New NAFTA beats no NAFTA, gov't says, but no big economic boost coming for Canada

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The federal government's much-anticipated economic impact study of the revised North American trade agreement does not forecast a significant economic boost when the deal takes effect, but officials from Global Affairs Canada told the Commons trade committee Wednesday that it's preferable to having no deal.

Although Justin Trudeau's government has touted the successful renegotiation as a significant win for Canada, most of the effects in the forecast are relatively small.

Implementing the new Canada–U.S.–Mexico agreement (CUSMA) would provide a modest boost to Canada's gross domestic product of 0.249 per cent, the analysis found, compared to a hypothetical scenario in which NAFTA, which came into effect in 1993, was dismantled and not replaced.

But will Canada's economy be better or worse off compared to how things stand today, with the original NAFTA still in place? The department's analysis chose not to disclose much on that. Other recent analyses from Canada's C.D. Howe Institute and the U.S. International Trade Commission forecast a decline in Canada's GDP.

"The new automotive rules of origin under CUSMA would likely increase auto part production in North America, but could also lead to higher production costs," the Global Affairs analysis said, echoing others who've warned that the new deal makes North American cars less competitive globally.

Global Affairs is forecasting a $1.5-billion decline in motor vehicle exports to the U.S. and an overall decline in Canadian production of 1.7 per cent, compared to current levels. But these losses would be even greater with no NAFTA, it said.

Across all sectors, "CUSMA would secure jobs that would otherwise be lost," the department said.

The U.S. and Mexico have already completed their ratification processes. The U.S. plans to proceed even if Canada does not come along.

Opposition members are concerned that the Liberal government has asked them to rush to approve Bill C-4, the agreement's implementation legislation, without fully understanding it.

The trade committee passed a motion last week calling on the department to disclose its economic analysis and for Marie-France Paquet, Global Affairs's chief economist, to appear.

Another motion passed last week requires the committee to wrap up its study of the bill by the end of this week.

Analysis based on Trump threat

Canada's chief negotiator, Steve Verheul, told the committee Wednesday that officials project gains and losses as part of their negotiation process. They analyzed the potential losses if the Trump administration pulled out of the 1993 agreement altogether, a threat "we were facing at the time," he said.

Conservative Canada–U.S. relations critic Chris Lewis questioned the department's decision to base its comparative analysis on this withdrawal scenario, rather than the deal Canada already has.

"Would it be a fair statement to say that the only way ... that you could make ... the numbers look good, is to compare it to no deal at all?" Lewis said.

"No it's not," Verheul said. "That was the reality of that path, if we had not negotiated."

Committee members asked if it would be possible to run another scenario through the model, comparing the new CUSMA with the status quo of sticking with the original NAFTA.

Verheul said he did not see the sense in doing that.

Comparing new NAFTA to no-NAFTA "sets a stunningly low bar for ascertaining whether the new NAFTA deal is positive for North American trade," Conservative trade critic Randy Hoback said in a statement. "Almost any trade deal, no matter how unbalanced or restrictive, would be better than having nothing at all."

"For Parliamentarians to understand the impact of the new NAFTA deal on the Canadian economy and Canadian families, we must compare the new deal to the original NAFTA," he said.

It's unclear whether the trade committee will ask for more data from Global Affairs.

Since Justin Trudeau's last face to face conversation with Donald Trump in December, the U.S. president's administration has threatened to pull out of a multilateral agreement on government procurement, undermining the terms of the revised North American trade agreement. (Sean Kilpatrick/The Canadian Press)

While the Trump administration's threat to blow up NAFTA was taken literally, another more recent threat by the U.S. to pull out of the World Trade Organization's Agreement on Government Procurement was ignored in the Global Affairs analysis.

Canada's negotiating objective to gain more access to American public sector contracts was unsuccessful: CUSMA changes no procurement obligations between the two countries.

Based on that, the department's study assumes Canadian companies can continue to access some types of U.S. government contracts under the terms of the multilateral agreement. But that trade now appears at risk.

Committee given report minutes before testimony

Conservative MP Colin Carrie accused the government of holding back information until after last fall's federal election. He said he was "outraged" that the committee was only given the report minutes before the start of Paquet's testimony Wednesday morning.

The positive effects of the Trans-Pacific Partnership, the Pacific Rim trade deal negotiated by the previous Conservative government, were shared much sooner in its process, he said.

"If the information is already there ... I just don't see why it isn't possible to release more information earlier on," said NDP MP Daniel Blaikie, who last week struck an agreement with Deputy Prime Minister Chrystia Freeland for more transparency in how future trade deals are negotiated, in return for his party's support for C-4.

Paquet said the department was already studying CUSMA's potential economic impacts when she joined Global Affairs in 2017, but in recent weeks they "re-did" their analysis, which was only finished Tuesday evening.

The committee was told Feb.5 that the department had not modelled the new automotive chapter and was trying to figure out an analysis "it could defend credibly" for the deal's qualitative improvements to reduce trade barriers.

Paquet said she was unable to analyze the entire agreement, because some parts aren't suited to economic modelling. Because NAFTA already cut most tariffs to zero, this negotiation focused on other trade barriers.

Marginal economic effects only

Four parts of the deal were modelled, based on their magnitude and feasibility: new tariff rate quotas for supply-managed agricultural products like dairy; revised rules of origin that determine what North American automobiles qualify for tariff-free status; new measures on data storage for financial services; and changes to the way goods are processed at the border to facilitate trade.

Dan Ciuriak, the trade analyst who wrote the C.D. Howe paper, said his analysis is pretty much in line with the department's, forecasting only marginal effects.

Inu Manak, from the Washington, D.C.-based Cato Institute think tank, said the Canadian government's analysis was far more modest than the optimistic figures presented to the U.S. Congress last spring, but still warrants scrutiny.

"If anything, the results are an endorsement of the old NAFTA, plus liberalization achieved through CPTPP [the TPP's successor] and the World Trade Organization, which are making up for the negative impacts of the recent changes," she said.

In her view, CUSMA should be compared with not only the 1993 NAFTA deal, but also the TPP that the U.S. negotiated, along with Canada and Mexico, and then opted not to ratify. Contrary to CUSMA's new restrictions for the auto sector, the TPP would have liberalized automotive rules of origin and set a new standard for the North American market, she said.

Manak's troubled by the assumption in Wednesday's analysis that Canada secured exemptions to U.S. steel and aluminum tariffs in CUSMA when in fact, the U.S. could re-impose them based on its vague criteria.

"There's nothing to suggest any agreement made with this administration guarantees any specific outcome," she said.