

**ORAL TESTIMONY OF PATRICK J. OTTENSMEYER,
PRESIDENT AND CEO, KANSAS CITY SOUTHERN,
MODERNIZATION OF THE NORTH AMERICAN FREE TRADE
AGREEMENT**

**Before the
U.S. House of Representatives Committee on Ways & Means
Subcommittee on Trade**

**Hearing Room of
The House Committee on Ways & Means, 1100 Longworth House Office Building
Tuesday, July 18, 2017**

Good morning. My name is Pat Ottensmeyer. I am President and CEO of Kansas City Southern, a railroad holding company with operations in the U.S., Mexico, and Panama and headquartered in Kansas City, Missouri since 1887.

Thanks to the Chair, Ranking Member, and Subcommittee for holding this hearing.

Today I also represent the **U.S.-Mexico CEO Dialogue Strategic Trade Initiative Working Group**, of which I am the U.S. Chair, and the **Association of American Railroads (AAR)**.

The CEO Dialogue is a private sector forum initiated by the U.S. Chamber of Commerce and the Consejo Coordinador Empresarial of Mexico to engage U.S. and Mexican CEOs on key economic and trade issues.

U.S. Secretary of Commerce Wilbur Ross and Mexican Secretary of the Economy Ildefonso Guajardo spoke to the eighth semi-annual Dialogue on June 6. We welcomed their comments, which focused on the need to modernize NAFTA, but to “*do no harm*” to the tremendous benefits that the current agreement provides American workers, farmers, and consumers.

As Congress and the Trump Administration turn their attention to modernizing NAFTA, we support their efforts to update the agreement.

NAFTA is critically important to the U.S. rail industry, including KCS. According to a study done by AAR in March of this year, at least 42 percent of rail

carloads and intermodal units, and more than 35 percent of annual rail revenue, are derived from international trade.

International trade accounted for \$26.4 billion of freight-rail revenue and 511 million tons of rail traffic in 2014. During the same period, approximately 50,000 rail jobs, which contributed over \$5.5 billion in annual wages and benefits to the U.S. economy, depended directly on international trade.

Rail movements associated with international trade include virtually every type of commodity railroads carry and involve every region of the U.S. A major shift toward more protectionist policies would threaten rail jobs all over the country.

Treasury Secretary Mnuchin recently stated that, *“We believe in free trade, we are in one of the largest markets in the world, we are one of the largest trading partners in the world, trade has been good for us, it has been good for other people.”* We agree.

In a letter to President Trump dated May 25, I joined 31 other CEOs of major U.S. companies offering our support to modernize NAFTA without disrupting current trade flows and the livelihoods of millions of Americans who depend on them. We offered to work with the Administration to **update NAFTA; expand and promote free and fair trade** with Canada and Mexico; **ensure a level playing field**; and **spur economic growth and job creation** for American workers, farmers, and businesses.

We all agree:

- NAFTA has been **generally good** for the U.S. and for North America’s competitiveness in the world.
- Notwithstanding, NAFTA was negotiated 25 years ago so **updating the agreement for today’s economy is entirely appropriate.**
- **14 million American jobs and the livelihoods of millions of American families depend on NAFTA**, especially in rural America.
- The Administration should approach negotiations with an emphasis on **updating the agreement and expanding the opportunities for U.S. exports** where there is substantial growth potential.

- There should be a U.S. focus on **enhancing the flow of trade across our borders; avoiding the high tariffs and other trade barriers that preceded NAFTA; and following the procedures established in the Bipartisan Congressional Trade Priorities and Accountability Act of 2015.**
- Negotiations should proceed **promptly and trilaterally**, to avoid uncertainty that disrupts supply chains and investment, and should use NAFTA's amendment process under **Article 2202.**
- And again, U.S. negotiators should be careful to **do no harm in areas beneficial to the U.S., especially to our U.S. agricultural and food products exporters.**

In addition, KCS believes that U.S. negotiators should:

- Work to achieve **trilateral uniformity** for Customs and Border Control procedures to improve the fluidity and security of export freight movements; and,
- **Preserve Chapter 11 and ISDS** to protect investments by U.S. companies like KCS that have created the supply chain infrastructure required to support U.S. exports. In the 20 years our company has been doing business in Mexico, KCS has invested \$4.5 billion.

There are very significant and growing opportunities to increase U.S. agricultural, energy, petrochemical and plastics exports to Mexico. Surging petroleum, refined petroleum and natural gas product exports to Mexico have turned a previous trade deficit with Mexico in these products to a trade surplus.

KCS is investing money today in Mexico, to facilitate and expand liquid fuels exports from the U.S. Gulf Coast to Mexico

There is also the opportunity for export growth from the substantial investment in new ethylene and plastics plants that are currently being built in the U.S. Gulf Coast.

Without the past and future investment in Mexico facilitated by NAFTA, these opportunities could not be realized. Chapter 11 of NAFTA helps insure this vital export infrastructure going forward and is a critical element of NAFTA that must be retained.

Thank you again for the opportunity to testify and provide written comments.