



## Canada trade deal may mean higher auto prices

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The timing of the just announced three-nation deal, officially the United States-Mexico-Canada Agreement (USMCA), was determined by the exigencies of Mexican politics, not the US midterm elections.

It's unclear whether the new agreement includes not implementing the 25 percent steel tariffs Trump had threatened.

At nearly literally the 11th hour, Canada and the United States came to an agreement on free trade that joins one announced earlier last month between the USA and Mexico (together, they form the United States-Mexico-Canada Agreement).

Canada also agreed to a quota of 2.6m vehicles exported to the USA in the event that Trump imposed 25% global autos tariffs on national security grounds, a side letter to the agreement showed. As recently as last week, the Trump Administration signaled that it might leave Canada out of a bilateral trade deal with Mexico that would replace NAFTA.

"When we look at that phase-in period, it's something that doesn't necessarily scream out that we're going to see a massive increase in USA assembly or parts", said Jeff Schuster, president of global vehicle forecasting at research firm LMC Automotive.

For Trump, the agreement reached in the weeks before the November congressional elections offers vindication for his hardline trade policies that have roiled relations with China, the European Union and America's North American neighbors while causing concerns among Midwest farmers and manufacturers anxious about retaliation.

The deal also allows the U.S. to export products that used to be restricted like butter, cream, and cheese. The quota would allow for some growth in tariff-free automotive exports from Canada above current production levels, the source said.

It gives struggling farms like Robbie Hill Dairy in Java Center a chance to profit from milk supplies idled by the restriction. "They're happy but not delighted", said Doug Porter, chief economist at the Bank of Montreal.

The USMCA deal was signed only hours before the Trump administration-imposed deadline of 30 September. The negotiated export cap may be objectionable to committed free traders, but it leaves a lot of room to build more low wage assembly plants in Mexico at the expense of both American and Canadian auto workers.

The new deal effectively exempts Canada from potential Trump auto tariffs, though it does not say explicitly that Canada will not be hit.

"While the NAFTA talks were ongoing, that was the elephant in the room".

He said the new deal was "much more reciprocal" than NAFTA, which he blamed for the loss of one in four jobs in the vehicle industry and 4.1 million manufacturing jobs. "That gives us confidence a side deal on Canadian steel and aluminum can also be reached before the new NAFTA is ratified". Party leaders have already said that the new labor and environmental standards in the updated deal will receive close scrutiny.

The most substantial proposed changes in the new agreement, now dubbed the U.S. -Mexico-Canada Agreement, or USMCA, may land squarely in consumers' laps especially when it comes to autos and auto parts, economists and analysts say. The newly minted agreement is estimated to bring USA farmers a \$70 million increase in exports to Canada's dairy market and greater access in the egg and poultry markets.

"What I'm seeing is a modest pullback on free trade and economic integration", Simon Lester, a trade policy analyst of the Cato Institute, a libertarian think tank in Washington, writes in an email. Then he said that the dispute-resolution mechanism, which sends disputes about the deal to arbitrators, would have to go.

More remarkably, America got Canada to agree to scuttle NAFTA's investor-state dispute settlement provision.