
Essential Economics

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The United State Mexico Canada Agreement

The United States Mexico Canada Agreement (USMCA) will replace the North America Free Trade Agreement (NAFTA). Interestingly, the new name does not include any of the words America, Free or Trade. Despite 14 months of negotiations, there has not been a startling amount of changes between the two deals. Given that the negotiations came about as a result of U.S. President Trump's stated desire to tear up the NAFTA deal which he derided as "the worst agreement in history", Canada's success in the negotiations would inevitably be measured not by what it gained but by how little it might give up. As a headline writer at the National Post put it once the deal was announced, "Deal does no harm, breaks no ground."

The biggest impact of the new deal on Canadian individuals, businesses and investors is likely the removal of the cloud of uncertainty the drawn out negotiations had cast over the Canadian economy. This may lead to an eventual pick-up in economic activity relative to the status quo.

Online Imports

Mail order purchases from the U.S. are currently only tax and duty free for transactions of under CDN\$20. The new deal, when implemented, will raise the tax free limit to CDN\$40 and the duty free limit to CDN\$150. The Canada Post CDN\$9.95 processing fee will continue to apply to parcels on which duties or taxes are owing.

Automobiles

North American content requirements for duty-free vehicles are increased to 75% from 62.5%. 70% of all steel, aluminum and glass in vehicles must originate in North America. A new provision requires a minimum of 40% of an auto's content (45% of light trucks) be made by workers earning a minimum of US\$16 per hour. A duty-free quota of 2.6 million Canadian vehicles exported to the U.S. (vs. 1.8 million currently crossing the border) will apply. A limit on auto parts with a similar amount of breathing room above current export levels will also apply. The imposition of a quota is a concern to some while others take comfort in the mechanism to avoid arbitrary U.S. tariffs.

Dairy

Restrictions on the importation of American ultra-filtered milk (primarily an ingredient in the cheese making process) have been eliminated. The USMCA gives the U.S. access to an additional 3.6% of Canada's dairy market. This compares to the 3.25% that would have been allocated to the U.S. in the Trans-Pacific Partnership trade deal that the U.S. backed out of. Canada's dairy supply management system remains intact.

Renegotiation & Sunset Clause

The USMCA contains a provision for a mandatory review by the signatories after 6 years (just after the end of a possible second term of President Trump). Nonetheless, the agreement has a term of 16 years and can be extended by mutual agreement.

Intellectual Property Rights

The USMCA extends the ownership tenure of copyright and patent holders. Copyrights will now extend to 70 years (up from 50) after the author's death.

Patent protection on biological drugs will be extended to 10 years from 8 years (vs. 12 years in the U.S.). This will delay the rollout of cheaper generic drugs in Canada, thus costing consumers more. It may also encourage more pharmaceutical research & development work in Canada.

Dispute Resolution

The existing NAFTA Chapter 20 country-to-country dispute resolution mechanism has been maintained. The existing NAFTA Chapter 19 anti-dumping / countervailing duty dispute resolution mechanism has been maintained. The existing NAFTA Chapter 11 investor-state dispute resolution mechanism has been eliminated between Canada and the U.S. Canada viewed Chapters 19 and 20 important protections while Chapter 11 had proved to be an irritant.

Trade deal with non-market country (like China)

The deal requires participant countries to give notice to the others if they are about to enter into trade negotiations with a "non-market country". This phrase is not defined in the agreement, but is undoubtedly a reference to countries such as China. If one of the USMCA countries enters into such a deal, the other two have the right to withdraw from the USMCA with six months' notice. This decreases the likelihood of any of the countries entering into a trade deal with China on their own and increases the likelihood of a China / North America deal.

U.S. Tariffs on Steel and Aluminum

The deal does not address the recent U.S.-imposed tariffs on steel and aluminum. However, there are some indications that these may be removed once the deal has been enacted into law by all three countries. The deal does put a new 60 day cooling off period on new tariffs imposed for national security reasons — the rationale the Trump administration used for imposing the steel and aluminum tariffs.

The Super Bowl

Last and not least the USMCA deal includes a clause that will do away with the showing of American commercials on Canadian transmissions of the Super Bowl as part of the preservation of cultural exemptions in the agreement.

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