Nafta talks progress but sticking points remain

A 'handshake' deal between the US and Mexico is reportedly within touching distance, raising the possibility that Canada could rejoin talks. But several key sticking points remain and it's unlikely we'll see a full de-escalation in trade tensions before the US mid-term elections

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A handshake is all it takes

With the possibility that a 'handshake' deal between the US and Mexico could come as soon as today, the likelihood that Canada will rejoin the negotiations soon is rising.

After five weeks of discussions, the US and Mexico have reportedly come close to an informal deal on some of their main issues - namely automotive rules, and in particular how much of a car must be sourced in North America to qualify for reduced Nafta tariffs. Industry expectations are that North American car content may rise to 70%, up from 62.5% to make the tariff cut, and reports suggest that somewhere around 40% of this value must come from a source paying at least $16 per hour – which isn't bad news for Canada.

Read the Politico article here in full

A deal is far from complete, but small steps take us closer

The idea of reshaping Nafta is far from complete, as certain US demands remain unresolved - in particular, the 'sunset clause', that could see the Nafta agreement expire every five years. This will have to include discussions from all three parties and has proven to be a particularly tricky issue to resolve, as Canada and Mexico both see this preventing long-term investment.

> *The progress made in bilateral discussions between the US and Mexico is positive news for Nafta prospects*

Talks have been on hold for some time following the recent elections in Mexico, but progress in bilateral discussions between the US and Mexico is positive news for Nafta's prospects and is an important step towards securing a trilateral agreement.

Mexico is keen to wrap up a deal which allows President Enrique Pena Nieto enough time to sign it off before he leaves office in December. Although nothing has yet been confirmed on Canada's return to discussions, the door appears to be open for them to get back involved.

Trump talk is still a threat

But President Trump is adamant that if he can't have what he wants (i.e. a deal which will contribute to shrinking the US trade deficit), the threat of scrapping Nafta altogether still exists.

The President's approval ratings have also been improving in recent months, and this appears to have encouraged him to push forward with his trade policies. With polls suggesting Democrats could regain control of Congress, it's unlikely we'll see a full de-escalation in trade tensions before the US mid-term elections in November.

Trump will sense he needs to get the core Republican vote out, and tough talk on trade can help him do that.

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