



U.S.-Mexico are close to reaching a deal in NAFTA talks, but Canada is still a wild card

Michael Collins

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Negotiators for the U.S. and Mexico appear close to striking a deal in their talks to revise the North American Free Trade Agreement, but the future of any new pact will hinge on Canada, which has sat on the sidelines during the latest round of discussions.

U.S. Trade Representative Robert Lighthizer and Mexican Economy Minister Ildefonso Guajardo are slated to resume talks Wednesday for a fourth straight week as the two sides scramble to reach an agreement before the end of August.

“Right now, it appears they are getting incredibly close to finishing the discussions between the U.S. and Mexico,” said Inu Manak, who has monitored the talks for the Cato Institute, a libertarian think tank in Washington.

The U.S. and Mexico are on the precipice of settling the issues between them, but whether or not there is a final NAFTA deal done before the August deadline now depends on Canada, said Lori Wallach, director of Public Citizen’s Global Trade Watch.

“It would be a very big thing if the U.S. and Mexico have settled their issues,” Wallach said. “But there is no final NAFTA deal unless Canada, in the few remaining days, agrees to rejoin the process and also comes to an agreement.”

The U.S. and Mexico are hoping to get a deal signed before Mexican President Enrique Peña Nieto leaves office on Dec. 1. For that to happen, all sides will have to reach a preliminary agreement by Aug. 25 because the Trump administration must give Congress at least 90 days’ notice before a deal can be signed.

In Washington last week, Guajardo told reporters that the talks were advancing and that the two sides were continuing to discuss various issues.

Lighthizer’s office did not respond to a request for comment. But President Donald Trump weighed in late Friday, writing on Twitter that a deal with Mexico “is coming along nicely” and again threatening to place tariffs on Canadian-made cars if an agreement is not reached.

“Autoworkers and farmers must be taken care of or there will be no deal,” Trump wrote. “New President of Mexico has been an absolute gentleman. Canada must wait. Their Tariffs and Trade Barriers are far too high. Will tax cars if we can’t make a deal!”

One of the key sticking points in the talks has centered on the so-called auto rules of origin, which dictate that, to avoid tariffs, a certain percentage of an automobile must be built from parts that originated from countries within the NAFTA region.

Right now, that figure is 62.5 percent. U.S. negotiators proposed earlier this year raising it to 85 percent, but agreed in May to lower the threshold to 75 percent if certain parts are made by workers who earn higher wages. The U.S. reportedly wants 40 percent of light-duty vehicles and 45 percent of pick-up trucks made by workers who earn at least \$16 an hour, which would essentially mean that production is done in either the United States or Canada.

“If Mexico and the U.S. can resolve this issue, I think that will be very helpful for NAFTA negotiations overall, and that’s where negotiations have been focused,” said Antonio Ortiz-Mena, who formerly headed economic affairs for Mexico’s embassy in the United States and now is the senior vice president of the Washington-based Albright Stonebridge Group, a global business strategy firm.

Another sticking point has been the Trump administration’s push for the inclusion of a sunset provision under which the new NAFTA agreement would expire after five years unless all three countries take steps to extend it.

Mexico and Canada have both balked at such a provision, arguing that trade agreements are supposed to offer the assurance of continuity for businesses and make it easier for them to comply with regulatory requirements.

An alternative reportedly under consideration is a proposal by Canada to allow for periodic review to assess how the agreement is working and allow for parts of it to be renegotiated without subjecting the entire deal to an automatic expiration.

Canadian Prime Minister Justin Trudeau blamed Vice President Mike Pence’s insistence on a five-year sunset provision for a breakdown in talks with all three countries in late May. The U.S. and Mexico resumed discussions without Canada in late July but will still have to bring the Canadians back to the table before any final deal can be reached.

For U.S. negotiators, “this is a super tricky situation,” Wallach said. “They have to get a deal with Mexico. They have to get a deal with Canada. And they have to make sure that deal can pass Congress.”

Complicating matters further is that Congress won’t vote on any new deal until next year. And in 2019, Congress “is likely to be more Democratic, maybe a lot more,” Wallach said, “so they have to speculate on what can pass that Congress.”