

CANADIAN GLOBAL AFFAIRS INSTITUTE
INSTITUT CANADIEN DES AFFAIRES MONDIALES

NAFTA: A Primer for the Montreal Round

by Colin Robertson

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POLICY UPDATE

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CGAI Vice President and Fellow
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The outcome of the upcoming Montreal round (Jan. 23-28, 2018) of the NAFTA negotiations will give us a sense of whether a new agreement is possible – one that includes dispute settlement on trade disputes, as well as accommodations on government procurement and content rules for autos - or whether we need to look to Plan B – life without NAFTA.

Renegotiating the 1994 NAFTA is part of a bigger exercise by the Trump administration aimed at reducing U.S. trade deficits, bringing jobs back to the U.S., and getting a "fairer" deal for Americans in their trade agreements. The Trump administration has ramped up trade remedy actions against foreign competition, as Canada is experiencing on Bombardier's C-series jet sales and, most recently, newsprint exports to the U.S. The Trump administration's National Security Strategy (December 2017) says that "America will no longer tolerate chronic trade abuses and will pursue free, fair, and reciprocal economic relationships." These are themes that President Trump is expected to address during his visit to the upcoming World Economic Forum in Davos.

On NAFTA, President Trump has been consistent. As he told the Wall Street Journal earlier this month, NAFTA "has been a terrible agreement for us...the United States has been treated very, very badly…we lose $71 billion in trade deficits with Mexico. We lose $17 billion with Canada. If we don't make a fair deal for the United States and the United States taxpayer, then I will terminate it."

The NAFTA renegotiations cover the traditional trade agreement topics such as national treatment and market access for goods, investment, cross-border trade in services and government procurement. They also include contemporary trade topics such as digital trade, good regulatory practices, transparency and anti-corruption, and small and medium-sized enterprises.

After five formal rounds and the December "intercessional", there is bracketed text and growing convergence on about half of the likely 30 or so potential chapters.

But fundamental, perhaps unbridgeable, differences remain.

Canada and Mexico seek trade liberalization and a reduction of barriers while the U.S. wants to restrict trade and draw back benefits to the U.S. The U.S. negotiators continue to demonstrate limited flexibility, reflecting the Trump administration's hard line. As Commerce Secretary Wilbur Ross told CNBC in October, the U.S. is asking Canada and Mexico to "give up some privileges that they have enjoyed for 22 years. And we're not in a position to offer anything in return." From Jan. 20 through Dec. 21, 2017, the Commerce Department initiated 82 anti-dumping (selling below the cost of the good) and countervailing (goods produced with subsidies) investigations – a 46 per cent increase over the previous year and a 16-year peak in the number of initiated investigations.

Martin Moen, a senior Canadian negotiator, observed that "we have been facing a situation where the United States has either sought to pull back on elements of the agreement that we think are

extremely important, or to take approaches that we think are not going to be workable in the context of a free trade agreement."

The Montreal round begins, chief negotiator Steve Verheul told the House of Commons International Trade Committee (Dec. 4), with negotiations proceeding on two tracks. The first is aimed at achieving real improvements to NAFTA in a number of areas, including telecommunications, good regulatory practices, customs and trade facilitation, sanitary and phytosanitary measures, sectoral annexes, financial services, anti-corruption, technical barriers to trade and many others.

The second track will address the "extreme proposals" that the U.S. tabled in rounds 3 and 4. The contentious items include:

- Bi-national panels for anti-dumping (AD) and countervailing (CVD) duties (Chapter 19). For Canada and Mexico this is critical especially given the protectionist direction of the Trump administration as demonstrated through its recent actions against Bombardier and on Canadian newsprint (softwood lumber, of course, predates the Trump administration). The U.S. wants to eliminate the binational panels. Canada and Mexico want to improve them. In a separate move at the WTO Canada has sought consultation on the application of U.S. AD & CVD as being inconsistent with WTO obligations and is encouraging other nations to join its request. U.S. Trade Representative (USTR) Robert Lighthizer calls it a "broad and ill-advised attack on the U.S. trade remedies system" warning that "if Canada succeeded on these groundless claims, other countries would primarily benefit, not Canada… the flood of imports from China and other countries would negatively impact billions of dollars in Canadian exports to the United States."
- Rules-of-origin to determine NAFTA eligibility in the automotive sector with the U.S. wanting to raise the eligibility (from 62.5 to 85 percent) and, for the first time, require 50 per cent U.S.-only content;
- Government procurement dollar-for-dollar (U.S.) vs reciprocity of treatment (Canada and Mexico);
- Sunset clause requiring NAFTA renewal in five years.

Coming out of Montreal there are three likely scenarios:

- First, Donald Trump decides to rescind NAFTA. USTR Robert Lighthizer will blame Canada and Mexico for failing to show a willingness to compromise. If the U.S. rescinds the agreement, Mexico has said it will walk out of the negotiations. It would be hard for Canada to stay;
- Second, after the rounds in Mexico and the U.S. that will follow Montreal the negotiations go into technical discussions without ministerial meetings until 2019 to allow for the 2018 Mexican elections (July 1), the U.S. midterms (Nov. 6) and the inauguration of the new Mexican president (Dec. 1) President Trump implied in his WSJ interview that there was some flexibility because of the Mexican election;

- Third, negotiations are suspended at the end of March. The situation is further complicated by the congressional requirement for the Trump administration to seek renewal of the Trade Promotion Authority (TPA) allowing for changes to be passed by an up or down vote in Congress. The current TPA expires on July 1, 2018 and it requires that the administration notify Congress at least 90 days before signing a prospective trade pact. Changes to unfair trade provisions, such as NAFTA Chapter 19, require 180 days – assuming there are changes to dispute settlement that time limit has passed. Fortunately, Congress preauthorized a three-year extension of TPA, provided certain procedures are followed and neither the Senate or House of Representatives vetoes the extension by adopting a disapproval resolution. So effectively, at this point, a revised NAFTA will require the Trump administration to renew TPA and to give this notice by April 1, 2018 and assuming there is no congressional objection, TPA would be effectively renewed on July 1, thus allowing the revised NAFTA to be considered under TPA when it is finally negotiated. But is Congress ready to acquiesce and would the administration request TPA extension?

President Trump's repeated threats to rescind NAFTA has brought hitherto silent U.S. support for NAFTA to the surface, especially in the farming and business communities, core parts of the Trump base. Their support for NAFTA is one reason why Trump decided to renegotiate rather than scrap it at the outset or on his 100th day in office.



Figure 1: President Donald Trump signing an executive order to withdraw the United States from the Trans-Pacific Partnership (TPP), Jan 23, 2017. (Ron Sachs/Getty Images)

Canada and Mexico must continue cultivating support in the U.S. through their unprecedented outreach campaigns. At the political level, Canadian meetings with 50 governors and lieutenant-governors and over 200 congressmen reveal that we have a lot of allies. We will need it whether Trump rescinds the agreement or when any new deal reaches Congress.

While Canada and Mexico must stay engaged and negotiate, the future of NAFTA will depend on the outcome of the U.S. debate. Canadians faced their moment of truth on trade in 1988 and an election was fought on whether closer economic relations with the U.S. would bring prosperity or, as some feared, loss of sovereignty. Mexicans faced a similar challenge in 1994 around the NAFTA.

For both Canada and Mexico, freer trade and access to the U.S. market proved that we could thrive and compete not just with the U.S., but internationally. Freer trade became a catalyst for domestic economic reform. For Canada, restructuring included the introduction of a national value added tax (GST) while governments, federal and provincial, rationalized to bring down deficits. For Mexico, the restructuring supported democratic change in 2000 after 71 years of one-party rule and, more recently, the 'Pacto por Mexico' reforms to education, finance, labor, and energy.

For the U.S., the NAFTA debate is another test in how America sees itself in the world. Does it replace the order based on principles and values - one that it created and sustained for 70 years- with an order rooted entirely in national interests? Does it set aside the American tradition of regard for countries other than itself? NAFTA is also a test case for the global economy. For the first time, the most important developed economy is trying to renegotiate a trade agreement by increasing trade barriers in order to balance its trade and using its weight to carry the day.

Previous governments, Republican and Democrat, saw American internationalism not as act of charity, but as part of what the USA is as a country. For them, America is a generous nation, willing to give more than it receives, and to sustain this order for the greater global good, through a network of alliances, trade agreements and international institutions. The rhetoric of President Trump's 'America First' breaks with this tradition. But what will it mean in practise? And will Congress and the courts go along with the Trump approach? It is testing the U.S. system of checks and balances and separation of powers as well as America's sense of itself.

How did we get into this mess?

Throughout the 2016 U.S. election campaign, Trump consistently called NAFTA the "worst trade deal ever", promising to tear it up, along with the Trans-Pacific Partnership (TPP) and Trans-Atlantic Trade and Investment Partnership (TTIP).

After his inauguration, Trump withdrew the U.S. from the TPP. The TTIP was put in the freezer. Threats to "terminate" NAFTA continue.

On his 100th day in office, as Trump tells it, telephone calls from Prime Minister Justin Trudeau and President Enrique Peña Nieto persuaded him to "give renegotiation a good, strong shot." It was more likely the effect of the electoral map - prepared by the U.S. Chamber of Commerce and

Farm Bureau - showing strong farm support for NAFTA, that Agriculture Secretary (and former Georgia governor) Sonny Perdue took to the Oval Office for the critical meeting with President Trump and Commerce Secretary Wilbur Ross.

Who are the key players in the negotiations?

Robert Lighthizer, a former staffer on Capitol Hill, senior trade official in the Reagan administration, and then in private practice, is the United States Trade Representative, a cabinet level officer. John Melle, a long-time litigator and former USTR official during the Reagan era, is a senior official at the USTR responsible for North America and directs the day-to-day negotiations.

USTR Lighthizer and Commerce Secretary Wilbur Ross, whom President Trump charged with overseeing the negotiations, are the key cabinet officers responsible for trade and - with Peter Navarro, White House Director of Trade and Industrial Policy, and senior advisor Stephen Miller - take a mercantilist approach to trade. The internationalists, who see NAFTA as a geopolitical advantage, include chief economic advisor Gary Cohn and Secretary of State Rex Tillerson as well as the generals – Chief of Staff John Kelly, National Security Advisor H.R. McMaster and Defense Secretary Jim Mattis.



Figure 2: Canadian Foreign Affairs Minister Chrystia Freeland, Mexican Secretary of the Economy Ildefonso Guajardo, and United States Trade Representative Robert Lighthizer following round three of NAFTA talks in Ottawa, September 27, 2017. (The Canadian Press)

Foreign Affairs Minister Chrystia Freeland oversees the Canadian team but the NAFTA file sits prominently and permanently on Trudeau's desk. Steve Verheul, a long-time agriculture trade negotiator and chief negotiator for the Canada-European Union Comprehensive Economic and Trade Agreement (CETA), is Canada's chief negotiator. Transport Minister Marc Garneau chairs a Canada-U.S. cabinet committee. Freeland is supported by an advisory committee including former Conservative leader Rona Ambrose and former Harper cabinet minister James Moore, Assembly of First Nations National Chief Perry Bellegarde and Canadian Labour Congress president Hassan Yussuff.

Mexican Secretary of Economy Ildefonso Guajardo oversees their negotiations with veteran trade negotiator Kenneth Smith Ramos, formerly director of Mexico's NAFTA office in Washington, as their chief negotiator.

Other key players include the ambassadors: Canada's David MacNaughton in Washington and Pierre Alarie in Mexico City; Mexico's Dionisio Pérez-Jácome Friscione in Ottawa and Gerónimo Gutiérrez Fernández in Washington; the U.S.'s Kelly Knight Craft in Ottawa and Roberta Jacobson in Mexico City.

The negotiating teams for the 28 tables are drawn from the professional trade policy officers in government ministries. They draft the language for the individual chapters in consultation with stakeholders including the provinces, business and sectoral groups. Trade is a horizontal issue that cuts across government. Trade policy, once mostly about tariff rates, is now more about regulating standards.

How are things progressing?

Drawing from the trilateral statements after each round and the December "intercessional":

- Washington (Aug. 16-21) where "detailed conceptual presentations were made by the United States, Mexico and Canada across the scope of the agreement, and negotiating groups began work to advance text and agreed to provide additional text, comments or alternate proposals";

- Mexico City (Sept. 1-5) where "more than two dozen working groups comprised of trade experts and technical officials worked diligently to advance the discussions and exchanged information and proposals";

- Ottawa (Sept. 23-27) where negotiators were "working from consolidated texts in most areas, demonstrating a commitment from all parties to advance discussions in the near term. In particular, meaningful advancements were made in the areas of telecommunications, competition policy, digital trade, good regulatory practices, and customs and trade facilitation. Parties also exchanged initial offers in the area of market access for government procurement. Importantly, discussions were substantively

completed in the area of small and medium-sized enterprises (SMEs), effectively concluding negotiations on that chapter … (the parties) advanced substantively in the competition chapter and expect to conclude the negotiation on this chapter prior to the next round";

- Arlington, Virginia (Oct. 11-17) where negotiators "substantively completed discussions in the Chapter on Competition, [and] made progress in several other negotiating groups, including customs and trade facilitation, digital trade, good regulatory practices and certain sectoral annexes. Parties have now put forward substantially all initial text proposals. New proposals have created challenges and Ministers discussed the significant conceptual gaps among the Parties. Ministers have called upon all negotiators to explore creative ways to bridge these gaps";

- Mexico City (Nov. 17-21) where the gathering of nearly 30 negotiating groups "concentrated on making progress with the aim of narrowing gaps and finding solutions. As a result, progress was made in a number of chapters";

- Washington intercesssional (Dec. 10-15) where 15 of the negotiating groups worked to close or find landing zones for closure at the January Montreal round. Smith Ramos tweeted that there was "movement forward in the technical discussions in digital, telecoms, trade facilitation, SOEs and anti-corruption, among others."

Negotiators continue to make progress on the non-controversial chapters that make up roughly half of the expected 30 chapters in the putative agreement.

Negotiators will continue to work with the goal of providing "landing zones" for completion of these chapters in Montreal (Jan. 23-28). These include:

- Telecommunications
- Energy (the U.S. now sees an advantage in a designated chapter)
- Financial services (aside from dispute settlement)
- Digital trade
- Customs and trade facilitation except for de minimus
- Technical barriers to trade
- Anti-corruption
- Competition (substantially completed during round 4)
- Small and medium-sized enterprises (substantially completed during round 3)
- State-owned enterprises

- Sanitary and phytosanitary
- Good regulatory practices
- Goods and national treatment
- Sectoral annexes on IT, pharmaceuticals, chemicals and medical devices

How much longer until we get a deal?

That is the question. After Montreal, two more rounds are planned in Mexico (February) and the U.S. (March). At that point, the Mexican elections (July) and the congressional midterms (November) could oblige the negotiators to call a pause. If that happened, negotiations would not likely resume until after the inauguration in December for the new Mexican president or after the new U.S. Congress begins again in January. There was a nearly nine-month pause in 2011– occasioned by the Canadian election – between the announcement on beyond-the-border and regulatory co-operation by former president Barack Obama and then-prime minister Stephen Harper in February, and formal discussions in December.

Trade negotiations almost always take longer than anticipated. It took four years and a contested election in Canada to negotiate and then implement the Canada-U.S. Free Trade Agreement (CUSFTA). NAFTA took over three years, with elections in both Canada and the U.S. resulting in additional side agreements on labour and the environment. CETA, most of which will be implemented in September, took eight years. The Doha round of the World Trade Organization (WTO) negotiations began in 2001 and there is no end in sight. The TPP negotiations started in 2006, with Canada and Mexico joining in October 2012. While agreement was reached in 2016, the U.S.'s withdrawal means the pact must be renegotiated before it can go into effect.

What do the Americans want?

In a congressionally mandated summary of American objectives, submitted in July and updated in November, Lighthizer vows to "seek a much better agreement that reduces the U.S. trade deficit and is fair for all Americans by improving market access in Canada and Mexico for U.S. manufacturing, agriculture, and services. Since NAFTA was implemented in 1994, the U.S. bilateral goods trade balance with Mexico has gone from a $1.3 billion surplus to a $64 billion deficit in 2016. Market access issues have arisen in Canada with respect to dairy, wine, grain and other products – barriers that the current agreement is unequipped to address."

The U.S. negotiating objectives include adding chapters on the environment and labour (currently side agreements) and on the digital economy (e.g., data flows), as well as "to eliminate unfair subsidies, market-distorting practices by state-owned enterprises, and burdensome restrictions on intellectual property."

What does Canada want?

Comparing the negotiations to "renovating a house", Freeland spelled out Canadian objectives in August in a speech at the University of Ottawa and before the Standing Committee on International Trade:

- Modernize NAFTA to take into account the technological and digital revolution;
- Make it a progressive "fair trade" agreement, using CETA as a model, through inclusion of chapters on the environment to address climate change, labour, gender equality and Indigenous peoples;
- Reforming dispute settlement to ensure governments have the right to legislate in the public interest with fair dispute settlement (Chapter 19);
- Improvements for business through easing business travel (Chapter 16), cutting red tape and focusing more on harmonized regulatory co-operation;
- Preserving supply management and cultural exception.

What does Mexico want?

For Mexico, the priorities outlined in July 2017 are a stronger dispute resolution mechanism, strengthening Mexico's growing energy sector and prioritizing free access to goods and services as well as greater labour market integration, establishing rules of origin to guarantee regional benefits and unifying agriculture, animal and health safety regulations to protect intellectual property.

Recognizing the challenges the Trump administration poses, Smith Ramos said Mexico's political strategy is to lobby the "more amicable parties in the U.S. At the end of the day, it's a combination of having the U.S. private sector, U.S. civil society and, of course, the U.S. Congress voice their opinions on the benefits of the NAFTA."

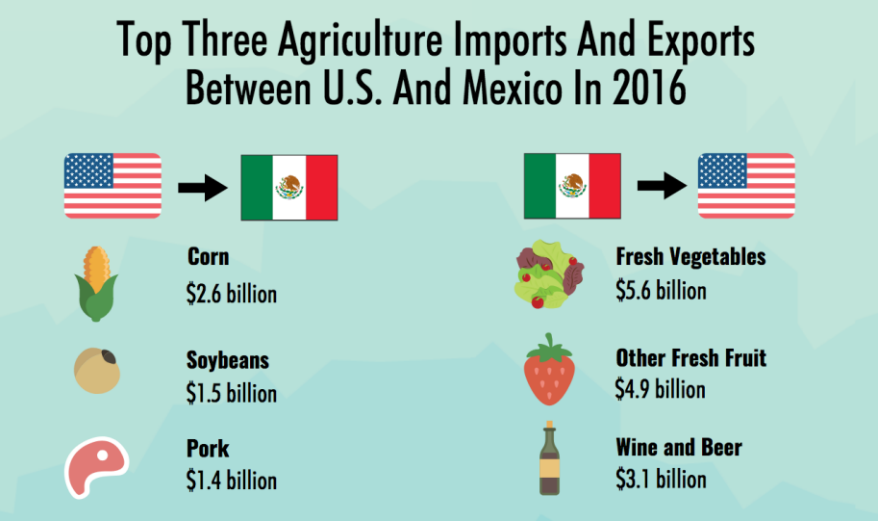


Figure 3: The top three U.S. exports to Mexico, and the top three Mexican exports to the United States. (Source: Office of the U.S. Trade Representative)

In October the Mexican senate, which would have to approve a new deal, laid out six "red lines" including the "sunset provision" requiring that NAFTA be revisited every five years; the elimination of tariff preferences for Mexican textiles; rules requiring minimum levels of national content for the auto manufacturing sector; seasonal protections for U.S. growers against fruit and vegetable imports from Mexico; the elimination of the Chapter 19 dispute resolution mechanism; and the U.S. government to favour American suppliers in its procurement.

Mexico already has 10 free trade agreements with 45 countries, 32 reciprocal investment promotion and protection agreements with 33 countries and nine other trade agreements within Latin America, according to ProMéxico, the country's trade and investment arm.

The "Poison Pills"

In an October speech in Mexico City, U.S. Chamber of Commerce CEO Tom Donohue famously described as "poison pill proposals" dispute settlement, rules of origin and the sunset clause that "could doom the entire deal." Abandoning NAFTA, said Donohue, is an "existential threat" to the continent's national and economic security.

Dispute Settlement

Dispute settlement is currently reflected in three chapters: investor state (Chapter 11), countervail and anti-dump (Chapter 19) and government-to-government (Chapter 20). The U.S. wants to remove dispute settlement from the agreement and have disputes settled solely through the U.S. trade remedy system. The Trump administration sees dispute settlement as an infringement on U.S. sovereignty; it is taking a hard line not just in NAFTA renegotiations, but also at the WTO, blocking appointments of new appellate judges to the Dispute Settlement Body (DSB).

This is a red line for Canada and Mexico. As Verheul told the House of Commons International Trade Committee in December testimony: "On dispute settlement, the U.S. proposal is an attempt by the U.S. to return to a pre-WTO era in which the biggest economies win over smaller economies. Enforceable trade commitments are essential and represent a critical part of any trade agreement, including NAFTA. Canada will not accept an outcome that does not respect this fundamental concept of effective enforcement of legal obligations."

Investor-state dispute was originally included in the 1994 agreement at the U.S.'s behest to prevent appropriation of investments in Mexico. Trade scholar Lawrence Herman observes that "Canada is close to the top of the list of countries targeted in these international investment disputes" and all of these cases have been brought under NAFTA by U.S. investors.

Herman attributes the number of cases against Canada to four factors: first, because we share the same legal tradition it's relatively easy; second, because the Canadian system is open and transparent; third, the generally litigious nature of U.S. companies; fourth, the availability of

third-party financing of these investor claims through different mechanisms. Herman also observes that "the successful Chapter 11 claims against Canada would be in the order of $320 million versus $5.0 billion claimed or approximately 6.4% of total damages claimed over 23 years. While this is still substantial, it does put these amounts in perspective."

Chapter 19 deals with disputes related to countervailing or anti-dumping. Verheul has observed: "We have taken chapter 19 cases on 20 occasions. The U.S. has been required to go back and change its practices on 13 of those occasions. It has been an effective instrument for us, and I think it's a basic kind of element that we need in the agreement to ensure fairness." Examples include the softwood lumber dispute and now Boeing's complaint about Bombardier.

U.S. trade remedy afflicted Canadian products – raspberries, lumber and fish – during the lead-up to the original CUSFTA negotiations in 1985. Dispute settlement was essential to Canada in its negotiation of CUSFTA and NAFTA. Canada would have walked if we had not secured tribunals independent of the U.S. trade remedy system. The Mexican congress passed a non-binding resolution shortly before the negotiations began, insisting on preserving dispute settlement. Herman notes that, softwood lumber excepted, Chapter 19 has not been used as much in recent years – some argue its very presence keeps the system honest.

Canada is promoting institutionalization of permanent courts to provide more certainty in case law and more transparency in deliberation. We took this approach in CETA and the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP).

Rules of Origin

The U.S. wants to revise the current rules of origin for duty-free passage within North America by raising the North American content to 85 per cent (from the current 62.5 per cent). This would include a 50 per cent "Made in the USA" quota, and an expanded tracing list that includes all components of a car.

According to Ross, "these NAFTA rules are killing our jobs." Yet U.S. employment in the auto sector has been up six per cent a year on average over the past decade. Former Mexican trade negotiator Luis de la Calle and the Peterson Institute's Caroline Freund argue that U.S. content requirement in NAFTA could hurt U.S. manufacturing.

Verheul told parliamentarians that "this proposal is wholly unworkable and would not only be damaging to the Canadian and Mexican auto sectors but to the U.S. auto sector as well … We met with our auto manufacturers and our auto parts suppliers. We also met with representatives of U.S. auto manufacturers, U.S. auto parts suppliers, the U.S. Chamber of Commerce, and U.S. unions. All of them were as opposed to the U.S. proposal as we were … We think that many manufacturers would be motivated to then move their operations offshore and sell into the U.S. market, which has only a 2.5% tariff on cars going into the U.S. market. That would likely be far cheaper than having to make the adjustments necessary to try to meet a regional value content of

85%. I think that would certainly cause significant damage to the industry in North America overall, including in the U.S … the U.S. proposal, even if modified somewhat, would render the North American market significantly less competitive in relation to the rest of the world. North America obviously competes with the European Union and production from Asia, and we would be at a significant disadvantage if we were to lower the competitiveness of the North American region."

The auto trade is probably the best example of North America making things together. Supply chains are carefully designed to ensure quality, timely delivery and best price, so disrupting current processes is not something the manufacturers, parts-makers or tertiary suppliers want to see. Ontario-based Magna employs 62,000 Americans, 22,000 Mexicans and 20,000 Canadians – building auto parts and components that rely on supply chains that crisscross the borders.

In a Fox News op-ed, Mitch Bainwol, CEO of the Alliance of Automobile Manufacturers wrote: "Ending NAFTA would also likely impose far-reaching, negative effects to U.S. consumers, the auto industry, the freight rail sector and the U.S. manufacturing base."

UNIFOR and the UAW want more assembly and parts made in Canada and the U.S., arguing that Mexican wages are kept artificially low. A Chicago Federal Reserve study (2017) says that from 2007-2014, on average, wages in Mexican motor vehicle assembly and parts represented around 1/5 to about 1/8 of those in the United States.

Rules of origin were introduced in the Autopact (1965) to ensure most of the production took place in Canada and the U.S. and then CUSFTA and NAFTA extended this principle. Cars now contain an average of 30,000 parts (when we did NAFTA, it was closer to 20,000 parts). Before a car is assembled, it crosses the Canada-U.S. border an average of seven times.

The transportation sector depends on NAFTA trade. Employment rose to 1.47 million workers in 2017, from 1.18 million in 1994. Nearly 2/3 of U.S. NAFTA freight is carried by trucks, according to the Department of Transportation. Barges laden with wheat, corn and grains from Midwestern farms use the Mississippi River with much of its cargo destined for the Port of South Louisiana – a 54-mile complex between Baton Rouge and New Orleans – and thence to Mexico and elsewhere. Rail also carries freight north and south.

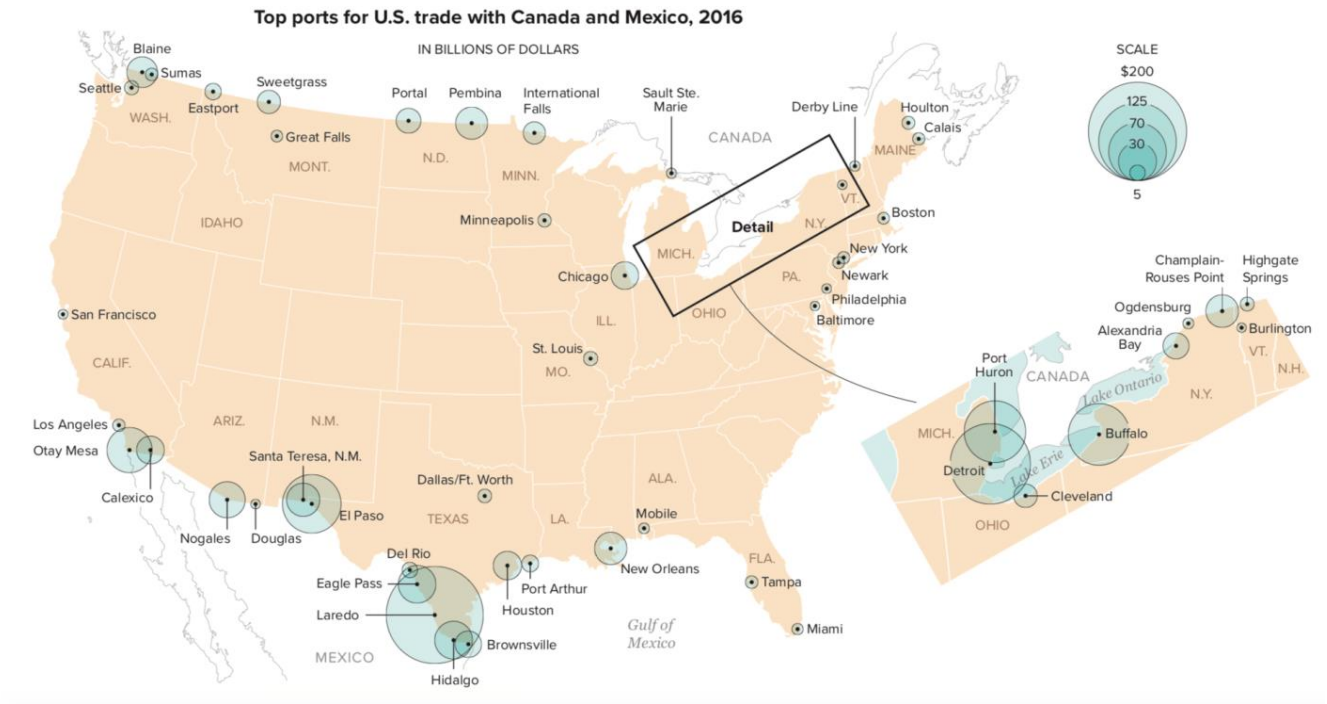


Figure 4: An illustration of U.S. trade to Canada and Mexico through various American ports.

Five-Year Sunset Clause

The proposed five-year sunset clause is a non-starter for Canada and Mexico. Business in all three countries opposes it because it removes certainty around investments.

As Canadian Ambassador David MacNaughton wryly observed: "If every marriage had a five-year sunset clause on it, I think our divorce rate would be a heck of a lot higher than it is … One of the reasons you do (a trade agreement) is to create an environment within which business can make investments. (In) many of those investments people will look to 20 years', 25 years' payback. If you have to do it every five years, the pricing of political risk is very high."

Or, as Verheul told parliamentarians: "When we talk to Canadian business, when we talk to groups like auto manufacturers, they plan on a fairly long horizon, and they make large investments on the basis of that horizon. If it's uncertain that an agreement will survive and you have that problem every five years, it's going to put a significant chill on investment, on planning, and on the strength of the agreement."

Government Procurement

U.S. negotiators want a "dollar for dollar" opening of North American procurement markets. As Verheul told parliamentarians, this "would virtually eliminate Canadian access to the U.S. procurement market under NAFTA. Canada has rejected the dollar-for-dollar proposal as

completely unworkable, and we will not engage on the basis of that kind of approach." Canada and Mexico want to curb, if not exclude, "Buy American" provisions at the federal and state level, but the U.S. wants to roll back its NAFTA commitments.

Other U.S. Demands: De Minimus, Supply Management

De Minimus

The U.S. had some specific asks of Canada including raising the Canadian customs inspection and duty (the de minimus level) threshold for imports entering by mail, UPS or FedEx from its current level of $20. The U.S. level is $800 while Mexico's de minimus level is $50. While e-commerce shoppers on Amazon, eBay and others would like this and it would lift some of the regulatory burden for small and medium-sized businesses that depend on sourcing material from south of the border, Canadian retailers say this could put them out of business.

Perrin Beatty, Canadian Chamber of Commerce CEO, got it right when he said that Canada is "literally spending dollars to collect dimes," while "important trade facilitation programs and enforcement issues are not pursued as aggressively because of resource constraints."

Supply Management

Canada's protectionist dairy supply management system is a U.S. target, but as Verheul told parliamentarians: "This proposal is also unacceptable … The U.S. has also proposed the complete elimination of Canadian tariffs on dairy, poultry, and eggs, without suggesting the elimination of their own. In some cases they have even greater protections on products such as dairy, sugar, sugar cane products, and others." When it comes to farm subsidies, the U.S. is no slouch, with its support for American dairy, sugar, corn and other produce. The U.S. also enjoys a 5-1 advantage in the dairy trade with Canada.

But supply management needs reform. It deprives Canadians of choice (a 270 per cent duty on foreign cheese beyond a tiny quota is a mighty deterrent) and does nothing to encourage development of our cheeses as a world-class premium product. During the TPP negotiations, Canada granted the equivalent of 3.25 per cent of Canada's domestic milk production in return for other concessions, but when the Trump administration rescinded TPP this lapsed.

What about energy and water?

While the U.S. was initially skeptical about including an energy chapter, it now appears there will be provisions that will cover all three nations (Mexico excluded energy from the 1994 agreement) through an energy efficiency annex A revised. NAFTA would also likely retain the proportionality clause that guarantees the U.S. a supply of Canadian energy, proportionate to domestic supply, in the event of any reduction in Canadian output. In his recent 'state of energy'

address American Petroleum Institute President Jack Gerard said: “"North America provides a great example of integrated and interdependent energy markets that benefit all three trading partners and NAFTA has been critical to that success. NAFTA makes energy more affordable and improves opportunities for U.S. companies in Canada and Mexico. As the administration continues negotiations with Canada and Mexico, we urge them to seek modernization in ways that maintain these benefits."

The North American energy market is deeply integrated as these numbers from the U.S. Energy Information Administration demonstrate:

- In 2016, Canada was the largest source of U.S. crude oil imports, supplying more crude oil to the United States than all members of the Organization of the Petroleum Exporting Countries (OPEC) combined. Mexico was the fourth-largest source of U.S. crude oil imports in 2016, behind Canada, Saudi Arabia, and Venezuela. Canada was also the top destination for U.S. crude oil exports in 2016, receiving 61% of all U.S. crude oil exports.
- Natural gas trade flows among the three countries are also significant: Canada is the largest source of U.S. natural gas imports—mostly through pipelines that cross the border into states such as Idaho and Montana. Mexico is the largest destination of U.S. natural gas exports—mostly through pipeline border crossings in Texas.
- Electricity trade with Canada and Mexico, while totaling less than 2 per cent of U.S. consumption, is still an important part of electricity markets as cross-border transmission connections support regional electric system reliability. In 2016, the United States imported 73.1 million megawatt hours (MWh) from Canada and 1.5 million MWh from Mexico, while exporting 9.3 million MWh and 2.3 million MWh to those countries, respectively.

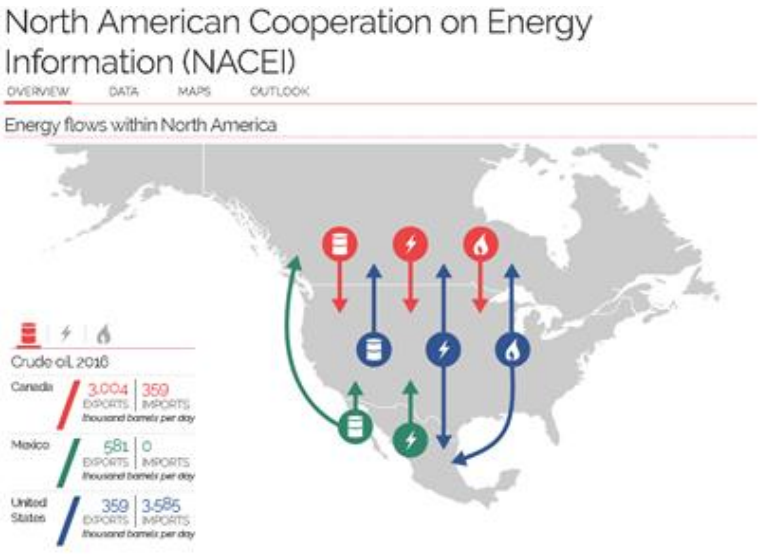


Figure 5: An illustration of North American energy flows.

While there is no indication water will be raised, Canadian negotiators would enunciate long-standing Canadian policy and, if necessary, draw on the recent CETA agreement that explicitly declares that water in its natural state is not subject to the terms of the agreement.

What about softwood lumber?

Softwood lumber is going nowhere. The formal imposition of anti-dumping and countervailing duties (Jan. 3, 2018) was greeted as "unfair, unwarranted and troubling" by the Canadian government. Freeland declared that working with provinces and territories "Canada has already begun legal challenges of these duties under NAFTA and through the WTO, where Canadian litigation has proven successful in the past."

As Verheul told parliamentarians, it is "unlikely that we'll be able to bring the softwood lumber issue into the NAFTA negotiations and effectively resolve it. However, many of the issues that softwood lumber is facing are issues that we're also trying to deal with in the negotiations."

Efforts continue by the special envoys (David Emerson for British Columbia, Gary Doer for Alberta, Jim Peterson for Ontario, Raymond Chrétien for Quebec and David Wilkins for New Brunswick). If history is any guide, resolution won't happen until the pot is sweetened with Canadian cash. Even then, we will likely wind up with another managed trade deal of five years' duration. Not a great solution.

At the crux of the dispute are our different practices on domestic support and taxation, with most U.S. timber harvested from private lands (as in our Maritimes) rather than public lands (as in the rest of Canada). Even though the industry is increasingly integrated in terms of ownership, there remain lots of small timber holdings, especially in the southeastern U.S., that view Canadian practices as subsidized by government.

Any deal is likely to once more see a managed trade deal with a quota on Canadian lumber imports – likely between 25-30 per cent of U.S. demand, after which a levy would kick in. Any deal is also complicated by the requirement for the provinces – British Columbia is the biggest supplier, followed by Alberta, Ontario, Quebec and New Brunswick, each with its own particular forestry practices – to agree on how they will divvy up the trade. In the meantime, the Conference Board of Canada estimates that the U.S. levies will result in the reduction of 1,100 jobs, underlining the need for a deal as well as market diversification.

Softwood lumber, or timber as it is called in the U.S., was likely the first trade dispute, dating back before Confederation to the George Washington administration when Massachusetts timber merchants (Maine was then part of Massachusetts) sought redress for competition from New Brunswick lumber used in shipbuilding.

It has been a regular, unfortunate and visceral feature of Canada-U.S. relations for much of the last half-century. The rancor over shakes and shingles almost undid the negotiations leading to the 1988 CUSFTA. A series of carefully negotiated agreements have managed the trade but with the expiry of the 2006 agreement in September 2015 and the inability to secure a deal in the year-long moratorium that followed, Canadian lumber producers are once more paying export duties.



Figure 6: An infographic illustrating American reliance of Canadian softwood lumber. (Global Affairs Canada)

Boeing-Bombardier

The Boeing-Bombardier dispute is complicated. Months ago, Boeing and Bombardier were in talks that could have led to Boeing taking an ownership stake in the C-series jets for which they are now seeking U.S. trade remedy protection to keep out of the U.S. market. At the same time, Boeing is now in merger discussions with Brazil's Embraer – Bombardier's rival.

On another level, the Boeing-Bombardier dispute is reflective of what trade relations with the U.S. would be like if Ross and his allies have their way. The Boeing suit against Bombardier over subsidies provided by Canadian governments has a basis, but given the subsidies (state, local and federal) that Boeing enjoys, is there injury? And now that the Bombardier-Airbus partnership will mean a U.S.-produced C-series, will it be exempt from the tariffs?

Regardless, the Commerce Department announcement, coinciding with the last day of the Ottawa round of negotiations, was seen as a slap at Canada. Trudeau has repeatedly said that Canada "will not do business with a company that is busy trying to sue us and put aerospace workers out of business". The Boeing suit strikes at Quebec's pride in its aerospace champion. The Couillard government has framed it as an affront to Quebec. Bombardier workers live in Trudeau's riding and the Boeing officials, likely encouraged by senior Trump officials, would appear to have

behaved with a surprising lack of sensitivity. BHP made the same mistake during its Potash Corp. bid and it was a major contributing factor to the deal's collapse.

Does NAFTA mean we take U.S. standards?

No, even though in many cases U.S. environmental and health standards are probably superior to those of Canada. The real challenge in standards is their enforcement, where all three nations need to do more.

Asked by parliamentarians, Verheul replied that we aim "to get to a process whereby we don't make our inspection systems identical, because we think that's probably unrealistic at the end of the day, but we agree on a more outcomes-based type of approach. Although we might be using slightly different approaches to how we may certify a product or how we may do inspections on a product, we recognize that effectively the result is the same. If we can recognize each other's systems as doing as good a job as our own systems are doing, then there's no need to have those kinds of problems, because we would accept each other's systems … As in CETA, mutual recognition of processes, mutual recognition of standards, and those are the kinds of issues that increasingly are really at the core of what we're trying to do in free trade negotiations."

How "secret" are the negotiations?

Once upon a time trade agreements, mostly about tariff reduction, were quietly negotiated in the "green room" and then announced as faits accomplis by governments. Those days are gone as the scope of trade agreements broadened and interest groups – environmentalists, labour and anyone with a grievance – took to the streets in protest, beginning with the Seattle ministerial in late November 1999 that was to have launched the first of the WTO trade rounds.

Today, trade negotiations involve massive consultation efforts. In NAFTA's case, the Canadian government has received over 44,000 written submissions through the *Canada Gazette* process, the NAFTA consultation website and direct emails to the NAFTA consultations team. Formal consultations have been held with over 900 stakeholders, including local communities from across the country.

Ministers and negotiators meet with and update the provincial and territorial governments and the relevant parliamentary committees. Stakeholders meet with negotiators during the NAFTA talks themselves and between rounds. There are also sector-specific advisory groups to cover agriculture, automotive and auto parts, civil society, culture, energy, infrastructure and government procurement, labour, metals, services and transportation. As Verheul told parliamentarians, "after every negotiating round, we do debriefs with all our consultation groups to inform them of what happened during the round. We talk to them about what we expect coming up in the following round and get their advice and input on their reaction to how things are going

and whether they're satisfied with that progress. If they have comments to add or suggestions to make, we take those on board and refine our negotiating strategy from there."

Is there a Plan B?

Verheul told the House of Commons International Trade Committee (Dec. 4) that the government is doing its "due diligence in thinking about what would happen if the U.S. were to withdraw from NAFTA … if they do choose to withdraw, we would have to evaluate domestic policy reactions on our side. We would certainly have a sense of the basis of tariffs that could be put back in place and which sectors would be affected more than others. We have been looking primarily at a sector-by-sector approach on where the impact would be." In a speech (Dec. 14) on what keeps him awake at night, Bank of Canada Governor Stephen Poloz identified a disruption to NAFTA (along with cyber-threats, the housing bubble and household debt, and Bitcoin). While Canadian ministers have not been as explicit, a similar exercise has taken place.

The Mexicans are fairly public about their Plan B – a macroeconomic response involving changes to tariffs, protection of foreign investment, intervention (as necessary) by the central bank and trade diversification. These things would recognize that a shift in U.S.-Mexico trade to most-favoured nation tariffs would be disruptive, potentially crimping economic growth, dampening capital inflows and raising risk premiums.

For the U.S., a renegotiated NAFTA is Plan B. As Trump, Ross and Lighthizer have consistently made clear, their preference is for bilateral trade deals.

And if NAFTA is rescinded?

If Trump rescinds NAFTA, his notice sets a six-month clock before withdrawal can take place. Any notice of rescindment is likely to be litigated and probably contested within Congress.

Assuming rescindment took effect, NAFTA would stay intact between Canada and Mexico but Canada-U.S. trade would revert to the provisions of the 1989 CUSFTA.

If CUSFTA were also rescinded, then the most-favoured nation (MFN) provisions negotiated under the WTO would apply with the U.S. MFN duty rate generally lower than the Canadian rate (2.2 per cent versus 3.2 per cent). However, it varies with, for example, much higher Canadian rates on some goods, including 27 per cent for beef and 18 per cent for most apparel.

The U.S. Chamber of Commerce has broken down by state the jobs impact of losing NAFTA.

An American Debate

With the passage of NAFTA in 1994, its supporters downed tools and left the field to the critics. NAFTA, at least in public debate, became a pseudonym for job loss, especially to Mexico. In recent months, with the threat of rescindment, support for NAFTA has re-emerged.

Governors and mayors, the farm community, the auto industry and members of Congress are speaking out. Industry is making the case for NAFTA in terms of jobs and economic growth.

With tax reform, law-makers, governors and private-sector stakeholders have shifted their NAFTA advocacy, arguing that withdrawal would mean American farmers and businesses could lose the benefits gained from tax changes. Republican Chuck Grassley, chair of the Senate finance committee, and 16 other senators from both parties have written to Ross requesting "an economic analysis that examines and evaluates the impacts to crop and livestock sectors" before changes are made to NAFTA.

Governors' associations are pushing the administration for clarity. Governors Kim Reynolds of Iowa, Rick Snyder of Michigan, Bill Haslam of Tennessee and Asa Hutchinson of Arkansas met with Vice-President Mike Pence, Ross and Lighthizer in December. Afterwards, Hutchinson said the U.S. "must be able to continue its access to North American markets unimpeded by trade barriers."

Indiana Governor Eric Holcomb, along with representatives from Subaru, Fiat, Chrysler, Honda, General Motors and Toyota, met with Pence to discuss NAFTA and argued that a 50 per cent U.S. content requirement and an 85 per cent North American content requirement will drive companies to pay the 2.5 per cent tariff on cars rather than meet an unrealistic threshold.

Farm groups meeting with Congress in November argued that NAFTA trade "supports more than 22 million jobs – including more manufacturing jobs than any other U.S. manufacturing sector – and accounts for 20 per cent of the U.S. economy."

State	Exports to Canada and Mexico ($)	Share of Exports Bound for Canada and Mexico (%)	Jobs Supported by Trade with Canada and Mexico
Alabama	6,729,644,064	33%	173,700
Alaska	520,929,964	12%	26,200
Arizona	10,397,691,885	47%	236,000
Arkansas	1,848,683,352	32%	105,500
California	41,444,191,579	25%	1,513,800
Colorado	2,398,450,265	32%	225,300
Connecticut	2,693,193,007	19%	157,800
Delaware	685,692,124	15%	38,900
Florida	6,280,625,143	12%	754,900
Georgia	9,363,021,878	26%	395,500
Hawaii	72,865,753	6%	60,900
Idaho	1,174,555,137	24%	61,400
Illinois	25,339,803,968	42%	526,400
Indiana	16,367,063,521	47%	253,500
Iowa	5,657,232,182	47%	138,400
Kansas	3,650,775,585	36%	120,100
Kentucky	9,712,270,811	33%	161,200
Louisiana	8,366,375,533	17%	163,000
Maine	1,396,235,882	49%	55,600
Maryland	1,865,187,878	20%	246,600
Massachusetts	5,497,262,550	21%	311,800
Michigan	35,521,184,708	65%	366,900
Minnesota	6,387,591,448	33%	247,500
Mississippi	3,220,806,685	31%	103,400
Missouri	7,780,972,730	56%	250,400
Montana	650,803,960	48%	41,900
Nebraska	2,672,091,141	42%	87,600
Nevada	1,872,077,536	19%	112,800
New Hampshire	997,384,902	24%	58,900
New Jersey	8,930,369,676	29%	365,900
New Mexico	1,693,375,346	47%	66,900
New York	15,574,174,219	21%	836,600
North Carolina	9,344,097,635	31%	390,700
North Dakota	3,500,887,562	84%	33,000
Ohio	25,526,205,076	52%	463,200
Oklahoma	1,931,283,903	39%	123,400
Oregon	2,461,861,705	11%	154,000
Pennsylvania	13,616,769,734	37%	513,300
Rhode Island	735,209,841	32%	43,200
South Carolina	5,591,082,995	18%	180,500
South Dakota	753,787,114	62%	39,500
Tennessee	13,155,514,913	42%	261,300
Texas	112,539,315,942	48%	970,900
Utah	2,059,996,479	17%	121,300
Vermont	1,314,314,536	44%	29,600
Virginia	3,972,826,853	24%	341,700
Washington	8,931,647,696	11%	276,300
West Virginia	1,715,380,064	34%	57,100
Wisconsin	9,641,057,484	46%	249,600
Wyoming	223,773,443	20%	21,500

Figure 7: A breakdown by States of U.S. trade with Canada and Mexico, including an outline of jobs reliant on trade (North American Economic Alliance)

Under NAFTA, U.S. agricultural and food exports have grown by 450 per cent, and the U.S. holds a 65 per cent share of agricultural products in the NAFTA region with nearly $43 billion in annual food and agricultural exports to Canada and Mexico.

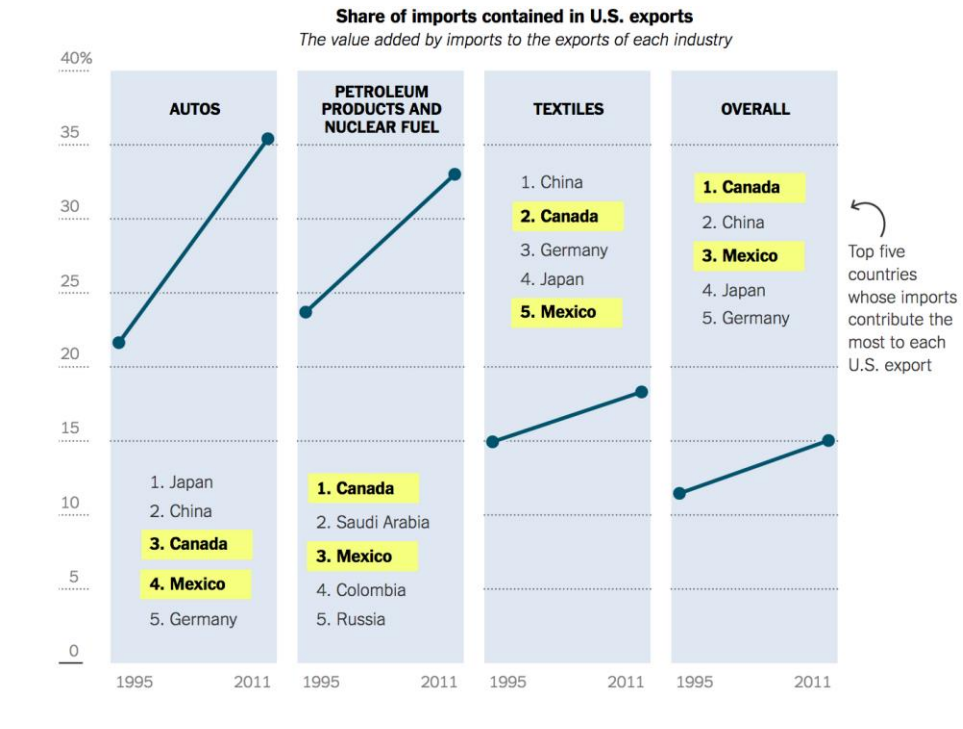


Figure 8: An illustration showing the interdependence of North American imports and exports as a result of NAFTA. (Organization for Economic Cooperation and Development)

As a recent Congressional Research Service report (November) chronicled, the leadership of the Senate and House agriculture committees have voiced support for NAFTA. Kansas Senator Pat Roberts, the Republican chair of the agriculture committee and six other senators (Roy Blunt, Cory Gardner, John Hoeven, Dan Sullivan and John Thune) met earlier this month with Trump. Roberts repeated in his USA Today column that: "we can choose to strengthen the relationship with one of our top trading partners in Canada, and at the same time boost the American economy, or we can choose to allow real damage on both fronts."

Progressive Trade?

Does trade exacerbate social inequality? Does it unduly benefit some, i.e., investors, while failing to help with adjustment assistance or retraining those affected by trade and technological change? Can we do better in ensuring the gains of trade are broadly shared and that trade lifts all boats, not just the yachts? These are the kind of questions that likely helped motivate the Trudeau Government's progressive trade agenda.

The Trudeau government sees NAFTA as an opportunity to advance its progressive trade agenda because as Foreign Minister Chrsytia Freeland, observes: "Too many working people feel abandoned by the 21st century global economy. But if the gains of trade are seen to advantage only the rich and business, then populism will curb and roll back trade liberalization. Even if most change is created by technological innovation and automation, trade is held accountable."

On labour, for example, Canada is drawing its proposals from the International Labour Organization (ILO) core conventions, of which Canada has ratified all eight. Mexico has ratified

seven and is working on the eighth. The U.S. has ratified two and is resisting extension of labour standards, especially the right-to-work elements.

While senior US officials grumble that the progressive agenda has no place in trade agreements, revised provisions relating to gender and labour were inserted into in the revised Canada-Chile FTA and labor and the environment are key features in the CPTPP and CETA. Whether the Trudeau Government will achieve the same result in the revised NAFTA is an open question. A progressive trade agenda is an idea whose time has come but perfection must not become enemy of the good. The instinct is right but the practical implementation needs more work and multilateral buy-in.

What do North Americans think about NAFTA?

For the most part, they like it.

Pew, the gold standard in survey research, polled NAFTA nations last spring and found that NAFTA enjoys the support of three in four Canadians and six in 10 Mexicans.

A recent Pew survey (November 2017) reported that most Americans (56 per cent) say that the pact is good for the United States, while just a third (33 per cent) say it is bad. But a majority of Republicans, 53 per cent, say the agreement benefits Mexico more than the U.S. Just 16 per cent of Democrats say it benefits Mexico more than the U.S.

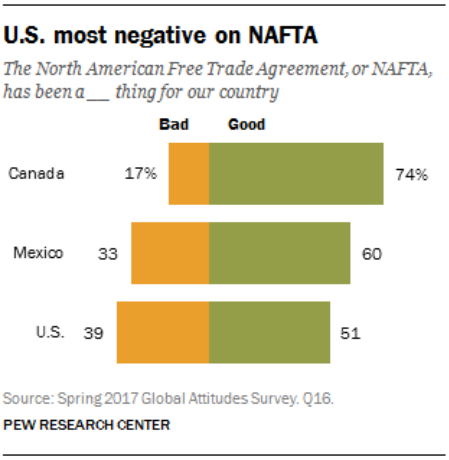


Figure 9: Attitudes on NAFTA based on country (Pew Research)

After a decline in support for free trade agreements in general during the 2016 campaign, a plurality of Americans support them again, according to another 2017 Pew Research Center survey. According to Pew, political partisanship is linked to views of NAFTA, most notably in the U.S. In a switch of historical allegiance, about 2/3 (68 per cent) of Democrats but only 30 per cent of Republicans see NAFTA as good for the U.S. Gender, age and race also divide Americans with women, youth, Hispanics and African-Americans more likely to back freer trade.

A Nanos survey of U.S. business (July 2017) revealed that 45 per cent of U.S. businesses think the U.S. economy is better off because of NAFTA, while 25 per cent think the economy is worse off and 13 per cent think there has been no impact.

In Mexico, the Pew survey reveals that 59 per cent of those who identify with the governing Institutional Revolutionary Party (PRI) and 68 per cent of those supporting the National Action Party (PAN) – the party of former presidents Vicente Fox and Felipe Calderón – support NAFTA.

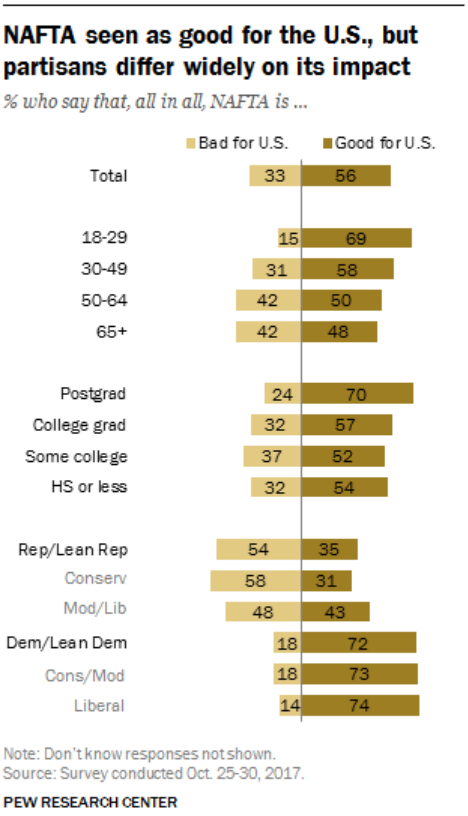


Figure 11: American attitudes on NAFTA broken down by age, education level, and political affiliation (Pew Research)

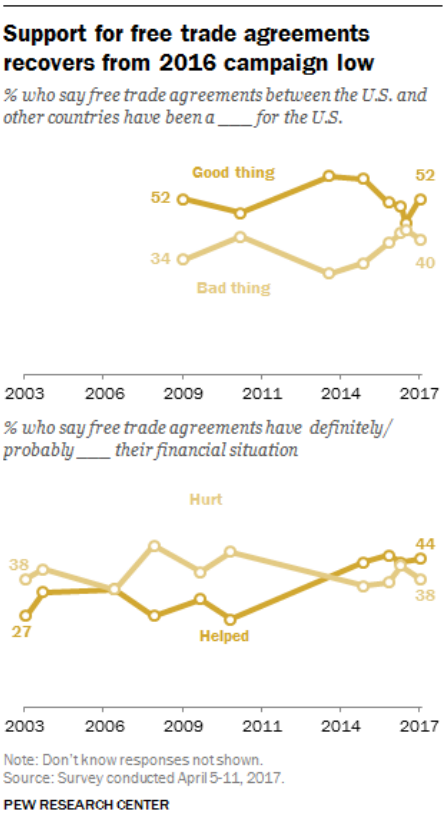


Figure 10: Attitudes on NAFTA over time in the United States (Pew Research)

Canadians like trade

Most Canadians back free trade. According to Pew, supporters of all three parties – Conservatives (83 per cent), Liberals (82 per cent), NDP (70 per cent) – say it has been a good thing for Canada.

Canadians have consistently backed freer trade since the early 1990s when the rewards of CUSFTA ushered in a decade of economic growth. That agreement was no sure thing with Brian Mulroney's Progressive Conservatives fighting the 1988 election on the issue. They won a majority of the seats (with 43 per cent of the popular vote) but only carried three provinces – Alberta, Manitoba and Quebec – with the Liberals, NDP and most premiers opposed to the agreement.

The Trudeau Liberals endorse freer trade and a renewed NAFTA enjoys strong support from the Conservatives. Importantly, the premiers, regardless of party, are champions of freer trade. Together with provincial legislators, they play a vital role in the Canadian campaign, reminding Americans that we are their biggest export market and that trade with Canada generates an estimated nine million American jobs.

Surveys by NANOS and IPSOS reveal that the Canadian public has confidence in the Trudeau government's ability to negotiate a good deal and people are also willing to cut the government a

lot of slack in its NAFTA renegotiation. An Angus Reid survey reported that Canadians are ready to make changes to the supply management system that protects the dairy and poultry industries but with a higher cost to consumers.

Canadians don't like Trump. Neither do Mexicans or the rest of the world, according to Pew surveys. The antipathy towards Trump will give the Trudeau government elbow room.

The economic auguries remain good. Canadians are optimistic about their future prospects. The OECD projects unemployment in Canada (6.1 per cent) and the U.S. (4.3 per cent) at the lowest point in a decade – lost jobs are always blamed on trade – while growth in Canada (2.3 per cent) and the U.S. (2.4 per cent) will lead the G7. Mexican unemployment is at 4.3 per cent with growth projected at two per cent.

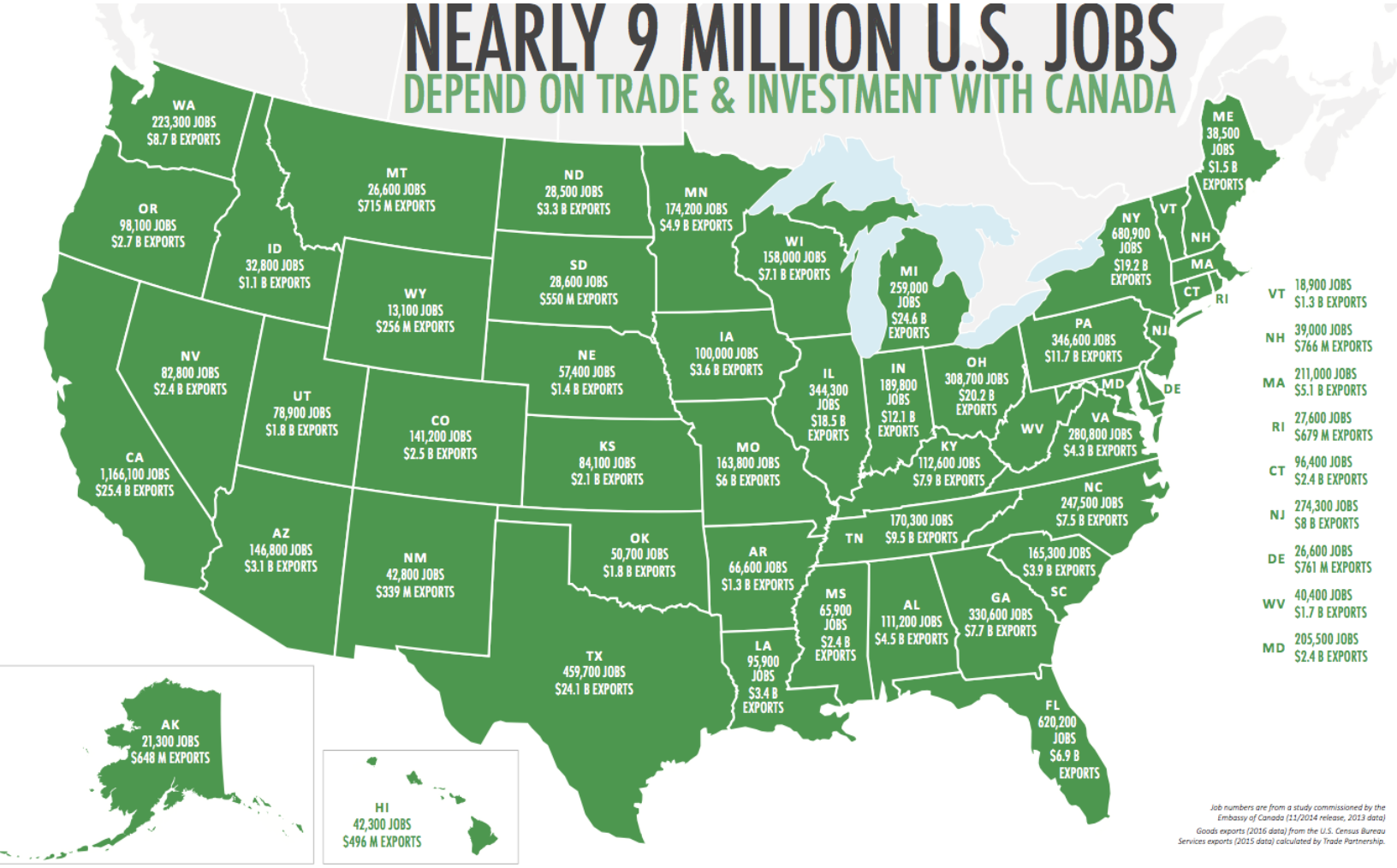


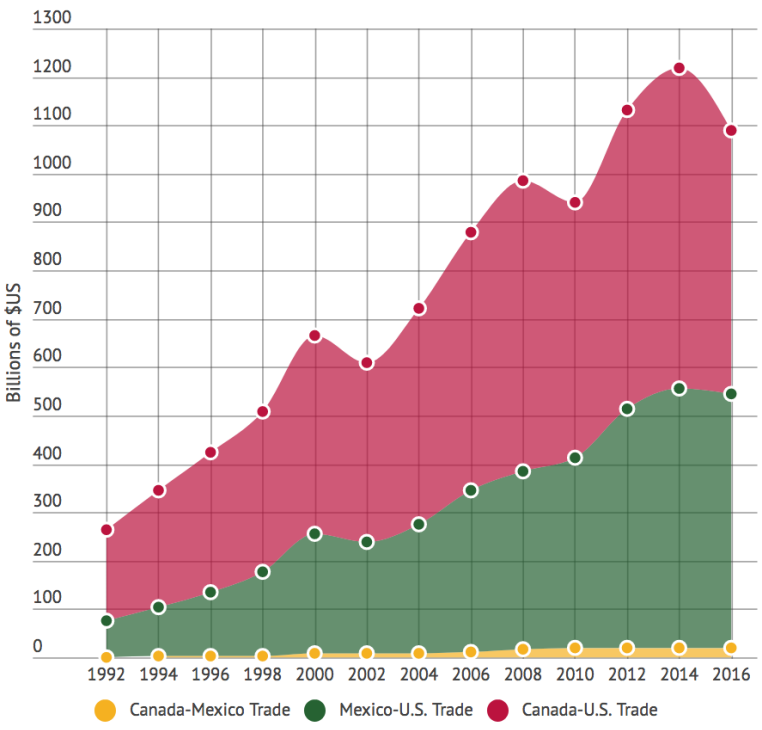
Figure 12: A map outlining how many jobs in each American State rely on trade with Canada (Global Affairs Canada)

Did NAFTA work?

Yes. Economic analysis – Canadian, American, Mexican, the Organisation for Economic Co-operation and Development (OECD), World Bank and International Monetary Fund (IMF) – concludes that NAFTA has worked for all three nations with trade tripling since 1994. The Council on Foreign Relations summarized:

"Economists largely agree that NAFTA has provided benefits to the North American economies. Regional trade increased sharply over the treaty's first two decades, from roughly $290 billion in 1993 to more than $1.1 trillion in 2016. Cross-border investment has also surged, with U.S. foreign direct investment (FDI) stock in Mexico increasing in that period from $15 billion to more than $100 billion. But experts also say that it has proven difficult to tease out the deal's direct effects from other factors, including rapid technological change, expanded trade with other countries such as China, and unrelated domestic developments in each of the countries. Debate persists regarding NAFTA's legacy on employment and wages, with some workers and industries facing painful disruptions as they lose market share due to increased competition, and others gaining from the new market opportunities that were created … In the years since NAFTA, U.S. trade with its North American neighbors has more than tripled, growing more rapidly than U.S. trade with the rest of the world. Canada and Mexico are the two largest destinations for U.S. exports, accounting for more than a third of the total."

Trilateral trade between Canada, Mexico, and the United States first broke the $1 trillion mark in 2011. All told, NAFTA countries generate about 16% of global trade.



Note: Figures for Canada-Mexico trade were not available for 1992.

Figure 13: A graph illustrating North American bilateral trade relationships since the introduction of NAFTA. (Council on Foreign Relations)

To underline the increasingly integrated nature of continental trade, a Wilson Center study concluded that Mexican exports to the U.S. market contain 40 per cent U.S. content and Canadian exports to the U.S. contain 25 per cent U.S. content.

Does NAFTA still make sense?

Yes. North America is home to over 480 million people. With just over seven per cent of the global population, we account for over 1/4 of global economic output, making us one of the most

competitive regions in the world, according to the Bush Institute. Under NAFTA, total trilateral merchandise trade has reached US$1 trillion, a three-fold increase since 1993.

For Canada, 77.8 per cent of our merchandise exports are destined to the U.S. and Mexico. One in six jobs in Canada depends on trade. Canada's economy is 2.5 per cent larger every year, thanks to NAFTA. As Freeland observed: "It is as if Canada has been receiving a $20 billion cheque each year since NAFTA was ratified."

NAFTA aside…

The NAFTA negotiations take place against a backdrop of global economic growth but in an atmosphere of populism and anti-globalization, especially in the West. New technologies notably, robotics and artificial intelligence as well as the impact of big data has effected major structural changes to the economy. There is an expectation that trade agreements must take into account the environment and labour standards and that trade must benefit more than just the 1 per cent. The Trudeau government's progressive trade agenda also wants attention to aboriginal and gender issues.

The December WTO ministerial meeting in Argentina ended without significant result; the zombie-like Doha Round is now into its into its 17th year without an end in sight. Regional and bilateral trade agreements are the new norm. Canada and the EU implemented their free trade agreement (CETA) in 2017 but now it has to be ratified by all EU member countries and Canada must remain vigilant. The Trans Pacific Partnership has found new life without U.S. participation. Japan and the other nine members are keen to close the deal. Canada, despite having Minister Champagne achieve his objectives – including the name change preface 'Comprehensive and Progressive' TPP during the November APEC summit needs to commit to CPTPP-11.

Further Reading

The NAFTA negotiations receive almost daily Canadian media coverage. The U.S. publications Politico and Inside US Trade provide daily insight into the negotiations. Andrea Durkin, of the Center for Strategic and International Studies, edits the excellent Trade Vistas – its graphics are superb. The Wilson Center's Canada Institute is closely following the negotiations with a regular newsletter written by Director Laura Dawson. Canadian-American Business Council CEO Scotty Greenwood's weekly looks at the broader Canada-U.S. relationship. NASCO's Rachel Connell edits the useful North America NOW. My go-to for NAFTA trade policy commentary, including its excellent Trade Talks podcast, is the Peterson Institute for International Economics. I wrote a CGAI NAFTA primer that includes a list for further reading.

About the Author

A former Canadian diplomat and a member of the teams that negotiated the Canada-U.S. FTA and NAFTA, Colin Robertson is Vice-President and Fellow at the Canadian Global Affairs Institute and Executive Fellow at the University of Calgary's School of Public Policy. He is a member of the NAFTA Advisory Council to the Deputy Minister of International Trade. A Distinguished Senior Fellow at the Norman Paterson School of International Affairs at Carleton University, he is a member of the advisory councils of the Conference of Defence Associations Institute and the North American Research Partnership and participant in the North American Forum. He is a past president of the National Capital Branch of the Canadian International Council. He is an honorary Captain (Royal Canadian Navy) assigned to the Strategic Communications Directorate. He writes a regular column on international affairs for the Globe and Mail and he is a regular contributor to other media.

Canadian Global Affairs Institute

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The Institute was created to bridge the gap between what Canadians need to know about Canadian international activities and what they do know. Historically Canadians have tended to look abroad out of a search for markets because Canada depends heavily on foreign trade. In the modern post-Cold War world, however, global security and stability have become the bedrocks of global commerce and the free movement of people, goods and ideas across international boundaries. Canada has striven to open the world since the 1930s and was a driving factor behind the adoption of the main structures which underpin globalization such as the International Monetary Fund, the World Bank, the World Trade Organization and emerging free trade networks connecting dozens of international economies. The Canadian Global Affairs Institute recognizes Canada's contribution to a globalized world and aims to inform Canadians about Canada's role in that process and the connection between globalization and security.

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