

Intelligence MEMOS



As NAFTA renegotiations proceed through the summer and fall, the C.D. Howe Institute Intelligence Memos will be looking at what to expect and provide analysis on the latest developments at the table. This post is part of that series.

From: Daniel Schwanen
To: Chrystia Freeland, Minister of Foreign Affairs
Date: August 14, 2017
Re: **A POSITIVE NAFTA START, BUT CANADA CAN'T COWER ON AGRICULTURE**

As you underlined in your remarks this morning to the House of Commons Standing Committee on International Trade, trade between Canada and the United States is the basis of our joint prosperity. It is not a zero-sum activity: both buyers and sellers gain from international transactions, and just as importantly, Canadians and Americans work together across the border to jointly make valuable goods and services.

This activity provides millions of high-paying good jobs to both our economies. Such mutual benefits also characterize our fast growing trade with Mexico.

Canada's objectives in these negotiations, as you enunciated them, are therefore appropriately about facilitating trade, including making sure that previous access obtained by Canada to the US market is not rolled back – this should be Canada's bottom line.

I share your optimism that the three NAFTA partners can build on a mutual desire to make business easier to conduct cross the border. International trade has never been antithetical to high wages and social progress. Bringing labour and environmental standards into the agreement, and highlighting other aspects of the positive link between trade and social progress, as you intend to do, will heighten Canadians' confidence that trade will not erode other important policy objectives.

Indeed, by bringing CETA, our new agreement with the European Union, to its successful conclusion, you have personally demonstrated how a high-standards agreement need not, and should not, come at the expense of governments' role to promote Canadians' well-being.

Canada's approach, as you have outlined it, is thus based on tried and true practical considerations, as well as on sound principles. But will these positive elements that Canada brings to the table be enough to stem what you call the "political junk-food" of US protectionism - evident in some demands from the US side?

In negotiations that may, as you point out, have their unsettling moments, Canada may also have to revisit some of the less appealing elements of our own economic diet. The US has a trade surplus with Canada in dairy products, but that is because Canada's supply management system is one of the most trade-distorting in the advanced world – hampering exports as well as imports that would benefit low-income consumers and small businesses in particular. Most advanced countries have significantly revamped their dairy support systems to minimize distortions. Canada can make commitments to managing dairy trade in a way that would open more of our market to imports – demonstrating that we are not beholden to the "zero-sum" approach in this sector that we denounce in other respects. Beyond eliminating the obvious contradiction in our stance, this would boost Canada's agricultural export prospects, and perhaps especially, demonstrate to lower-income Canadians that trade is indeed, compatible with raising disposable incomes.

In this and other areas where Canada maintains unnecessary barriers to trade and investment, we may be called to walk the talk of open trade. Doing so, through a modernized NAFTA, would be a worthwhile investment in the economic future of Canadians.

Daniel Schwanen is Vice President, Research, at the C.D. Howe Institute.

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