

## NAFTA talks resume amid fears of 'zombie' deal

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Reuters, Business News, MAY 7, 2018



FILE PHOTO: Canadian Foreign Affairs Minister Chrystia Freeland talks to U.S. Trade Rep Robert Lighthizer and Mexican Secretary of Economy Ildefonso Guajardo Villarreal (L) after a NAFTA trilateral ministerial press event in Washington, U.S. on October 17, 2017.  
REUTERS/Yuri Gripas/File Photo

WASHINGTON (Reuters) - Senior Canadian, U.S. and Mexican officials trying to rescue slow-moving talks to update the NAFTA trade pact met on Monday in a new bid to resolve key issues before regional elections complicate the process.

With time fast running out to strike some kind of deal on the North American Free Trade Agreement, the three member nations are still far apart on major points.

Discussions in Washington will center on one particularly contentious area — the U.S. demand for tougher rules of origin governing what percentage of a car needs to be built in the NAFTA region to avoid tariffs.

Other challenges include the future of the pact's dispute-resolution mechanism and a U.S. proposal for a sunset clause that could automatically kill the deal after five years.

“We will be working all week on this,” Mexican Economy Minister Ildefonso Guajardo told reporters after talks with U.S. Trade Representative Robert Lighthizer.

Asked how long he would be staying in Washington, he replied: “We will be here for as long as necessary”.

Sources close to the talks suggest there is a creeping feeling of pessimism going into the new round of negotiations because of gridlock on critical matters.

Guajardo earlier told El Herald newspaper that if a deal could not be reached, “we would be operating what some analysts have called ‘Zombie NAFTA’ ... (one) that isn’t dead and isn’t modernized”.

Business executives complain that uncertainty over the future of the 1994 agreement is hurting investment.

Lighthizer said last week that if the talks took too long, approval by the Republican-controlled U.S. Congress may be on “thin ice.” The aim is to complete a vote during the “lame-duck” period before a new Congress is seated after November’s congressional elections.

Mexico holds its presidential election on July 1 and the front-runner, leftist Andres Manuel Lopez Obrador, says he wants a hand in redrafting NAFTA if he wins.

Lighthizer has raised the idea of a quick agreement in principle to cover the general outlines of a text, leaving officials to work out the exact details later.

Guajardo though said he wanted “to make the best possible effort to try to land a complete deal”, adding it made no sense to go for “a partial result”.

At the heart of the NAFTA revamp is U.S. President Donald Trump’s desire to retool rules for the automotive sector in order to try to bring jobs and investment back north from lower-cost Mexico.

Mexico’s main auto sector lobby has described the latest U.S. demands, which include raising the North American content to 75 percent from the current 62.5 percent over a period of four years for light vehicles, as “not acceptable.”



U.S. Trade Representative Robert Lighthizer leaves the room next to Canadian Foreign Minister Chrystia Freeland and Mexican Economy Minister Ildefonso Guajardo after a joint news conference on the closing of the seventh round of NAFTA talks in Mexico City, Mexico March 5, 2018. REUTERS/Edgard Garrido

## **BUREAUCRATIC NIGHTMARE**

The U.S. proposal also would require that 40 percent of the value of light-duty passenger vehicles and 45 percent for pickup trucks be built in areas with wages of \$16 per hour or higher.

That could be a challenge for Mexico, where the Ann Arbor, Michigan-based Center for Automotive Research has estimated auto assembly workers on average earn under \$6 an hour, and workers at auto parts plants on average earn less than \$3 an hour.

Critics also say it would create a bureaucratic nightmare of paperwork.

Talks to renegotiate NAFTA started last August to fulfill a campaign pledge by Trump to bring manufacturing jobs back to the United States.

Nine months later, the most troublesome issues remain open.

“What the U.S. government seeks is not to modernize the old NAFTA but rather to get an agreement that would destroy trade and investment among the three North

American partners,” former Mexican president Ernesto Zedillo wrote in the Washington Post.

Trump has frequently said he would pull out of NAFTA if a better deal was not possible.

It is unclear where the United States might give ground to win a quick deal. The Trump administration has embraced confrontational policies in its dealings on trade.

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