What NAFTA talks could mean for U.S. consumers and business

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A countdown for a possible redo of a massive trade deal that could affect consumer prices and move jobs across the U.S. borders may be set to begin.

Politico reported Thursday that the Trump administration is expected to send to Congress a final letter notifying them that it will open trade talks with Canada and Mexico to renegotiate NAFTA, citing an administration official and congressional aides

President Trump, once a harsh critic of the North American Free Trade Agreement, has changed his mind and wants to renegotiate it with the U.S. partner nations. NAFTA, established in 1994 by the U.S., Canada and Mexico, created a free trade zone in North America by eliminating most tariffs and encouraging the unimpeded flow of products that many economists say has benefited its member nations.

To start negotiating, the Office of the U.S. Trade Representative must provide Congress a 90-day notice letter before formal talks can begin. Some details on Trump's wishlist were revealed last month in a draft of the letter from the USTR that's been circulated in Congress.

The process will accelerate now that Trump's trade nominee for the U.S. Trade Representative, Robert Lighthizer, was confirmed by the Senate last week. He and Commerce secretary, Wilbur Ross, will head the negotiating team. Lighthizer and Ross declined to comment for this story.

In his campaign, Trump railed against the dangers of running a high trade deficit. And his NAFTA negotiations will likely focus on measures that aim to cut the deficit, says Monica de Bolle, senior fellow at the Peterson Institute for International Economics.

Renegotiation of NAFTA could have varying degrees of consequences. Higher import taxes could raises prices of consumer goods. Protectionist measures by the U.S. may trigger retaliatory actions that could hurt U.S. exporters' sales and lead to job cuts. “If these negotiations break down and Trump tosses out NAFTA... there would be a massive disruption to North American commerce and supply chains would have to reorganized,” says Douglas Irwin, a trade economics professor at Dartmouth College. "And consumers would see final prices rise on everything from avocados to SUVs.”

Here are some parts of NAFTA that will likely be renegotiated based on earlier drafts of the letter:

*Rules of origin. Trump wants to revise the "rules of origin," which he believes cause too many parts from non-NAFTA countries -- used in goods assembled in the NAFTA region --- to come into the U.S. tax free.

Companies that make goods with certain percentages of components (parts and labor) bought in the NAFTA region can sell them in the NAFTA countries "duty-free," or without paying a tax at the border of destination countries.

For example, a Ford sedan with at least 62.5% of components sourced in the NAFTA countries can be exported to Canada without Ford paying a Canadian duty. According to government data, 70% of Ford Escape's components are from the NAFTA countries -- 55% from the U.S. and Canada and 15% from Mexico.

The auto industry is particularly concerned. Revising the rules -- say, by raising the North-American-parts-percentage requirement to 70% from 62.5% -- could disrupt the extensive supply chain it has built in Mexico, says Kristin Dziczek, director of the Industry, Labor & Economics Group at the Center for Automotive Research. Having to use new suppliers would likely mean automakers would be forced to pay more and these additional costs would be passed on to customers via higher car prices.

*Government contracts. A NAFTA rule about government contracts will likely be addressed to favor American businesses.

Currently, NAFTA requires its member governments to consider suppliers from other NAFTA countries in infrastructure projects. In other words, the U.S. government must treat Mexican and Canadian companies no less favorably than domestic companies.

But Trump's insistence that the U.S. government prefer bids from American suppliers could trigger similar policy from Canada and Mexico. That would limit American companies' business opportunities for Canadian and Mexican government contracts. It could also drive up costs for the U.S. government if it has to choose from a smaller base of suppliers made of only domestic companies and not consider cheaper pricing from Mexican or Canadian competitors. “It’d be terrible for taxpayers. They’re getting a smaller bang for their buck when they limit suppliers,” says Dan Ikenson, a trade economist at the Cato Institute.

*Import tax. The Trump administration says it will also seek "to level the playing field on tax treatment." An early draft of the letter didn't disclose further details. But Canada and Mexico currently impose the so-called value-added taxes (VAT) for most goods, including imports. It's similar to sales taxes in the U.S. But unlike U.S. sales taxes, the value-added taxes in Canada and Mexico are levied by their central governments. Trump's team could be assessing options on a similar type of tax, analysts say. “Most of the world operates that way,” de Bolle of Peterson Institute says, referring to VAT. “The U.S. doesn’t have a similar system.”

If the U.S. imposes an import tax, American consumers would likely pay more for imported goods from Canada and Mexico. "The end-result of any measure that tries to be more protectionist...is that it makes consumer goods more expensive,” she says.

*Dispute resolution. NAFTA rules say trade disputes should be resolved by an independent panel of reviewers from both countries. But Trump may push for disputes involving American companies to be heard in U.S. courts. The Trump administration believes NAFTA panels are biased against U.S. cases, Ikenson of Cato says.

But then, American companies could be exposed to the rulings of Mexican and Canadian courts.Details are still not clear on how jurisdiction issues could be ironed out."Will U.S. companies be okay with this? I think there's a bit of skepticism that there will be fair hearings," Ikenson says.

*Non-tariff barriers. Trump's team wants to eliminate any non-tariff barriers to U.S. exports, citing permit and licensing requirements and quotas as examples. His team also will press Canada and Mexico to eliminate "all export subsidies on agricultural products." Details are scant on the type of subsidies the administration will target. But the issue came to light recently when Trump criticized Canada's unique system for its dairy industry that allows the government to control the supply of milk products, set prices and impose tariffs on some imports.

*Digital economy. NAFTA is short on rules overseeing the digital economy. Trump will try to get other NAFTA countries to strengthen their intellectual property laws and step up enforcement against pirated goods.

The U.S. will seek commitments from Mexico and Canada to not impose an import tax on software and other electronic files . Trump's team also wants to ensure that the NAFTA countries refrain from adopting any domestic rules that may slow digital trade. For example, the U.S. may demand that American tech companies operating in Mexico aren't required to store their local business data in Mexico. "It's an acknowledgement that data is very much part of international transactions today," says Ashley Craig, a trade lawyer at law firm Venable.