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Preserving NAFTA Is Critical To Protecting Modern Supply Chains

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As negotiations for NAFTA 2.0 wrap up in Montreal, it's hard not to reflect on the progress that Canada, the U.S. and Mexico have made as trading partners, and the fundamental role that railways have played in this evolution.

Signed in 1993, NAFTA has led to additional trade, the opening of new markets, and economic growth for its signatory parties. Between 1993 and 2016, North American GDP increased by 166 percent, from \$8 trillion to \$21.2 trillion. Over the same period, trade between the United States and Canada increased by 157 percent, from \$211.7 billion to \$544.6 billion. Similarly, trade between the United States and Mexico increased 543 percent, from \$81.8 billion to \$523.8 billion, whereas trade between Canada and Mexico increased 776 percent, from \$3.5 billion to \$30.8 billion.

The NAFTA framework has facilitated an integrated economy where a continental railway network is essential for the transportation and flow of goods across North America. From lumber harvested in Canada and moved to the U.S. for building houses, to grain grown in the U.S. Midwest and transported to Mexico for feeding families, freight railways move goods from nearly every sector between the three nations.

Economic growth tied to NAFTA has allowed railways to invest tens of billions of dollars into their infrastructure while improving productivity and customer service, and fostering innovation. Collectively, these improvements have enabled railways to maintain the low rates that are required to provide shippers with access to global supply chains and support their success.

The prosperity of our freight rail industry is a NAFTA success story. North American Class 1 railways depend on trade — much of which is connected to NAFTA — for 35 percent of their annual revenues. Canada’s railways alone help to deliver more than $150 billion worth of exports annually to markets across North America and around the globe. Close to two thirds of the traffic moved by these carriers crosses a border or touches a port. In the U.S., more than 40 percent of rail traffic is directly associated with trade, as are 50,000 jobs accounting for more than $5.5 billion in annual wages and benefits.

Many railway customers critical to the North American economy rely deeply on free trade between the three countries. In 2016, for example, thirteen automakers in the U.S. manufactured 12.2 million vehicles, one million more units than what they produced in 1992, the year before NAFTA took effect. Between 1992 and 2016, these companies also built 15 new plants, supporting 350,000 jobs connected to the U.S. auto sector. The manufacturing life cycle of these automobiles can involve as many as eight border crossings, with goods flowing in large part by rail.

NAFTA’s success underlines that negotiators must not terminate the agreement in their justifiable effort to modernize this trade pact. Analysis from the American Action Forum shows that a NAFTA-less North American economy would affect $1 trillion in trade and expose businesses to $15.5 billion in new tariffs that could cost consumers at least $7 billion annually. The evidence is clear: while NAFTA can certainly be improved, negotiations should center on ways to facilitate more trade, not less.

To ensure that a new NAFTA can build upon the success of its predecessor, and railways can continue to operate and grow in concert with the demands of the North American economy, negotiators should recognize the role that railways play in facilitating trade. In addition, discussions should identify a policy framework that enables railways to make the investments that are necessary to provide efficient, low-cost, safe and emissions-friendly service to their customers — while ensuring these customers can thrive in a global economy.

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