

## USMCA signature triggers the ratification process in the three countries

- **This morning, the Prime Minister of Canada and the Presidents of the United States and Mexico signed the authorization for a new commercial agreement between the three countries**
- **With this signature, the process to replace NAFTA with the new agreement formally starts. The most important step going ahead is the approval by the legislative branches in each of the three countries**
- **We expect this process to go with relative smoothness in Canada and Mexico. Nevertheless, the outcome of the midterm elections in the US could make it more challenging**
- **It is worth noting that today's signature does not imply the end of steel and aluminum tariffs imposed by the US on Mexico and Canada**
- **However, according to comments from Minister Freeland, the side-letters that protect Mexico and Canada against measures stemming from possible tariffs under "Section 232" are already in effect**
- **In our opinion, the actions taken today help to bolster confidence to the future commercial relationship between Mexico and the US**

**The USMCA authorization agreement is signed.** This morning, the Prime Minister of Canada and the Presidents of the United States and Mexico signed the authorization for a new commercial agreement, known as the United States, Mexico, Canada Agreement (USMCA), which will eventually replace the North America Free Trade Agreement (NAFTA) as the legal framework that will regulate trade among the three countries. It is worth noting that the agreement was signed in the G20 summit in Buenos Aires, Argentina in the last day of Enrique Peña Nieto's presidential term.

**The replacement process for NAFTA starts.** With the signature of the USMCA, the main steps to follow for the three countries now fall in their respective legislative branches: in Mexico it has to be approved by the Senate; in Canada by Parliament; and in the US by both houses of Congress. Each one of them has to approve and/or modify the agreement for it to come into effect. We expect the process to go rather smoothly in Canada and Mexico, while in the US, besides it being more complex, it could be delayed due to the Democratic majority in the House of Representatives.

**Possible delay in the US House of Representatives.** It is worth remembering that for the agreement to come into effect in the US, Congress must approve an Implementation Act. In this context, we do not expect the Democrats to turn down the agreement presented by President Trump, but they will want in some way to leave their mark in the agreement, which in turn could delay the agreement.

November 30, 2018

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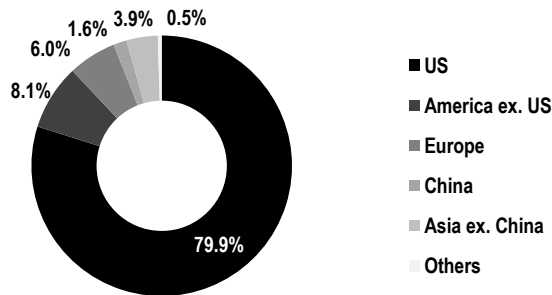
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**Despite today’s progress, the US keeps tariffs on Canadian and Mexican steel and aluminum.** There was some speculation around this topic, with some analysts expecting an agreement today. Nevertheless, the end of these tariffs was not announced today, leaving retaliatory measures by Mexico and Canada also in place. In this regard, the US Trade Representative, Robert Lighthizer, mentioned that negotiations on this subject continue and discussions remain on quotas and tariffs. In this context, it is probable that an agreement is not reached until USMCA comes into effect.

**Nevertheless, the side-letters that protect Mexico and Canada against measures stemming from possible tariffs under “Section 232” are already in effect.** According to comments from Canada’s Foreign Affairs Minister, Chrystia Freeland, the side-letters that protect measures from further actions from the US under “Section 232” arguing national security threats come into effect today. In this sense, the Mexican auto sector would be largely protected against tariffs the US could enact on this subject, while other sectors would have a 60-day exclusion period once some type of tariff is implemented.

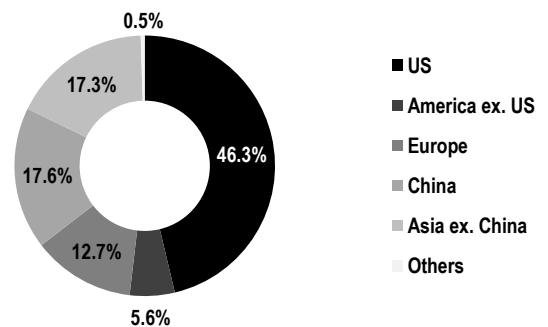
**The actions taken today help to bolster confidence to the future commercial relationship between Mexico and the US.** In our opinion, the fact that the process of replacing NAFTA with the USMCA is being implemented with such seriousness helps to strengthen confidence that trade relations between Mexico and the US will have a favorable performance going ahead. In this context this is very relevant since almost 80% of Mexico’s exports are sent to the US (according to 2017’s figures), which notes the importance of a solid commercial relationship between both countries.

**Mexico: Exports in 2017**  
% of total



Source: Banxico

**México: Imports in 2017**  
% of total



Source: Banxico

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