Government of Canada Gouvernement du Canada

Canada

NAFTA

The Benefits of North American Trade

Canada & Colorado

Presentation to CACI

Stéphane Lessard
Consul General of Canada

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Purpose

To demonstrate:

- The breadth and depth of the U.S.-Canada relationship
- The importance of the <u>integrated</u> U.S.-Canada economic partnership
- Why NAFTA is critical to our shared prosperity and economic competitiveness
- Discuss next steps in the NAFTA (re)negotiations

Don't forget to Tweet!

@CanCGDenver #NAFTAmatters

Canada: Your Friendly Neighbour to the North!

3

We Built This Continent Together!

… And We Defend It Together!

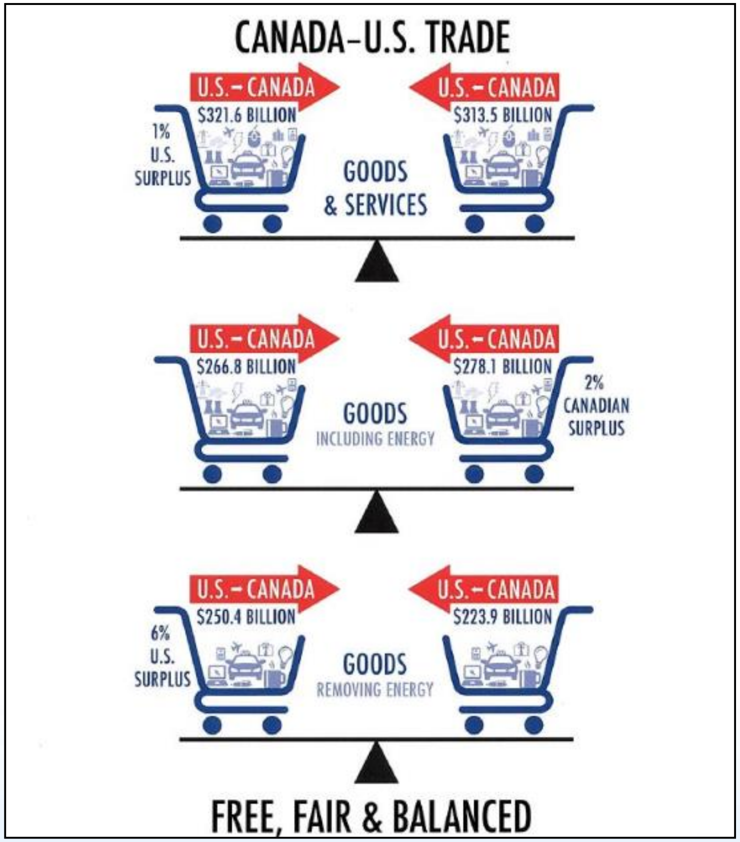
4

Canada-U.S. Trading Relationship

We enjoy **the largest bilateral trading relationship** in the world.

Bilateral trade was valued at **$627.8 billion in 2016** (goods and services)

- The U.S. enjoyed a trade <u>surplus</u> with Canada of $12.5 Billion



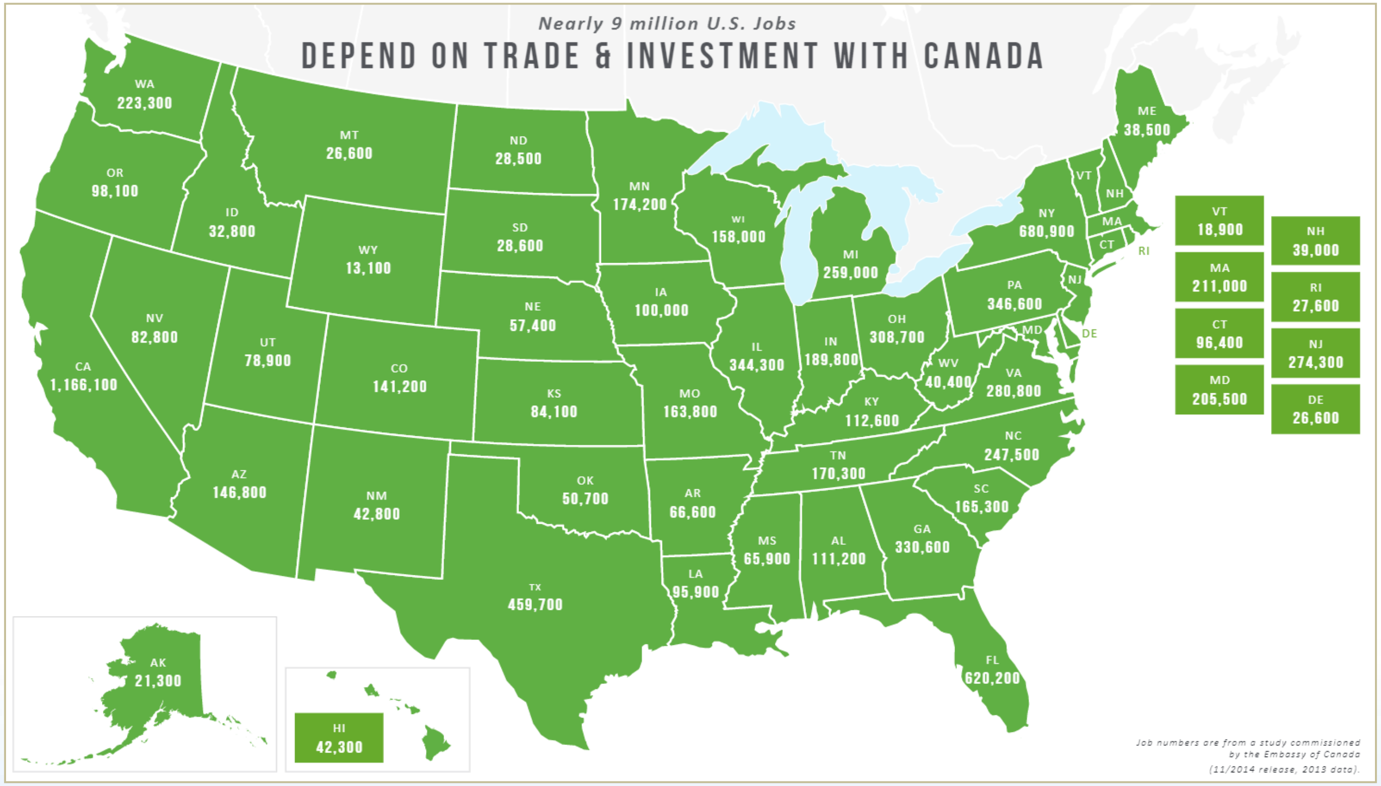
Source: Office of the United States Trade Representative (USTR)

Canada: The U.S.'s #1 Partner

All 50 U.S. states count Canada among their Top 5 international trading partners.

Source: US Census Bureau, November 2017 data

Canada-U.S. Trading Relationship



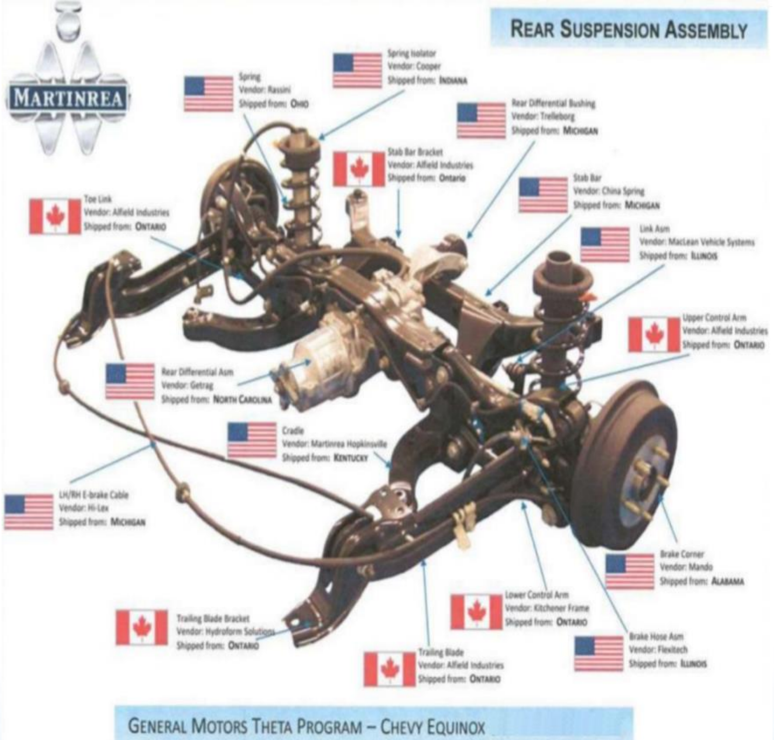
Canadian companies operating in the U.S. directly employ 500,000 Americans

Source: Embassy of Canada study, November 2014

Integrated Supply Chains Outcompete the Rest of the World

Supply Chains have become an integral part of what keeps our North American economy operating smoothly:

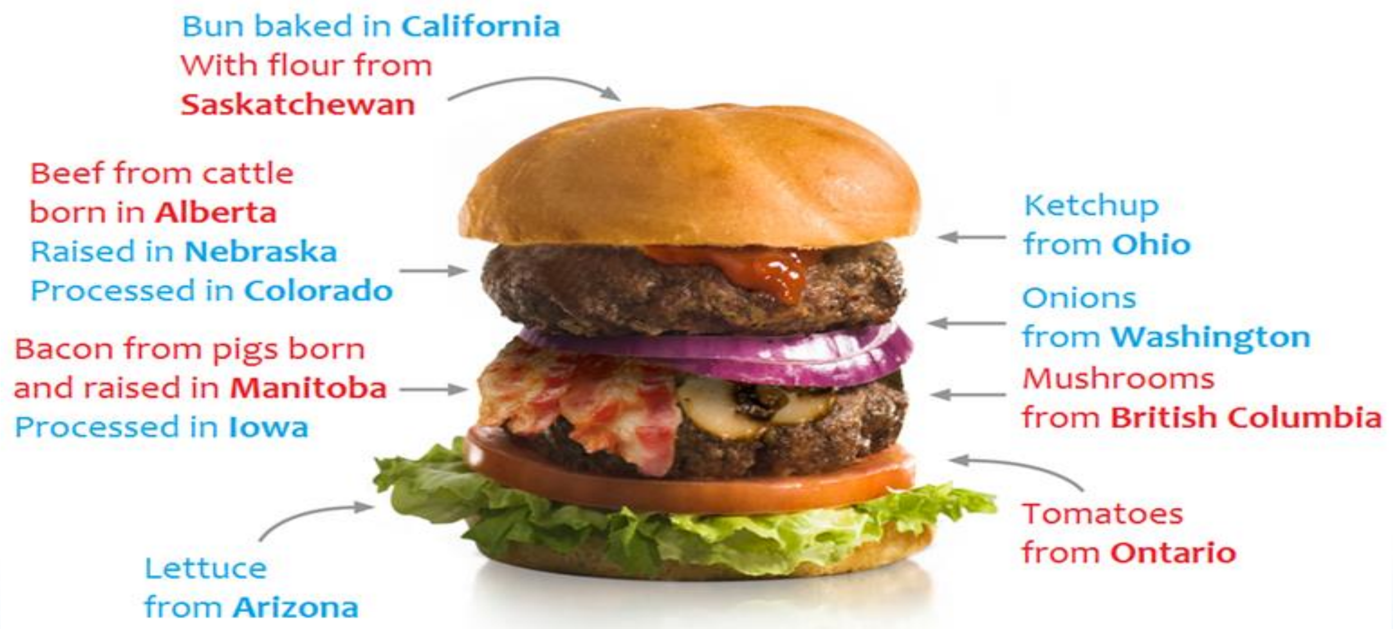
- 78% of total U.S. imports from Canada are **used to make goods and services in the U.S**.;
- U.S. imports represent **10.1% of the value of Canadian exports** to the rest of the world;
- Cost **savings and increased productivity** afforded by regional delivery.



Source: Trade Partnership Worldwide and the Embassy of Canada, "Studying how the U.S. Benefits from Trade with Canada", May 2016

Canada-U.S. Trade Relationship

THE GREAT AMERICAN HAMBURGER



An example of how we make things together: even lunch is created by trade!

Canada-Colorado Trade Relationship

Closer than You Think

The Canada-Colorado relationship is special:

- Canada is Colorado's No.1 international trading partner
- Total 2016 trade value in goods was approximately **$4.1 Billion**
  - Energy and agriculture are the top sectors for trade
- **141,200 Colorado jobs** depended on trade with Canada last year
- But it's not all trade in goods. In 2016:
  - Colorado exported $1.3 Billion in services to Canada
  - 251,700 Canadians spent $126 Million in tourism visiting Colorado

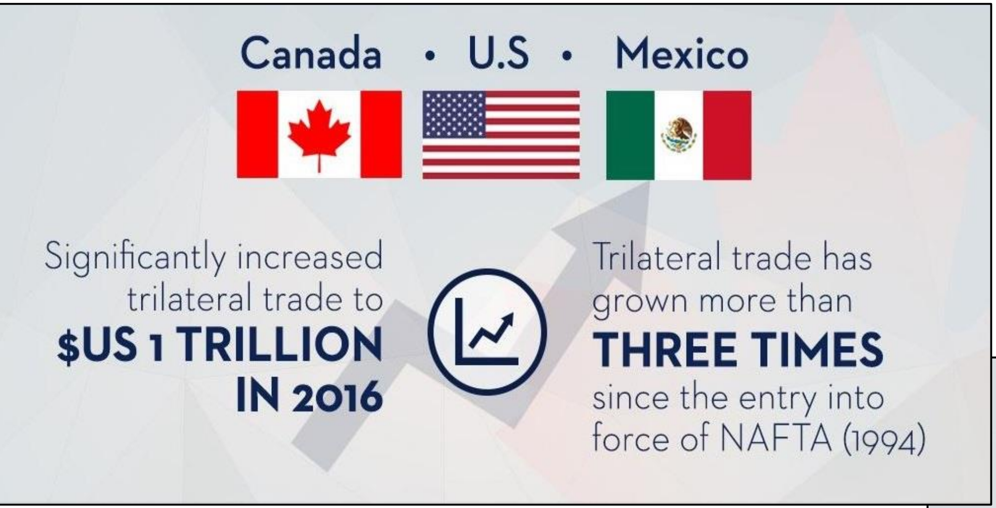
Source: US Census Bureau, 2017 data

About NAFTA

- NAFTA created what is today a USD$19 trillion regional market with 470 million consumers
- Upon entry into force in 1994, NAFTA superseded previous agreements such as CUSFTA, which remain suspended but not repealed
- NAFTA was designed to facilitate cross-border trade and investment opportunities resulting from:
  - lower tariffs
  - predictable rules
  - reduction in technical barriers to trade

Source: U.S. Bureau of Economic Analysis / March 2017 U.S. International Trade in Goods and Services Report

NAFTA: A Snapshot



Source: U.S. Bureau of Economic Analysis / March 2017 U.S. International Trade in Goods and Services Report

Notable NAFTA Provisions

Market Access for Goods (chapter III)

- Reduction of tariffs and elimination of duties and on most goods crossing borders

Rules of Origin (chapter IV)

- Each NAFTA country levies a lower tariff on goods "originating" from NAFTA members

Government procurement (chapter 10)

- Increases access to procurement opportunities among the three federal governments

Foreign Investment (chapter 11)

- Foreign investors from NAFTA countries receive same favourable treatment as domestic investors

Intellectual Property Protections (chapter 17)

- Including protections for patents, trademarks, copyrights and industrial designs

Anti-dumping and Countervailing Duties (chapter 19)

- Offers exporters and domestic producers a direct route to appeal the results of trade-remedy investigations before an independent binational panel

Dispute settlement (chapter 20)

- A three-step process for resolving disputes regarding the implementation or interpretation of NAFTA provisions, including option for an independent bi-national panel

NAFTA: MYTH vs. FACT

MYTH: NAFTA is responsible for the United States' trade deficit.

FACT: U.S. trade deficits reflect broader macroeconomic imbalances, not the effectiveness of NAFTA.

$8B

Excluding energy, the U.S. posted a trade surplus of approx. **$8 BILLION** in goods and services with Canada in 2016.

20

The U.S. has trade deficits with over **20 COUNTRIES**, including China and the entire European Union.

30X

In 2016, the U.S. merchandise trade deficit with China was **30 TIMES more** than with Canada.

Source: US Bureau of Economic Analysis / March 2017 "US International Trade in Goods and Services Report"
Source: USTR, "Quantification of NAFTA Benefits"

NAFTA: MYTH vs. FACT

MYTH: NAFTA has led to significant job losses in the United States.

FACT: Since NAFTA came into effect, overall job growth has been strong in the U.S. NAFTA supports employment and elevates the standard of living for North American workers, families and communities.

Nearly **14 million U.S. jobs** are supported by trade with Canada and Mexico.

88% of U.S. jobs lost have been because of **automation**, **not trade**. Trade offers opportunity to replace lost jobs with new ones.

Nearly **200,000 export-related jobs** are created annually by NAFTA.

Source: U.S. Chamber of Commerce, NAFTA Myths and Realities

NAFTA: MYTH vs. FACT

MYTH: NAFTA has caused financial loss for the agricultural industry in the United States.

FACT: NAFTA has enabled U.S. farmers and ranchers to expand their export markets to Canada and Mexico, and has been essential to the agriculture industry amid low commodity prices.

Nearly **One in every ten acres** on American farms is planted for exports to Canada and Mexico

NAFTA supports an **$85 BILLION** agricultural relationship among NAFTA partners

In 2016, Canada and Mexico accounted for **28%** of the total value of U.S. agricultural exports

Source: Bureau of Labor Statistics

Source: National Hog Farmer, “USTR urged to strengthen ag trade in NAFTA negotiations, July 2017

NAFTA: MYTH vs. FACT

MYTH: NAFTA does not protect the environment.

FACT: NAFTA has side agreements on the environment that have helped finance solutions to environmental problems.

NAFTA has brought the environment into the **mainstream in Mexico**, as something to be taken seriously.

NAFTA commits partners to work cooperatively by way of the **NAAEC** to ensure the protection of their environment.

Canada remains steadfast in upholding **environmental protection** regulations with its NAFTA partners.

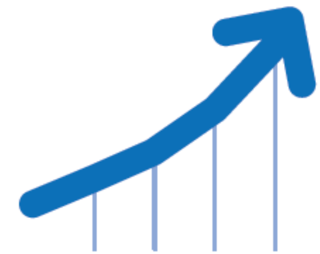
Source: International Institute for Sustainable Development: NAFTA's Environmental Record, June 2017
Source: OECD, Environment and regional trade agreements, 2007

NAFTA: In Sum

North America is the most extensive free trade zone in the world: close to five times the size of the European Union.

The NAFTA region produces goods & services valued at more than $20 trillion every year.

Canada buys almost 60% of its worldwide imports from its two NAFTA partners.



Since 1994, the GDP of the region has increased steadily at an average annual rate of 2.5%.

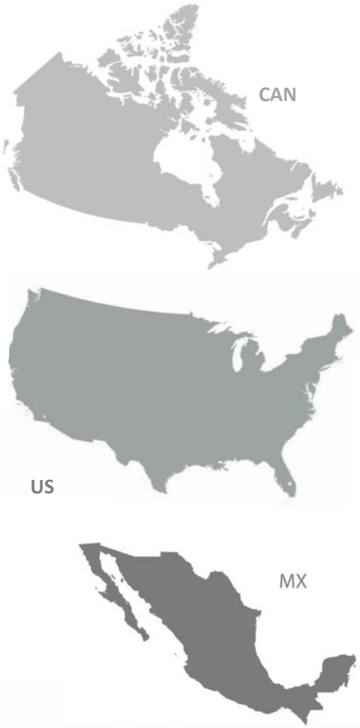
NAFTA has had an overwhelmingly positive effect on North America, creating new export opportunities, attracting foreign investment, and acting as a stimulus to build internationally competitive businesses.

NAFTA has lowered tariffs, established predictable rules, reduced barriers to trade, and created mechanisms for dispute resolution.

Source: U.S. Trade Representative; World Bank; Statistics Canada; International Monetary Fund

NAFTA AND THE FUTURE

NAFTA Negotiations: Where We Stand



Canada's objective is to make a **good agreement even better** and to align NAFTA to new realities. Our end goal is a **Win-Win-Win** agreement for all three nations.

NAFTA renegotiation offers us an opportunity to put items such as **gender equality**, the **rights of indigenous** peoples, **environment** protections and **labour** standards at the forefront.

Canada sees these elements as a practical necessity to build popular support for a deal as well as ensure the benefits of trade extend to the middle class and those seeking to join it.

NAFTA Negotiations: Where We Stand

Protectionist measures come in many forms, and almost always with unintended consequences.

- **U.S. content requirements** – vs. North American requirements that take advantage of **economies of scale** – would result in less competitive American manufacturing and offshoring increases.
- A **“Sunset Clause”** would introduce uncertainty to the business climate, discouraging long-term investment.
- Use of U.S. courts in **dispute resolution** would invite use of Canadian and Mexican courts as well, impacting neutrality.
- **Government Procurement** – requirements to “Buy American” result in reciprocal restrictions across borders and disrupt trade.

Source: Peterson Institute for International Economics, August-September 2017

Life Without NAFTA: What Happens?

Without NAFTA, all three nations would see **a real decline in GDP.**

- Estimates indicate that Mexico would see the largest hit, but the U.S. and Canada will be negatively impacted as well.
- The United States would see a real GDP growth reduction of 0.5% in 2019, with Mexico impacted by 0.9% and Canada by 0.5%.
  - By 2025, estimates project total Real GDP declines of 1.7% for Mexico, 0.05% for U.S., and 0.2% for Canada.
- Foreign and domestic investment are project to decline as well, and duties will drive up costs for consumers.

Source: Oxford Economics, Research Briefing: The Cost of Leaving NAFTA, January 2018
Source: ImpactEcon, August 2017

Life Without NAFTA: What Happens?

On average, **U.S. goods will face tariffs** of 7% to Mexico and 4% to Canada, but some industries will see a much larger impact.

- Beef will see a 25% tariff increase, while chicken will see 75%
- Textiles and apparel will face tariffs of 15-20%

NAFTA encourages currency parity. Withdrawal from the Agreement will weaken purchasing power and hurt U.S. exports.

Consumers will be the ones to pay for cost increases, combined with a projected quarter million U.S. job losses.

Why would we do this to ourselves?

Source: Peterson Institute for International Economics, August-September 2017
Source: ImpactEcon, August 2017

We Can Get This Right!

Canada is very confident that we will negotiate a new Agreement that is Win-Win-Win!

Government of Canada Gouvernement du Canada

Canada

THANK YOU

Consul General of Canada Stephane Lessard
Consulate General of Canada in Denver

E: Stephane.Lessard@international.gc.ca
@CGLessard @CanCGDenver
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