

Intelligence MEMOS



From: Daniel Schwanen

To: The Honourable Chrystia Freeland, Minister of Foreign Affairs

Date: February 16, 2017

Re: **CANADA'S TRADE PRIORITIES IN A RENEGOTIATED NAFTA**

President Donald Trump only wants to “tweak” NAFTA, according to his comments at the bilateral meeting with Prime Minister Justin Trudeau on February 13. If so, what should Canada be looking for in the renegotiations?

Canada needs to get recognition by the United States that it is not an unfair trader, and is also a trusted partner on security matters. In these respects, the bilateral meeting seemed to go a significant way towards building trust with the new White House Administration. However, for Canada, this will mean continuous work as the US implements new approaches to trade policy, and a sharp focus on domestic security.

In terms of trade, as the Administration sets its sights on NAFTA rules of origin – the rules that determine which goods can cross borders duty-free – a top Canadian priority should be to ensure that its content is treated on the same footing as any other North American content, as it is now.

Even as the US Administration seeks to tighten the North American content requirements for goods to qualify as eligible for duty-free treatment between the three countries, Canada should seek to ease the rules that small shipments must abide by in order to benefit from such duty-free treatment, as a boost to smaller businesses across the continent.

A related priority is the continuation of existing Canada-US bilateral initiatives that would ease passage of secure goods and people at the Canada-US border, including regulatory cooperation initiatives. (On this note, the text of the joint statement by the Canadian and US leaders released on February 13 sounded positive.)

But more can be done beyond the imperative of maintaining the existing access of Canadian-based businesses to the United States market, especially in some of the other ways the new Administration has encouraged US protectionist interests inimical to Canada.

Canada should take the initiative on; presenting proposals to the Administration that would see greater mutually beneficial access by Canadian and US contractors and workers to each other's publicly funded or regulated projects; a new framework for the resolution of the Canada-US lumber disputes, in replacement of a dispute settlement mechanism that the US side clearly think has worked against that industry; as well as, reaffirmation and modernization of the NAFTA provisions regarding trade in services and of existing provisions governing the temporary entry of business people, professionals and skilled personnel between Canada and the United States.

Indeed it is essential for both countries to work together closely on promoting more open trade in services globally (which should emerge as a major US objective once the Administration figures out their position on trade agreements more generally). Finally, we would hope to see an improved investor-state dispute settlement process that resembles what Canada and the EU agreed to in their recent trade agreement.

NAFTA has now been in force for over 23 years, so changes to some of its provisions make sense, but let's make sure they don't come at Canada's expense.

Daniel Schwanen is the V.P. of Research at the C.D. Howe Institute.