



NAFTA NEGOTIATIONS: NAVIGATING AN UNCERTAIN PATH IN 2018

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SUMMARY

- The U.S., Canada, and Mexico held five rounds of NAFTA negotiations in 2017, and an intersessional meeting in December without participation of ministers.
- A sixth round of talks is scheduled for January 21-29 in Montreal, Canada, and a seventh one will likely take place in Mexico in February. Negotiators will attempt to wrap up negotiations in March, but it is unlikely they will be able to do so.
- While both Mexico and Canada have demonstrated a meaningful willingness to compromise, progress in Montreal and thereafter is unlikely unless the U.S. takes a more flexible approach to several of its controversial proposals, including higher auto rules of origin, weaker dispute settlement, a sunset clause whereby NAFTA would have a five-year lifespan unless its three members agree it should continue, more restricted access to U.S. government procurement while having Canada and Mexico increase their access, and the imposition of trade restrictions depending on the level of the U.S. trade deficit with Mexico.
- If NAFTA renegotiations are successful, a new NAFTA would not enter into force until 2019. However, the likelihood of success is unclear, and U.S. withdrawal from NAFTA remains a real possibility.
- While the end of NAFTA would not imply a significant change from a tariff perspective for a large share of products traded, U.S. agricultural exports would face high tariffs in Mexico. More importantly, the end of NAFTA would expose companies to higher risks regarding non-tariff barriers, dispute settlement (especially on investment and unfair trade practices), and trade in services.
- Beyond NAFTA, there are two additional risks: the July presidential election in Mexico, which could result in the victory of a candidate with economic nationalistic/protectionist views, and the U.S. tax reform, which may have a significant impact upon North American trade and investment; Mexico has little fiscal space to make adjustments.

ABOUT ASG

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