



---

July 14, 2017

NAFTA Consultations  
Global Affairs Canada  
Trade Negotiations – North America (TNP)  
Lester B. Pearson Building  
125 Sussex Drive  
Ottawa, ON K1A 0G2

On behalf of the National Marine Manufacturers Association (NMMA), the leading recreational marine trade association in North America, we appreciate the opportunity to provide feedback to guide the upcoming renegotiation of the North American Free Trade Agreement (NAFTA).

By way of background, NMMA is the national association representing the recreational boating industry in Canada and the United States. NMMA represents nearly 1,400 manufacturers of recreational boats, marine engine, and boating accessory and parts equipment. NMMA has offices in Canada and the US, representing a wide range of manufacturing interests in North America. Collectively, NMMA members produce over 80% of the marine products used in North America. With products ranging from fishing vessels to personal watercraft (PWCs), to trailers and wire harnesses, and bilge pumps to hydraulic steering, the marine industry is diverse. Our association is committed to growing our industry through public policy dialogue with government, market research initiatives, product quality assurance and marketing communications and public awareness programs.

The recreational boating industry generates \$10 billion in revenues with a GDP of \$5.6 million and employs 75,000 people across Canada. Further, our industry is an important contributor to the Canadian export market, generating over \$200 million in international sales. Canadians own approximately 8.6 million boats and about 12.4 million Canadians go boating every year. With nearly 80% of Canadians living less than an hour from a navigable body of water, boating is a vacation close to home for many.

The United States and Mexico are important boating markets for Canadian marine products, sales, and supply chain needs. In 2016, the US remained the top export destination for outboard boats manufactured in Canada and accounted for 88.8 percent of total outboard boat export value. The European Union and Japan followed at a distant second and third, with 5.1 percent and 4.2 percent of total outboard boat export value, respectively. In 2016, PWC imports from Mexico accounted for most of the segment's growth, accounting for 75.8 percent of PWC import dollars. The US ranked second with 22.1% share of the market. For inboard vessels, based on overall export value, the US ranked number two at 22 percent and Mexico, number four at 13 percent, as regional trading partners. For engines, the US was the largest importer in 2016 of inboard engines, at approximately 63.1 percent of overall import value and number one for gas inboard/sterndrive engine exports at approximately 98.9 percent. These export and import figures demonstrate the importance of both the US and Mexico as export and import markets for boat and engine manufacturers and the underlying importance of trade policy decisions within NAFTA.



---

NMMA members have identified the following areas for consideration in renegotiating NAFTA:

1. Tariffs

Free trade between the Canada, the United States and Mexico for recreational boats and engines is a top priority for the marine industry. Any increase in tariffs in NAFTA for marine engine, boat and accessory equipment will have a negative impact on the industry and result in price increases for the consumer. Canadian and US marine manufacturing businesses have structured their business for the past thirty years on NAFTA. Most domestic marine manufacturers have a strong customer base in the US, as evidenced by the above statistics. Some manufacturers have based their supply chain in the US. While this allows for lower cost material sourcing, it also benefits Canadian manufacturers, enabling them to produce cost competitive finished products, thereby expanding domestic hiring and production.

Impeding the ability of Canadian manufacturers to source materials from our North American trading partners or vice versa will negatively impact the overall supply chain. Canada is a large supplier of these raw materials to its North American trading partners and is reliant on the benefits of this trade. Increased tariffs for raw materials in US, Mexican and Canadian markets will increase the overall product cost and place additional burdens on the end user's purchasing power. This will make boating less affordable and hurt domestic manufacturer sales. Though we understand the need and desire to protect our domestic Canadian industry, we ask negotiators to carefully consider the impact of tariff and price controls for supply chains sourced in foreign markets which provide a critical component for domestic manufacturers to produce a competitive product.

We estimate that over 80% of new boats sold in Canada are imported from the US. Any changes in trade policy which would add a tariff or tax would see an increase to the customer in Canada. Current capacity of Canadian boat builders is too small in scale to meet the national demand. The impact would likely result in a decrease in recreational boating participation, affecting not only the dealer network but also tourism.

As mentioned previously, NMMA represents marine manufacturer members in both Canada and the US. We support domestic protection for both these markets and caution against renegotiation practices which could jeopardize the low cost free flow of goods amongst all three countries. A strong recreational marine sector benefits from business operations throughout North America with low barriers to entry.

2. Rules of Origin

Most boats are shipped as a complete package, with the engine attached. Once an engine is attached to an overall vessel, the duty-free component of the engine is lost. Engines are of significant value to the overall boat cost, thereby adding a substantial expense in tariff costs, when attached to a vessel. Allowing the engine to remain duty free when attached to a vessel would ensure the boat and engine package remains competitive with foreign content. Other free trade agreements do not include such a stipulation on boat and engine product packages.



---

Under NAFTA Annex 401 rules of origin, marine engines must comply with regional value content (RVC). This calculation is particularly discriminatory for many engine manufacturers. In most other free trade agreements, and for a vast majority of other products under NAFTA, the calculation is a tariff shift rather than a regional value content. NMMA urges negotiators to revise NAFTA to allow for tariff shift of marine engines, rather than the current RVC. By changing this rule to one based on tariff shift, engines and boats would be more competitive.

To accomplish this goal of tariff shift, Annex 401 rules of origin for HTS headings 8407 through 8408 would require modification, eliminating the text “provided there is a RVC of not less than (a) 60 percent where the transaction value method is used or (b) 50 percent where the net cost method is used.” For reference, marine engines are in HTS 8407.21, 8407.29 and 8408.10.

Watercraft tariff 8903.92.00.21 – As an example – One Canadian engine distributor is captured by a 9.5% import tariff on PWCs which are manufactured in the US while other competitors are not to our knowledge. In negotiations it would be helpful if this particular discrepancy would be reviewed to level the playing field.

Should stricter rules of origin be implemented, consideration needs to be given for the finished package product, as not all elements of a product may originate in Canada. An easier procurement process would be beneficial.

### 3. Technical Barriers to Trade

We urge negotiators to use the text finalized in the Trans Pacific Partnership (TPP) as a baseline for renegotiation of NAFTA. Reducing technical barriers to trade will greatly impact the marine industry, by allowing for domestic production to more easily be shipped to the US and Mexico. Marine products designed and tested to Canadian requirements should be given special recognition and lower barriers to entry in the US and Mexican markets. Continued efforts should be made to ensure technical regulations, standards and conformity assessment procedures do not place an undue burden on trade. Harmonization of standards and mutual recognition allows for a boat, engine and boating accessory products manufactured in Canada to be distributed in the essential US and Mexican markets without unnecessary and duplicative costs.

Ninety five percent of marine manufacturers are small businesses. While exporting is an attractive business endeavor in seeking the world’s consumers, most small business marine manufacturers lack the resources to comply with technical differences and the added cost of duplicative conformity assessment procedures, thereby making exporting infeasible. Opportunities for NAFTA to lower technical and assessment barriers would greatly improve the marine environment.

While engine and boat technical standards are relatively harmonized between the three markets, other marine component parts would benefit from reduced technical barriers to trade. For years, the Canadian and US markets have been working to harmonize life jacket regulations, enabling these lifesaving products to be sold in both markets. This reduces cost burdens and expands the market potential for manufacturers. Renegotiation of NAFTA should continue to support the benefits of technical harmonization as modeled in the lifejacket market.



#### 4. Regulatory Coherence

Negotiators should also consider the TPP chapter on regulatory coherence as a baseline for renegotiations of NAFTA. An open, fair and predictable regulatory environment is key for Canadian business operations. Domestic and international regulations can have a significant impact on the cost of doing business and the need for timely and accurate information to respond to market demands. Continued interagency consultation and coordination between Canada, Mexico and the United States will ensure good regulatory practices and transparent decision making. It is also critical that interested stakeholder partners have an opportunity to engage foreign governments in regulatory decision-making that may impact their overall business and customers. Regulations must be clearly and consistently written and information should be posted online for easy public notice. TPP's proposal to establish a regulatory coherence council would benefit NAFTA parties as a forum for inter-governmental and agency dialogue.

NMMA appreciates this opportunity to provide comments on the impending renegotiation of NAFTA. Trade principles established in NAFTA are critically important to the recreational marine industry and we look forward to engaging with all three countries during the renegotiation process. Should you have any further questions, please feel free to reach me at [sanghel@nmma.org](mailto:sanghel@nmma.org) or at 905-951-4048.

Sincerely,

A handwritten signature in blue ink that reads 'Sara Anghel'.

Sara Anghel  
Executive Director  
National Marine Manufacturers Association (NMMA) Canada