HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

MOVING THE RELATIONSHIP FORWARD: NAFTA MODERNIZATION AND NORTH AMERICAN TRILATERAL COOPERATION

Report of the Standing Committee on Foreign Affairs and International Development

The Honourable Robert D. Nault, Chair

JANUARY 2018
42nd PARLIAMENT, 1st SESSION

Published under the authority of the Speaker of the House of Commons

SPEAKER'S PERMISSION

The proceedings of the House of Commons and its Committees are hereby made available to provide greater public access. The parliamentary privilege of the House of Commons to control the publication and broadcast of the proceedings of the House of Commons and its Committees is nonetheless reserved. All copyrights therein are also reserved.

Reproduction of the proceedings of the House of Commons and its Committees, in whole or in part and in any medium, is hereby permitted provided that the reproduction is accurate and is not presented as official. This permission does not extend to reproduction, distribution or use for commercial purpose of financial gain. Reproduction or use outside this permission or without authorization may be treated as copyright infringement in accordance with the *Copyright Act*. Authorization may be obtained on written application to the Office of the Speaker of the House of Commons.

Reproduction in accordance with this permission does not constitute publication under the authority of the House of Commons. The absolute privilege that applies to the proceedings of the House of Commons does not extend to these permitted reproductions. Where a reproduction includes briefs to a Standing Committee of the House of Commons, authorization for reproduction may be required from the authors in accordance with the *Copyright Act*.

Nothing in this permission abrogates or derogates from the privileges, powers, immunities and rights of the House of Commons and its Committees. For greater certainty, this permission does not affect the prohibition against impeaching or questioning the proceedings of the House of Commons in courts or otherwise. The House of Commons retains the right and privilege to find users in contempt of Parliament if a reproduction or use is not in accordance with this permission.

Also available on the House of Commons website
at the following address: www.ourcommons.ca

MOVING THE RELATIONSHIP FORWARD: NAFTA MODERNIZATION AND NORTH AMERICAN TRILATERAL COOPERATION

Report of the Standing Committee on Foreign Affairs and International Development

Hon. Robert D. Nault
Chair

JANUARY 2018

42nd PARLIAMENT, 1st SESSION

NOTICE TO READER

Reports from committee presented to the House of Commons

Presenting a report to the House is the way a committee makes public its findings and recommendations on a particular topic. Substantive reports on a subject-matter study usually contain a synopsis of the testimony heard, the recommendations made by the committee, as well as the reasons for those recommendations.

STANDING COMMITTEE ON FOREIGN AFFAIRS AND INTERNATIONAL DEVELOPMENT

CHAIR

Hon. Robert D. Nault

VICE-CHAIRS

Hon. Erin O'Toole

Hélène Laverdière

MEMBERS

Ziad Aboultaif

Omar Alghabra*

Celina Caesar-Chavannes*

Matt DeCourcey*

Garnett Genuis

Hon. Andrew Leslie*

Michael Levitt

Raj Saini

Jati Sidhu

Anita Vandenbeld

Borys Wrzesnewskyj

OTHER MEMBERS OF PARLIAMENT WHO PARTICIPATED

David Anderson

Sheri Benson

Bob Benzen

Neil R. Ellis

Hon. John McKay

Yves Robillard

* Non-voting member, pursuant to Standing Order 104(5).

CLERK OF THE COMMITTEE

Angela Crandall

LIBRARY OF PARLIAMENT

Parliamentary Information and Research Service

Brian Hermon

Scott McTaggart

THE STANDING COMMITTEE ON FOREIGN AFFAIRS AND INTERNATIONAL DEVELOPMENT

has the honour to present its

FOURTEENTH REPORT

Pursuant to its mandate under Standing Order 108(2), the Committee has studied United States and Canadian Foreign Policy and has agreed to report the following:

TABLE OF CONTENTS

LIST OF RECOMMENDATIONS 1

MOVING THE RELATIONSHIP FORWARD: NAFTA MODERNIZATION AND NORTH AMERICAN TRILATERAL COOPERATION 3

INTRODUCTION 3

CURRENT DYNAMICS AND CHALLENGES FOR NAFTA MODERNIZATION 4

1. Building Consensus for a Stronger NAFTA 4
2. Achieving a Good Deal in a Reasonable Timeframe 6
3. Building Partnerships and Communicating Accurate Information about NAFTA 7

DEEPENING CANADA'S PARTNERSHIP WITH MEXICO 9

1. Economic Cooperation 9
2. Foreign Policy and People-to-People Engagement 10

BRIDGING THE POLARIZATION 11

CONCLUSION 12

Appendix A: List of Witnesses 15

Appendix B: Travel to Mexico City, New York City and Washington, D.C. 17

Request for Government Response 23

Supplementary Opinion of the Conservative Party of Canada 25

LIST OF RECOMMENDATIONS

As a result of their deliberations, committees may make recommendations which they include in their reports for the consideration of the House of Commons or the Government. Recommendations related to this study are listed below.

Recommendation 1

NAFTA should be modernized to become better aligned with new economic and global realities, and do more to ensure that the benefits of trade are shared more equitably. The Government of Canada should continue to work with its Mexican and U.S. negotiating partners to promote the incorporation of progressive elements into a modernized NAFTA, including with respect to labour standards, the environment, gender, and Indigenous rights. 6

Recommendation 2

The Government of Canada should urge its Mexican and U.S. counterparts to not set arbitrary deadlines for the conclusion of NAFTA modernization talks, and instead to support the work of their respective negotiators in finalizing the best possible deal in a reasonable period of time. 7

Recommendation 3

The Government of Canada should work with business groups, unions, and other stakeholders in Mexico and the United States to ensure that accurate information about NAFTA is disseminated, including by promoting information about how the collapse of NAFTA would negatively affect the Mexican, U.S. and Canadian economies. 8

Recommendation 4

The Government of Canada should cooperate with the Government of Mexico in the pursuit of common objectives in NAFTA negotiations, while also promoting progressive economic partnerships with Mexico outside of NAFTA, including through regional multilateral trade agreements such as the Pacific Alliance and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. 10

Recommendation 5

The Government of Canada should continue to strengthen its foreign policy cooperation with Mexico, and foster the growing people-to-people ties that exist between the two countries, including through mutually beneficial employment and educational exchanges. 11

Recommendation 6

The Government of Canada should work with officials in Mexico and the United States, along with stakeholders in the educational community and the private sector, to develop new mechanisms for dialogue and exchange within North America, including in the areas of youth exchanges. 12

MOVING THE RELATIONSHIP FORWARD: NAFTA MODERNIZATION AND NORTH AMERICAN TRILATERAL COOPERATION

INTRODUCTION

The House of Commons Standing Committee on Foreign Affairs and International Development (the Committee) travelled to Mexico City, New York City, and Washington, D.C. from 22–27 October 2017. The purpose of the trip was to speak with legislators, policy-makers, and other stakeholders about the North American Free Trade Agreement (NAFTA), and other areas of common interest. The mission was a continuation of the Committee's ongoing study of the United States (U.S.), North American trilateral cooperation, and Canadian foreign policy. Prior to this trip, the Committee held six meetings with witnesses in Ottawa as part of this study.[1]

The Committee's mission to Mexico and the United States took place shortly after the conclusion of the fourth round of negotiations on the modernization of NAFTA. While the trilateral statement issued by the negotiating parties indicated that progress had been made across several negotiating groups, it was clear that the parties remained far apart on certain fundamental issues. In a joint news conference, Foreign Affairs Minister Chrystia Freeland noted that several "unconventional" demands from the U.S. were making the work of negotiating the trilateral trade pact "much more challenging." Mexican Secretary of the Economy Ildefonso Guajardo urged all three countries to take a constructive approach to talks to avoid a "lose-lose-lose" scenario. For his part, United States Trade Representative (USTR) Robert Lighthizer expressed disappointment with "the resistance to change from our negotiating partners on both fronts."

The timing of the Committee's mission was both auspicious and important. Occurring in between the fourth and fifth rounds of negotiation, the timing allowed for frank dialogue between members of the Committee and legislators from the upper and lower chambers of both countries – the Mexican Senate and Chamber of Deputies, and the U.S. Senate and House of Representatives. It also allowed members to engage directly with several industry and business groups, as well as with public policy experts.

1 See: House of Commons Standing Committee on Foreign Affairs and International Development (FAAE), "United States and Canadian Foreign Policy," *Work*.

The following report summarizes the Committee's main findings from its mission to Mexico City and Washington, D.C.[2] It also presents recommendations to the Government of Canada related to the NAFTA modernization talks and on opportunities to strengthen Canada-Mexico and Canada-U.S. bilateral cooperation.

CURRENT DYNAMICS AND CHALLENGES FOR NAFTA MODERNIZATION

1. Building Consensus for a Stronger NAFTA

The Committee believes that modernizing NAFTA is a timely and important undertaking. The world has changed significantly in the years since NAFTA was enacted. When NAFTA entered into force on 1 January 1994, it was the most comprehensive free trade agreement ever negotiated, containing several ground-breaking provisions on investment, intellectual property, and dispute resolution. Over the years, however, technological and scientific advances have fundamentally changed the modes of production in the agricultural, manufacturing, and natural resources sectors, among others. The Internet and e-commerce have become an everyday part of people's lives and revolutionized the way countries engage in international trade. In addition to increased commercial integration in North America, profound changes have occurred to continental and bilateral security arrangements in the years since NAFTA was signed, while the cross-border movement of people has accelerated. The past 24 years has also revealed the existence of persistent trade irritants, which NAFTA either did not address, or resolve adequately under its dispute resolution mechanism.

Accordingly, there is a strong rationale for modernizing and improving the 24-year old NAFTA. In fact, the idea of updating NAFTA was one of the drivers behind the participation of Canada, Mexico, and the United States in negotiations on a Trans-Pacific Partnership (TPP). While the TPP, which was concluded in October 2015, was a partnership between 12 Asia-Pacific countries, many of the provisions in the agreement were comparatively more robust than those contained in NAFTA, including, for example, on intellectual property. Indeed, many observers saw the TPP as an opportunity to upgrade NAFTA indirectly, and to bring the agreement into the 21st century.

2 A subsequent report on Canada's multilateral engagement – which will incorporate the Committee's observations from its meetings with United Nations officials in New York City on 25 October 2017 – will be issued at a later date.

Unfortunately, the decision by President Trump to withdraw from the TPP shortly after he assumed office effectively jettisoned the agreement in its original form.[3] The TPP was constructed to allow it to only come into force if six of the countries covering 85% of the gross domestic product (GDP) of the overall geographic space ratified the agreement, a structure that effectively gave the U.S. a veto over the agreement. While disappointing, U.S. withdrawal from the TPP has provided Canada, Mexico, and the United States with a new opportunity to work together to modernize NAFTA in a direct way that builds on the components of the original deal.

The Committee believes that negotiations on the modernization of NAFTA should do just that: build on and strengthen the agreement – not weaken it. However, the Committee is concerned that many of the proposals that have come out of the negotiations so far would, if realized, undermine both NAFTA and broader North American integration and cooperation. Moreover, it is the Committee's view that some of the U.S. proposals either run counter to integration or, if enacted, would create an unstable environment for business, trade, and investment in all three countries.

For example, the USTR proposal to insert a sunset clause into NAFTA, that would see the agreement automatically terminate in five years unless re-approved, would result in significant uncertainty for industry. Indeed, businesses looking to make investments in one of the three countries would lose the assurance of market access continuity. The same can be said for the proposal to eliminate the dispute settlement mechanism, or Chapter 19, which deals with countervailing and anti-dumping duties. The absence of a dispute settlement mechanism in NAFTA would undermine business confidence in the fairness of North American trade, and the ability of businesses to resolve trade disputes in a timely and objective manner.

The Committee heard during its fact-finding mission that there are essentially two sets of NAFTA negotiations currently ongoing. One is focused on modernization and is occurring in the formal negotiating groups, where officials have made progress in the chapters on competition, customs and trade facilitation, digital trade, and regulation, among others. The other is taking place partially in the public sphere and is characterized by proposals such as the five-year sunset clause. Canada, Mexico, and the United States should work on and, where possible, close those thematic and sectoral chapters where broad agreement exists.

---

3 Since the U.S. withdrawal from the Trans-Pacific Partnership (TPP), the remaining 11 signatories have continued to pursue discussions toward a new Asia-Pacific trade arrangement. On 10 November 2017, during a meeting in Vietnam, the 11 negotiating parties agreed to rename the proposed trade pact the *Comprehensive and Progressive Agreement for Trans-Pacific Partnership*. See: Government of Canada, *Comprehensive and Progressive Agreement for Trans-Pacific Partnership*.

More specifically, the Committee believes that, to date, what has been lacking in the trade talks has been a larger vision for NAFTA and North American integration. NAFTA is not just about tariffs. At its core, it is fundamentally a framework that is intended to facilitate economic opportunities between people across North America. In this respect, the Committee believes that several progressive elements that Canada has introduced as part of the modernization negotiations could resonate with people in all three countries. In particular, the Committee believes that Canada's proposal to strengthen labour protections and standards could find traction with the Mexican and U.S. administrations. The full integration of gender and Indigenous rights into NAFTA is another area that could find broad agreement and should be pursued.

Recommendation 1

NAFTA should be modernized to become better aligned with new economic and global realities, and do more to ensure that the benefits of trade are shared more equitably. The Government of Canada should continue to work with its Mexican and U.S. negotiating partners to promote the incorporation of progressive elements into a modernized NAFTA, including with respect to labour standards, the environment, gender, and Indigenous rights.

2. Achieving a Good Deal in a Reasonable Timeframe

It is the Committee's view that negotiations on the modernization of NAFTA need to slow down. The initial timeline set for the completion of the trade talks – by the end of 2017 – was neither realistic nor reasonable. The Committee is pleased that the parties agreed to a longer inter-sessional period between the fourth and fifth rounds of negotiation, and scheduled additional negotiating rounds through the first quarter of 2018. Getting a deal done is important, but it must be the right deal for all three countries. Too much is at stake to rush the negotiations.

Extending the timeline for the modernization process is all the more crucial given that key elections are taking place in Mexico and the U.S. in 2018. Mexico will hold presidential, legislative and local elections in July, and the United States will hold congressional mid-term elections in November. At the outset of the talks, the Mexican and U.S. governments indicated that they wanted to conclude negotiations by the end of 2017 so as not to interfere with their respective campaign cycles. Now that negotiations have extended into 2018, it is highly unlikely that the NAFTA talks and the election campaigns can be kept compartmentalized.

The Committee heard in both Mexico City, and Washington, D.C. that as the elections draw closer, the negotiations will become more politicized. Several interlocutors told the

Committee that as the NAFTA talks and the election cycles converge, there will be a greater likelihood of heightened political rhetoric and further threats of economic nationalism and protectionism. All of this will have the effect of further increasing business uncertainty.

It is important to remember that it took 14 months of intensive negotiations to come to agreeable terms on NAFTA in 1992. Since then, Canada has signed a number of bilateral free trade agreements, most of which have taken a longer amount of time to conclude. Free trade agreements are complex, particularly when they involve more than two countries. The Committee supports the objective, outlined by the negotiating partners, of reaching an agreement in a reasonable amount of time. However, it believes that the negotiation period must be sufficient to provide all parties with the time necessary to conclude the right agreement, one that provides a solid foundation for mutual economic benefit for many years to come.

Recommendation 2

The Government of Canada should urge its Mexican and U.S. counterparts to not set arbitrary deadlines for the conclusion of NAFTA modernization talks, and instead to support the work of their respective negotiators in finalizing the best possible deal in a reasonable period of time.

3. Building Partnerships and Communicating Accurate Information about NAFTA

Listening to some of the political rhetoric on NAFTA, an outside observer could be left with the impression that the agreement is universally detested and has been a terrible deal for North America. The evidence, however, does not bear this out. According to a recent Pew Research Centre poll, NAFTA is supported by a majority of people in each of the three countries.[4] While support for NAFTA among the three countries is lowest in the U.S., even there, support has increased over the last decade. Indeed, the Committee was referred to a recent study by the Chicago Council on Global Affairs, which shows that 53% of Americans think that NAFTA is good for the economy, up from 42% in 2008.[5]

4 74% of Canadian respondents said that NAFTA has been good for Canada, compared to 17% who said it has been bad for the country. The figures in Mexico were 60% to 33% in favour of those that said NAFTA has been good for the country. In the United States, 51% of respondents said that NAFTA had been good for the country, compared to 39% who said it has been bad.

5 Notably, the poll shows a growing partisan divide on support for NAFTA in the U.S. According to the study, support for NAFTA among Democrats is 71%, compared to 34% among Republicans.

These numbers are significant because they point to a problem identified by interlocutors in Mexico and the U.S. As the Committee heard during its fact finding mission, it is often more difficult to illustrate the benefits of trade – for example, related to increased competitiveness and more integrated supply chains – than it is to show the unintended consequences that can result from trade. For those who have lost jobs, or who feel left behind by the digital economy and globalization, this is perfectly understandable. Yet, ensuring that the benefits of trade are shared more equitably is exactly why NAFTA is in need of modernization.

Moreover, it is the Committee's view that political and business leaders in all three countries need to do a better job of communicating accurate information about NAFTA, and about how the collapse of the agreement may affect working people. There continues to be significant misinformation about the effect of NAFTA over the past 24 years, especially in the U.S. where it has been blamed for millions of job losses. It also cannot be repeated enough that the U.S. has a trade surplus with Canada when goods and services are counted, despite claims that suggest otherwise. The truth is that, overall, NAFTA has generated significant new opportunities for U.S. companies across a variety of sectors. According to the U.S. Chamber of Commerce, trade with Canada and Mexico supports 14 million American jobs, 5 million of which are sustained by the increase in trade generated by NAFTA. Furthermore, NAFTA has also contributed to other positive changes that do not appear in trade statistics, including helping to facilitate Mexico's democratic development and transition to a more market-oriented economy.

Business leaders and industry groups in the U.S. and Mexico can be useful allies for Canada in communicating accurate information about NAFTA. While in Washington D.C., the Committee was made aware of a recent letter signed by more than 310 state and local chambers of commerce from across the U.S. that underscored how beneficial NAFTA has been for American farmers, ranchers, manufacturers and business people in other industries. The letter notes that, since 1993, U.S. agricultural exports to Canada and Mexico have quadrupled, and that Canada and Mexico are the top two markets in the world for U.S. manufactured goods. The Government of Canada should ensure that it builds relationships with likeminded industry groups and unions in the U.S. and Mexico as it makes its case in support of NAFTA.

Recommendation 3

The Government of Canada should work with business groups, unions, and other stakeholders in Mexico and the United States to ensure that accurate information about NAFTA is disseminated, including by promoting information about how the collapse of NAFTA would negatively affect the Mexican, U.S. and Canadian economies.

DEEPENING CANADA'S PARTNERSHIP WITH MEXICO

During its mission to Mexico City, the Committee was encouraged by the degree of genuine interest and enthusiasm that local interlocutors had for Canada and its relationship with Mexico. Among the legislators, academics and private sector representatives with whom the Committee met, there was broad recognition about the importance and potential of Canada-Mexico bilateral relations. Rooted to a large extent in trade, relations between the two countries have expanded significantly across other domains, including people-to-people cooperation in areas such as education and tourism. The Committee heard how the ties being forged at the highest political levels, including reciprocal visits between Canada's Prime Minister and Mexico's President, as well as numerous ministerial trips in both directions, have facilitated a more structured and stronger relationship.

Much like in Canada, the evolving political dynamics in the U.S., and the uncertainty it has created, have people in Mexico re-evaluating their relationship with their larger neighbour and looking with renewed interest to engagement with other partners. The Committee heard how Canada and Mexico should consider new opportunities for bilateral engagement with each other. Critically, the Committee believes that this enthusiasm for deeper ties between Canada and Mexico should extend beyond legislators and government officials to include broad sections of civil society, including human rights and labour organizations, and the private sector. Given this, the Committee is convinced that the time is right to strengthen and expand Canada's engagement with Mexico, both in terms of economic cooperation, and in other areas of mutual interest.

1. Economic Cooperation

Discussions in Mexico focused primarily on NAFTA negotiations. The Committee heard repeatedly that there is broad support for NAFTA and North American integration in Mexico. Canada's reaffirmation of the trilateral nature of NAFTA at the outset of negotiations was warmly welcomed by Mexican legislators and others, many of whom expressed the belief that Canada and Mexico hold a similar vision for a modernized NAFTA agreement. Continued cooperation between the two negotiating teams was frequently highlighted as the best means of achieving a common interest in greater economic partnership.

Despite these reasons for optimism, there was significant pessimism in Mexico regarding the status of NAFTA negotiations. Many are expecting, and preparing for, an American withdrawal from NAFTA and wondering what that would mean for the Mexican economy. The Committee heard that Mexico is actively seeking to diversify its trading

relationships in an effort to reduce its economic dependence on the U.S. This includes pursuing trade agreements outside of North America, for example through the Pacific Alliance or the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. In the event of a U.S. withdrawal, several Mexican interlocutors expressed the hope that NAFTA would continue as a basis for a bilateral agreement between Canada and Mexico. The Committee believes that Mexico's strategy, both in relation to NAFTA negotiations and its broader trade policy, aligns with Canadian interests and presents an opportunity for greater cooperation.

Recommendation 4

The Government of Canada should cooperate with the Government of Mexico in the pursuit of common objectives in NAFTA negotiations, while also promoting progressive economic partnerships with Mexico outside of NAFTA, including through regional multilateral trade agreements such as the Pacific Alliance and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

2. Foreign Policy and People-to-People Engagement

While trade dominated much of the Committee's discussions in Mexico City, members also heard about a number of other areas where Canada-Mexico cooperation could be further strengthened. The removal in 2016 of the visa requirement for Mexican visitors to Canada, and Mexico's cooperation to address Canada's concerns regarding asylum seekers, were credited with being important factors in improved bilateral relations. Similarly, Canada's Seasonal Agricultural Worker Program was highlighted as a mutually beneficial policy. Some interlocutors in Mexico City suggested that this program should be expanded to address potential labour shortages in other sectors, such as tourism and construction, which also employ a large number of seasonal workers in Canada. This kind of expansion would be one way for Canada to leverage Mexico's large supply of well-trained workers.

Education was another area where the Committee heard of both growing ties and opportunities for deeper engagement. More Mexican students are choosing to study in Canada, and academic links between Canadian and Mexican universities have been growing. The Committee was told that many young people in Mexico are looking for international study alternatives to American schools, which could be an opportunity for Canada.

Finally, the Committee heard how Canada and Mexico can build on their shared values and common position on a range of foreign policy areas. Mexico has demonstrated leadership on climate change and the implementation of the Paris Climate Accord, which

is a priority that Canada shares. The Committee learned that Mexico is also seeking to play a larger role in international peace and security efforts, including with respect to peacekeeping. The Committee believes that these areas present important opportunities for dialogue and partnership, upon which Canada should build.

Recommendation 5

The Government of Canada should continue to strengthen its foreign policy cooperation with Mexico, and foster the growing people-to-people ties that exist between the two countries, including through mutually beneficial employment and educational exchanges.

BRIDGING THE POLARIZATION

NAFTA negotiations are taking place at a time when many people across the globe are questioning the benefits of free trade, and the value of deeper commercial and people-to-people integration. Scepticism about NAFTA is a symptom of this larger global phenomenon. In Canada, however, the debate on the value of free trade has largely been settled. Almost three decades after Canada had an election fought mainly on the subject of free trade, today, all three official political parties support NAFTA and its modernization. This is not to suggest that Canada's political parties agree on all aspects of free trade agreements, or about the Government of Canada's priorities for the NAFTA modernization negotiations. They do not. Yet, overall, Canada's main political parties support free trade, and recognize the importance of trade to the Canadian economy.

The Committee believes that this consensus is an advantage on which Canada can build. During its meetings in Washington, D.C., the Committee heard about the intense polarization that characterizes the United States at this time. The Committee heard that Canada should continue to pursue a pragmatic, constructive, and fact-based strategy during the NAFTA negotiations, and should engage widely with members of Congress and with stakeholders across the U.S.

Engaging with members of Congress is key to this strategy. The Committee heard time and again during its mission that Congress is where the power lies when it comes to U.S. trade policy. While Congress has delegated trade promotion authority (TPA) to the executive branch – which allows the USTR to re-negotiate NAFTA – ultimately Congress will be responsible for implementing a new agreement by passing legislation. The Committee believes that engaging with members of Congress is therefore critical to ensuring that Canada's interests are promoted and protected.

With this in mind, the Committee is of the view that Canadian parliamentarians should continue to engage with their counterparts in the U.S. and encourage congressional delegations (CODELS) to visit Canada. Canadian parliamentarians and government officials should also engage with U.S. officials at the state level – outside of Washington, D.C. – and, likewise, encourage CODELS to travel outside of Ottawa to gain a better sense of Canada.

For its part, the Committee intends to pursue regular dialogue with its counterpart committees on foreign affairs in the United States Congress. It will also do the same with the foreign affairs committees of the Mexican Congress. The Committee considers that more frequent contact between members of these committees would serve not only as a tool for discussing shared solutions to global problems, but also as a means of promoting stronger North American trilateral cooperation. It is the Committee's view that nothing can replace personal contact as a way of developing an understanding of mutual challenges.

In this regard, during its visit to Washington, D.C., the Committee heard about an interesting program for legislative and youth exchange that the U.S. has with Germany. Officials at the U.S. State Department highlighted the Congress-Bundestag Youth Exchange Program, which sees American high school students study in Germany and participate in cultural excursions to the Bundestag and select German cities. The Committee believes that these kinds of youth exchanges are an excellent way to promote mutual learning between countries, and can pay huge economic, political, and cultural dividends for years to come.

Recommendation 6

The Government of Canada should work with officials in Mexico and the United States, along with stakeholders in the educational community and the private sector, to develop new mechanisms for dialogue and exchange within North America, including in the areas of youth exchanges.

CONCLUSION

The Committee believes that NAFTA has been the cornerstone for mutually beneficial economic cooperation between Canada, Mexico, and the United States for over 24 years, helping to foster relations between the three countries on a wide range of bilateral issues. This does not mean that NAFTA has been perfect or that it cannot be improved upon. It can and it should be modernized to become better aligned with new economic and global realities, and do more to ensure that the benefits of trade are shared more equitably.

While the Committee strongly supports the principle of trade modernization, it is concerned by a number of the proposals that have come out of the negotiating rounds. In particular, the Committee holds the opinion that several proposals made by the USTR during the fourth round of negotiation are not in the best interests of any of the three countries, or of broader North American trilateral cooperation. The Committee also believes that the talks should not be constrained by arbitrary deadlines. It is the Committee's view that negotiators should work toward those areas where consensus can be reached, with the goal of achieving a mutually beneficial agreement that will move the North American partnership forward.

In the context of stronger North American relations, the Committee is convinced that Canada should look for areas where it can deepen its partnership with Mexico. This would include promoting economic partnerships with Mexico in addition to NAFTA, as well as cooperation on foreign policy matters, such as climate change and international peace and security. Promoting people-to-people exchanges, including with youth, between Canada, the United States, and Mexico is another strategic avenue to build deeper relations.

In the time since the Committee returned from its mission, the fifth and sixth rounds of negotiations have taken place. It is the Committee's hope that all parties make use of the upcoming rounds as an opportunity to strengthen the North American partnership, and to work toward the renewal of a continental trade pact that is truly "win, win, win."

APPENDIX A
LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
Canadian Chamber of Commerce	2017/04/11	56
Warren Everson, Senior Vice-President, Policy		
Adriana Vega, Director, International Policy		
Department of Foreign Affairs, Trade and Development		
Heidi Hulan, Director General, International Security Policy Bureau		
Martin Moen, Director General, North America Trade Policy and Negotiations		
David Morrison, Assistant Deputy Minister, Americas and Chief Development Officer		
As an individual	2017/04/13	57
Laura Dawson, Director, Canada Institute, Woodrow Wilson Center		
Bessma Momani, Professor, University of Waterloo		
Christopher Sands, Senior Research Professor and Director, Center for Canadian Studies, Johns Hopkins University, Paul H. Nitze School of Advanced International Studies		
Centre for International Governance Innovation		
Paul Heinbecker, Distinguished Fellow		
As an individual	2017/05/04	59
Conrad Black		
Canadian American Business Council		
Maryscott Greenwood, Chief Executive Officer		
Centre for International Governance Innovation		
Fen Osler Hampson, Distinguished Fellow, Director of Global Security and Politics Program		

Organizations and Individuals	Date	Meeting
Johns Hopkins School of Advanced International Studies	2017/05/04	59
Charles F. Doran, Professor, International Relations, Director of Canadian Studies		
As an individual	2017/05/18	63
Carlo Dade, Senior Fellow, School of International Development and Global Studies		
Automotive Parts Manufacturers' Association		
Flavio Volpe, President		
Chemistry Industry Association of Canada		
David Podruzny, Vice-President, Business and Economics		
Association of Canadian Port Authorities	2017/05/30	64
Debbie Murray, Director, Policy and Regulatory Affairs		
Wendy Zatylny, President		
Canadian Manufacturers & Exporters		
Mathew Wilson, Senior Vice-President		
Canadian Steel Producers Association		
Joseph Galimberti, President		
As individuals	2017/06/06	65
Kim Richard Nossal, Professor, Centre for International and Defence Policy, Queen's University		
Colin Robertson, Vice-President and Fellow, Canadian Global Affairs Institute		
Department of Foreign Affairs, Trade and Development	2017/10/19	76
Michael Gort, Director General, International Organizations		
Catherine Gosselin, Deputy director, Trade Negotiations - North America (TNP)		
Giles Norman, Executive Director, Defence and Security Relations		
Sara Wilshaw, Director General, North America Advocacy and Commercial Programs		

APPENDIX B
TRAVEL TO MEXICO CITY, NEW YORK CITY AND WASHINGTON, D.C.
From October 23, 2017 to October 27, 2017

Organizations and Individuals	Location/Date
Embassy of Canada Christina Préfontaine, Counsellor, Political Virginie Levesque, Counsellor, Economic Grace Kim, Counsellor, Agriculture Heather Brason, Senior Advisor, Trade Policy Eugenio Morales, Senior Advisor, Political and Congressional Relations	Mexico City, Monday, October 23, 2017
Chamber of Deputies Giorgana Jimenez Victor Manuel, President, Foreign Affairs Committee Guizar Valladares Gonzalo, President, Committee on Migration Quinto Guillen Carlos Federico Corichi Garcia Claudia Sofia Jimenez Marquez Martha Cristina Basave Benitez Agustin Francisco de Asis Pina Kurczyn Juan Pablo Herrera Borunda Javier Octavio Ferreiro Velazco Jose Alfredo Fernando Uriarte	

Organizations and Individuals	Location/Date
As Individual	Mexico City, Monday, October 23, 2017
Dr. Silvia Nunez Garcia Centre for Research on North America (CISAN), Universidad Autonoma de Mexico (UNAM)	
Dr. Jessica de Alba, Professor-Researcher, Faculty of Global Studies, Universidad Anahuac	
Senate Foreign Affairs Committee	
Senator Gabriela Cuevas Baron, President	
Senator Víctor Hermosillo y Celada	
Senator Juan Carlos Romero Hicks	
Senator Isidro Pedraza Chávez	
Mexico's Council on Foreign Relations (COMEXI)	Mexico City, Tuesday, October 24, 2017
Ambassador Andres Rozental, President of Rozental y Asociados and Founder of COMEXI	
Ambassador Claude Heller, Emeritus Ambassador of Mexico	
Carlos Heredia, Researcher at CIDE	
Ambassador Francisco Suarez, former Mexican Ambassador to Canada	
Antonio Ocaranza, Independent Consultant	
Mariana Campero, Executive Director, COMEXI	
Chamber of Commerce	
Armando Ortega, President, Canadian Chamber of Commerce in Mexico	
Canada's Permanent Mission to the UN	New York, New York Wednesday, October 25, 2017
Marc-André Blanchard, Ambassador and Permanent Representative	
Michael Grant	
Louise Blais	
Michael Bonser, Minister-Counsellor	
Karine Tardif, First Secretary, Development	

Organizations and Individuals	Location/Date
Canada's Permanent Mission to the UN Simon Collard-Wexler, First Secretary, Political Affairs Pierre-David Jean, First Secretary, Political **United Nations Population Fund (UNFPA)** Laura Londen, Deputy Executive Director, United Nations Population Fund **United Nations Department of Political Affairs (DPA)** Jeffrey Feltman, Under-Secretary-General for Political Affairs **As Individuals** Nahla Valji, Senior Gender Advisor in the United Nations Executive Office of the Secretary-General Francoise Girard, President, International Women's Coalition Kimberly Prost, Canada's candidate, International Criminal Court Randi Davis, Director of the Gender Team, United Nations Development Programme **United Nations Office for the Coordination of Humanitarian Affairs (OCHA)** Ursula Mueller, Assistant-Secretary-General for Humanitarian Affairs and Deputy Emergency Relief Coordinator **UN Disarmament** Izumi Nakamitsu, Under-Secretary-General and High Representative for Disarmament Affairs	New York, New York Wednesday, October 25, 2017
Embassy of Canada Kristen Hillman, Deputy Head of Mission Jennifer Loten, Ambassador and Permanent Representative to the Organization of American States Martin Loken, Minister, Political Meaghan Sunderland, Deputy Head of Congressional Section	Washington, D.C. Thursday, October 26, 2017

Organizations and Individuals	Location/Date
Embassy of Canada Hussein Hirji, Economic Counsellor, Development Greg Witon, First Secretary, Defence Hani Nasser, Political Consellor Alistair Wallbaum, Counsellor, Political/Economic Dan Abele, Head, Intergovernmental Affairs Kevin Tunney, First Secretary, Political	Washington, D.C. Thursday, October 26, 2017
United States House of Representatives Representative Theodore Deutch Representative Francis Rooney Representative Eliot L. Engel Representative Ted Yoho	
United States Senate Senator Edward Markey Senator Johnny Isakson Senator Benjamin Cardin Senator Ron Johnson	
U.S. Chamber of Commerce Neil Herrington, Vice President, Americas Program Reuben Smith-Vaughan, Senior Director for Policy and Advocacy, Americas Program	
AFL-CIO Cassandra Waters, Global Worker Rights Fellow, International Department	

Organizations and Individuals	Location/Date
State Department Mark Cullinane, Acting Director, Office of Canadian Affairs, Bureau of Western Hemisphere Affairs Mara Tekach, Deputy Assistant Secretary for Public Diplomacy, Bureau of Western Hemisphere Affairs Simon Davidson-Hood, Office of Defense Trade Control Policy, Bureau of Political-Military Affairs Rebekah Nelson, Office of Regional Security and Arms Transfers (RSAT), Bureau of Political-Military Affairs Pam Quanrud, Director, Global Partnerships and Networks, Global Coalition to Counter ISIS Jonas Wechsler, Deputy Director, Global Partnerships and Networks, Global Coalition to Counter ISIS Katherine Monahan, Director, Office of Economic and Development Affairs, Bureau of International Organization Affairs Joseph Manso, Director, Office of UN Political Affairs, Bureau of International Organization Affairs Mark Schlacter, Director, Office of Public Affairs, Planning, and Coordination **Organization of American States (OAS)** Nestor Mendez, Assistant Secretary General Gonzalo Koncke, Chief of Staff of the Secretary General James M. Lambert –Secretary, Hemispheric Affairs Jean Michael Arrighi, Secretary, Legal Affairs Adam Namm, Executive Secretary, Inter-American Drug Abuse Control Commission Christopher Hernandez-Roy, Advisor to the Secretary General	Washington, D.C. Friday, October 27, 2017

Organizations and Individuals	Location/Date
As Individuals Maryscott Greenwood, Chief Executive Officer, Canadian-American Business Council Paul Frazer, President, PD Frazer Associates Michael Abramowitz, President, Freedom House Tom Sanderson, Senior Fellow and Director, Transnational Threats Project, Center for Strategic and International Studies	Washington, D.C. Friday, October 27, 2017

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings* (Meetings Nos. 56, 57, 59, 63, 64, 65, 76 and 82) is tabled.

Respectfully submitted,

Hon. Robert D. Nault
Chair

FAAE- NAFTA

TABLE OF CONTENTS

LIST OF CONSERVATIVE PARTY OF CANADA RECOMMENDATIONS..... 2

MOVING THE RELATIONSHIP FORWARD: NAFTA MODERNIZATION AND NORTH AMERICAN TRILATERAL COOPERATION 3

INTRODUCTION..... 3

CURRENT DYNAMICS AND CHALLENGES FOR NAFTA MODERNIZATION..... 4

1. Building Consensus for a Stronger NAFTA 4
2. Differences in Trilateral Views..... 4
3. Canada and the United States.....5
4. Industry must engage in the NAFTA debate.....5-6

CONCLUSION..... 6

LIST OF RECOMMENDATIONS

As a result of their deliberations committees may make recommendations which they include in their reports for the consideration of the House of Commons or the Government. ***The Conservative Party of Canada's Recommendations*** *related to this study are below.*

RECOMMENDATION 1

It is clear that Members of the House of Representatives and Senate are well disposed to Canada, but that North American Free Trade Agreement negotiations (NAFTA) are not yet viewed as a priority in the United States. Tax Reform, North Korea and Iran appear to dominate discussion in Congress at the moment, so more work is needed to ensure that Canadian interests are advanced. A longer term, bipartisan approach to Canada-U.S. engagement will be important and the German example was highlighted as one to emulate.

RECOMMENDATION 2

The expectation that completing NAFTA negotiations ahead of the Mexican Presidential election was crucial does not appear to be the case. Elected officials in Mexico advised the committee that domestic issues like crime and corruption will again dominate the election in Mexico more than NAFTA and U.S. relations.

RECOMMENDATION 3

Labour Unions in Mexico and the United States are not as engaged in NAFTA negotiations as they are in Canada. Labour union reform in Mexico will also be important to ensure that benefits from trade will be shared across the economy.

RECOMMENDATION 4

Agricultural and migrant workers will be an area of unique interest in NAFTA modernization. Mexico and Canada share a unique view to the benefits of seasonal agricultural workers, whereas the United States views the issue far differently.

RECOMMENDATION 5

The automobile assembly and parts industries in North America are facing dire risks if the unreasonable U.S. positions continue to be advanced in NAFTA negotiations. The integration of the industry and the overall low tariff rate in the U.S. could lead to investment moving overseas if content rules are changed

RECOMMENDATION 6

Canada should embrace and grow our consular network and parliamentary outreach in the coming years. We must foster a deeper level of understanding of Canada and areas of mutual interest. Canada should consider expanding consular services and ensure that people to people ties are expanded. Education and civic engagement should be expanded by all parliamentarians should expand engagement beyond Washington and New York.

RECOMMENDATION 7

The Canadian "progressive agenda" for trade is having a neutral impact on NAFTA negotiations. Officials in Mexico and the United States are supportive of the elements advanced in this agenda, but do not view them as critical to modernization. Labour standards might be the one agenda item that is viewed as more important as the others and this related mainly to wage rates in Mexico. Industry stakeholders in the U.S. suggested that Canada is advancing this "progressive agenda" as a series of non-binding, aspirational measures.

MOVING THE RELATIONSHIP FORWARD: NAFTA MODERNIZATION AND NORTH AMERICAN TRILATERAL COOPERATION

INTRODUCTION

1. The Conservative opposition members of the Standing Committee on Foreign Affairs and International Development Committee (the "Committee") were not prepared to participate in the interim majority report on NAFTA. This reluctance is due to both political and practical reasons. First, the Committee study on relations with the United States and Mexico is not complete and there is no compelling reason to issue an interim report on this study other than for the political value for the government members to craft a narrative that is, in our view not fully supported from the meetings and outreach conducted on our recent trip to Mexico and the United States.

   It is also not practical for the Conservative members to complete an interim report because the Committee membership has changed substantially in the last six months. All of the Conservative members are new to the committee and did not participate in some of the early witness testimony on this study. Half of the Liberal membership also changed in the last six months, so an interim report is not really appropriate given the fact that the majority of committee members only participated in the visit portion of the study and did not hear any witness testimony on the study.

CURRENT DYNAMICS AND CHALLENGES FOR NAFTA MODERNIZATION

1. Building Consensus for a Stronger NAFTA

The visit by the Committee to Mexico City and Washington, D.C. was a very worthwhile and important exercise. The ability for MPs to discuss NAFTA and bilateral relations on an elected official to elected official basis was very important to discern the opportunities and challenges facing all three countries in the context of modernizing or renegotiating NAFTA. It is clear that Mexico and Canada are in these negotiations solely due to the unilateral decision by President Trump to demand re-negotiations. While both Canada and Mexico are attempting to find a rationale for a "modernization" exercise, it is clear that both countries would be very happy to emerge with the status quo at the conclusion of negotiations.

2. Differences in Trilateral Views

It was also clearly illustrated to Conservative members of the Committee that the bilateral relationship between Mexico and the United States is very different from that between the U.S. and Canada. In Canada, agricultural issues and migration issues generally are viewed positively, whereas migrant workers and illegal immigration are touchstone issues in the U.S. and are a particular focus for the US President. It is also clear that relations between Mexico and President Trump are very strained and viewed as a departure from normal Mexico – U.S. relations. Agricultural labour and produce trade will be uniquely challenging issues for Mexico and the United States and do not receive a lot of attention in Canada.

While Union representatives are part of the Trudeau government consultation group and are front and centre in Canadian discussions about trade, the same is cannot be said about labour groups in the United States of Mexico. In the United States, we were informed that the Union of Auto Workers (UAW) is not as vocal or active as their UNIFOR counterpart in Canada. In Mexico, we were advised that there is a need for labour movement reform, as it is viewed as a "political tool" and not a true voice for workers. It was also interesting to hear that most Mexican officials we met were more than willing to see the President push for a higher minimum wage in Mexico. It appears that all political parties would like to see more movement on that issue and that there was disappointment in the approach from their government to date on NAFTA and relations with President Trump specifically.

Migration issues will continue to dominate the bilateral relationship between Mexico and the U.S. The southern border of Mexico is the frontier between central and southern America and North America. Currently, the two countries are collaborating on this border and stemming the flow of migrants, but it is clear that Mexico views this as bilateral work as a benefit to the U.S. and that it could be at risk if relations continue to deteriorate.

Further, with the expiration of Temporary Protected Status (TPS) for 300,000 people currently residing in the United States fast approaching, migration will continue to complicate the discussions between the United States and Mexico. On the other hand between Mexico and Canada appears to be viewed positively. Mexican officials are happy with the changes to VISA requirements with Canada and both Canada and Mexico view seasonal workers between the countries as a positive. On this and many other issues, the bilateral relationship between Canada and the U.S. is radically different to the Mexico and U.S. bilateral relationship.

3. Canada and the United States

In Washington it was clear that all elected officials and stakeholders view Canada positively, but do not have a high degree of knowledge of the issues important to Canada. Canada appears to be a valued neighbour, but a neighbour that it not well understood.

Elected officials that were engaged in the visit view Canada as a great friend, but did not view NAFTA negotiations as a top priority at present. Both Republican and Democrat members of the House of Representatives and Senate view tax reform, North Korea, and Iran as far more important considerations at present compared with NAFTA and trade generally.

An impression was left that NAFTA will become more of a priority in political circles once the tax reform debate is concluded in Washington. Accordingly, it is our view that elected official in the U.S. will be more open for political engagement in the early part of 2018. It was surprising that even a member of the border caucus in the U.S. Congress was not aware that there was a Canada – U.S. Parliamentary Friendship Group. It is clear that Canada needs to continue bilateral engagement and actually modernize it by making it more comprehensive. The example of German-U.S. engagement was mentioned by several people as the approach to follow. It would also be important to enhance bilateral engagement in more parts of the United States. Mexico has a consulate in every state and engages this network very well. Canada has a much more modest consular network. This should be expanded and parliamentarians should be encouraged to engage across the states to support our consular presence.

4. Industry must engage in NAFTA debate

The Committee heard from industry and the U.S. Chamber of Commerce. Industry is beginning to pressure the Trump administration to be highly critical of their negotiation positions particularly that for the auto and auto parts industry. Low tariff rates in the United States for automobiles could lead global manufacturers to abandon North American manufacturing if the U.S. continues to advance unreasonable domestic production positions. The high degree of integration of the auto and auto parts industry in North America does not appear to be appreciated by the Trump administration. As a result of this industry's great importance to all three economies Canada, Mexico and industry as a whole should ramp up pressure on the U.S. to show that their current demands on auto are putting the entire industry and millions of jobs at risk.

U.S. industry is now getting more organized on the trade front and should be ramping up efforts in 2018. Canada and our industry groups should collaborate even more in the New Year to apply pressure. Industry does not take issue with the "progressive agenda" being advanced by Canada; however, we were informed that Canadian priorities like: indigenous issues, gender and the environment are being treated as inspirational and are viewed as non-binding elements of NAFTA modernization. With this in mind, it is the Conservative view that priority and negotiating strategy for Canada needs to evolve to highlight the aspirational elements of this agenda, but to devote more negotiation time and effort for automotive rules of origin issues and defensive elements for agriculture and mobility

CONCLUSION

The Conservative members of the Committee view the visit to Mexico and the United States as successful, yet, that enhanced engagement between Canada and the U.S. is needed in the New Year when NAFTA will become more of a priority. It should also be highlighted that Canada and Mexico have and will continue to have some shared areas of interest, but that we will also have areas where relations with the United States are vastly different and that these differences should be recognized within the context of negotiations and a modernized NAFTA agreement. Canada negotiation and final outcomes are best advance when we recognize differences between our interests and that divergence with Mexico does not diminish the strong and growing bilateral relationship between our two countries Mexico.