

Peter Friedmann's View from Washington DC

January 19, 2015

As we await the President's seventh State of the Union address tomorrow night, we see two horizons: the longer horizon is through 2016, and the all-consuming Presidential primary and general elections. The short horizon is 2015 – what can be accomplished in this last year before the town turns its attention entirely to the 2016 presidential race?

The talk shows are full of so-called experts reading Presidential tea leaves. But remember, it's still so early; eight years ago Time magazine had Hillary Clinton on its cover, almost anointed as our next President. Most Americans had not yet heard the name Barack Obama. How quickly everything changed! Proving again that today's Presidential forecasting chatter may be entertaining, but that's about it.

Some of us here inside the Beltway still make our living by trying to get things done - as opposed to speculating about who will win one of Iowa's innumerable early "straw polls" in various counties (invariably won by someone who soon drops out of contention). Instead, we are focused on the next 10 months of 2015. We believe these months present at least an opportunity for significant achievements:

- a Federal budget (and avoid the cliffhangers to which we've become accustomed each Fall, wondering if the federal government was going shut down);
- Trade Promotion Authority that would set the stage for perhaps the largest international trade agreement in US history;
- overdue corporate and individual tax reform;
- transportation infrastructure legislation.

These are all accomplishments which have eluded Congress and the President for the past six years. The question remains, does the President in his final two years, want to work with Congress, and do they want to work with him? Sometimes all the political infighting suggests that our government is no longer capable of functioning, that partisanship divides us so completely. Not necessarily.

So it is with some relief that we are presented this month with an example of how government can finally we can get it right. This month, the Department of Transportation finally resolves a 22-year-old problem. Let's take a look:

DOT is quietly moving to implement the final remaining provisions of NAFTA. Twenty two years ago, when signing **NAFTA in 1993, Mexico and US agreed to allow the trucks of each country to continue across the border onto the highways of our neighbor**. This is obviously far more efficient than having to stop at the border, uncouple the trailer, and then reattach to a truck tractor which continues on to the final destination. But Teamsters Union and some US Truck Owner-Operators vigorously opposed it. False allegations were made: that Mexican truck drivers were illiterate, couldn't read English road signs, were being paid below minimum wages, driving on trucks with bald tires, carrying drugs, etc. None of that was true; the US companies and Teamsters just didn't like the prospect of competition from additional trucks and drivers. The Teamsters mounted a political campaign, convinced the Senate to insert a provision in an appropriations bill which prevented implementation of this last piece of the NAFTA treaty.

Mexico responded to this blatant US violation of NAFTA treaty obligations by imposing prohibitive import tariffs (consistent with NAFTA dispute resolution procedures) on approximately \$2.5 billion of US exports. Suddenly US Christmas trees were subject to 100% import duties when entering Mexico, and rendered unaffordable. So the trees were no longer exported from Washington and Oregon to Mexico. Instead hundreds of trucks of Christmas trees from British Columbia drove south to Mexico, often within several hundred yards of the now abandoned US Christmas tree farms. Fruit from California, Oregon and Washington which typically went to Mexico for juice drinks, rotted here in the US. A factory in Texas that made hairdryers for the Mexican market was shuttered. Mexican consumption of wine shifted from California to Australia and South America. The list was lengthy, the loss of business extremely damaging to US farmers, growers, manufacturers and small business. Eventually the economic injury was such that a temporary solution was reached: the US would implement a “pilot project” in which a limited number of Mexican trucks and drivers were permitted on US roads, subject to significant additional scrutiny – far beyond the scrutiny imposed on US drivers and trucks. In return, Mexico suspended the retaliatory tariffs, allowing US products to flow again to Mexican consumers. The results of the pilot project have shown that Mexican trucks and drivers have an even better record than US counterparts. Teamsters and their allies in Congress remained opposed, but shifted their argument - now claiming the pilot project was not large enough.

This month, without fanfare, hoping to fly “beneath the radar” and not aggravate the Teamsters, but under pressure from Mexico to keep our word, President Obama’s Secretary of Transportation Anthony Foxx announced that the restrictions on Mexican drivers and trucks would be lifted. Unlimited number of such trucks would be able to haul cargo from an origin in one country, to a destination in the other country. While less than that imposed under the “pilot project”, Mexican drivers and trucks will still be subject to more vigorous monitoring than their US counterparts. Finally, 22 years after the NAFTA treaty was inked, the final piece is being implemented, reducing transportation costs, eliminating inefficiencies, eliminating a thorn in the side of US-Mexico relations, and removing the threat of retaliatory tariffs hanging over US businesses developing markets in Mexico for our agriculture, forest products and manufactured goods. And with the shortage of truck drivers a growing threat to our economic recovery, additional drivers, even limited to cross border shipments, will benefit the entire US economy.

We now begin work with a short horizon of 11 months during which it is hoped we can pass trade legislation, reform corporate and individual taxes, and pass a highway and transit infrastructure bill. After that, the Presidential races will consume all the oxygen here in Washington DC. **So it is useful, even encouraging, to see that beneath the radar, out of the noise and glare of the political talking heads and partisanship, the right policies can prevail. Even if it takes 22 years.**

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