

# NAFTA Watch Newsletter Vol. 7 – NAFTA Renegotiation

## Part 1: A Tense Start, Then Progress

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This publication is our seventh installment in a series designed to provide our clients in the manufacturing, transportation and logistics, and related industries with monthly updates on any action taken by the Trump Administration, Congress, and/or federal governmental agencies with respect to the North American Free Trade Agreement (“NAFTA”).

As previewed in our prior installment, the first round of NAFTA renegotiations occurred between August 16 and August 20 in Washington, D.C., immediately following the 90-day Congressionally-mandated public comment period. The chief negotiator for the United States at the first round of renegotiations was John Melle, the current U.S. assistant trade representative for the Western Hemisphere.

The first round of talks began tensely. U.S. Trade Representative Robert Lighthizer opened the renegotiations with remarks sounding more like a Trump campaign speech than an economically-significant three-nation negotiation. Specifically, Lighthizer proclaimed that NAFTA “fundamentally failed many, many Americans and needs major improvement,” pointing the proverbial finger at his Mexican and Canadian colleagues across the table. Whether that opening had any real effect on the renegotiations is unknown, although Lighthizer never threatened to scrap NAFTA in wholesale fashion. And, on that note, most observers still regard President Trump’s threats to withdraw from NAFTA as nothing more than a negotiation tactic.

Once the posturing ended and renegotiations got underway, it is reported that a few key issues were substantively discussed among the representatives of the three countries. Most significantly, and perhaps having the most impact on our readers, is the “rules of origin” issue. As currently drafted, NAFTA requires that for a good to be traded duty-free within the U.S., Mexico, or Canada, it must contain a certain percentage of North American made content. In the automobile industry—a common topic in Trump campaigning—the rules of origin require that vehicles must contain 62.5% American, Mexican, or Canadian parts. The Trump Administration, as part of the NAFTA renegotiations, wants to push that number higher, although it has not disclosed what threshold it seeks. Other discussions included addressing trade deficits, abolishing the arbitration system required under NAFTA, protecting against currency manipulation, and modernizing the 23-year-old agreement to address e-commerce and other 21<sup>st</sup>-century concerns.

While the discussions at the first round of meetings have not been made public, it was reported in a joint statement that the three countries made “detailed conceptual presentations” and began working on specific textual modifications. The next round of negotiations began on September 1 and

continue until September 5 in Mexico. Later in the month, there will be a third round in Canada. Talks are scheduled to conclude by the end of the year.

With the first round of renegotiations in the books and the second round in progress, it appears that the United States is heading toward NAFTA modernization, not withdrawal. As the talks continue over the coming weeks and months, more specific details will likely be disclosed. Benesch will continue to monitor negotiations and pre-negotiation releases of information to provide monthly updates to our clients in the manufacturing, transportation and logistics, and related industries of any developments.