Trump just ripped up Nafta. Here's what's in the new deal

By Jim Tankersley
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There's a lot to digest in the new trade agreement that the United States, Mexico and Canada finalized in deadline-beating fashion on Sunday, starting with a name change: If the new deal is adopted by all three countries, the North American Free Trade Agreement will give way to the United States-Mexico-Canada Agreement or U.S.M.C.A.

It's a cosmetic change for an otherwise consequential set of revisions.

"It's not Nafta redone, it's a brand-new deal," President Trump said at the White House on Monday.

Text of the pact, released late Sunday, includes major adjustments in several key areas of the countries' trading relationships. The agreement sets new rules for automobile production, meant to incentivize production of cars and trucks in countries that pay higher wages. It reduces barriers for American dairy farmers to sell cheese, milk and other products to Canada. It retains a tribunal for resolving trade disputes that the United States had sought to eliminate.

It guarantees Canadian and Mexican manufacturers expanded access to some large American markets, such as cars and light trucks, but leaves lingering questions about their ability to avoid tariffs on steel and aluminum exports to the United States.

Here are highlights from the text of the agreement, and from the 12 "side letters" the negotiating countries filed alongside it.

An attempt to steer more car production to the United States

Nafta required automakers to produce 62.5 percent of a vehicle's content in North America to qualify for zero tariffs. The new agreement raises that threshold, over time, to 75 percent. That's meant to force automakers to source fewer parts for an "Assembled in America" (or Canada) car from Germany, Japan, South Korea or China.

For the first time, the new agreement also mandates that an escalating percentage of parts for any tariff-free vehicle — topping out at 40 percent in 2023 — must come from a so-called "high wage" factory. The agreement says those factories must pay a minimum of $16 an hour in average salaries for production workers. That's about triple the average wage in a Mexican factory right now, and administration officials hope the provision will force automakers to shift suppliers from Mexico to Canada or the United States.

There are risks to that change. Automotive analysts have warned that the provision could have a damaging effect for Americans, by raising costs for American car buyers and incentivizing automakers to move production to low-cost countries outside the United States, such as China.

Conversely, the final provision, as written, could prove relatively ineffective at shifting production — because it is not indexed to inflation. An average wage of $16 an hour will be less constraining in 2023 dollars than it is today.

Relief from future auto tariffs for Canada and Mexico

Mr. Trump has repeatedly threatened, over the last year, to impose tariffs on imported automobiles. In a news conference last week, he suggested that Canada would face such tariffs if it did not reach agreement with the United States on a new trade deal. Mr. Trump's administration has undertaken an investigation that could lead to auto tariffs, but it appears unlikely to finish up any time soon. The threat of auto tariffs has clouded trade talks with several countries, including Japan and South Korea, which import cars and car parts into America.

Canada and Mexico won't have to sweat it, though. The new agreement includes side letters that grant exemptions from any future American tariffs to 2.6 million imported passenger vehicles from each of those countries. That's slightly more vehicles than Mexico has exported to the United States over the last year, and nearly 1 million more than Canada has exported.

Wins for American cheese (and wine)

Perhaps the biggest sticking point in negotiations over the last month was the issue of Canada's protection of its dairy market, including limits on imported dairy products from the United States and government support that gives Canadian products an advantage on international markets against American ones.

"Dairy was a deal breaker," Mr. Trump said on Monday.

The new agreement gives the United States victories on both fronts. It gradually opens the Canadian market to more exported American dairy products, including "fluid milk, cream, butter, skim milk powder, cheese and other dairy products." Canada agreed to eliminate a program that helps Canadian sellers of certain milk products, at home and abroad.

It also creates a list of cheese names that Mexico and the United States agree can be marketed without restriction in their respective countries, and it forces grocery stores in British Columbia to stop their practice of selling British Columbia-only wines on certain shelves, and stock American wines alongside them.

A win for Canada on dispute resolution

Trade agreements typically come with enforcement mechanisms. As part of its renegotiation efforts, the United States sought to eliminate one of those mechanisms in Nafta: the so-called Chapter 19 provision, which gives the three countries a sort of neutral playing site — a panel with representatives from each country — to challenge each other's impositions of tariffs, and other actions.

Canada won the fight to keep that provision in the revised agreement. It did agree to eliminate another form of enforcement between the United States and Canada, which allows investors to sue for relief from foreign countries' actions. Consumer groups have long criticized that resolution mechanism, contending it allows large corporations too much power to challenge environmental and other regulations. The new deal leaves that mechanism in place for disputes between the United States and Mexico, but not for Canada.

Goodies for unions, banks and pharmaceutical companies

Among the small-but-significant items in the new agreement are a measure to push Mexico to make it easier for workers to form and join labor unions, steps to allow American financial services companies better access to Canadian and Mexican markets and a provision to extend the intellectual property protections of American pharmaceutical companies selling prescription drugs in Canada.

That last provision will grant longer protections to American biologic drugs, against biosimilar competitors, and it will probably raise the profits of those drugmakers when they sell in Canada.