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NAFTA Update: Inconclusive End to Seventh NAFTA Round

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KEY POINTS:

- From February 25 to March 5, **US, Canadian, and Mexican negotiators met in Mexico City for the seventh round** of NAFTA talks.
- Negotiators **closed three additional chapters** and made progress in several areas, including telecommunications, digital trade, technical barriers to trade (TBT), and some sectoral annexes. They also agreed to include a chapter on energy.
- **Progress slowed** following President Trump's March 1 announcement that he would order a global tariff of 25% on steel and of 10% on aluminum imports, due to national security considerations. The round closed with **no progress on the most controversial areas**.
- The **next round is expected to take place in Washington next month**, and it is increasingly likely that the **negotiations will be drawn out** beyond the Mexican general elections and the US midterms. Our **updated scenarios are below**.

Slow Progress Amid US Tariff Announcement and RoO Delay

In a relatively low-profile round, US, Canadian and Mexican negotiators made modest progress on technical issues, **closing three chapters: good regulatory practices, publication and administration (transparency), and sanitary/phytosanitary**. Telecommunications, digital trade, and TBT advanced. Negotiators also **agreed on sectoral annexes on chemicals and proprietary food formulas**, as well as to **include a chapter on energy**.

However, the **more contentious provisions remained deadlocked**, with the United States exhibiting limited flexibility on its unconventional positions regarding government procurement, dispute settlement, trade remedies, counterseasonal remedies for agriculture, autos rules of origin (RoO), etc.

NAFTA negotiators postponed auto RoO discussions, initially expected to take place during the round's first three days, after USTR Robert Lighthizer called the agency's chief RoO negotiator back to Washington to participate in meetings with US auto representatives. **Intersessional talks later this month** are now expected to tackle RoO.

President Donald **Trump's March 1 announcement on global steel and aluminum tariffs** (see MA update [here](#)) **heightened tensions with key US allies**, including Mexico

and Canada, and complicated negotiations in Mexico City. In response to the announcement, Canadian Foreign Minister Chrystia Freeland said any restrictions against Canadian steel and aluminum imports would be “absolutely unacceptable” and that, if imposed, “Canada will take responsive measures to defend its trade interests and workers.” Mexican officials said privately that a failure to recognize Mexico as a strong US ally and not subject to 232 duties would damage the NAFTA talks and could result in Mexican retaliation.

Trump Links Tariffs to NAFTA

On the final day of the seventh round, President **Trump exacerbated tensions, suggesting Canada and Mexico could avoid the tariffs if they reached an agreement on a renegotiated NAFTA.** “We have large trade deficits with Mexico and Canada. NAFTA, which is under renegotiation right now, has been a bad deal for U.S.A. Massive relocation of companies & jobs. **Tariffs on Steel and Aluminum will only come off if new & fair NAFTA agreement is signed,**” Trump [posted](#) on Twitter.

In response, Mexican Economy Minister Idefonso Guajardo [wrote](#), “México shouldn't be included in steel & aluminum tariffs. It's the **wrong way to incentivize the creation of a new & modern #NAFTA.**”

While Canada did not immediately issue a response, Freeland was the only trade minister to comment on the US tariff announcement during the press conference at the close of the seventh round. She reiterated that **Canada would view any trade restrictions on steel and aluminum as unacceptable** and would take appropriate responsive measures.

Seventh Round Closes with a Whimper

On March 5, the **trade ministers from the United States, Canada and Mexico held a closing press conference** in Mexico City, highlighting that negotiators have worked hard but have only closed six of around 30 chapters.

During the closing press conference, Lighthizer reiterated the US goal to “rebalance” the agreement, a clear reference to the US trade deficit. He said that while the United States prefers a trilateral agreement, it is prepared to pursue separate deals with Canada or Mexico if tripartite talks collapse. Even so, Lighthizer concluded, **“If the political will is there, I'm certain we have a path for rapid and successful conclusion.”**

What to Watch

While a date for an **eighth round** has not yet been announced, it is expected the week of **April 9 in the Washington area.** Intersessional talks are expected to take place later this month and should address RoO.

A **formal US announcement on 232 tariffs is expected this week.** It is unclear whether Mexico and Canada will be exempted, and this **will have an impact on the talks.**

The following NAFTA scenarios remain possible, with varying probability:

Scenario 1: Negotiations Drag Out

Given the difficult negotiating environment, with US negotiators remaining inflexible on the most difficult proposals (most of which are unacceptable to Canada, Mexico, and

important US economic actors), it is **likely that the talks will extend** through the Mexican presidential election July 1 and the US midterms in November. A **232 announcement prejudicial to Mexico and Canada would further impede the ability to advance negotiations.**

While this **outcome avoids the disastrous impact of US withdrawal, persistent uncertainty around NAFTA would continue to lead to contingency planning** around supply chains and commodity purchases. However, an **extended timeline would allow congressional and state stakeholders to better organize their efforts**, including in reaction to newly-formed coalitions designed to protect the gains of the agreement. In this way, **dragging out the negotiations for as long as possible might allow for a more favorable result.** That said, if USTR maintains its inflexibility, this scenario could be better titled “The Long Goodbye.” **US withdrawal would remain possible throughout the talks.**

Scenario 2: US Withdrawal

The ongoing **disconnect between the parties’ positions and the new 232 angle, coupled with inflexibility around the most controversial US proposals means a breakdown of the talks and US withdrawal under NAFTA article 2205 is still possible.** The **most probable timing could range from after the Washington round in April through the midterms.**

For the scenarios around US withdrawal, please refer to MA’s January memo ([here](#)). Most **likely withdrawal would be driven by the United States.** Only if Trump decided to offensively attack Mexico/Mexicans as has occurred in the past would Mexican withdrawal be possible. However, this is unlikely. NAFTA has for the most part not become part of the Mexican presidential campaigns. Left-leaning, leading candidate Andrés Manuel López Obrador has identified a Harvard-educated economist to lead the negotiations if he is elected, Graciela Márquez, who has defended NAFTA as an engine of job growth.

If NAFTA 2.0 fails, the US relationship with Mexico and Canada will suffer, and there **will be little political will in either to embark on a bilateral agreement** with the United States, despite Trump’s penchant for bilateral deals. They are more likely to focus on CPTPP (Comprehensive and Progressive Trans-Pacific Partnership, signed this week in Chile) and deals with nations other than the United States.

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