

Center for Strategic and International Studies

TRANSCRIPT
Online Event
“Making Medical Supply Chains More Secure”

DATE
Tuesday, June 14, 2022 at 10:30 a.m. ET

FEATURING
Adrian Smith
U.S. Representative; Ranking Member, House Ways and Means Subcommittee on Trade

Carlos Da Costa
Head of the Foreign Office of the Brazilian Ministry of Economy in Washington, D.C.

Maria Rocío Vargas Carrasquilla
Senior Investment Representative, ProColombia USA

César Remis
Head of Office, USMCA Implementation Office of Mexico

John Layton
Economic Minister, Embassy of Canada

CSIS EXPERTS
William Alan Reinsch
Senior Adviser and Scholl Chair in International Business, CSIS

Meredith Broadbent
Senior Adviser (Non-resident), Scholl Chair in International Business, CSIS

Transcript By
Superior Transcriptions LLC
www.superiortranscriptions.com

William Alan
Reinsch

Well, good morning, everybody. I'm Bill Reinsch. I hold the Scholl Chair in International Business at CSIS. And I am here today with Meredith Broadbent, our nonresident senior fellow, who is the principal author of the report that forms the basis for today's discussion about nearshoring in the pharmaceutical industry.

We're going to begin and are honored to be able to begin with Congressman Smith, who I'll introduce in just a moment. And then, following his remarks and a conversation he's going to have with Meredith, then we'll go on to a panel discussion with representatives from the four countries that we discuss specifically in our paper. So that's the – and after that, we'll have time for questions from the audience. So, if you do have questions, there is allegedly a button somewhere on the invitation that you can click on to ask your question and we will do our best to get to you later on in the event.

So, to begin, it's a real honor for me to introduce Congressman Adrian Smith, a sixth-generation Nebraskan who began his service in Congress in 2006 and, relevant for our purposes, began his service on the Ways and Means Committee in 2010, where he currently is the ranking member of the Trade Subcommittee, where he has taken on, I think, a high profile on a variety of trade policy issues, including the vaccine waiver issue, which I suspect he may be talking about, as well as market-access issues, particularly those that are of interest to his constituents and the whole, basically, western two-thirds of Nebraska, one of the– (laughs) – larger geographic districts in the country, I think.

Anyway, I'm delighted to have him here, and I will turn the podium over to Congressman Smith for his comments, and then as soon as he's finished, Meredith and he are going to have a conversation.

So, Congressman, the floor is yours.

Adrian Smith

Thank you, Bill, Meredith. I appreciate you for having me. Certainly, thank you to all the attendees. These are important topics that you're talking about and that I hope I can add some insight here.

I'm proud to be the lead Republican on the Ways and Means Subcommittee on Trade. It is just such an important – these are important issues for all of us, for our country. I think truly to be a leader in the world we need to talk more about trade. So, over the last two years we've seen firsthand just how much work is needed to secure our medical supply chain and reduce our reliance on our adversaries. I mean, that seems to be very clear, whether it's pharmaceutical products in China or whether it's oil in Russia, among many other products, we've got a lot of work to do here. So, I have to say that rather than the administration grasping at what I would consider short-sighted fixes like handing our intellectual property to China – still can't

believe that was even thought about – but our country needs to lead the tough discussions that we know are required to address our supply chains of such critical goods, and even across the entire economy.

I will say that I think there's good news that there's broad, bipartisan support for getting this done, and I think there are many opportunities in different forms, and whether it's through the conference committee for the China package, of which I'm a member, or the ongoing conversations that are centered on strengthening trade relationships throughout the Western hemisphere.

So, I know you recently released a case study on diversifying our medical supply chains and I think you're spot-on to draw attention to the lack of a concrete action taken by the administration to address these very pressing problems. So, like you, I believe a strategic and strong trade agenda could help fill gaps that would help our country overcome the political and logistical supply chain challenges that we are facing.

You know, last week the administration launched their new Latin America economic framework. So far, details from USTR have been light, and as much as I hate to say it, my expectations are actually pretty low. And I know you're all acutely aware of the untapped potential in Latin America and I certainly agree with you. We must not miss this opportunity. That's why I will not stop pressing the administration to be more aggressive and proactive on trade in the hemisphere, but all around the world. I think that the opportunities are many. The administration continues to tout the need for supposedly new tools to expand our trading relationships, but the fact is that traditional trade agreements, if enforced, they work. They provide certainty for producers and consumers alike, and they can help alleviate the supply chain and workforce pressures being felt around the world. They also allow us to set global standards in an increasingly interconnected economy. And so I know the focus on environment and labor from the Democrats – I get it, but they kind of want to look backward rather than forward, and I think an aggressive trade agreement – or a trade agenda that includes market-access trade agreements, that is a great tool to forward our views on, as a country, our values on the environment, perhaps labor, and we want to create more opportunities around the world. You know, market access is so important, and when you look at the overall posture right now from the administration, we need to be more aggressive, especially in the middle of this supply chain crisis.

I was hoping at the beginning of COVID that, you know, available labor and new technologies, we would see some onshoring perhaps for production, especially of those items that were lacking at the beginning and throughout COVID, but we have some other policies that have, I think, stood in the way of folks getting back to work.

So, let's – I'm happy to take your questions, and certainly, again, I appreciate the opportunity to be with you here today.

Meredith
Broadbent

Thank you very much, Congressman Smith. We're very delighted to have you with us today.

You mentioned about turning IP over to the Chinese in your opening statement and you might expand on that for folks that aren't watching that issue closely.

Rep. Smith

You know, the administration thinks that generosity should be given away in the form of intellectual property as it relates to, say, the vaccine. A vaccine now, well, who knows what else is next? Let me say that undermining our intellectual property policies undermines our – I think, our entire civilization. You know, we are set apart from other countries in terms of intellectual – well, property rights in general, but certainly to include intellectual property, and especially in this age of so much technology and just the velocity of information.

And I will say that we have not just been a leader in the world because of our intellectual property policies, but we've been able to help other countries because of our intellectual property rights and the policies and the enforcement that is vital. I just cannot see giving that away even short term, let alone long term. And we need to stand by these very important – I think the fundamentals of our freedom is property rights, certainly like I said, intellectual property rights to be included.

Ms. Broadbent

Thank you. When it comes to rethinking medical supply chains and potentially diversifying China and Asian countries from being the dominant suppliers, and maybe doing some more diversification in the hemisphere, what kind of trends are you seeing emerging in Congress? I know you're serving as a conferee on the U.S.-China conference – House-Senate conference that's going on right now. Maybe you could update us a little bit on that.

Rep. Smith

Well, I think there is such a thirst across our economy for certainty. You know, the marketplace is so volatile, that in and of itself can be an accountability mechanism for folks participating in the economy. But to have kind of this bob and weave policy out of Washington, temporary tax policy here and there, uncertain trade policies, certainly what I would consider lacking at all. I mean, when you look at trade policy in general, previous administration, you know, they really leaned into it, and so, you know, there could be disagreements about some of the details of their strategy, previous administration, but really leaning into it brought a lot of folks on board.

We had USMCA, the most bipartisan trade agreement in recent memory. Actually, more Democrats supported that than Republicans, even with it as a Trump priority. So, I just think with this China bill they're trying to throw too much at it, and they risk getting nothing because they're going to want so many – so many additional things. You know, MTB, GSP, that should have been done a long time ago, and I think this is – this is evidence that a pretty small number of Democrats have hijacked that, and, you know, they say, you know, that's so pro-business, we need to include something that business won't like. And – (laughs) – you know, that's just not good for our economy, and especially when you're looking at the facts of our economy right now, that ultimately consumers are getting kicked.

Ms. Broadbent Right. Following the Summit of the Americas meeting last week, the White House announced something called the America's Partnership for Economic Prosperity. And they said, together with partners we will deepen economic cooperation, we will strengthen supply chains to be more resilient against economic shock. And I think you mentioned, you haven't really heard much of a plan to follow up on that statement as of yet.

Rep. Smith Right. You know, I – you know, when you look at why President Lopez Obrador did not attend the summit, I'm not sure, has our president said anything about that? And that's disappointing. But, you know, let's talk biotech corn right now. When there are fears of a grain shortage because of Russia and Ukraine, and here Mexico is shutting out biotech corn, risking the harm of Mexico's own citizens. And, you know, USMCA was designed to address something like this, but I'm going to say that it shouldn't even need to come to USMCA enforcement.

What we need is President Biden not being ugly about it, but just taking the podium and saying: This isn't right. And, you know, you look at the fundamentals of grain supplies and how diverse the needs are for grain across our economy, now is not the time to let a country such as Mexico with, I think, kind of some extreme viewpoints from their own president, undermining our trade policies, and certainly our interactions in this hemisphere, and not to mention for other parts of our economy, in addition to agriculture.

Ms. Broadbent Right. We had just – did a paper that was entitled Securing Medical Supply Chains with Trusted Trade Partners. And where our interest is whether you're seeing increased nearshoring opportunities for medical supply chains in Latin America and South America, with, you know, particularly trusted countries?

Rep. Smith Absolutely. I think a lot of the countries in Latin America – not all of them, but a lot of them – share our values and, I think, have an appreciation for the logistical advantages of the near-shoring dynamic, and so I find incredible

opportunities there, and it's actually something that I think needs more attention from Congress and from the administration, because of the potential that does exist, and so, I hope to have more opportunity to bring a greater focus to this region.

Ms. Broadbent

You know, the USMCA agreement was very strong in the labor and environment areas. Do you see this as an opportunity to have a good give and take with some of these countries that aren't signed up to the most sophisticated trade provisions? And we have lots of FTAs in the region, but they were negotiated in an earlier time. And are you seeing an opportunity there to push the trade and labor agenda that some of the Democratic colleagues may be very interested in?

Rep. Smith

Well, it's really hard – as Bob Zoellick mentioned the other day – it's really hard to talk about trade without talking about market access. In fact, I think he may even have suggested, we're not really talking about trade until we're talking about market access. I think the most offensive part of trade writ large to the American people is when we seem to have a deal that we give more away in terms of market access over the last few decades without the expectation of getting more access into other markets for our products.

So, yes, we have a set of FTAs within Latin America. Perhaps some of those need updating. Perhaps we should – I think we should always be looking at market access, but I think there's a lot of room for improvement on trade policy with Brazil. Sometimes the FTA is an answer, not always, but I think there are great opportunities moving forward. But clearly, we need TPA to tee-up all of this, and I'm going to say that if the administration wants a greater focus on labor and the environment, we need TPA to accomplish that, and the fact that it has lapsed, I think, sends the wrong message to the world.

And when you look at the message we sent to the world when we got USMCA done, even to folks who wouldn't have considered themselves stakeholders in that particular agreement. But when the odds were defied, you know, a lot of folks said that could never be done. Quite honestly, agriculture, having done well under NAFTA, you know, our message was please do no harm. And the fact that the administration – the previous administration leaned into that so directly and with emphasis, it got it done. It was bipartisan.

And I think, you know, and there are probably Democrats crowing about, you know, labor and environment, along the way and along that path as well. So, we just have to lean into it. My fear is that the administration currently – it's just not a priority, and we're not seeing that emphasis from them that we need and, quite honestly, we should want, in terms of leading our economy out of – out of the rut that it is currently in.

Ms. Broadbent Does the lack of trade promotion authority request from the administration make you feel that maybe they don't want Congress, you know, involved in some of these negotiations that they're starting to tee up? And has there been enough consultation so far?

Rep. Smith There's not been enough consultation. I almost fear that if – I almost think that they fear that they – (laughs) – they don't want to give in any ideas that might give momentum to trade in general. So now the irony is that when we did TPA last time, which, you know, I think was a heavier lift than it really should have been. Both sides were a part of that. But, you know, in hearing from Democrats last time, you know, it's like, well, if we had more input on what TPA looked like last time, maybe they would be more enthusiastic about it. Well, here's their chance.

I fear that the waning session days of this current congressional session heading into the election, you know, and being such a low priority for the White House, I can't imagine that the Democratic majority is going to insist on getting it done. This is something that the administration really needs to lead on, and so when they aren't, it concerns me greatly. But good grief, having unified power, they should see, A) the need for trade policy. You know, even ignoring what the details might be for now, but the need for sending a message to the world that we are serious about balancing the playing field – leveling the playing field on trade, and here's what they might propose. The lack of that is certainly a huge concern that I have.

Ms. Broadbent Well, the administration has been pretty circumspect in supporting new market access in trade negotiations where Congress would be involved. I noticed you took an initiative and recently led a bipartisan congressional delegation to the United Kingdom to discuss opportunities and challenges in pushing hard to the conclusion of a U.S.-U.K. free trade agreement. Do you think the administration is missing a particular opportunity in that regard?

Rep. Smith Absolutely. I think that trade with U.K. should be some of the lower-hanging fruit. Now, let me say that I appreciate the eagerness that U.K. – that U.K. has for wanting a trade agreement, to iron out some concerns there. They're wanting to exclude the number-one trade constituency in America, being agriculture. So, the fact that the U.K. left the EU because of unnecessary regulations, they're seeming to want to keep those for agriculture. So, I think it's unreasonable for the U.K. to expect agriculture to be kicked to the sidelines when it would come to a trade agreement. And so – but I still see this as a good opportunity.

There were some mixed messages that we did here on our visit to London and Wales, as relates to agriculture. So, you know, there's diverse thought over there. I think that that can be healthy. You know, we – I can't imagine we would expect another country – well, let me just say, if we can get Japan

to move on agriculture, which did happen, we should – we should expect the U.K. to move on agriculture as well.

Ms. Broadbent Right. And I think a lot of it has to do with the administration not really pushing hard and looking serious. It's very difficult for trading partners to gauge, you know, when they should get serious themselves.

Rep. Smith Absolutely.

Ms. Broadbent Let's see. And I guess, finally, as you work your way through this conference, which has the tariff bill provisions in it, GSP, I mean, can trade be part of a small piece of addressing inflation? I mean, we're going to have to have an all-of-government approach to kind of tackling this big inflation problem we have. And do you see trade as playing a role in that?

Rep. Smith I do. You know, I don't want to overpromise what one particular policy can achieve, but I think it only stands to reason that we ought not have unnecessarily higher costs on products coming into our country that is the case because of the lapse of GSP and MTB. Small businesses are hurt by this. You know, all sizes of companies – U.S. companies, but it's just discouraging that, you know, this should never have lapsed to begin with, but really to see the lack of leadership from the White House, it concerns me greatly, and like I said, especially in the middle of this supply chain crisis.

Ms. Broadbent Great.

Well, we wanted to thank you for all the work you're doing on all these different issues at Ways and Means, and –

Rep. Smith Thank you.

Ms. Broadbent – great to have the Republican leader on the trade side of things speak with us today. And –

Mr. Reinsch Before he goes, Meredith, one more question, if I may, a quick one.

Ms. Broadbent Yes, please.

Mr. Reinsch We had a reporter in the audience who had this question, if you don't mind, Mr. Smith: How do you feel about the U.S. joining CPTPP?

Rep. Smith You know, I'm open to ideas, and the fact that, you know, we'd even have a discussion about this, I think we want to be involved. And I – you know, let me say – let me back up just a little bit, and that is, you know, when we – the leadup to the passage of TPA last time, let me say that trade across America and even in my district, where we rely heavily on trade, trade wasn't cool.

You know, folks were just kind of down on it, and that's why TPA, I think, was a heavier lift then.

And so enter, you know, a new administration in 2017. Well, let's talk about the campaign of 2016. That negativity on trade is what led to both nominees being opposed to TPP. And so, then we had to deal with that. I get that, even though I think there was good bipartisan support for TPP. The fact of the matter is both presidential candidates opposed it. We had to deal with that. President Trump leaned into the trade issue.

You know, fast forward to where we are today. If the president wants to talk more about trade, I want to hear what he has to say, or certainly his senior members of his administration. Any kind of trade talk right now is better than nothing. And so that, I would say – I'm certainly willing to hear folks out. Let's move forward in terms of looking what we could accomplish with that, and I think in turn do good things for our economy.

Mr. Reinsch Well, thank you for that elaboration. And that's a positive note to end on. I think we're all interested in having more talk about trade, which is about what we're going to do. So thank you very much, Mr. Smith. We appreciate your time.

Rep. Smith Thank you.

Mr. Reinsch And we're going to turn now to the panel, and before I introduce them, let me say a word about our research work that Meredith is largely responsible for. CSIS and the Scholl Chair have produced two papers on the question of nearshoring versus reshoring in the pharmaceutical industry, and the first paper, which came out about – I don't know – almost 18 months ago, ended up recommending what we refer to as a trusted-partnership model, which was a nearshoring model, rather than reshoring, as a better policy for ensuring resiliency and security in pharmaceutical supply chains. We did not recommend that the U.S. produce everything here, but that instead we develop trusted partnerships with friends and allies that would provide secure trade relationships.

The second paper, which just came out recently, last month, then went the next step, which is to say let's look at potential trusted partners. And can we make some comments on what might be suitable in terms of nearshoring? And to do that, we looked specifically at people in the Western Hemisphere, and in this case Canada, Mexico, Colombia, and Brazil. And the paper evaluates basically the nearshoring possibilities for the pharmaceutical industry in each of those countries.

And so that's what we're going to spend the next part of this session on, and we're fortunate to have representatives from all four of those countries with

us to talk about their policies, and we've not asked them to give speeches, but Meredith is going to have a conversation with them, and I'm going to interrupt from time to time if I feel like it.

But let me begin by introducing our guests, and they are, first of all, Carlos Da Costa, who is the head of the Foreign Office of the Brazilian Ministry of Economy in Washington, D.C., although today he's in Sao Paulo. Most of the time he's in Washington.

Next, we have Maria Rocío Vargas Carrasquilla, who is the senior investment representative for ProColombia USA, which is the Colombian investment organization designed to attract trade and investment into Colombia.

Next, we have César Remis, who is the head of the USMCA Implementation Office of Mexico, who is probably pretty busy these days, and may want to comment on what Congressman Smith said, which you'll have an opportunity to do shortly.

And then finally we have John Layton, who is the Minister for Economics at the Embassy of Canada.

So, all four of our studied countries are here. And I'm going to turn it back over to Meredith to start a conversation with them.

Ms. Broadbent

Great.

We're really grateful for you all to kind of respond to our paper and give us a sense of what you're seeing in the nearshoring trends and what opportunities are in your countries, and how you're interpreting the Summit of the Americas talk about working together with close trading partners in the region.

And I thought I'd start with Carlos from Brazil. If you can talk to us a little bit about how Brazil is facing this new trend in disruption in the global economy.

Carlos Da Costa

Well, thank you very much for CSIS for these – for organizing this fantastic meeting.

I was really glad to listen to Congressman Smith talking about the importance of trade for prosperity in our region and I was even more impressed by how President Biden at the Summit of the Americas has stressed the importance of our working together for joint prosperity and for resilience in the supply chain.

And I think the word here is resilience. Right now, when we think about strategic value chains like the pharmaceutical one, like the food one, and like the – for instance, the semiconductor one, we need to have more diversification in global supply chains.

This is one of the most important priorities of our government and we understand that only by working together in the region we will be able to provide our citizens and our companies with resilience.

And when we think about the pharmaceuticals in particular, Brazil has a long history of working with APIs and with chemicals, in general. I always say that our APIs are our brains and chemicals embodied together, and we have fantastic engineers, and we now have a fantastic business environment.

We are a large continental business-friendly country today, and one of our priorities today is to make sure that we have the right environments for brains and chemicals, chemicals sourced from environmentally-friendly energy, like we do have in Brazil for our consumers and to provide for our health industry with great products with resilience, not under the risk of global turmoil like the ones that we are facing today.

We need resilience because health doesn't wait. The lives of our citizens cannot wait for disruptions in the supply chain. Waiting for a pharmaceutical can mean a life-or-death decision and we, in Brazil, have been working closely with our industry to make sure that we are resilient to face the shocks like the ones that we're facing today.

Ms. Broadbent Great. Thank you.

Yeah. In our paper we looked at securing medical supply chains and the idea is to figure out how we can diversify a little bit into this hemisphere, and I wondered, from your perspective, how could the U.S. build a partnership with Brazil that would help Brazil attract some more investment and diversify some of the needed products that we know we're going to have to have if we have a next pandemic like an API facility.

Mr. Da Costa Well, here in Brazil, we have been working to foster trade relations with the whole world. We have reduced 20 percent our tariff barriers and we have digitized all our trade procedures here to reduce nontariff barriers, and I think we can work together with the U.S. to foster trade, number one.

A TPA would be more than welcome, and by reducing all the nontariff barriers and also reducing tariffs for our goods would be very important to foster a relationship to promote security in the supply chain of pharmaceuticals and also to streamline procedures related to intellectual property and registration of goods.

Trade persecution highways that we have signed with many other countries would be also very welcome. We have patent persecution highways. We have restructured all our procedures here for intellectual property and patents. We used to be a country with a large backlog of patents. We have extinguished all kinds of backlogs and red tape for patents in Brazil. We are now considered one of the – of the most modern and effective systems of patents in the world by the WIPO. And I think this will be very important if we could speed up all kinds of product registration, API registration in the U.S., for our goods. We already have an industry here. If we could make sure that we connected our industry to the industry – the pharmaceutical industry in the U.S. – and that would require faster regulatory procedures – we are competitive enough today, I'm absolutely sure, to attract investment and increase our production in our country.

Ms. Broadbent

So some of this is going to be cooperation between the two private sectors as they look to figuring out what kind of relationships and sharing of best practices and so forth might be possible to increase resiliency.

Let's see, one question on the Brazilian taxation system. It's notoriously complex and many would say burdensome, meaning that if there was tax reform, I think Brazil may be more attractive to foreign investment. Are there current proposals to streamline the tax system to attract more foreign investment to Brazil?

Mr. Da Costa

Well, taxation was one of the – one of the problems in the business environment in Brazil. We were one of the worst countries for doing business in the world. And we have worked in the four last years to improve dramatically our business environment, and I'm absolutely sure that we are one of the best countries to do business with the exception still of the taxation regime.

You touched on a very sensitive point to us. We are working with Congress right now in a tax reform to reduce complexity in our tax system, but we already have approved a very modern regulation for special economic zones. So, if we are talking about integration in global supply chains, our legislation for special economic zones already allows for the – for investment in new plants for APIs and for all other sectors without taxes – without any kind of not only complexity; without any kind of taxes to supply the whole world.

So, knowing that it's not very easy in any country in the world to transform the tax system, as we need to do and we are doing in Brazil, we have already moved even before the tax change to allow for special economic zones. And in these special economic zones, you are completely integrated to the whole world. And right now, even companies can own special economic zones in Brazil. And this is why we're absolutely sure that we have already moved in

the necessary environment in such a way that if we do have a trade promotion agreement with the United States and a faster regulatory procedure for our products, we have already overcome at least in special economic zones that can be created all around the country for pharmaceutical groups.

Ms. Broadbent

Great. Well, we hope to learn more about this, and hopefully we can have you back to talk in more detail. This, of course, is a big, broad overview of some different countries.

And I'd like to turn now to the representative from Colombia, Maria Vargas, if she could give us a sense of what's going on in Colombia. You have more of a platform with which to work with, basically, with the existing free trade agreement, which has been very successful, and I just would be interested to know what opportunities you're seeing for increased nearshoring of medical supplies in Colombia.

Maria Rocío
Vargas
Carrasquilla

So, Meredith, thank you. Thank you to CSIS team for thinking about Colombia and thinking about Colombia as a trusted partner to secure the supply chain in medical devices and in the medical sector.

As you mentioned, we just celebrated the 10 years of the free trade agreement between the U.S. and Colombia. We're really happy with some of the results that this free trade agreement have had. I would like to highlight some data and some important things about Colombia and about the health system in Colombia.

First, Colombia is now, according to the OECD, the fastest-growing economy in all of the OECD countries in the world, so not only Latin America but for all the countries. And this is really important for us. Colombia has – (audio break) – of 10 percent and we were one of the fastest-growing economies in Latin America. So we are in a really good path in growth in the region. And, of course, Colombia is an ideal platform for diversified production and reduced risk in relocating the supply chains.

One thing that is really important about the processing in Colombia is that the World Health Organization has classified Colombian health system as the best one in Latin America. And we have universal coverage of over 98 percent of the population of the country.

As you, Meredith mentioned, we have a lot of trade agreements. We have over 70 free-trade agreements that give us preferential access to over 60 countries around the world and to 1.5 billion customers also around the world. Colombia has a really friendly business environment. And with different incentives sometime, Colombia is the best tax regime for investments in Latin America, especially the health system. We have a lot of

incentive, for example – (inaudible) – exclusion for importation of raw materials for the use of production of vaccines. Also, vaccines are exempted for tax bills and a lot of different other good opportunities that we have in the country.

Regarding free-trade zones, we have over 122 free-trade zones all around the country, especially near the main airports and ports. And of these 122 free-trade zones, we have 14 trade zones specialized in the health sector and eight clusters that also specialize in the production for our health sector.

And finally, we're open to business in different areas regarding the pharmaceutical and the health sector. We really want to attract more investments in the vaccine manufacturing in Colombia. Right now 100 percent of the vaccines for human use are supply – are imported. So we really want to build up capacities to have these vaccine productions in the country.

Ms. Broadbent How could the United States help expand the health capacity in Colombia? And what kind of aspects of a trusted trade or trade partnership would be important to Colombia?

Ms. Vargas Carrasquilla Yes. No, as Carlos mentioned before, I was really excited to hear Congressman Smith talking about the importance for Congress to facilitate these kind of trades and to facilitate the resilience in the chain supply, especially in this sector. We really want to see more action from the government and from Congress to really, you know, bolster what the Latin American countries can do and how can we integrate in the supply chain.

And so I think that what was announced in the Summit of the Americas, this initiative in Congress, and having the bipartisan support in Congress is really important for us. But it will be really important to see, you know, how the new economic partnership with Latin America that President Biden announced last week can really turn into actions and concrete actions, and how can also Congress turn these initiatives and bipartisan support into more concrete actions for Latin America and for our countries.

Ms. Broadbent OK. Thank you very much. I am guessing that some of these countries, including Colombia, will go to the administration with some ideas on what can support diversification.

I know there's been some concerns in Colombia about transparency and the drug-price ceilings. Are things changing there a little bit right now in the pharmaceutical sector?

Ms. Vargas Carrasquilla Yes. Well, actually, I don't really agree with some of the concerns about the lack of transparency. I think that in Colombia we have a really transparent

process. We have now a negotiation of two different “circulares” that are called in Colombia. So we have one circular that is regarding price control.

And just to tell you a little bit, Meredith, about this, so the product for Circular 13 – that is the one that is regulating the prices of some pharmaceutical things in Colombia – have, you know, a really long process in the country. So we published a draft of the circular in December of 2021. This was for two months open for discussion, open for comments to everyone in the public. And the ministry received a lot of comments and the commission received a lot of comments. They answered the comments publicly, and they have over 16 meetings with private – with the private sector to, you know, talk about the comments and to get some agreement. So the Circular 13 draft was, you know, public discussed and it was a really transparent process.

And also the commission – the price commission in Colombia is working in modification of the Circular 3 that established a methodology for this price control. And that is also – so that was published back in 2019 for comments, before COVID. So COVID got a little in the way. But it was – the Circular was reopened at the beginning of these years. Also, two months for public comments in the Ministry of Health, the Ministry of Commerce. And the commission have had a lot of meetings with different sectors in private sector, and also from representatives from different embassies in Colombia that have some concerns about, you know, these circulars being transparent and public and really, you know, open process. And now we’re finalizing the comments section for the draft of the circular. So it’s been, you know, public, transparent, and –

Ms. Broadbent

Thank you, Maria. That will be – we want to hear more about that, but we need to get through our four countries here. So I’m going to turn now to César Remis. He’s head of the USMCA Implementation Office for Mexico in the United States. And there was – Congressman Smith had some words about biotech approvals. And so I want to give you some ability to respond to that.

But it would be helpful if you could talk about opportunities for reshoring in Mexico and how Mexico is supporting the whole nearshoring trend and the desire for people to diversify from different countries in Asia.

César Remis

Thank you very much, Meredith.

Well, first of all, I would like to remind you that – remind the audience that Mexico and the U.S. have more than 28 years of integration under NAFTA and now under USMCA. So we are neighbors. We are friends, partners, and allies. And I like, you know, quoting Mexico’s former Congressman Agustin Barrios Gomez, who said we are roommates, actually. There is no other

relationship between neighboring countries as complete and cooperative as ours. Our relationship goes from migration and security to trade, tourism, and cultural links.

Mexico has proven to be a reliable partner for the U.S., and we have built a true North American production platform. We produce together to compete globally. In fact, you know, last year, 2021, our total trade in goods was \$661 billion, you know, equivalent to \$1.2 million per minute.

So we are – and also we are highly integrated. Thirty percent of the value of the U.S. manufacturing imports from Mexico is actually U.S. domestic content. So we are really, really integrated. If we compare, for example, industrial trade between Mexico and the U.S., it's 53 percent of total trade; while if you compare that with China, it's only 20 percent, no?

So, but, well, the reality is that the pandemic exposed the vulnerability of our supply chains. Today, we realize, I mean, that we need to strengthen our supply chains, and it has become a priority for North America. Having our suppliers, you know, far away leaves our countries vulnerable to supply disruptions and shortage. And so we believe that strengthening supply chains has to be done from a regional perspective.

And we have experience, no? Mexico and the U.S. have always worked together to strengthen our region and face common threats. A clear example of this happened during the third month of the pandemic, when, in a coordinated effort, Mexico, the U.S., and Canada agreed to guarantee essential trade flows through our borders. As a result, our governments progressively aligned our essential sectors to ensure the access of food, medical, and health products for the North American region.

And we are convinced that this – building resilience has to be done from a regional perspective, and we are working on many fronts. You know, from the Ministry of Economy of Mexico, we have worked with our allies domestically and bilaterally with the U.S., and this has included working with – I mean, work with the private sector in both countries, the U.S. government, Congress, as well as think tanks to put forward for North American region an onshoring plan.

Among the action that we have taken I would like to highlight, for example, we integrated and coordinated a national strategy for strengthen and expand the supply chains. We have relaunched the High-Level Economic Dialogue with the U.S., with a particular focus on supply chains. We established working groups to promote investment in the strategic sectors, including semiconductors, pharmaceuticals, and medical devices. And of course, we are working closely with the Mexican health industry, the Consejo Farmacéutico Mexicano, and La Camara Nacional – you know, the Chamber,

the National Chamber of the Pharmaceutical Industry, CANIFARMA, and, I mean, all the association that – of the sector.

But I would like, you know, to highlight especially the work we are doing on the High-Level Economic Dialogue. As you know, well, Mexico and the U.S. relaunched the High-Level Economic Dialogue last year, in 2021, to work on priority economic initiatives with a special focus on supply chains. And we believe that, I mean, the HLED that we – the economy – is the ideal framework to create a strategic collaboration in this area.

The first meeting since its relaunching took place in September 2021 and it was – its work was structured in four pillars: supply chains, and a working group focused on critical sectors and trade facilitation; workforce development; technology and digital economy; and development of southern Mexico and Central America, which include infrastructure projects. But as you can see or as you can imagine, all of these four pillars reinforce the concept of building supply chain resilience. So all of them has a priority and focus of their work in the four pillars, the sector we have defined as the priority sectors, no? And we have established supply chain working groups to advance the relocation of critical sectors. So if has semiconductors and ICT goods. And we have developed a strategy for supply chain continuity in sensitive sectors.

We are also working, you know, to add new sectors to the HLED supply chain working group, including the health sector, which includes pharmaceuticals and medical devices. And we are working – I mean, open and working on taking advantage of other collaboration mechanisms.

But, well, we believe – I mean, talking about the opportunity, we believe there are many opportunities for the pharmaceutical industry in Mexico. I mean, we believe that there are – using the concept of – there are nearshoring and onshoring opportunities in Mexico for these sectors in the short and the long term. The potential for the development of hubs in Mexico to ensure access to medical supplies to bolster national and regional hub security, just as an example, the U.S. import of pharmaceutical from Mexico increased 18 percent in 2020 compared to 2019. And also, the foreign direct investment in the pharmaceutical industry accounted for almost \$200 million in 2020. So – and this is because, you know, Mexico, I mean, and the USMCA have provided certainty for investors and also, you know, because the pharmaceutical industry in Mexico has existed for more than 100 years.

There is potential to foster production and consumption of active APIs – APIs, yes – within the region. And this is – I mean, this is coming forth or I would say this is reflected in the interest of multinational companies such as AstraZeneca, you know, which just last year – two years ago they say that it would produce the coronavirus vaccines in Mexico, and that of an Indian

company, you know, that signed an agreement to establish pharmaceutical clusters in the state of Hidalgo. And we believe that we have the – I mean, many competitive advantage for the – to be the natural partner for the U.S. to work with us to strengthen their supply chains.

Well, I would leave it like that – there, you know. But I can also, you know, mention our network free trade agreement. We have, of course, you know – we can highlight the USMCA, which is a health cooperation mechanism to align the unitary regulation between our countries – among our countries, because, I mean, this includes also Canada. We are very competitive with manufacturing, you know, even more competitive – according to the Boston Consulting Group, even more than some major Asian economies. We have a very skilled and competitive workforce. We are producing constantly students and graduates in the specialized programs such as biomedical, chemical, pharmacobiology, engineering, and many, many others. And of course, you know, we have some infrastructure, and the proximity. The proximity, I mean, if you compare from China – you know, shipping something from China, it could take up to 32 days. In comparison with Mexico, that it takes only five days, no? And of course, this is with a reduction in transportation costs – a significant reduction in transportation costs.

So just to summarize, you know, you've seen the USMCA and the HLED I think allows Mexico to successfully join the U.S. strategy to strengthen pharmaceutical sector.

Ms. Broadbent

Great. Thank you very much, César. And I'd liked a couple of the things you said about how much of Mexican production is actually U.S. content, and I think that's something that when we're producing in the Western Hemisphere a lot of plants and manufacturing facilities – I think you mentioned 30 percent of your production is U.S. content, so you're buying from the U.S. all day long to support your plants and use inputs and components and there's so much coproduction between the two economies that I think is a strength of the U.S.-Mexico relationship.

And the other thing I was excited to hear was some more details on what's going on at the High-Level Economic Dialogue and some of the other consultation mechanisms that were actually established in USMCA because I think you have some organs with which you – venues with which you can cooperate with the U.S. that are already established under the agreement and can be used to address this new problem that we didn't know we had when USMCA was contemplated.

So I appreciate all those comments, and – (laughs) – I wondered if you had much of a comment on the Summit of the Americas. I know your foreign minister, there was a little bit of a disagreement on the invite list to the summit, but your foreign minister was pretty positive on, even though

Mexico wasn't able to attend, on kind of what the general gist of the discussions were there. And so just wondered if you had any comments on the Summit of the Americas discussions on nearshoring and cooperating.

Mr. Remis

Yes. Thank you, Meredith.

Well, with the Summit of the Americas, as you know, we were represented by Minister – Secretary of Foreign Relations Ebrard. It was – well, I think it was a very successful, you know, summit.

I think it is – I mean, because, at the end, the focus of the summit was, you know, working on supply chains and this is something that, as I mentioned before, it'd – it had been a priority in our bilateral work with the U.S. and this has been a priority working, you know, with different entities.

In fact, during the summit, you know, took place, the CEO summit – I mean, the Summit of the Americas it took place, a CEO summit, you know, which, you know, gathered business leaders from the Americas and the focus, again, was, you know, working on supply chains.

We had a successful participation of both our minister of economy and minister of foreign affairs. Also, we participated in the minister summit organized by the Inter-American Bank. There, we had the participation of Secretary of the Economy Clouthier – Tatiana Clouthier.

Let me tell you, I mean, one of the main areas of discussion was, of course, you know, the supply chain. But I was really, really impressed that there was almost one – I mean, everybody was, you know, talking about the same. You know, it was all about more integration – more integration, more strengthening, supply chains working together, cooperating in order to create more resilience of supply chains.

So, I mean, not surprised, but, you know, I was highly and pleasantly surprised – sorry, pleasantly impressed, you know, by listening to this. But also, you know, these reinforce the work, as I was mentioning, that we are doing on the HLED. We had our own North American leaders summit and, of course, you know, our internal work in Mexico.

So, in coming back to the Summit of the Americas, we believe that – I mean, that the discussion that took place during these days was really, really healthy. We needed this. It has been a while since the president and leaders of the Americas didn't get together in a summit – you know, in a Summit of the Americas. So I think it was good discussions and good work that is, you know, coming from there.

As you know, it was launch an economic partnership, which, I believe, is again, you know, I have no doubt that one of them – the focus of that partnership will be, you know, supply chains.

So, in summary, I think it was a – well, a good meeting. And hopefully, you know, we can, you know, start more cooperation from there, huh?

Ms. Broadbent Great. Well, thank you very much.

And then for our concluding speaker here, Mr. Layton – John Layton, from – the economic minister at the ministry – at the Canadian embassy, I want to give him a chance to kind of answer some of our questions. And then, Carlos, I'd like to come back to you on some of the approval issues that we've got in Mexico, if we have time. For Mr. Layton, how is Canada looking at the, kind of, the sign of the trend for reshoring and diversifying supply chains? What opportunities do you see in Canada and what should we know about your market?

John Layton Thank you, Meredith.

Maybe I'll just start by saying, you know, something that Carlos said about the importance of resilience. I think that's, really, a key factor for Canada and resilience in critical supply chains in the health sector. And, César, I think made an important point about the cooperation between Canada and Mexico and the United States at the beginning of the pandemic, when we were – when we kept the borders open to essential goods and essential workers, but we closed our borders to virtually all other travel. And I think it's quite remarkable that we were able to balance that from our health and safety perspective, closing our borders, but we kept our economies going. And that said a lot about our collaboration. And as well during the pandemic, early in the pandemic, the USMCA came into force. I think that's another important part about continuing the North American economic integration.

We certainly have looked at the challenges that came out of the pandemic and the gaps that we've identified. And so I think near shoring is an important policy priority for Canada. One thing that came out of our examination of the gaps as we announced in July of last year a biomanufacturing and life sciences strategy with the aim of increasing Canada's domestic vaccine, therapeutics and biomanufacturing capacity. And includes a few investment funds.

There's a Canada Biomedical Research Fund, which is a \$250 million investment to support high-risk applied research, training, and talent-development partnerships. There's the Biosciences Research Infrastructure Fund, which is a \$500 million investment to support bioscience infrastructure needs of universities and research hospitals. And then the

Clinical Trials Fund, which is a \$250 million fund to support clinical trials to test vaccines and therapies for various diseases and medical treatments.

And then finally, the largest investment is in – the government last year allocated a billion dollars to the Strategic Innovation Fund to provide support to companies to address biomanufacturing gaps, vaccine, and therapeutic, clinical development, and to build on the strengths in emerging technologies. And of course, that's a very large fund to support manufacturing in Canada. It's available to domestic companies and foreign companies.

I know our minister of innovation, science and economic development, Minister Champagne has been very active in promoting Canada as a good investment destination for foreign manufactures, you know, citing our educated workforce, our visa programs for foreign investors, competitive tax system and research and development credits, as well as your study noted that Canada's well-placed in the ease of doing business index.

And then obviously our trade agreements, whether it's the USMCA, the CPTPP, our agreement with Europe, that we have a great network of free trade agreements. And I think that that's been important in helping not only developing our domestic life sciences industry, but also attracting foreign investments. And in fact, Moderna has announced that it would be setting up a manufacturing facility for mRNA vaccines in Canada.

Maybe just the other thing I'd mention is just our close collaboration with the United States. And just last week we announced the progress report for the Canada-U.S. Supply Chain Working Group. And that's something that our leaders had announced last November. And this first progress report just came out. And one of the sectors – key sectors that the supply chain working group's been addressing has been public health, critical medicines, medical devices, and PPE sector. And you know, the report notes that both countries have been active in trying to increase domestic manufacturing of critical medical supplies. But it also notes that more work is needed to ensure solutions in this area remain viable over the long term.

And a couple of things for next steps. We're working together to improve the strength of our respective national medical stockpiles. We're also looking at regulatory cooperation and flexibility, which is helping to limit undue regulatory barriers in pharmaceutical trade by exploring mutual recognition of conformity assessment requirements and the specific issue of aligning pharmaceutical facility inspections.

So that's been, I think, a really important part as well as we – as we work closely with the United States because we're so – we have such integrated supply chains. In some respects, we're a domestic market for the United

States, and the U.S. is our largest export market. So that's a real focus for us, for Canada, is ensuring that that cooperation continues.

Ms. Broadbent And what was your reaction to the Summit of the Americas, and the partnership for economic prosperity that was announced there? Are you optimistic?

Mr. Layton Yeah. We're certainly supportive of the initiative. Very interested in President Biden's announcement to initiate discussions on an Americas partnership, provide more focus on the region and the Western Hemisphere. I think there's some – there's some good ideas. It's to – it's really at sort of an early stage. And so we'll have to speak with – more with the U.S. government and the other partners in the region to get a better idea of what the – what the possibilities and opportunities are. But I think it's a worthwhile initiative.

Ms. Broadbent OK. Mr. Layton, Canada was – during the pandemic, I mean, vaccines and therapeutics for the pandemic were sourced almost completely from pharmaceutical firms innovating and manufacturing outside Canada. And I just wondered how the Canadian government has kind of processed that dynamic. Because that can't have been that comfortable for Canada.

Mr. Layton Yeah. That was – that was one of the major gaps in our – for our health care system, is that when we had this emergency that there was, you know, a lot of concern about supply. And, you know, we had the – a lot of concern about the fact that we didn't have any manufacturing capacity for vaccines. So I think that that's really the point of our life science strategy that I just mentioned, and our investments to encourage domestic development of that industry, but also to attract foreign investment. And, like I said, Moderna's committed to setting up a vaccine manufacturing facility. And I think we have other projects in the pipeline to do that as well. And I think that that's a real lesson learned from the pandemic, that to have a resilient supply chain for pharmaceuticals we have to have some manufacturing capacity for vaccines.

Ms. Broadbent And how much will you be addressing the problem through some regulatory reforms and so forth, in addition to the money that's being used to incentivize this production?

Mr. Layton Well, I think the – I mean, the main regulatory initiative is – as I mentioned, is cooperating with the United States to make sure that we have – that we're on the same page in terms of regulation. I know in your report you mentioned the Patent Medicine Review Board in Canada, and that there was a regulatory initiative that had caused some concern and was mentioned in the special 301 report by USTR, which actually – just as an update – I know it was mentioned in the 2001 report. It wasn't in the 2002 report.

And that's because we had – our health minister had just announced – or, the Patent Medicine Review Board had just announced that it had undertaken consultations and that it was – a couple of the proposed regulatory changes had been removed from the – from the initiative. And I think that that has – that really reflected changes in the situation because of the pandemic, as well as the input received through the stakeholder consultations. And so I think that the concerns from a regulatory perspective that had led to this being mentioned in the special 301 report I think were really taken off the table. And my understanding is that it's not a concern that it once was.

Ms. Broadbent OK. And now, as Congress and the administration are sort of listening and thinking about how they flesh out this trusted partnership program that they were talking about at the Summit of the Americas, what would you suggest that would be key things the U.S. government could do to encourage reshoring to North America?

Mr. Layton Well, I think the – you know, for me, the key has really been the U.S. government's engagement with partners. And our engagement, whether it's been bilateral or with the United States in other fora, has been – has been very important and very productive. I think that I would recommend – if I was recommending to the United States government, it would be to continue that close work with trusted partners because it's so important for critical supply chains like this. But also, I would propose that they resist things that could disrupt those supply chains like domestic content requirements or buy America, and that, you know, to apply restrictions on trade with – especially in integrated supply chains that see in North America, it not only harms a partner like Canada but it also harms U.S. businesses/U.S. workers. So I think that that's really – as we're in this new era of close collaboration because of these crises, whether it's the pandemic or the war in Russia, you know, I think it's – working together as partners is really key moving forward.

Ms. Broadbent Yeah. I mean, the administration uses the Defense Production Act pretty often and is kind of turning to that, which has a big preference for U.S. manufacturing and tends to hurt the competitiveness of Canadian and other foreign suppliers. So that's an issue, I think, that we all need to talk about.

I see Bill feeling like he wants to say something here, and I will defer to him.

Mr. Reinsch (Laughs.) Well, I'm only going to say that we've reached the end of the time. But it's been – and fortunately, we don't have any questions from the audience so we're not cutting anybody off. But for my part, I think it's been a very interesting and enlightening discussion. For those of you who want to pursue it further, I'd urge you to look at the papers that we've published. You can get them off of the website at www.CSIS.org. You can find them there.

And let me thank our panelists for giving us their time and their thoughts about nearshoring and the opportunities that their particular countries represent for that.

Meredith, do you want to make any final comment before I say goodbye?

Ms. Broadbent No. I think it's an ongoing discussion and I think we're all going to have to innovate in new policies where we can share information on diversifying supply chains between governments in the hemisphere. And we appreciated all of the thoughts we were able to get from your governments, that – your government representatives that were willing to talk to us about our paper. And we're hoping that your countries will come to the U.S. with some ideas on where the U.S. could be helpful and encouraging just the diversification of supply chains to this hemisphere.

Mr. Reinsch And with that, thank you to the panel and thank you to the audience for staying with us. And with that, we'll adjourn.