

API Policy Perspectives on a Modernized NAFTA

NAFTA has played a critical role supporting and growing North American energy integration. This long-standing agreement facilitates the liberalization in trade for all three countries that has brought benefit to consumers and the potential for energy independence. Many of the provisions in the current NAFTA are relied upon by the oil and gas industry for making long-term investments. Any suggested improvements in a modernized NAFTA should build upon these provisions.

Foundations of NAFTA

Zero or Reduced Tariffs: API supports the integrated energy markets that thrive for the oil and natural gas industry across US borders with Canada and Mexico. Duty-free treatment should remain the rule for commodities and products currently at zero. Any tariffs still in place under the current NAFTA should either be reduced or eliminated under a modernized agreement.

Market Access: NAFTA provides “national treatment” for US investors market access to Canada and Mexico. National treatment means that when US companies compete with Canadian and Mexican companies, all are treated equally and there is no favoritism shown to any one of them. This measure underpins and facilitates access to Mexico’s newly-opened oil and natural gas market and gives US companies a competitive advantage against foreign competition.

ISDS Provisions: ISDS protections are essential to every major sector of the U.S. economy. These provisions protect US foreign investments against egregious actions such as expropriation. Weakening or eliminating NAFTA’s investment protections and ISDS – either by modifying it in a new NAFTA or by the U.S. withdrawing from NAFTA – will take the U.S. in the wrong direction and risk undermining U.S. global energy leadership.

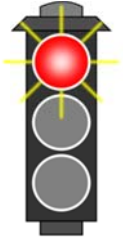
Modernizations for NAFTA

Energy Chapter: The current NAFTA contains an Energy Chapter to address some industry issues. API does not believe that a modernized NAFTA requires an Energy Chapter to achieve US energy objectives, including binding Mexico to keep its energy sector open to foreign investors. API would need to analyze the provisions of a proposed Energy Chapter to determine a position.

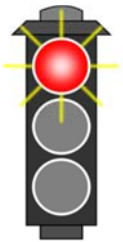
Duty Drawback: Full duty drawback provisions helps put US companies on a level playing field with other foreign companies, but there are restrictions in the current NAFTA. API and its industry members support new language that allows for full access to all duty drawback provisions.

Rules of Origin and Diluent: API and its industry members would like to see new, more flexible language for rules of origin and diluent in a modernized NAFTA. Diluent acts as a sort of lubricant and it primarily applies to heavy Canadian crude imported by US refineries.

**API Support for NAFTA 2.0 following 7th Round of Negotiations
February 2018**



Overall: After the 7th Round of Negotiations, API would not support NAFTA 2.0 if it were submitted to US Congress reflecting current US negotiating positions.



Investment Protections & Investor-State Dispute Settlement (ISDS):

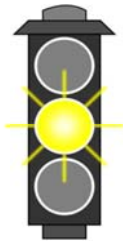
API opposes the US proposal for weakened investment protections and an “opt-in/opt-out” ISDS.

5-Year Sunset Clause:

API opposes the US proposal for NAFTA to sunset automatically after 5 years unless it is renewed by the parties.

Duty Drawback:

API opposes the US proposal that would continue to not allow refunds (or drawback) under NAFTA.



Energy Chapter:

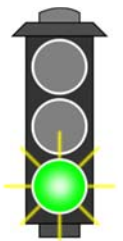
API does not believe an Energy Chapter is necessary to achieve US energy objectives, including binding Mexico to keep its energy sector open to foreign investors.

USTR announced that there will be a new energy chapter for NAFTA.

API will need to analyze the provisions of this proposed NAFTA Energy Chapter to determine our position.

Certificates of Origin:

USTR and CBP are still considering an API proposal to accept alternative documentation to certify that oil and natural gas have originated in Canada or Mexico upon entering the US.



Market Access:

API supports provisions to guarantee market access to US oil and natural gas products as well as investments in Canada and Mexico.

Zero Tariffs

API supports continued zero tariffs on oil and natural gas.