May 31, 2017

Need to Know: NAFTA Renegotiations

Introduction

On May 18th, Donald Trump notified Congress of his intent to renegotiate the North America Free Trade Agreement, triggering a 90 day consultation period before official renegotiation can begin. The agreement between Canada, Mexico, and the United States created the world's largest free trade area when it was implemented on January 1st of 1994.

The Background

- Currently, trade with the United States makes up roughly 40% of Canada's GDP. Canada is also the largest purchaser of US goods.
- Trade between member countries has greatly increased since the agreement's inception, totaling $1.14 trillion in 2015. The $20.8 trillion economic output of member countries exceeds the output of the entire European Union combined.
- A Canada-US free-trade agreement existed prior to NAFTA, and is not officially off the books. If NAFTA's operation where to be suspended, many Canadian goods could continue to enter the US duty free under the prior, 1987 FTA.
- NAFTA contains a clause which allows firms in member countries to bid on all government contracts, which is said to stimulate competition to produce lower-cost bids and reduce government spending.
- NAFTA also contains an often-used dispute settlement regime, which Canada has employed to defend its softwood lumber industry.
- Trump's letter to congress indicates the need for new provisions to "address intellectual property rights, regulatory practices, state-owned enterprises, services, customs procedures, sanitary and phytosanitary measures, labor, environment and small and medium enterprises".
- The negotiations may also include the addition of a currency clause, but specific negotiating objectives won't be released until at least 30 days prior to the beginning of talks.
- While Canada could push for a bilateral agreement if tensions between the US and Mexico become too great, Canada's Foreign Minister, Chrystia Freeland, has indicated that Canada is committed to a three-way negotiation of NAFTA.

Facilitative or Protectionist?

Changes to NAFTA could have significant impacts on many companies engaged in cross-border business within North America. Due to the lack of tariffs on goods covered by the agreement, many Canadian firms have developed strong supply chains that extend into Mexico and the US. These supply chains could be significantly disrupted by alterations to the NAFTA agreement, with the automotive and aerospace industries being particularly vulnerable. Additionally, NAFTA has brought about many positive effects that Canada is motivated to maintain, including decreased prices due to lower import costs, increased economic output in the trade area, more jobs due to growth in exports, and increased foreign investment within Canada.

However, Canada could also stand to gain from a more modernized version of the agreement. Since the launch of NAFTA 23 years ago, many advancements have been made in the digital realm. Canada could benefit from the addition of digital economy jobs to the list of professions eligible for easy access Visas under NAFTA. Technology provisions are currently lacking in the agreement, and Canada could also benefit from new clauses focused on this industry. Renegotiations may result in provisions to address long time sticking points in US-Canada relationships, like trade in the dairy and softwood lumber industries. While the extent of proposed changes has not officially been determined, the cross-border economic landscape is evolving, and an updated trilateral agreement could provide value for all member nations.