

## The US triggers NAFTA renegotiation process

May 18, 2017

- **The recently confirmed US Trade Representative, Robert Lighthizer, notified Congress about the government's intentions to renegotiate NAFTA**
- **The process includes a 90-day minimum period where the definitive negotiation stance of the government will be defined**
- **The main revisions will circumscribe to intellectual property and regulation, among others**
- **After the revision period, the US government will publish the guidelines which will guide the negotiation**
- **Today's announcement is in line with our expectation of a review of the agreement with no discussions on market access (e.g. tariffs, quotas, etc.)**

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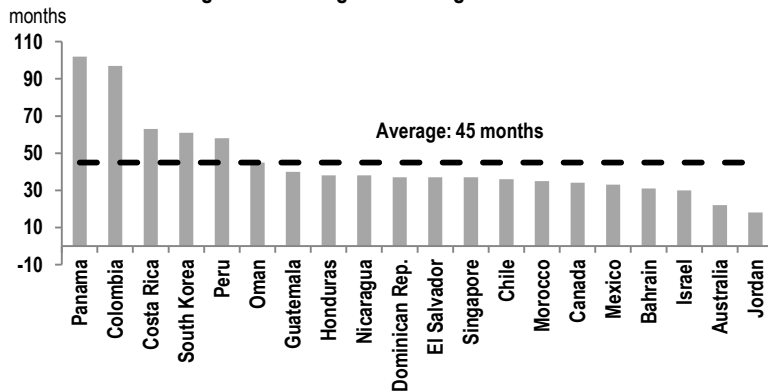
**The recently confirmed US Trade Representative, Robert Lighthizer, notified Congress about the government's intentions to renegotiate NAFTA.** In the letter sent to the members of Congress, Lighthizer announced the intention of the U.S. government to initiate the renegotiation of NAFTA. The process will be carried out under the *Trade Promotion Agreement* (TPA), which allows for expedited negotiations with a 90-day minimum period to collect opinions about the stance of the US administration about the negotiation. It is worth noting that before this period, negotiations among the three parties cannot start, which would make August 16 the minimum starting date for the trade talks.

**The main revisions will center on intellectual property and regulation, among others.** In his letter, Lighthizer's mentions some of the guidelines that will govern the negotiation, which will focus on improving the working conditions of US workers, as well as the update of the agreement in terms of the structural changes that have taken place in the last 23 years. Other topics to consider are related to state-owned companies, services, customs procedures, sanitary measures, labor and the environment. In addition, we think that issues related to rules of origin –which establish the minimum national component for a product not to be taxed–, will be also included. In our view, a crucial point here is that in the renegotiation, issues related to market access are not included (e.g. tariffs and quotas).

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**After the revision period, the US government will publish the guidelines which will guide the negotiation.** This will significantly reduce the uncertainty for the parties, in particular if it is specified that issues of restriction of market access are not subject to any consideration. It is worth mentioning that the average duration of negotiations for free trade agreements in the United States has been of about 45 months in the initial phase (NAFTA’s negotiations were carried out in approximately 33 months), as shown in the graph below. However, we believe there are two main differences relating to this negotiation: (1) The negotiation will not start from scratch, since there is already an agreement in place; and (2) we believe that there are clear incentives from both the Mexican and US governments to maintain negotiations short, in order to avoid it becoming a political issue in Mexico’s 2018 presidential election. In this context, we expect negotiations to last around 10 months.

**United States: Average free trade agreement negotiations**



Source: Banorte-Ixe with data from Deutsche Bank

**Today’s announcement is in line with our expectation of a thorough review of NAFTA.** Our base case takes into account a negotiation regarding the following points: (1) Issues regarding market access will not be in the negotiation; (2) rules of origin will be discussed in depth; (3) particular attention will also be given to the issue on mechanisms for dispute settlements; in addition we could expect (4) an update of the rules for various sectors, including energy and finance; and (5) the addition of sectors that were not present in the initial negotiation, such as e-commerce and medical tourism. In this context, the Secretary of Economy, Ildefonso Guajardo, said that a modern free trade agreement should be negotiated, benefiting all three NAFTA members thus increasing cooperation and integration of the region.

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