



# **The Existential Challenge: Canada-U.S. Trade Relations in 2024 and Beyond**

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## About the Author



**John Weekes** is a former senior Canadian trade official and negotiator whose active involvement in trade matters spans more than five decades. He brings a strategic perspective to analysing the evolution of the trading system and its rules and how they interact with other policy spheres including changing concepts on the role of governments in modern societies and fundamental shifts in the international security situation. He has

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## 1. The Stakes

Canada faces an existential challenge in managing trade relations with the United States. Whoever Americans choose as their next president Joe Biden or Donald Trump, Canadians need to prepare to deal with a United States which will press specific American interests in a way that is politically expedient, while paying little, if any, attention to international trade rules. Canadians may find it marginally easier to deal with a Biden Administration because its approach would be less erratic than that of a Trump Administration. But this cannot obscure the fact that trouble lies ahead.

It seems almost inevitable that the review and term extension process required in 2026 under Article 34:7 of the Canada-U.S.-Mexico Agreement (CUSMA) will lead to a new negotiation. Major demands will be made of Canada. The key leverage that the Americans have is to threaten termination of the agreement. Unfortunately, termination would be much more damaging to Canadian interests than to American.

There is also a non-negligible risk that a new American administration would decide to withdraw from the World Trade Organization (WTO). This would quickly undermine any positive role this global agreement can play. In the event CUSMA were terminated, the WTO would become the only set of trade rules between Canada and the United States. Canada needs both agreements. Some international rules protecting Canada's trade interests in the United States are found only in the WTO and not in the CUSMA. These include the rules on antidumping and countervailing duties, subsidies including agricultural support programs, and government procurement.

The framework provided by these trade agreements creates an environment in which investors can have confidence that investments made in Canada will benefit from access to larger markets. If those agreements appear threatened, Canada's attractiveness as a site for investment will decline dramatically.

Preservation of CUSMA and the WTO must be top priorities for any Canadian government.

## **2. Addressing Irritants**

A list of Canada-U.S. trade irritants provides a clear indication of the more difficult issues that would be at play in any renegotiation. Whether an effort should be made to resolve these issues before 2026 is both a political and a tactical matter. For instance, supply management, particularly dairy policy, will be high on any U.S. request list. If Canada were to make concessions before 2026 would that lessen American interest in making further demands, or strengthen their resolve to push further? From another perspective, would any Canadian government make major concessions in this area if it were not clear that failure to do so would result in grave consequences for Canada?

An effort must be made to avoid creating new irritants over the next couple of years. For instance, the passage of Bill C-282 now before the Senate would inflame American sentiment and make a major renegotiation more likely. National elections in all three North American countries before 2026 create a situation which will be politically challenging to manage. Also bear in mind that a public American process to prepare for the 2026 CUSMA review is required by law to begin by October 1, 2025.

## **3. A New Strategic Approach**

To address these threats Canada needs to develop a strategy to ensure a constructive working environment for the CUSMA review and to lay the ground for the extension of the agreement. The strategy should include a program of trade cooperation that would appeal to the interests of Canada's allies in the U.S., particularly in the business community. Indirectly it should make the case for why CUSMA and the WTO are in the best interests of the United States. In preparing the elements of this program Canada should select areas for initiatives where both Americans and Canadians could benefit. In fleshing out the details Canadians would have an opportunity to try to ensure that Canadians would benefit. But obviously it would be important to make sure that there would be significant American benefits as

well. Nor should Canadians forget that the main prize for Americans would be making gains in the global arena and not just with Canada.

To reinforce the attractiveness of these ideas to American interests it would be important for Canada to emphasize that Canada would work to promote these ideas with third countries. One way to moderate the pressure from bilateral irritants is to develop a structure in which Canada works closely with the U.S. as an ally in pursuit of joint global interests. There was a lot of such activity in the runup to and during the Uruguay Round of negotiations in the 80s and early 90s.

Candidates for inclusion in this strategy would be managing the trade effects of policies to promote a green economy, digital trade, resilient supply chains, ecommerce and, trade in health products

A more challenging area would be to move forward with an international discussion of the trade impacts of industrial policy initiatives reinforced by major subsidy programs. This should be of particular interest to Canada which is ill equipped to compete with the U.S., China, the EU and other major players in a global subsidy war for investment. Importantly such work could provide an avenue for considering a significant component of the market activities of the Chinese state. Canada pushed to initiate such discussions at the recent WTO ministerial conference and there are signs that China may be willing to participate.

In the wake of the Mexican election, Canada should move quickly to identify the prospects for beneficial cooperation with Mexico in these endeavours.

A first-rate strategy is essential to underpin efforts of a Team Canada outreach to American partners. Canadians must be able to show that the real value of a renewed partnership is bold and forward looking. It is not sufficient to simply point out how important our current relationship is. American business is going to be looking to the future and we need to show how an important part of that future could be working with Canadians in pursuit of common interests both in North America and beyond.

