative that, among other things, seeks to improve border security while also encouraging trade between the two countries. And the U.S. and Mexico have held president-level [discussions](#) about enhancing trade opportunities.

What this means for U.S. businesses is the potential for significant savings through tariff elimination and other favorable conditions. As the [Customs & Logistics](#) survey made clear, businesses that meet NAFTA's requirements are enjoying significant savings that run into the hundreds of thousands of dollars. A business that fails to consider the implications of the NAFTA agreement may be leaving considerable money on the table.

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