WHAT IF? NAFTA MEMO

Presented to:
Canadian Metro Cities for a Renewed NAFTA
Montreal, January 21/22, 2018

Literature Survey: Predicting the trade and welfare effects of a U.S. withdrawal from NAFTA

This memo presents some of the possible outcomes to the ongoing NAFTA renegotiations, and assesses the likely economic implications of U.S-Canada trade reverting to WTO rules on the economies of Canada and its regions.

Executive Summary

- In the event of a U.S. withdrawal, Canada-U.S. trade would likely revert to the WTO tariff rules, and NAFTA would remain in force between Canada and Mexico.
- Overall, a U.S. withdrawal from NAFTA could lead to a decline in Canadian GDP of up to 1%,[1] a loss of up to 125,000[2] Canadian jobs and a decrease in Canadian exports by U.S. $20 billion.[3] Trilateral trade would decrease by U.S.$120 billion.[4]
- The most vulnerable sectors of the economy appear to be the automotive sector, freight carriers and metals.
- Central Canada and the Prairies, particularly Calgary, Winnipeg, and Toronto are likely to be the most impacted by a NAFTA disruption.

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[1] Porter, D. (2017, Nov). *The Day After NAFTA: Economic Impact Analysis.* From BMO Capital Markets Economics: http://economics.bmocapitalmarkets.com

[2] Porter, D. (2017, Nov). *The Day After NAFTA: Economic Impact Analysis.* From BMO Capital Markets Economics: http://economics.bmocapitalmarkets.com

[3] Ciuriak, D., Ciuriak, L., Dadkhan, A., & Xiao, J. (2017, Nov). The NAFTA Renegotiation: What if the US Walks Away. From C.D. Howe Institute: https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Working%20Paper%201128%20web.pdf

[4] Ciuriak, D., Ciuriak, L., Dadkhan, A., & Xiao, J. (2017, Nov). The NAFTA Renegotiation: What if the US Walks Away. From C.D. Howe Institute: https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Working%20Paper%201128%20web.pdf

- B.C. is most likely to be the least impacted region in Canada due to diversified exports markets, and may offer a model for other parts of the country.

Possible Scenarios

Scenario 1: Status Quo

The negotiations result in a new agreement between NAFTA parties with minor changes. The number of unorthodox demands by the U.S. on core elements of NAFTA create an environment in which an amended NAFTA appears unlikely. The U.S. has shown little flexibility on rules of origin, sunset clauses, dispute settlement mechanisms, and government procurement.

Scenario 2: NAFTA 2.0

The negotiations result in a new agreement between NAFTA parties that potentially include current U.S. demands i.e. rules of origin, sunset clauses.

Scenario 3: Zombie NAFTA

"Zombie NAFTA" is a situation in which the U.S. gives notice to withdraw, but it is never executed. If the President were to give notice of U.S. withdrawal from NAFTA, it is likely that it would face court challenges and congressional opposition. Key provisions of NAFTA were codified into U.S. law by the North American Free Trade Agreement Act and cannot be terminated without an act of Congress.[5]

Scenario 4: Canada-Mexico Free Trade Agreement

NAFTA remains in effect between Canada and Mexico however, the U.S. and Canada revert to WTO rules. It should be noted that Canada-Mexico trade would likely continue under NAFTA terms due to Article 2205 of the agreement, which states that; *"if a party withdraws, the agreement shall remain in force for the remaining parties."*[6] In this situation, both Canada and Mexico would be free to continue with NAFTA negotiations to reflect the new bilateral reality of a U.S. withdrawal. Moreover, Canada and Mexico are both party to TPP negotiations, which is likely to be signed in March 2018.

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[5] Oral, R. (2017, Nov 24). What a NAFTA withdrawal could mean for Canadian Companies. From OpenCanada: https://www.opencanada.org/features/what-nafta-withdrawal-could-mean-canadian-companies/

[6] Government of Canada (2016, November 30). *Article 2205: Withdrawal.* Retrieved from North American Free Trade Agreement (NAFTA):

Scenario 5: WTO

This memo is focused on Scenario 5.

Canada, Mexico, and the U.S. all revert to WTO rules. NAFTA disintegrates and the U.S. and Canada revert to WTO rules. Most-favored Nation (MFN) tariffs are imposed on all intra-NAFTA trade. For consistency of data, this scenario assumes that Canada-Mexico would also revert back to WTO rules.

Scenario 6: Canada-U.S. Free Trade Agreement

This report disregards the scenario that the suspended Canada-U.S. FTA is brought back into force following a U.S. withdrawal, and NAFTA remains in effect between Canada and Mexico. CUSFTA was a precursor to NAFTA and does not address the recent concerns expressed by the U.S. Moreover, for CUSFTA to come into effect, a full re-implementation would be required as the agreement has expired.

Scenario 7: WTO+

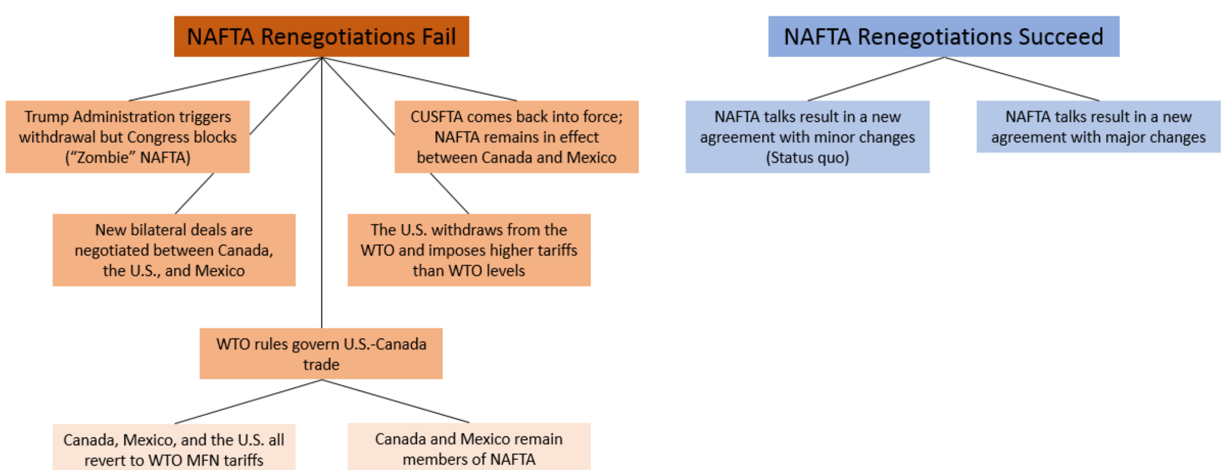
The U.S. withdraws from the WTO and imposes tariffs higher than WTO levels.

Scenario 8: New Bilateral Agreements

New bilateral deals are negotiated between Canada, the U.S., and Mexico.

All these scenarios do not assume that NAFTA negotiations will extend beyond the summer of 2018, as upcoming elections in the U.S. and Mexico apply significant political pressure on their respective jurisdictions.

Figure 1: Alternative NAFTA Scenarios



National Economic Indicators

While a post-NAFTA Canadian economy would be generally worse off, there is a strong consensus that this is a manageable risk for policy-makers and businesses, with markets projected to remain resilient and able to adjust over time. Nevertheless, reverting to WTO rules would likely lead to a decline in household income, jobs, and productive potential.

GDP and Exports

- Canadian GDP could decline by between 0.7% and 1.0%.[7]
- Currently, Canada is one of the fastest growing economies in the G7, and although NAFTA would cause uncertainty and some decline in Canada's GDP, it would seemingly have a moderate impact on the economy.[8]
- Total Canadian exports are likely to decline by approximately US $20 billion or 2.8%.[9] In 2016, Canadian goods exports to NAFTA accounted for 19.3% ($280 billion) of Canadian GDP.[10]

Imports, Inflation, and Depreciation of the CAD Dollar

- A 2.5% tariff on U.S. shipments to Canada (and assuming a 0.8% import price elasticity) could potentially reduce imports by the equivalent of 0.4% of GDP.[11]
- Border thickening that impedes service imports is likely to further magnify the impact.
- The decline in imports would likely be increased by a depreciation in the Canadian dollar, which could be as much as 5%, before stabilizing.[12] The depreciation could suggest a possible improvement in the real trade balance over time through increased competitiveness of exports,

[7] Porter, D. (2017, Nov). *The Day After NAFTA: Economic Impact Analysis.* From BMO Capital Markets Economics: http://economics.bmocapitalmarkets.com

[8] Porter, D. (2017, Nov). *The Day After NAFTA: Economic Impact Analysis.* From BMO Capital Markets Economics: http://economics.bmocapitalmarkets.com

[9] Ciuriak, D., Ciuriak, L., Dadkhan, A., & Xiao, J. (2017, Nov). The NAFTA Renegotiation: What if the US Walks Away. From C.D. Howe Institute: https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Working%20Paper%201128%20web.pdf

[10] Ciuriak, D., Ciuriak, L., Dadkhan, A., & Xiao, J. (2017, Nov). The NAFTA Renegotiation: What if the US Walks Away. From C.D. Howe Institute: https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Working%20Paper%201128%20web.pdf

[11] Porter, D. (2017, Nov). *The Day After NAFTA: Economic Impact Analysis.* From BMO Capital Markets Economics: http://economics.bmocapitalmarkets.com

[12] Porter, D. (2017, Nov). *The Day After NAFTA: Economic Impact Analysis.* From BMO Capital Markets Economics: http://economics.bmocapitalmarkets.com

however, this is unlikely to translate into a better economic outlook as the "improvement" in trade simply reflects weaker domestic demand and costlier imports.

- The likely tariffs on U.S. exports to Canada could raise the Canadian GDP deflator by just over 0.4%.[13] This would be magnified by 0.5% of products with vertical supply chains that travel across the border as unfinished, several times before they are finalized.
- Higher inflation is likely to reduce business investment and consumption by approximately 0.5%.

Canadian Employment

- The effects on employment are inconsistent among the literature. More conservative estimates suggest that employment would only be reduced by 220,000 across the entire NAFTA region, translating into a $60 billion economic welfare loss. Others suggest there would be 125,000 job losses in Canada alone.[14]
- Other qualitative effects such as the mismatching of skills across borders and reduced labour mobility are not captured within the data, however, they will likely have a significant impact on productivity and production costs.
- Border thickness, such as lengthier U.S. customs and processing times, could also impede Canadian exports of services and have adverse impacts on the restrictions of cross-border flows of persons.

Canadian Business Investment

- Investment could decline by up to 1.5%.[15] Business investment would be highly disrupted due to heightened uncertainty and financial market volatility.
- Exporting from Canada would likely become more expensive and subject to border thickening, undermining business confidence.
- According to EDC forecasts, 23% Canadian businesses have already been negatively impacted by NAFTA negotiations.[16] 26% of those firms indicated that they are moving, or are considering moving, part of their operations to the U.S. in response to the elevated uncertainty.[17]

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[13] Porter, D. (2017, Nov). *The Day After NAFTA: Economic Impact Analysis.* From BMO Capital Markets Economics: http://economics.bmocapitalmarkets.com

[14] Sandi, M; Lacer do, B; Rogers, J. (2017, Nov). *The Anatomy of a NAFTA deal*. From Moody's Analytics: https://www.economy.com/mark-zandi/documents/2017-11-17-NAFTA.pdf

[15] Walmsley, T; Minor, P. (2017, March). Reversing NAFTA: A Supply Chain Perspective. From Impaction: https://impactecon.com/wp-content/uploads/2017/02/NAFTA-Festschrift-Paper-1.pdf

[16] EDC. (2017, December 18). *Fall 2017 Trade Confidence Index.* Retrieved January 08, 2018, from https://edc.trade/trade-confidence-fall/

[17] EDC. (2017, December 18). *Fall 2017 Trade Confidence Index.* Retrieved January 08, 2018, from https://edc.trade/trade-confidence-fall/

- CFIB noted that 28% of Canadian SMEs believe renegotiating NAFTA will alter their export and import plans.[18] SMEs facilitate approximately US$1 trillion in trade between Canada, the United States and Mexico. 90% of firms that export in Canada, are considered SMEs.
- Canadian companies looking to avoid increased tariffs and supply chain disruptions by shifting production to the U.S. would likely have negative long-term effects on GDP growth.
- Businesses may postpone equipment upgrades, plans for expansion, and other major capital investments.

Regional Impact

A U.S. withdrawal from NAFTA would have differing effects across provinces and cities. This reflects the variations in sectors, resources, and export patterns.

Alberta

Moderate Risk: It is unlikely that in the event of a U.S. withdrawal from NAFTA, tariffs would be implemented on crude oil and natural gas - which makes up approximately 81% of Alberta's exports to the U.S.[19] Therefore, Alberta would seemingly be one of the least exposed provinces. Yet, reverting to WTO rules would still subject 70% of the value of Alberta's top 10 exports to the U.S. to tariffs. 86% of Alberta's total exports in 2016 were sent to the U.S, and trade with the U.S.[20] accounts for 22% of Alberta's GDP ($69 billion). However, the U.S. is also the largest marketplace for Alberta's agriculture, food and beef sectors which may be subject to U.S. country of origin legislation.

Atlantic Canada (NB, NS, NL, PEI)

Low Risk: Atlantic Canada's exports to the U.S. equal 17% of its GDP ($19 billion). Nova Scotia would likely be one of the more vulnerable provinces in Atlantic Canada to NAFTA disruptions, due to its tire and rubber exports to the U.S becoming subject to an average 3.7% tariff under WTO rules. Nova Scotia is home to three Michelin plants. Seafood, Nova Scotia's second largest export to the U.S. could also be subject to a 4.7% tariff. Overall Atlantic Canada seems relatively sheltered to a NAFTA withdrawal compared to other provinces, however certain industries could be significantly impacted.

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[18] Canadian Federation of Independent Businesses. Small businesses concerned about potential changes to NAFTA: survey. Retrieved January 09, 2018, from https://www.cfib-fcei.ca/en/media/small-businesses-concerned-about-potential-changes-nafta-survey
[19] http://economic.alberta.ca/documents/US-AB.pdf
[20]Canada West Foundation. 2017. *Analysis: How Trump's threat to scrap NAFTA could unfold (and what it means for western Canada).* Retrieved December 20, 2017, from http://cwf.ca/news/blog/analysis-how-trumps-threat-to-scrap-nafta-could-unfold-and-what-it-means-for-western-canada/#British Columbia

British Columbia

Low Risk: Of all the provinces, B.C. is possibly the least impacted by a U.S. withdrawal from NAFTA. B.C.'s largest export to the U.S., softwood lumber, is excluded from NAFTA negotiations. However, the softwood lumber treaty is also in the midst of uncertain negotiations. Only four of B.C.'s top ten exports to the U.S. would be subject to a WTO tariff and are unlikely to cause major fluctuations in these commodity markets.[21] Moreover, Greater Vancouver's geographic proximity, strong cultural ties, and Gateway Strategy has allowed for the diversification of exports and access to growing Asian markets. 52% of B.C.'s exports are sent to the U.S., while 36% of B.C.'s exports are sent to Asia, and 12% are sent to other nations. B.C. exports to the U.S. make up 8% of its GDP ($19 billion).[22]

Manitoba

Moderate Risk: 69% of all Manitoba's exports are sent to the U.S. The second largest marketplace is China, which is destination to only 7% of Manitoba's exports. Manitoba could see tariffs on 22% of the value of its top 10 exports to the U.S.[23] Manitoba's largest exports are minerals and agricultural products. Manitoba's exports to the U.S. make up 14% of its GDP ($9 billion). In 2016 Manitoba imported $16.9 billion worth of goods and services from the U.S. (equivalent to 25% of provincial GDP). Manitoba's two largest exports to the U.S. are pharmaceuticals and aircraft parts.

Ontario

High Risk: Ontario is seemingly the most at risk to NAFTA disruptions due to its manufacturing sector and a highly integrated supply chains. 52% of Canadian exports to the U.S. originate from Ontario.[24] Ontario's exports to the U.S. (83% of its total exports) make up 26% of its GDP ($206 billion). [25] The bulk of those exports are in high-risk industries, vulnerable to tariffs.[26] This is the largest of any province. The key concern in this province is the tightly-integrated auto-sector. In 2016, Ontario exported more to

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[21] Canada West Foundation. 2017. *Analysis: How Trump's threat to scrap NAFTA could unfold (and what it means for western Canada).* Retrieved December 20, 2017, from http://cwf.ca/news/blog/analysis-how-trumps-threat-to-scrap-nafta-could-unfold-and-what-it-means-for-western-canada/#British Columbia

[22] Port of Vancouver. 2016. Retrieved December 20, 2017, from https://www.flipsnack.com/portvancouver/financial-report-2016/full-view.html

[23] Canada West Foundation. 2017. *Analysis: How Trump's threat to scrap NAFTA could unfold (and what it means for western Canada).* Retrieved December 20, 2017, from http://cwf.ca/news/blog/analysis-how-trumps-threat-to-scrap-nafta-could-unfold-and-what-it-means-for-western-canada/#British Columbia

[24] http://tradecommissioner.gc.ca/canadexport/0001535.aspx?lang=eng

[25] Porter, D. (2017, Nov). *The Day After NAFTA: Economic Impact Analysis.* From BMO Capital Markets Economics: http://economics.bmocapitalmarkets.com

[26] Canada West Foundation. 2017. *Analysis: How Trump's threat to scrap NAFTA could unfold (and what it means for western Canada).* Retrieved December 20, 2017, from http://cwf.ca/news/blog/analysis-how-trumps-threat-to-scrap-nafta-could-unfold-and-what-it-means-for-western-canada/#British Columbia

Michigan than all of Canada did to China, the United Kingdom, Japan and Mexico combined.[27] The majority of products exported are motor vehicles and transportation equipment, accumulating to $79 billion.[28] These sectors would see experience significant disruption by a U.S. withdrawal from NAFTA.

Imports from the U.S. total $184 billion, accumulating to 23% of Ontario's GDP. As a percentage of provincial GDP, this is almost three times more than what B.C. imported from the U.S.

Quebec

Moderate Risk: Overall, 71.5% of Quebec's exports are sent to the U.S. and 76% of those U.S.-destined exports are deemed high risk (similar to Ontario). However, that weighs in at only around 11% of Quebec's GDP (around half of Ontario). Like B.C, Quebec benefits from a more diversified marketplace for its exports, with access to regions such as Europe. The bulk of Quebec's exports are aluminum, airplanes, and parts.

Saskatchewan

Moderate Risk: Saskatchewan could see tariffs on 58% of the value of its top 10 exports destined for the U.S.[29] Saskatchewan's exports to the U.S. make up 17% of its GDP ($12 billion). In 2016, Saskatchewan's top two exports to the U.S. were crude oil ($4 billion) and potash ($2 billion), the first of which will most likely not face tariffs. Minnesota and Montana are the largest destination markets for their exports.

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[27] The Canadian Trade Commissioner Service. (2017). Ontario-U.S. Trade Tops the Chart. Retrieved December 20, 2017, from
http://tradecommissioner.gc.ca/canadexport/0001535.aspx?lang=eng

[28] Porter, D. (2017, Nov). *The Day After NAFTA: Economic Impact Analysis.* From BMO Capital Markets Economics: http://economics.bmocapitalmarkets.com

[29] Canada West Foundation. 2017. *Analysis: How Trump's threat to scrap NAFTA could unfold (and what it means for western Canada).* Retrieved December 20, 2017, from http://cwf.ca/news/blog/analysis-how-trumps-threat-to-scrap-nafta-could-unfold-and-what-it-means-for-western-canada/#British Columbia

Table 2. Effects of a U.S. withdrawal from NAFTA on GDP by province

Province	Imports from U.S. ($ million)*	Exports to U.S. ($ million)*	U.S. imports as a percentage of province GDP	U.S. exports as a percentage of province GDP
British Columbia	18,700	19,173	8	8
Alberta	28,345	69,288	9	22
Saskatchewan	12,150	12,600	16	17
Manitoba	16,951	9,179	25	14
Ontario	183,607	205,862	23	26
Quebec	33,560	57,249	9	15
Atlantic	14,551	19,587	13	17
Sources: BMO Financial Group, *The Day After NAFTA* ; Statistics Canada; University of Calgary; and author calculations				
*Chained 2016 dollars				

Major Cities

Toronto, Winnipeg and Calgary could be the most adversely affected cities by a NAFTA withdrawal. These cities imported U.S. goods and services valued at 20%, 22% and 55% of their GDP in 2016, respectively. The City of Vancouver imported $8 billion from the U.S., only 7% of its GDP. Vancouver would seemingly experience the least disruption of all large Canadian cities, however the greatest vulnerability would appear to be in its digital services sector. Restrictions to temporary cross-border movements of professionals and also more stringent intellectual property standards such as copyrights and patent protection could adversely affect Vancouver.[30] The effects of reduced movements of professionals would also likely be felt the most in cities such as Toronto and Montreal.

[30] RBC. 2017 *Life After NAFTA.* Retrieved December 20, 2017, from http://www.rbc.com/economics/economic-reports/pdf/other-reports/NAFTA_Nov2017.pdf

Table 3. Effects of a U.S. withdrawal from NAFTA on GDP by city

City	Total value of imports ($ million)*	Total imports as a percentage of GDP
Vancouver	8,100	7
Edmonton	4,900	9
Calgary	28,600	55
Saskatoon	1,900	11
Winnipeg	7,800	22
Ottawa	6,200	16
Toronto	60,000	20
Quebec City	1,000	3
Montreal	22,900	12
Halifax	2,000	11
St. John's	623	5

Sources: Statistics Canada; Innovation, Science, and Economic Development Canada; and author calculations

*Chained 2016 dollars

Key Industries Affected

Intra-NAFTA trade-- the extensive exchange of unfinished products back and forth across the border before a finished product is produced--allows manufacturers to leverage efficiencies and lower costs. This process magnifies the adverse impacts of higher tariffs and uncertainty. 64% of Canada-U.S. trade in goods and services is made up of intermediate inputs such as raw materials, parts and services used by companies on both sides of the border.[31] A withdrawal from NAFTA is likely to put North America's supply chains at risk. Most shipping and logistics hubs in intra-NAFTA trade are controlled by the U.S., which could lead to further uncertainty and the likelihood of sharp increases in the costs of production across many sectors.

Automotive Industry

The automotive industry is likely to be one of the hardest-hit due to tight integration across North America's auto sector. The manufacturing of cars and parts by Ford Motor Company, GM, and FCA Group (Chrysler) is thoroughly integrated among the three countries, with cross-border supply chains allowing these manufacturers to source parts and services from each NAFTA country at various stages of the production process. As a result, the likelihood that the total tariff burden could exceed the WTO rate

[31] http://cwf.ca/news/blog/analysis-how-trumps-threat-to-scrap-nafta-could-unfold-and-what-it-means-for-western-canada/#British Columbia

is high.[32] Automakers may decide to shift their manufacturing to production hubs outside of North America, or concentrate in the U.S. Further investment decisions may come to a halt in the short term.[33] The auto distribution industry would also likely be affected. The cost of vehicles produced in the NAFTA region could, on average rise by over $1,000 USD per vehicle.[34]

Freight Carriers

Canadian companies and industries including; Bombardier, Magna International, Canadian Trucking, Canadian Pacific Railway, and Canadian National Railway, have operations in all three countries, are highly integrated, and could undertake significant losses from a NAFTA withdrawal.[35] Approximately 30% of the revenues from Canadian Pacific Railway and the Canadian National Railway Company are derived from cross-border trade, with 60% to 70% of that being Canadian exports to the U.S.[36] Canadian railway companies could be particularly disadvantaged by a NAFTA withdrawal.

Food and Agriculture

Food, beverage, and tobacco would possibly be among the worst hit industries. Exports to the U.S. account for less than 10% of industry sales, however, the WTO tariff is likely to approach 20%, inflicting a significant financial burden on Canadian exporters.[37] Beef would likely be one of the most affected agricultural sectors. Exports could drop by more than $500 million.[38] However, Canadian beef producers could capture some of the Canadian domestic market share left by declining NAFTA imports. Other primary sectors such as forestry, fishing, and minerals products would probablysuffer moderately as these sectors generally have lower tariffs and/or other governing litigations such as anti-dumping or countervailing duties comparable to those on softwood lumber.[39] (see appendix)

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[32] Oral, R. (2017, Nov 24). What a NAFTA withdrawal could mean for Canadian Companies. From OpenCanada: https://www.opencanada.org/features/what-nafta-withdrawal-could-mean-canadian-companies/
[33] Ibid.
[34] Porter, D. (2017, Nov). *The Day After NAFTA: Economic Impact Analysis.* From BMO Capital Markets Economics: http://economics.bmocapitalmarkets.com
[35] Oral, R. (2017, Nov 24). What a NAFTA withdrawal could mean for Canadian Companies. From OpenCanada:
[36]Marowitz, R. (2018, January 08). NAFTA uncertainty presents risk for Canadian railways, says analysts. Retrieved January 08, 2018, from http://nationalpost.com/pmn/news-pmn/canada-news-pmn/nafta-uncertainty-presents-risk-for-canadian-railways-says-analysts
[37] Porter, D. (2017, Nov). *The Day After NAFTA: Economic Impact Analysis.* From BMO Capital Markets Economics: http://economics.bmocapitalmarkets.com
[38] Ciuriak, D., Ciuriak, L., Dadkhan, A., & Xiao, J. (2017, Nov). The NAFTA Renegotiation: What if the US Walks Away. From C.D. Howe Institute:
https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Working%20Paper%201128%20web.pdf
[39] Ciuriak, D., Ciuriak, L., Dadkhan, A., & Xiao, J. (2017, Nov). The NAFTA Renegotiation: What if the US Walks Away. From C.D. Howe Institute:

Metal, Plastic, and Rubber

A NAFTA withdrawal could have a significant effect on the Canadian steel sector, with expected output declines of approximately 13%.[40] Chemicals, rubber, and plastics are likely to experience large declines in bilateral exports to NAFTA. The U.S. is a significant marketplace for sales of these products and WTO tariffs for plastic and rubber would average around 3.7%.[41]

Fabrics

Textiles, clothing, and leather would likely face U.S. tariffs of 7.5% when reverting to WTO rules. Canadian and Mexican manufacturers rely on the U.S. marketplace for approximately 60% of their sales. This tariff will possibly eliminate the industry's profit margins.

Table 4: Canadian industry vulnerability to NAFTA termination (BMO Economics 2017)

	Exports to U.S. (% sales)	Avg. U.S. WTO Tariff Rate (%)	Potential Tariffs to U.S. (% sales)[1]	Imports from U.S. (% ADM)[2]	Average Canadian Tariff Rate (%)	Profit Margin (%)	Return on Equity (%)
Significant Vulnerability							
Beverages and Tobacco	9	19.4	1.7	11	1.7	22.9	7.1
Chemical Products	60	1.6	1.0	51	1.5	12.7	12.0
Computers and Electronics	84	1.0	0.8	26	0.6	1.0	-1.4
Electrical Equipment and Appliances	60	1.5	0.9	34	1.5	4.1	6.8
Food Products	24	4.5	1.1	19	3.0	5.7	14.7
Machinery	70	1.3	0.9	48	0.4	7.7	13.8
Plastics and Rubber Products	45	3.7	1.7	33	1.1	7.0	13.8
Textiles, Clothing and Leather	59	7.5	4.4	13	8.0	5.5	15.8
Transportation Equipment[3]	69	2.2	1.5	52	5.1	4.7	7.6
Motor Vehicles	90	2.5	2.2	60	6.1	3.6	20.0
Motor Vehicle Parts	51	2.5	1.3	51	5.1	7.0	8.0
Aerospace	46	0.0	0.0	46	0.0	—	—
Moderate Vulnerability							
Crops	17	3.8	0.6	27	3.9	—	—
Fabricated Metal Products	25	2.3	0.6	25	1.4	—	—
Furniture	50	1.6	0.8	19	5.0	4.5	11.4
Non-Metallic Mineral Products	22	1.9	0.4	21	1.1	8.7	8.0
Primary Metal Products	51	1.4	0.7	32	0.6	7.2	22.9
Low Vulnerability							
Livestock	13	0.8	0.1	3	0.5	—	—
Mining	—	0.0	—	—	0.0	4.9	0.2
Oil and Gas Extraction	—	0.0	—	—	0.0	-15.7	-5.9
Paper	43	0.0	0.0	37	0.0	6.7	12.0
Petroleum and Coal Products	25	0.0	0.0	21	0.7	0.1	6.6
Printing	10	0.0	0.0	10	0.0	5.5	5.1
Utilities	—	0.0	—	—	0.0	9.9	5.5

https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Working%20Paper%201128%20web.pdf

[40] Jha, V., & Narayanan, B. (2017, September). Renegotiating NAFTA: Pros and cons for Canada and Mexico. Retrieved January 8, 2018, from https://www.iisd.org/sites/default/files/publications/renegotiating-nafta-pros-cons-canada-mexico.pdf

[41] Porter, D. (2017, Nov). *The Day After NAFTA: Economic Impact Analysis.* From BMO Capital Markets Economics: http://economics.bmocapitalmarkets.com

Strategies to Mitigate NAFTA Risks

Recommendations for policy-makers

The effects of NAFTA are not homogenous across Canada therefore, neither are the policy options.

- Canada should pursue a new course for trade based around the Pacific and elsewhere. Canada's proactive pursuit of new trade arrangements will be an important determinant of its future growth.
- Canada should continue engaging with high-growth markets such as India and China to diversify its export markets.

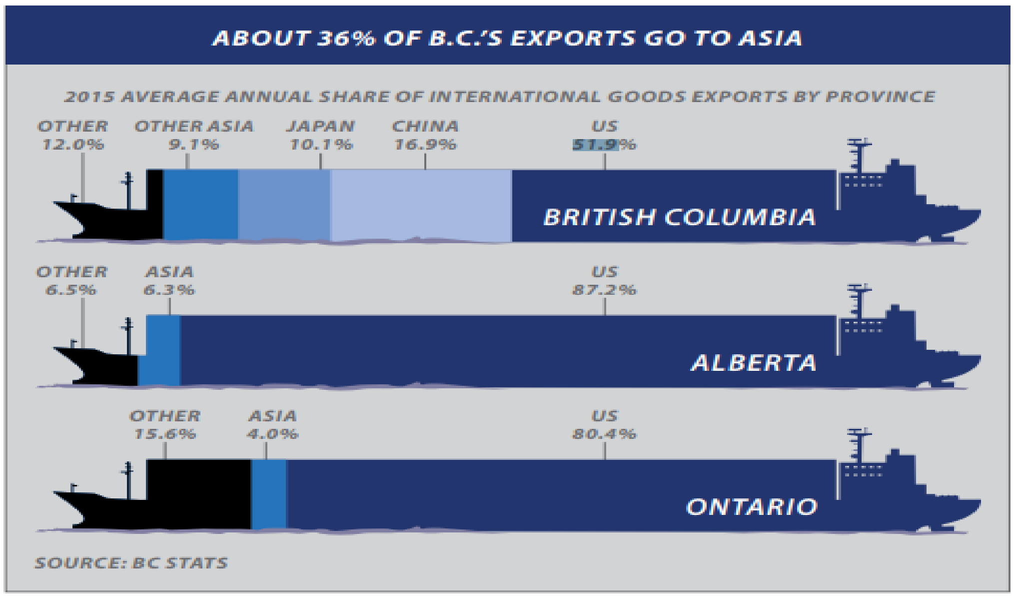
Recommendations for exposed businesses

- Understand your supply chains and sourcing arrangements. Understand the implications of higher U.S. tariffs on each part of your supply chain.
- Understand the implications of NAFTA withdrawal on your personnel. The temporary entry provisions in NAFTA could be affected too.
- Speak to economic and tax advisors, as well as your U.S. partners, customers, and suppliers to understand the effects of relocating parts of your supply chain.
- Familiarize yourself with available federal and provincial resources. Each province and the federal government has a Ministry/Department responsible for trade, and can advise on such trade issues.

GREATER VANCOUVER BOARD OF TRADE

Edmonton Chamber of Commerce

Appendix:



Freight Carriers

As headlines progressively allude to President Trump signing off on a withdrawal letter to terminate NAFTA, stock prices in the freight sector have been sent off the rails.