## I. Key Elements

A. NAFTA is a free trade treaty, between Canada, the United States, and Mexico, that went into effect in January 1994.

B. The purpose of establishing NAFTA was to safeguard intellectual property rights, to revoke investment limitations, and to eliminate tariff barriers and obstacles (of which 50% were abolished immediately and the lasting tariffs have been eliminated periodically).

C. NAFTA opened access to U.S. truckers into Mexico by streamlining the border processing and licensing requirements for commercial ground transportation.

D. Canada, Mexico, and the U.S. agreed to standardize and strengthen safety, health, and industrial standards.

E. NAFTA established commissions that could impose fines to signatories that failed to follow the agreement's environmental and labor requirements.[1]

## II. Historical Background

NAFTA, or the North American Free Trade Agreement, was established in 1991 and came into fruition on January 1, 1994. NAFTA was built on a previous trade agreement between the USA and Canada known as the U.S.-Canada Free Trade Agreement that came into force in 1989. In 1990, the United States and Mexico entered bilateral talks about creating a Free Trade Agreement of their own. Canada joined in the talks in 1991 and NAFTA was created between the three North American countries. The *raison d'être* for NAFTA was to reduce/remove tariffs between the United States, Canada, and Mexico. The agreement also included chapters covering customs procedures, agricultural and sanitary measures, phytosanitary measures, government procurement, investment,

[1] http://www.thompsonhine.com/uploads/1139/doc/Thompson_Hine_NAFTA_presentation_05-2018.pdf

trade in services, protection of intellectual property rights, and dispute settlement procedures.

George H.W. Bush and Mexican President Carlos Salinas de Gortari endorsed the creation of a new free trade pact between the U.S. and Mexico on June 10th, 1990 in response to the previously mentioned U.S.-Canada Free Trade Agreement. As Bush was due to exit the White House in December of 1992, he signed the NAFTA deal alongside de Gortari and Canadian Prime Minister Brian Mulroney. In 1994, NAFTA goes into effect. The Maya Indian Zapatista guerrilla army launches an armed rebellion against the Mexican government and the "neo-liberalism" that NAFTA promoted. In November of 1999, anti-globalization protests converge in Seattle as a WTO conference is held in the city. These protests showed an opposition to free trade deals such as NAFTA.

In 2001, China joined the WTO, which allowed the world market to trade with China easier than before. By 2004, a decade after NAFTA came into effect, the three-way trade between the North American nations had doubled to reach $623 billion while foreign investment increased by over $1.7 trillion when compared to pre-NAFTA levels. In 2008 the last of NAFTA's policies was implemented. These policies surrounded sensitive sectors of the economy, such as sugar, and the trade barriers were lowered slowly compared to other sectors. This was done, in part, to reduce the economic shock that lowering the barriers would incur.

## III. Current Situation

The whole renegotiation of NAFTA started with Trump's strong belief that the past NAFTA agreement was "a rotten deal for the U.S.". Trump also blamed NAFTA for gutting U.S. manufacturing and even claimed that american workers were getting "ripped off". Trump would only support NAFTA if it was adapted to favor the U.S. in a way he thought appropriate. Hence, stirring the current issue at hand: renegotiating a trade deal that generates hundreds of billions of dollars.

A. <u>Key Issues of Contempt:</u>

In the present NAFTA reform, the failure or success of the negotiations rely partly on the issues regarding the automotive industry and dairy regulation. Auto manufacturers are one of the many industries that have been moving employment from the United States to Canada or Mexico, therefore violating one of the primary objectives of the NAFTA agreement. Hence, the opportunity of an adapted NAFTA may bring Trump, that ever since the presidential elections has been campaigning in favor of bringing more jobs to the citizens of the United States, the perfect time frame to bring jobs back to the manufacturing sector. Therefore, there's a current demand of change pertaining the automotive sector regulations. The current automobile regulations require a 62.5% for North American automobile components for duty-free trade, while the U.S. demands now that it should rise to a 85%. It also requires that 62.5% of all auto components be from any of the NAFTA countries, while the U.S. demands presently that they should supply 50% of these auto components.

Currently, the bilateral agreement that has been made by Mexico and the United States foments these stipulations. One additional change made was that the wages of the automobile manufacturing workers in Mexico would be of 16 dollars per hours, instead of the presently enforced 3.52 dollars pers hour. This change is expected to increase the cost of cars and trucks sold in the U.S., therefore making a direct hit to consumers. Although, this should be a trade off that is worth it, since it would create more jobs and instill clearer the catch phare of "Making America great again, one job at a time". It is important to keep in mind that just a 40 to a 45 percent of the labor involved in auto parts and auto making would be covered by this requirement of higher wages, leaving 70 percent of the auto industry not to qualify. Also, there is a 5 year period of adjustment instilled to this wage adaptation and meanwhile, to evade this potential cost raise, manufacturers like Ford and GM could use the most prefered nation treatment on their WTO rules and pay the 2.5% in tariffs instead.

The fact that Canada has been left out of these negotiations regarding auto manufacturing could also be a potential threat to the successful development of the NAFTA agreement. Canada is so integrated into the auto industry that it does not make sense to leave them out of the agreement. In fact, many car manufacturers encompass a global market and most of their parts and production come from Canada. Also, there would be a substantial change in the dynamics of the percentages and supply standards that have been agreed in the past NAFTA deal.

The current dairy supply issue between Canada and the U.S. is also a topic of great substance. Updating NAFTA is of the utmost importance to farmers of the agriculture sector in the United States, since they have been unhappy with the tariffs imposed on soybeans and other products from China. Hence, making them look for new possibility of a win in the NAFTA agreement, since the U.S. is pushing for freer trade of agriculture exports. The problem is that this would include Canada's dairy industry, one of the most protected dairy industries in the world, which has been of annoyance to countries like Australia, New Zealand, and the U.S. that also produce dairy and would like to trade with Canada. Canada uses a supply management system that dates back to the 1970's. This system controls the price of dairy products, how much is made via quotas for local farmers, and keeps foreign taxes high to limit outside suppliers, these tariffs running up to 270 percent. Each province in Canada has a board that monitors supply and demand to ensure farmers quotas meet the demand; this meant to guarantee that the dairy industry is instilled in Canada only, therefore making this a problem for the United States that regularly has a surplus in milk.

For a while, the U.S. had a way in through ultra-filtered milk, which is used to produce yogurt and cheese, due to it not being included originally in Canada's dairy regulation because the process of filtered milk did not exist at the time these regulations were made. Recently, Canada introduced new incentives for countries to purchase ultra-filtered milk domestically instead, making U.S.

dairy farmers lose their one piece of Canada's dairy trade. Hence, the U.S. demands in the new NAFTA agreement that, for over a period of 10 years, Canada should phase out all tariffs related to poultry and dairy supply management; a demand that seems unlikely to be fulfilled, since this would imply a dramatic change in Canada's long standing measures to protect their dairy industry, which politicians have repeatedly managed to protect over the years. Also, since the Canada elections of 2019 are coming up soon, the Trudeau party wishes to stay in command and fears backlash of the dairy sector, mostly concentrated in Quebec, a key riding to hold majority in parliament, if he chooses to be lenient concerning their trading restrictions with the supply management system.

There also lies a dispute between Canada and the U.S. regarding demands for dispute settlement systems. Canada would like to reform Chapter 11 (that involves government vs. corporations and lawyers being appointed by NAFTA) so that there is a set roster of judges appointed by NAFTA countries.[2] On the other hand, the U.S. wants to eliminate or reform these panels, which is a non starter for Canada, so that the U.S. companies claiming they're being mistreated can have their cases heard in an American court.[3]

B. <u>Bilateral vs. Trilateral Agreement:</u>

Currently, the NAFTA reformation has been run under a political clock, since Peña Nieto will be leaving the presidency of Mexico to incoming López Obrador, which is more left and may want some changes regarding Mexican labor and other aspects, and the House of Representatives of the U.S. Congress might change hand. This leaving the NAFTA agreement to be signed by Congress on December 1, the day of transition from the current president of Mexico to the new president, both of whom see it best to sign the NAFTA agreement before this shift in power occurs. The problem is that, because of TPA or Trade Promotion

2 http://www.thompsonhine.com/uploads/1139/doc/Thompson_Hine_NAFTA_presentation_05-2018.pdf

3 http://www.thompsonhine.com/uploads/1139/doc/Thompson_Hine_NAFTA_presentation_05-2018.pdf

Authority, the U.S. Congress needs to be notified by September 1 of, at least, an agreement in principle, to have a 90 day period by December 1 to be signed. Although, it is important to note that this agreement could still be worked on during this 90 day period.

This strict timing schedule has made Mexico and the U.S. come to a bilateral agreement were Canada wasn't included. Now revealing a problem, since Canada is essential in the NAFTA agreement. Congress has said that without Canada they would not sign the agreement. This is due to the fact that Canada is the biggest trading partner of the U.S., resulting in 750 billion dollars in trade last year. But this dependency issue goes both ways, if the U.S. withdraws and NAFTA comes to an end, Canada would have a 2.2% hit to its GDP. In fact, this number would decrease even more if the U.S. decides to head towards just a bilateral agreement with Mexico.

Regarding Mexico, NAFTA is essential to its economy due to Mexico's more open economy when compared to the United States. This means that a larger share of the economy and employment in Mexico is tied with trade with the U.S., since 80% of Mexico's exports go to the United States. Therefore, making what was agreed upon this bilateral agreement, were wages were raised and more North American content was instilled, better than no agreement at all.

## III. United States of America

Three months before he was elected, Donald J. Trump won the Republican presidential nomination and bringing with that his anti-NAFTA stance. He had previously denounced NAFTA as "the worst trade deal ever." Trump's main vision for a reformed NAFTA is to reduce the trade deficit with Mexico, rewrite the rules on auto manufacturing and trade, increase protection for digital trade and intellectual properties, and end the dispute resolution panel (among others).

Trump has a disdain for the term "NAFTA" and because of this, the new Mexican-American trade deal is, to quote Trump, "[...] the United States-Mexico

Trade Agreement". This new trade deal is almost a carbon copy of the existing NAFTA deal with some changes and updates to specific provisions such as the digital economy, cars, agriculture, and labor unions.

The focus on a bilateral deal rather than a trilateral deal like NAFTA is causing worry and confusion among many lawmakers and some businesses. Lawmakers are worried seeing as some say it may not be a smart idea to pull out of such a deal. The concerned businesses are those that depend on NAFTA (or a similar trilateral deal) for their supply chains.

## IV. Canada

Canada's largest trading partner is the United States, so much so that in 2016, Canada-U.S. trade was worth $752 billion,  and a major factor in the Canadian economy is trade between the two nations. The benefits Canada receives from NAFTA include (but aren't limited to): "A wider selection of goods, increased trade volume, increased foreign direct investment (Canada's foreign direct investment from the States increased by 243% between 1993 and 2013), Freer movement of professionals and investors across the border, and the development of new jobs."[4]As of 2017, U.S. exports to Canada have increased by 165% since 1993 while imports were up 150%. In 2015, Canada had a trade deficit with the United States of around 11.9 billion USD which rose to 12.5 billion USD by 2016.

## V. Mexico

Mexico is in a tough position regarding its relationship with the U.S. First, President Trump has repeatedly stated that a border wall between the two countries would be paid for by Mexico, a claim which President Peña Nieto denied.

Between 1993 and 2017, trade between Mexico and the other two countries quadrupled from $297 billion to $1.17 trillion. $314 billion worth of imported goods from Mexico came into the United States, with $243 billion being

4 https://www.sunlife.ca/ca/Learn+and+Plan/Money/Financial+planning+tips/NAFTA+What+it+is+how+it+benefits+Canada+part+1?vgnLocale=en_CA

exported to Mexico. Mexican and Canadian oil imports to the United States totaled $144.2 billion, food imports into the U.S. were also increased. Mexico is the top export destination for U.S. beef, rice, soybean meal, corn sweeteners, apples, and beans.[5]

The newly agreed upon "United States-Mexican trade agreement" is a bilateral deal between the U.S. and Mexico (with the possibility for the Canadians to join) that, according to Robert Lighthizer, is "absolutely terrific" and would modernize a trade deal that had "gotten seriously out of whack"[6]

## VI. Guide Questions

A. What is your delegation's position regarding NAFTA?
B. How has your delegation been affected by NAFTA politically and economically?
C. Is your delegation in favor or against the U.S.-Mexican trade agreement?
D. What policies would your delegation propose to modernize/reform NAFTA?
E. Is your delegation in favor of protectionism or free trade?
F. What would your delegation do if NAFTA were to be destroyed or altered in such a way that your delegation suffers?

## VII. Resources

Here we leave you with two websites that goes into depth regarding the economic connotations that NAFTA has left upon Mexico, Canada, the United States, and business overall:

https://www.investopedia.com/articles/economics/08/north-american-free-trade-agreement.asp

https://www.livingstonintl.com/nafta/

5 https://www.thebalance.com/advantages-of-nafta-3306271

6 https://edition.cnn.com/2018/08/27/politics/mexico-us-trade-deal/index.html

## VIII. Message from the Dais

Delegates, the NAFTA reformation has many important aspects that you as delegates should be mindful of. We covered some of these aspects in this briefing, but we encourage you to go beyond the established parameters and research on aspects which you consider to be important. Furthermore, we encourage you to research your delegations position fully by reading such delegation's past actions, beliefs, and overall impact regarding the adaptations being made to NAFTA. We also emphasize the importance of not getting caught up in the news making it to the headlines of newspapers and newscasts, since they are not always reliable and may be biased towards one particular country or person. Therefore, we recommend only using them as reference or supplements to previous research found on the topic.

Currently, we are working hard to make this a fun, yet complex committee. It will be set in real time, meaning that there will possibly be issues subject to change since this briefing was released. This is why we encourage you to remain attentive to the news; we expect debate regarding current issues on NAFTA development. The Dias also encourages delegates to compromise, regarding the resolution, so we could come to feasible adaptations, to update the past NAFTA agreement, that are beneficial to all parties involved. This is the finality the committee will be stirred towards.

Position papers are to be submitted on Wednesday, September 19 by 11:59 PM. These should be written in Times New Roman, size 12, and 1.15 spacing. The position papers should be between 1 to 2 pages in length; the endnotes or works cited are not included within these limits. Email these to naftacommittee@yahoo.com with your delegation in the subject line. Make sure to specify if you're a veteran or a novice on the header of your position paper. We exhort you to be punctual, since we do not want to be obliged to take away any points due to tardiness.

Being the first competition of the year, we are extremely excited to introduce you to a year full of memories and growth as delegates. We are happy that all of you showed interest in this committee and we hope that you will have as much fun as we imagine. If you have any questions or concerns, please feel free to email us and we will be more than happy to help or clarify any doubts.

Thank you,

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