

President Donald Trump targets Canada on trade

Hilliard MacBeth

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President Donald Trump and Wilbur Ross, his 79-year-old billionaire Secretary of Commerce, seem determined to get a better trade deal with Canada (and Mexico) by renegotiating the North American Free Trade Agreement (NAFTA).

Should Canadians be worried, especially about exports like softwood lumber and crude oil?

In August 2016, then-candidate Donald Trump mused about tearing up NAFTA. Here's my post from then: "[Donald Trump is a big worry for Canada](#)".

And now, after six months as President, Trump is moving ahead on his desire to renegotiate NAFTA and some specifics are emerging that could require delicate negotiation. [On July 17 the White House released their objectives](#), below is an excerpt:

Trade Remedies:

- Preserve the ability of the United States to enforce rigorously its trade laws, including the antidumping, countervailing duty, and safeguard laws.
- Eliminate the NAFTA global safeguard exclusion so that it does not restrict the ability of the United States to apply measures in future investigations.
- Eliminate the Chapter 19 dispute settlement mechanism.



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Source: The Toronto Star

On Tuesday (July 25) Prime Minister Trudeau said it is “absolutely essential” to retain the mechanism.

Trudeau was right to take a strong stand as this U.S. demand could be a big stumbling block for Canada. Chapter 19 is one of Canada’s few defenses against U.S. steamrolling over Canada’s rights. For example, softwood lumber duties, triggered by complaints from the U.S. Lumber Coalition, have been overturned by the dispute resolution mechanism or other trade bodies at least four times. Duties were imposed, unfairly according to Canada, in 1982, 1986, 1991 and 2002. Each time Canada has succeeded in getting the duties overturned, but not before many jobs are lost and many billions of dollars in legal fees and duties are incurred, not all of which are reimbursed.

After the most recent dispute a NAFTA panel decided in Canada’s favour in 2006, and a deal was reached to refund \$4 billion of the \$5.3 billion lost. The decision in Parliament to accept the proposed deal almost failed to pass as many felt the settlement was unfair to Canada.

The agreement that followed that settlement expired in 2015 and now the fight is on again. Secretary of Commerce Wilbur Ross announced in April 2017 that new lumber duties would be imposed, ranging from 19.88 per cent to 24.12 per cent.

Also in April President Trump spoke to a group of farmers in Wisconsin and blamed Canada for their difficulties.

“We’re also going to stand up for our dairy farmers,” Trump said in Kenosha, Wisconsin. “Because in Canada some very unfair things have happened to our dairy farmers and others.”

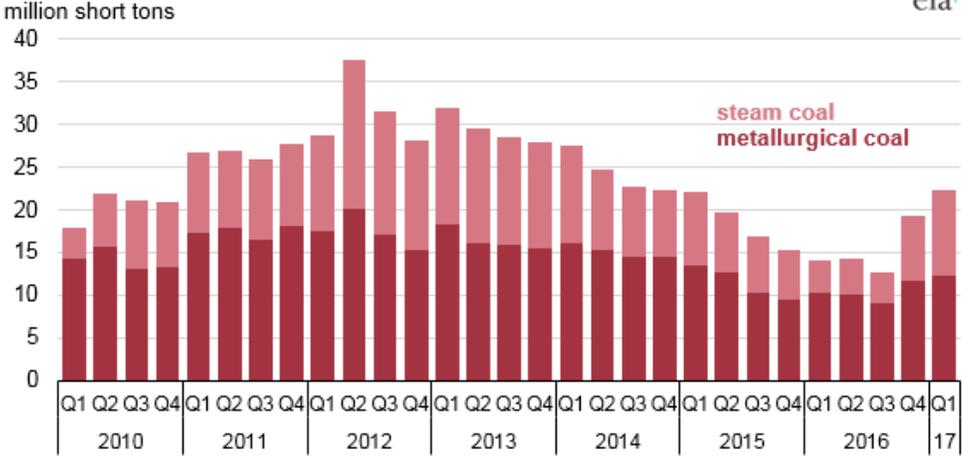
Trump did not detail his concerns, but promised his administration would call the government of Prime Minister Justin Trudeau and demand an explanation.

“It’s another typical one-sided deal against the United States and it’s not going to be happening for long,” Trump said.

This sounds like someone who wouldn’t hesitate to take unilateral action to build up his political support, even if it went against written agreements.

The Canadian government is mulling the idea of retaliating with a ban of coal exports from the U.S. going through Canadian ports.

U.S. quarterly coal exports (Jan 2001 - Mar 2017)



Source: U.S. Energy Information Administration

It’s easy to see why Canada picked this commodity as a trading chip but it’s small potatoes for the U.S. And exporters have many other routes to get their product to Asian markets.

So, it’s not even close to a fair fight. Canada is much, much more dependent on trade than the U.S. and like it or not, the U.S. is Canada’s biggest destination for exports, especially lumber and crude. Which means that the U.S. can hurt Canada a lot, while Canada cannot inflict much pain on U.S. exporters.

Trump’s penchant for threats and a long history of U.S. industry groups trying to get their way against Canadian exporters’ interests means that the dispute resolution mechanism is essential.

In a development that might be positive for Canadians, a veteran trade negotiator who worked in the Reagan administration appears to have won an insider's battle with Wilbur Ross to take a lead role in negotiations. Robert Lighthizer, a lawyer, will lead talks on replacing NAFTA. Of course his boss, President Trump, will still demand a "fair trade" agreement for the U.S. but Lighthizer's experience in trade negotiations might help keep things from going off the rails.

Keep your fingers crossed, Canada.

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