

NAFTA Renegotiation: US offensive and defensive interests vis-à-vis Canada

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Trump Trade Principles



“Fairness,” as defined by the Administration, is the overarching theme, with two subthemes:

- Bilateral trade balance (emphasis on goods)
- Mirror-image reciprocity (aka level reciprocity)

US Trade with Canada and Mexico



- Two-way US trade with Canada, approaching \$700 billion, is practically balanced.
- If energy is excluded from the total trade balance, the US runs a large trade surplus with Canada.

US Trade in goods and services (2016)	Canada (\$ billion)	Mexico (\$ billion)
Exports of goods and services	322	262
Exports of energy	17	22
Imports of goods and services	314	324
Imports of energy	56	9
Trade balance on goods and services	8	-62
Trade balance on goods and services excluding energy	47	-75
Trade balance on goods	-17	-69

Note: Energy includes coal, crude oil, petroleum products, electric energy and other energy products.

Source: US Bureau of Economic Analysis and US Census Bureau

Possible US blockbuster demands



- Trade balance chapter requiring trade surplus partner to reduce its bilateral surplus and allowing trade deficit partner to impose penalties.
- Currency undervaluation chapter with surveillance and arbitration mechanisms.
- Rules of origin for autos and parts designed to shift production to the US.
- Elimination of NAFTA Chapter 19 Review of AD and CVD determinations.
- Ask Canada and Mexico to desist from border adjustments for their GST and VAT in trade with US.

Traditional US offensive interests



- Agricultural barriers on grains, dairy products, alcoholic beverages, and geographical indicators.
- Very low personal duty and tax exemptions for Canadians who shop in US, and low *de minimis* threshold for imported goods to Canada.
- Data flow and privacy regulations that exclude US companies (Apple, Amazon, etc.)
- Canadian patent utility test could hurt US pharmaceutical firms by invalidating patents.
- Domestic support measures for Canadian aircraft (Boeing vs. Bombardier).

Traditional US defensive interests



- Penalty duties on Canadian softwood lumber.
- Country of origin labeling on beef and pork at state level.
- Hire American and Buy America (steel, pipelines, etc.)
- Jones Act: vessels that carry goods shipped between US ports must be built in the US.
- Investor-State Dispute Settlement (NAFTA Chapter 11).
- Provincial and state representation at the negotiating table.

Possible common interests



- Establish new rules for e-commerce and digital information exchange.
- Set guidelines for state owned enterprises (SOEs).
- Enhance NAFTA labor and environment side agreements.
- Include a trade facilitation chapter.
- Promote small and medium sized enterprises (SMEs) in regional trade.
- Update energy chapter to deepen North American integration.

Sector specific disputes and possible retaliation



Products	US imports (2016)	Canada's retaliation targets
Softwood lumber (HS 4407)	\$5.8 billion	Shipment of US thermal coal through BC ports; Oregon exports
Civil aircraft (HS 8802)	\$3.6 billion	Military procurement (F-18 Super Hornets) supplied by Boeing
Steel (HS 72)	\$4.2 billion	?
Aluminum (HS 76)	\$6.9 billion	?

HS=Harmonized System. Note: Imports data collected is based on HS code.
Source: Trademap.org

Will these overshadow NAFTA talks
or be merged in the talks?