

Congress of the United States
Washington, DC 20515

July 10, 2014

The Honorable Michael Froman
Office of the United States Trade Representative
600 17th Street NW
Washington, DC 20508

Dear Ambassador Froman:

We write to express our concerns about the Office of the U.S. Trade Representative (USTR) presenting distorted trade data that artificially inflates U.S. export levels and minimizes our nation's trade deficit. Congress relies on USTR for accurate information regarding U.S. trade policies and data, meaning that when USTR provides our offices with inaccurate data, it becomes harder to do our jobs properly and communicate with our constituents. We ask that you cease using misleading trade data immediately, as such use raises serious questions about USTR's credibility in accurately portraying ongoing trade negotiations. In our view, the failure to correct this practice will make passage of Trade Promotion Authority and the Trans-Pacific Partnership (TPP) extremely difficult.

Recently, a number of Members of Congress have questioned USTR's claims suggesting that the United States enjoys a trade surplus with its North American Free Trade Agreement (NAFTA) partners in general, and in agricultural and manufacturing trade in specific. On April 2, 2014, several members of the House of Representatives wrote to you seeking both the data to substantiate those NAFTA claims as well as the sources of such data. A clear understanding of the impact that NAFTA and other previous Free Trade Agreements (FTAs) have had on our trade balance is critical to informing our views on the potential economic impact of future FTAs, such as the TPP. As you know, massive trade deficits, such as those that have burdened the United States in the past several decades, equate to job loss and a significant weakening of the U.S. economy.

We were surprised to see that the response from your office relied on Census Bureau data to support the claims of a trade surplus with NAFTA partners with respect to goods trade. In particular, USTR claimed that Census Bureau data is the "most comprehensive measure of goods entering and leaving the United States." Indeed, as you know, the Census data is so comprehensive that it is in fact a raw accounting of both domestically-produced goods *and foreign-produced goods that are transshipped through the United States*. And, as you know, each month within days of the raw Census data being posted, the U.S. International Trade Commission (USITC) corrects the Census data to remove the transshipped foreign exports and publishes the official and accurate U.S. government data with respect to actual U.S.-made exports and imports. The U.S. Department of Agriculture (USDA) does the same for agricultural trade.

Given that corrected data is promptly and readily available, it is troubling that USTR is using the uncorrected Census Bureau data that includes "re-exports." Re-exports are goods that

have been produced abroad, such as in China, which are then shipped through the United States en route to a final destination. In the case of USTR's NAFTA data misrepresentations, this means counting foreign-made goods that are shipped through the United States en route to Canada or Mexico; for instance, goods taken off a ship from China in a California port and then trucked to their final destination in northern Mexico would count as U.S. exports in this assessment, despite being produced overseas. Such transshipments have grown in the 20 years of NAFTA's existence. These foreign-made re-exports do not support U.S. production jobs and should not be conflated with U.S.-made exports.

Removal of re-exports presents a very different picture of U.S. trade data. The official, corrected U.S. government trade data provided by the USITC shows that the 2013 U.S. goods trade balance with NAFTA countries was a deficit of \$177 billion. The combined U.S. goods and services trade deficit with Mexico and Canada rose (in real, inflation-adjusted terms) from \$10 billion in 1993 to \$132 billion in 2013. The inaccurate data that USTR relies upon inflates the actual U.S. export figures and deflates the true NAFTA trade deficit. The 2013 NAFTA goods deficit of \$177 billion can be made to look less than half as large by counting re-exports.

USTR has claimed that the United States has surpluses with our NAFTA partners in manufacturing and agriculture, including recently indicating that the United States had a manufactured goods trade surplus with NAFTA countries in 2013 of \$27 billion. However, the corrected USITC data that removes re-exports show that, in fact, the United States had a NAFTA manufactured goods trade *deficit* of \$65 billion in 2013. Also repeated in the recent correspondence from USTR is data implying that the United States had an agricultural goods trade surplus with NAFTA countries in 2013 of \$4 billion. But, in fact, after removing re-exports, the United States actually had a NAFTA agricultural goods trade balance of virtually zero (a \$0.002 billion surplus), according to the corrected USDA data, which is also available from the USITC.

In sum, a review of the corrected data provided by the USITC clearly shows a large U.S. trade deficit with our NAFTA partners caused by a surge in imported goods that have outweighed any gains in U.S. exports. It is unacceptable for USTR to continue using data that misrepresent the reality of our trade deficit.


Have other claims, such as perceived improved trade flows with Korea under the U.S.-Korea FTA also relied on uncorrected Census Bureau raw data? This would be particularly troubling given that if one uses the official, corrected USITC data, growth of U.S. goods exports to countries with which we *do not* have FTAs has been 30 percent faster than to our FTA partners over the past decade.

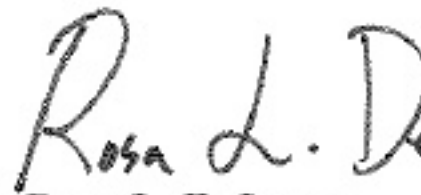
We are concerned that incorrect data and misinformation might paint a rosier picture of the impact of free trade agreements than reality suggests. In order to rightly judge future FTAs, we must be clear-eyed and accurate in our assessment of similar previous agreements. In fact, 19 U.S.C. 3804(f) *requires* that the President "request the [USITC] to prepare and submit an assessment" for both the President and Congress of the potential impacts of impending trade agreements, including "the likely impact of the agreement on the United States economy as a whole and on specific industry sectors, including the impact the agreement will have on the gross

domestic product, exports and imports, aggregate employment and employment opportunities, the production, employment, and competitive position of industries likely to be significantly affected by the agreement, and the interests of United States consumers." Therefore, it is not just a matter of common sense but also a matter of law that we are to evaluate the potential impacts of FTAs using the accurate USITC data.


Congress relies on USTR for accurate, transparent and timely information in order to fulfill our trade-related legislative responsibilities, so we believe that USTR must immediately begin better fulfilling that mission in order for us to work together constructively on a positive trade agenda. We urge you to instruct all USTR staff to begin using only the corrected goods trade data of the USITC immediately in its communications with Congress, the press and the public and provide us with a commitment that USTR will begin using the corrected, more accurate USITC trade data, so that we can continue to work together to create new opportunities and higher living standards for families, farmers, manufacturers, workers and consumers.

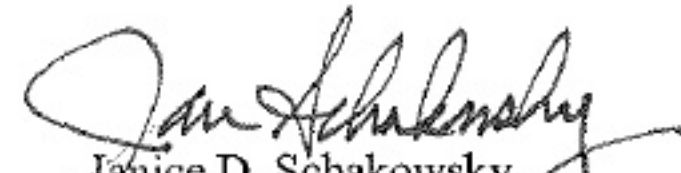
Sincerely,


Paul D. Tonko
Member of Congress



Rosa L. DeLauro
Member of Congress

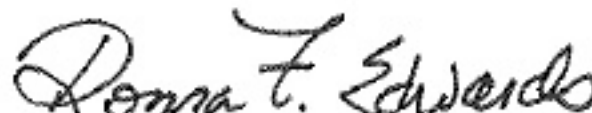

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