



Memorandum

To: International Affairs Committee; Canadian Services Coalition; Jayson Myers; Perrin Beatty; Guillaum Dubreuil; CCC Policy; Board International Strategic Advisory Committee
From: Adriana Vega
Date: January 29, 2018
Re: 6th round of NAFTA negotiations, Montreal 22-29 January, 2018

Staff members of the Canadian Chamber of Commerce attended the 6th round of NAFTA negotiations in Montreal. On the margins of the round, the Chamber hosted a trilateral stakeholders breakfast on Friday, January 26th in partnership with AmCham. It was attended by representatives from government and business from all three countries.

The North American Alliance, formed by the Canadian Chamber, the U.S. Chamber and Mexico's CCE, renewed our commitment to NAFTA and updated our recommended principles for the modernization. The communiqué can be found [here](#).

This memorandum summarizes the views collected throughout the visit.

Overall assessment:

The most striking development at this round was the appearance of cautious optimism. The tempo and mood also seem to be settling into a more conventional trade negotiation routine, with modest yet stable progress. The three negotiating teams continue to engage constructively on technical issues and are parking several chapters at the final stages.

Currently, all parties appear to be prioritizing substance over speediness. While positive, this portends a longer-than-expected modernization exercise, which carries risks.

Continuing on the trend observed in previous rounds, there is still strong alignment along sector verticals.

Concrete developments:

- Negotiators closed the NAFTA chapter on Anti-Corruption, which is likely to resemble the Anti-Corruption chapter negotiated in TPP. A USTR summary can be found [here](#).
- Canada presented counterproposals on some of the U.S.' most controversial asks, a widely welcomed development. These creative proposals include new approaches to Rules of Origin in auto, dispute settlement mechanisms (ISDS) and sunset clause.

Specific issues:

- The agricultural caucus across the three countries is concerned about the US-proposed seasonality clause, which invokes changes to US trade remedy law and is driven by specific U.S. business interests.

- On auto, Canada presented a new proposal for regional content rules. The proposal reportedly considers IP and software towards regional content value, and “credits” R&D centres with added regional content, expanding on the current model that counts only physical inputs. Ambassador Lighthizer expressed doubts, saying this would lead to “*exactly the opposite of what we are trying to achieve*” - arguably more jobs in manufacturing. This type of posturing is to be expected at this early stage.
- On dispute settlement mechanisms, Canada and Mexico are partnering on a counterproposal to the U.S. idea of an opt-out ISDS scheme. The new proposal would see Canada and Mexico striking a bilateral ISDS mechanism (modeled after CETA’s permanent courts), leaving the US outside and unprotected. While this might be agreeable to Ambassador Lighthizer - who is unsupportive of ISDS - the American business community and Congress would likely oppose it and pressure the Administration to preserve a dispute settlement mechanism for all three countries.
- Canada has also engaged on the U.S.-proposed sunset clause, an option to terminate the agreement every five years if unfavorable trends like trade deficits are observed, by offering a review mechanism but no termination.

Red flags:

- Ambassador Lighthizer emphasized that NAFTA is a “*very important agreement*” to the United States. However, he also maintained the Administration’s position on the need to “*rebalance*” trade, specifically noting the U.S. trade deficit with Canada, a point promptly rebutted by Minister Freeland.
- Ambassador Lighthizer outlined three key American priorities: 1) reduce trade deficits and achieve reciprocal trade with the NAFTA partners; 2) speed up the slow pace of negotiations, and 3) maintain regional protections against unfair advantages from non-NAFTA countries.
- Stakeholders at the round further raised some concerns about future disagreements between the U.S. and Canada over IP and supplied managed sectors.
- The labour chapter will be a divisive issue, with support split along Democratic and Republican Party lines.
- Gaps across core areas of the agreement are significant, further indicating a longer-than-planned negotiation.

Moving ahead:

- U.S. politics continues to play a key role in the negotiations. Having moved past tax reform, Congress is now more confident to express support for NAFTA. A delegation of Congressional officials travelled to Montreal where they had briefings with the U.S. negotiators and spoke to stakeholders and media.
- The seventh NAFTA round is scheduled to take place in Mexico City on Feb 26th.