



A Submission to the Government of Canada
on
Consulting Canadians on the renegotiation of the
North American Free Trade Agreement with the
United States and Mexico

Chartered Professional Accountants of Canada

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Chartered Professional Accountants of Canada (CPA Canada) is pleased to provide input to Canada's public consultations on renegotiating and modernizing the North American Free Trade Agreement (NAFTA). The renegotiations may not have been initiated by Canada, but nonetheless, they provide a welcome opportunity to refresh and strengthen an agreement that has been transformational in its integration of the North American economy and the globally competitive position it gives the continent.

CPA Canada is the national body of Canada's newly unified accounting profession, representing more than 210,000 professional accountants working across Canada and abroad. CPA Canada is one of the world's largest and most respected accounting organizations. The Canadian CPA profession unites the members of three legacy accounting bodies: Chartered Accountants, Certified Management Accountants and Certified General Accountants.

CPA Canada champions the Canadian ideal of good business, where sustainable growth, compassion and social development are valued. It is from this perspective that we choose to comment on this topic. NAFTA has touched the lives of all Canadians, in one way or another, and these negotiations will have consequences for our economy and our quality of life. NAFTA has been particularly important for business people and providers of professional services who conduct business across North America's borders. We are currently conducting our own consultations on the subject with different segments of our own membership, and we hope to provide more detailed input to you in the near future on how our profession is affected. But, in the meantime, we wish to take this opportunity to comment briefly on the broader impacts to Canadian business and society.

Integration of the North American Economy

We are pleased that NAFTA renegotiations will be a trilateral process as there had initially been some doubt about that. One of the most important outcomes of the NAFTA agreement is that it has enabled businesses to structure their operations so as to take advantage of the respective strengths of each NAFTA partner in order to achieve greater competitiveness. As a result, many businesses and supply chains are completely integrated across the three countries and a trilateral agreement is necessary to provide continuity to business operations and to maintain these competitive advantages.

The U.S. administration is expected to make improving its balance of trade its primary objective in forming its negotiating position. However, as the Peterson Institute for International Economics points out, all three NAFTA countries have global current account deficits (Canada and Mexico both have deficits that are larger, as a percent of GDP, than the U.S.). As the institute suggests, it would make more sense for the NAFTA countries to tackle their global competitiveness challenges together through further integration and trade liberalization.¹

Principles for Renegotiation

CPA Canada is a member of the Canadian Services Coalition which, in its submission to these consultations, identified four principles to guide Canada's negotiating position. We would like to take this opportunity to endorse those principles and expand on them briefly.

¹ Bergsten, C. Fred, 2017. *Trade Balances and the NAFTA Renegotiation*, PIIE Policy Brief 17-23. Washington: Peterson Institute for International Economics.

Canada should oppose any move to backtrack the existing benefits of NAFTA. Current benefits should be at the least maintained but ideally improved.

Technology has revolutionized how business is done over the past two decades and a modernization of NAFTA is needed to keep pace with the changes. The rise of global value chains, e-commerce and the growth of the services sector are among the factors making NAFTA somewhat dated – but it is not broken. While there are opportunities to modernize and improve NAFTA, we must maintain that the current agreement is the starting point and ensure that we do not cede any of the provisions that currently deliver benefits.

A new NAFTA should aim to boost the services sector's efficiency and competitiveness, regionally and globally.

Canada's services exports totaled \$107.2 billion in 2016, the largest amount in our history and an increase of 4.8 per cent over the previous year. Furthermore, Canada's bilateral trade in services with the United States is much more balanced than our trade in goods. Slightly more than half of both our exports and imports in services are with the United States.² Improving NAFTA's terms for the services sector should be a priority and we will expand on this below.

Negotiations should be conducted in a transparent manner and observing due processes for stakeholder consultation.

There has been criticism in recent years that Canada's free trade negotiations have been secretive. Of course, the negotiation of trade agreements cannot be conducted in the open, but steps can be taken to make the process more transparent and inclusive. The government is already taking the most important step – proactively seeking the views of all Canadians, not just those of the business community and industries most impacted by trade. Consideration should also be given to some of the recommendations earlier this year of the Senate Standing Committee on Foreign Affairs and International Trade, particularly the idea of quarterly reports to relevant parliamentary committees on the status of free trade negotiations.³

Aiming to minimize disruption, negotiations should move as quickly as possible, in the understanding that an ambitious agreement that is suitable for modern business practices is preferred over an expeditious one.

Much is being made of the need to conclude negotiations before electoral processes in other jurisdictions ramp up next year. These are important considerations, but artificial deadlines. An ambitious modernization of NAFTA will take time to negotiate.

² Global Affairs Canada, *Canada's State of Trade: Trade and Investment Update 2017*.

<http://www.international.gc.ca/economist-economiste/assets/pdfs/performance/sot-2017-eng.pdf> (Accessed July 10, 2017)

³ Standing Senate Committee on Foreign Affairs and International Trade, *Free Trade Agreements: A Tool for Economic Prosperity*, February 2017.

Trade in Services

As mentioned above, the value of Canada's services exports reached a record amount of \$107.2 billion in 2016, when measured using conventional trade statistics. While the growth of Canada's services sector has been impressive and consistent, the value of Canada's services exports is, in fact, badly underestimated. According to research by the Conference Board of Canada, services in the form of intermediate inputs in the manufacturing process account for 29 per cent of the value of Canada's goods exports. When these embedded services are added to the conventional statistics, they account for 44 per cent of Canada's gross exports rather than the 16 per cent attributed to services by conventional measures.⁴ Roughly three-fifths of Canada's services exports go to the United States (55.1 per cent of services measured by traditional trade statistics⁵, close to 60 per cent of the services exports as intermediate inputs⁶).

There are a number of trade issues of significance to the services sector and they are outlined in the submission made to these consultations by the Canadian Services Coalition. We will focus our comments on the one issue that we believe to be of paramount importance, the issue of worker mobility.

Temporary Entry for Business Persons

The fundamental feature of all services is that they are provided by people, for people. Electronic communications make it possible to conduct much of that activity across distances and time zone differences, but the need for face-to-face interactions cannot be eliminated. One of the most crucial achievements of the NAFTA agreement is the cross-border mobility of business people facilitated under Chapter 16, Temporary Entry for Business Persons. It enables several categories of business people, including qualified professionals, to cross the border and conduct business on a temporary basis on behalf of their employers.

As mentioned earlier, NAFTA has led to the integration of business operations across the three partner countries. One illustration of this is the impact of foreign affiliates. Roughly 1.2 million Canadians work for Canadian affiliates of U.S.-controlled firms and approximately 10 per cent of Canada's corporate assets, worth more than a trillion dollars, is controlled by U.S.-owned foreign affiliates.⁷ U.S. affiliates of Canadian-owned firms employ more than half a million Americans, contributing more than \$300 billion to the U.S. economy.⁸ Just as engine parts need to move freely between Mexican and American plants of a Canadian-owned auto parts manufacturer – to use one example – so too do employees.⁹

Large technology companies are among the businesses that have seen value in establishing operations in several NAFTA jurisdictions, but they have been among the most affected by one of the Temporary Entry chapter's weaknesses. The agreement provides temporary entry to more than 60 specified

⁴ Palladini, Jacqueline, *Good Service is Good Business: How Services Add Value to Canadian Goods Exports*, Conference Board of Canada, 2015.

⁵ Canada's State of Trade: Trade and Investment Update 2017

⁶ The Conference Board of Canada. *NAFTA 2.0 and Canada: Upgrading a 20th-Century Deal for a 21st-Century World*. Ottawa. The Conference Board of Canada, 2017.

⁷ Canada's State of Trade: Trade and Investment Update 2017 and CPA Canada calculation

⁸ NAFTA 2.0 and Canada: Upgrading a 20th-Century Deal for a 21st-Century World

⁹ Keenan, Greg. "Canada's secret NAFTA weapon." *The Globe and Mail*, July 8, 2017.

occupations, but this list of occupations has grown badly out of date and technological advances have led to new occupations never considered at the time NAFTA was drafted. Ideally, renegotiation of the agreement should include expanding this list to include occupations and professions that reflect today's economy. If possible, the modernized agreement should also be flexible enough that it allows for new, as-yet-to-be created occupations to be added.

The Conference Board of Canada identifies another weakness in the Temporary Entry chapter: vague language in the agreement that places too much responsibility and discretion on border officials to interpret the meaning, thereby leading to inconsistent application of the rules.¹⁰ Consistent, fair and predictable treatment at the border should be a fundamental objective of trade agreements, regardless of whether it is goods or people moving across the border.

However, despite the arguments for improving the terms of the Temporary Entry chapter, the subject is politically sensitive in the United States and progress in this area may be difficult to achieve at this time. For this reason, Canada should pursue two overriding priorities. First, we must ensure that none of the worker mobility provisions in the current agreement are compromised. Any loss of existing mobility provisions will have consequences for businesses in all three countries. Second, if progress is not possible at this time, we should strive for a process to re-open this issue at a time or in a manner that might be more conducive to a positive outcome.

Leveraging the Trans-Pacific Partnership

Many of the issues to be negotiated in the context of NAFTA have been recently discussed between the three parties through the Trans-Pacific Partnership (TPP) negotiation process. Indeed, one of the most beneficial reasons for Canada's participation in the TPP was to strengthen and modernize the trading relationship with our North American partners. While the United States has chosen not to ratify the TPP, and the future of the agreement itself is uncertain, the achievements of the TPP negotiations may form a benchmark or starting point for NAFTA negotiations.

In particular, the TPP includes two chapters that are not part of the existing NAFTA agreement that are worth consideration. Chapter 24, Small and Medium-Sized Enterprises, is intended to address the cost and information barriers that inhibit SMEs from taking advantage of the opportunities presented by free trade agreements. This chapter was an innovation of the TPP and is worth emulating in Canada's future free trade agreements.

The TPP also includes a chapter on Regulatory Coherence, which is intended to ensure that a country's regulations are developed using good regulatory practices to meet legitimate policy objectives, but do not unintentionally become barriers to trade. The Regulatory Cooperation Council, established between Canada and the United States, is doing important work in this area. But, there may be value in incorporating regulatory cooperation practices in the NAFTA agreement in order to pursue greater regulatory cohesion across North American jurisdictions.

In closing, Canada should welcome this opportunity to modernize the NAFTA agreement. Achieving real progress will take time, however, and Canada should not feel pressured by our partners to work toward unrealistic deadlines. Most importantly, negotiations should strive to improve the existing agreement, not sacrifice previously achieved liberalizations.

¹⁰ NAFTA 2.0 and Canada: Upgrading a 20th-Century Deal for a 21st-Century World