



## DESCENDING TO NEW LOWS

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Donald Trump's insulting statements about Canada in New York this week mark a new low in the Canada-U.S. relationship, with ramifications far beyond the North American Free Trade Agreement.

Never before has a U.S. president threatened to inflict direct harm on Canada. While there have been some rough spots over the course of our shared history, Mr. Trump's apparent disdain for Canada and threats of economic warfare, seeming to relish in the prospect like some kind of neighbourhood bully, has taken the bilateral relationship into a state of political disrepair.

Even though the final episode hasn't been written, it's possible to predict that the NAFTA era may be coming to an ignominious end, 25 years of stability and mutual prosperity going down the drain, thanks to Mr. Trump. We expect he will notify Congress this weekend of his decision to proceed with a trade deal with Mexico alone, using this in the coming mid-term congressional elections to demonstrate his negotiating prowess in bringing jobs back to Americans.

The Canadian government has done a masterful job in remaining resolute and steadfast throughout the entire unsettling NAFTA exercise, not being put off stride by Mr. Trump's repeated threats. But the fact is these that weren't trade negotiations in any normal sense, being saddled with an absence of shared objectives from day one.

Mr. Trump's declarations that NAFTA was the worst trade deal in U.S. history set a dark tone, further tarnished by the insulting comments about Prime Minister Justin Trudeau, by the claim that Canada has been ripping off the United States for decades, by doing a deal with Mexico behind Canada's back, by Mr. Trump telling Canada basically to like it or lump it.

From the outset, the process was a defensive one for Canada, pumping up the modernization agenda and trying to counter America-First-ism, battling the White House and the administration's unilateral trade policies intent on removing mutual three-party benefits in favour of a win alone for Mr. Trump.

Overlaying all of this are tariff surcharges, first on Canadian steel and aluminum and made more ominous with the threat by Mr. Trump to do the same thing on U.S. imports of Canadian vehicles and auto-parts.

There are those who say the relationship will recover, that there are factors at work that transcend the term of any one president, that Canada has many friends in the United States and is highly regarded as a valued ally and a sound and decent business partner.

Allies in the Congress, in state capitals and in the U.S. business community are very valuable assets. Yet history has shown it's good relations between the Canadian prime minister and the occupant of the White House that is the critical factor. And in this regard, not only are relations not good, they appear to be downright bad.

Recognizing that the sands are shifting and the many legal and political unknowns, here are scenarios that could unfold over the next number of days.

First, in spite of all the hurdles, miraculously a NAFTA 2.0 deal is struck with the Americans in the next 48 hours, both sides reaching accommodation on critical points, such as the Chapter 19 dispute-resolution mechanism, U.S. access to the Canadian dairy market and tariff surcharges. It could happen, although a settlement along these lines is almost impossible to foresee.

Second, Mr. Trump tables his U.S.-Mexico agreement on Monday – more detailed than the Aug. 27 preliminary document – with the intention of signing something with Mexico before its new president takes office Dec. 1. At the same time (in spite of his insulting comments earlier in the week), Mr. Trump announces Canada-U.S. talks are continuing in the hope of settling a new bilateral agreement down the road but he takes steps to begin the NAFTA withdrawal process.

Third, Mr. Trump proceeds bilaterally with Mexico, terminates further negotiations with Canada and starts the NAFTA withdrawal process, with repeated threats of auto tariffs. At the same time, he announces the United States intends to withdraw from the 1988 Free-Trade Agreement with Canada, which has remained in limbo under NAFTA.

Each of these scenarios contains obvious elements of uncertainty. The political ground in the United States is increasingly shaky, a helpful factor for Canada. Senior levels of the U.S. business community and important members in Congress, including Republicans, have said that a trade deal that excludes Canada would be strongly opposed as harmful to U.S. economic interests as well as contrary to Mr. Trump's fast-track negotiating authority.

Whether Congress will allow Mr. Trump to proceed with Mexico alone or, further ahead in 2019, whether a newly elected and possibly Democrat-controlled Congress would approve any trade agreement without Canada and end NAFTA, therefore remains unknown.

All of these possibilities, with dramatic variations too numerous to capture, will unfold over the next days or even weeks. The only known factor is that business uncertainty will continue for some time and that political and trade relations between the two countries have entered a dark and unsettling chapter.