



**Dallas News: Commentary by Ernest J. Moniz and Thomas F. "Mack" McLarty
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5 ways to modernize NAFTA by focusing on energy

Surrounded by roaring crowds at his rallies, candidate Donald Trump assailed multilateral agreements and threatened to rip up NAFTA, characterizing it as "the worst trade deal ever." Indeed, Trump's suspicion of trade dates back to the 1980s when he first began to engage on the issue.

As president, he continues to be suspicious. On day three of his presidency, he withdrew the U.S. from the Trans-Pacific Partnership (although he may be having second thoughts) and more recently slapped harsh tariffs on steel and aluminum imports — sparing Mexico and Canada only for now.

Despite the push to achieve an "agreement in principle" on the North American Free Trade Agreement for last week's Summit of the Americas, the temptation to withdraw remains. In a recent cabinet meeting, the president told reporters, "We are fairly close on NAFTA and if we don't make the right deal, we'll terminate NAFTA and we'll make the right deal after that."

We each learned firsthand that achieving international accords is never easy. As chief of staff to President Bill Clinton, one of us helped pass NAFTA 25 years ago. As secretary of energy under President Barack Obama, the other worked to deepen trilateral energy integration, frequently engaging our neighbors to the north and south on a wide range of energy issues.

We are confident that it's possible to reach the modernized NAFTA that the president promised, building on its foundations and expanding fair and reciprocal trade, with energy at the heart of these efforts.

The most strident opponents of free trade insist that pulling out of NAFTA would free the U.S. from foreign entanglements. When it comes to energy however, this is neither desirable nor possible. And there's no question that an integrated North American energy economy is better overall for our national security.

Earlier this year, Mexico became the 30th member of the International Energy Agency, joining the U.S. and Canada in an organization dedicated to energy security collective actions in emergencies. Trilateral natural gas trade is growing rapidly. Between 2012 and 2017, U.S. exports of natural gas to Mexico via pipeline grew by a factor of 2.5 and Canadian imports of natural gas from the US increased by 10 percent last year.

In addition, crude oil and refined products flow back and forth across our northern and southern borders. In 2016, the U.S. imported about 25 percent of its oil and oil products. While we have made significant progress in reducing our imports, reducing them to zero is not feasible in the medium term.

In fact, the U.S. energy resurgence ensures that we remain strongly connected to global oil markets. We now export crude oil for the first time in decades. At the same time, petroleum as a share of the U.S. trade deficit declined from 40 percent in 2013 to 9 percent last January.

Electricity integration is also key. Most of Canada's provinces and the US have adopted the reliability standards of the North American Electric Reliability Corporation, which is dedicated to securing the border's bulk power system. In both countries, grid managers have seen electricity reliability and efficiency benefits from that relatively seamless integration of the systems. This can be the future for the relationship between Mexico and the US, including all four border states.

An example of the benefits of integration on our southern border: when operational issues threatened the Texas grid, electricity imports from Mexico helped prevent rolling blackouts. Mexico, after major energy reforms, is also focused on adopting NERC reliability standard.

We buy billions of dollars' worth of energy from Canada and Mexico each year, but we're a major seller to our North American partners as well, with more than \$30 billion in energy exports in 2016. Over the last five years, our energy trade balance with Mexico has gone from a \$20 billion deficit to an \$11.5 billion surplus. This translates directly into U.S. jobs. And it all occurred under NAFTA.

Clearly, energy is one sector in which NAFTA has achieved its intended goals: broad-based growth, improved national security and good jobs. U.S. companies were able to take advantage of Mexico opening its energy market in 2013 due to the critical protections of NAFTA's Investor State Dispute Settlement mechanism. And by eliminating tariffs, mandating the liberalization of natural gas exports, and guaranteeing market access, we've created tangible, ongoing benefits for American workers.

The choice is not energy independence vs. dependence. Rather, it's a choice of increased interdependence with two of our closest allies with whom we have integrated economies.

Modernization, is however, needed. What would an updated NAFTA with a revised energy chapter look like?

1. It would facilitate the permitting process for regional infrastructure projects to build quality infrastructure.
2. It would remove "carve-outs" for Mexico and codify the country's energy reforms by maintaining strong investment protections and a robust Investor-State Dispute Settlement mechanism to protect private-sector investment.
3. It would create norms for state-owned enterprises. Each country will take its own approach to managing its energy resources, but it is important that all countries compete on a level playing field.
4. Worker and environmental protections would be upgraded to assure that appropriate standards are followed throughout the NAFTA region.
5. Cooperation between states and provinces, not just nations, must be mandated to ensure that interlocking layers of government don't stifle increased cooperation.

We don't envy the negotiators. It's hard to remember a time when trade was more politically contentious. Yet we believe an updated, improved NAFTA is possible and in fact is necessary to improve America's energy future. If we make an honest assessment of the economic benefits we've already experienced, build on the progress we've made, and modernize a 25-year-old agreement for today's economy, we can make America safer, and dare we say it, greater.

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They wrote this column for The Dallas Morning News.

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