

NAFTA: The Future of Free Trade in North America

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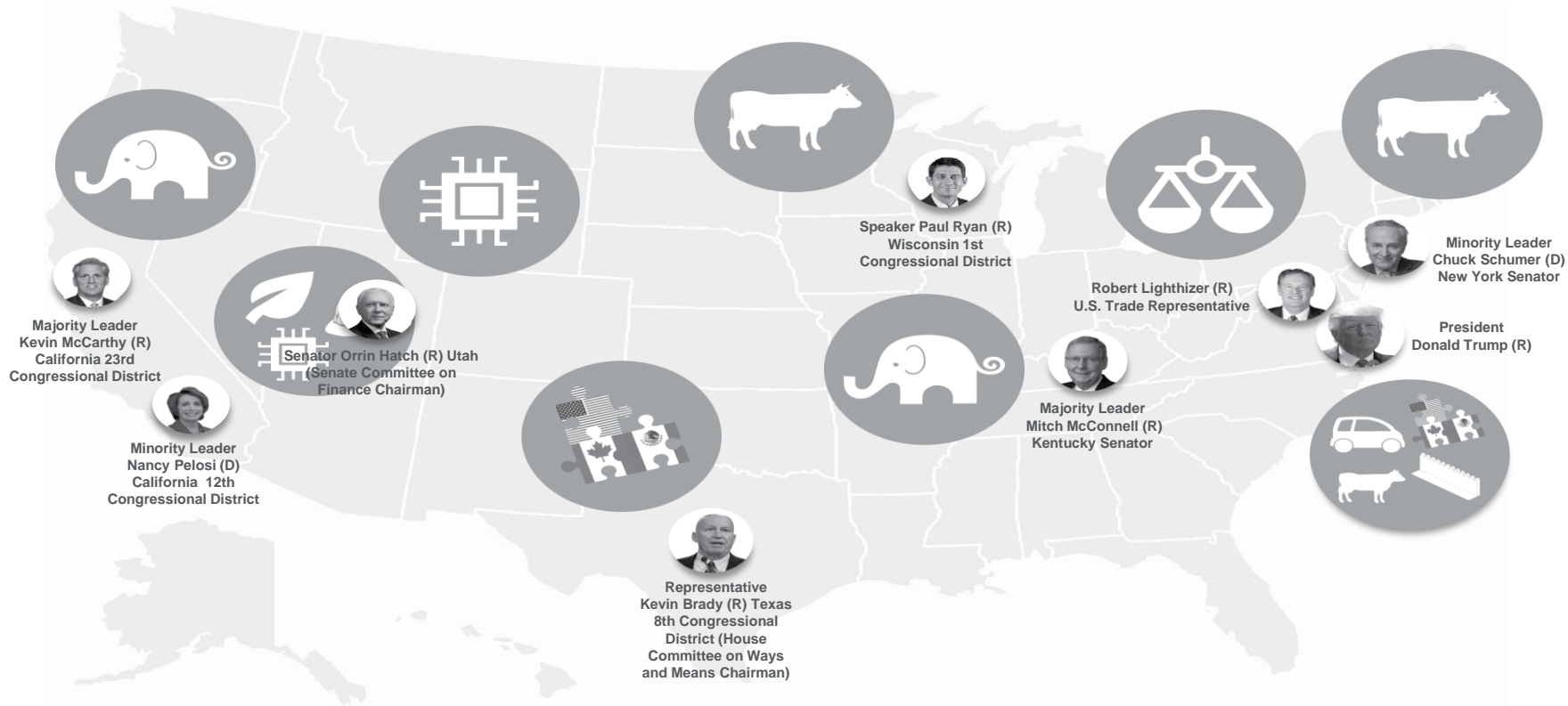


Canada

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United States

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Auto



Digital



Environment



Labor



Wall



Dairy



**Dispute
Resolution**



**GOP control
of Congress**



NAFTA

Mexico

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View from Mexico

- Mexico has a strong preference for negotiations to conclude before its Presidential Elections in July 1, 2018
- Mexico seeks NAFTA to remain a trilateral agreement.
- Despite the fact that Mexico has been excluded, Mexico is not comfortable with U.S. imposition of a 25% tariff on steel imports and a 10% tariff on aluminum; this is a measure against free trade
- The 8th round of NAFTA negotiations took place in Washington at the end of April; it made progress but still many issues pending
- In March 2018, the Trans-Pacific Trade Pact (TPP), was executed by 11 countries, including Mexico, but excluding the United States
- TPP includes agreements on many topics still pending under NAFTA 2.0
- TPP was intended to be a blue print for NAFTA 2.0

View from Mexico (cont.)

- Progress has been slow so far; only 10 of the 30 chapters have been agreed after 8 rounds of negotiations; there are many chapters still open
- Important topics (such as environment, rules of origin and dispute resolution) are still inconclusive
- United States has expressed some flexibility on its initial hard position on rules of origin and national content
- It appears that this is one of the most complex chapters subject to re-negotiation of NAFTA
- Positions of the three countries still remain distant
- Conversations between rounds continue among countries regarding rules of origin

Mexican Automotive Sector

- Current U.S. position regarding rules of origin is to have 85% of NAFTA regional content, and 50% of the U.S. country specific content; United States has expressed some flexibility on this issue
- The issue of rules of origin in the automotive sector has created internal tensions and differences within the Mexican government and the Mexican private sector
- Mexican government is planning a counterproposal that considers the possibility of lowering U.S. proposal of 85% regarding NAFTA regional content of armed cars in the NAFTA countries
- Despite these difficulties, the Mexican Automotive Industry Association reports 2018 strong exports to the United States (9.5%)

Mexican Automotive Sector (cont.)

- Auto production in Mexico is up 6.2% through the first two months of 2018
- In summary, the two most difficult U.S. issues for México to accept
 - Sunset clause / every 5 years
 - Auto Rules of Origin
 - 85% regional content
 - Minimum wage (U.S. \$16/hr.)
 - 70% NAFTA Steel
 - No to country-specific content
- United States has hinted that NAFTA 2.0 should include an immigration rules
- Immigration has never been included in a free trade agreement

Possible Scenarios

- Status quo: NAFTA continues unchanged; this is highly unlikely considering the current negotiation situation
- NAFTA 2.0 successful negotiations: successful negotiation; Canada and Mexico firmly believe that this is the most likely outcome
- Zombie NAFTA: United States issues notice of intend of withdrawal, but does not move forward
- Presidential termination: the president of one of the countries takes all of the steps to terminate, but Congress refuses to support it
- Hard termination: the administration invokes termination provisions of NAFTA and Congress adopts measures
- Asymmetrical termination: NAFTA terminates for Mexico or Canada; and they are reverted to the bilateral agreements celebrated

Questions?