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Shedding light, not heat, on tariff and trade issues affecting Canada and Canadians

In a world where tariffs make headlines and trade policies shift overnight, understanding what it all means requires more than breaking news – it requires trusted insight. The Tariff Home Companion brings clarity to the conversations that matter most, delivering expert analysis on the trade issues reshaping how we do business across borders.

Hosts [Rambod Behboodi](#) and [Stephen de Boer](#) bring decades of experience to guide listeners through the policies, personalities, and practical implications driving today's trade landscape. Rambod is senior counsel at BLG. Stephen is a former Canadian ambassador to the WTO and recently retired as foreign and defence policy adviser to the Prime Minister. Together, they explain what trade policies actually mean and why they matter.

Each episode tackles terms you've heard but may not understand. What is supply management? How do retaliatory tariffs work? Why do steel and aluminum disputes keep coming back? The hosts break down these concepts, often joined by high-profile leaders from across industries who offer their own perspectives on how these policies play out in the real world. They focus on facts and practical implications for businesses navigating an uncertain trade environment.

Whether you're advising clients, making strategic decisions, or simply trying to make sense of trade headlines, The Tariff Home Companion offers the kind of informed perspective that only comes from years of experience on both sides of the negotiating table.

Listen to *The Tariff Home Companion*

Episodes 1-3 are available below and more episodes will be launched in the weeks ahead.

Episode 1 – CUSMA is in the air

In this inaugural episode, Rambod and Stephen are joined by trade expert [John Weekes](#). John helps break down the evolving Canada-U.S. trade relationship and NAFTA's impact on Canadian business – an essential listen for business leaders navigating cross-border opportunities and policy changes that affect their operations.

Transcript

Rambod Behboodi:

This is Rambod Behboodi, Senior Counsel at Borden Ladner Gervais in Ottawa. I'm here with, Stephen de Boer, former Canadian Ambassador to the World Trade Organization. And this is *The Tariff Home Companion*, a new podcast to shed light, not heat, on trade and tariff issues affecting Canada and Canadians.

CUSMA is in the air.

No, it's not an exotic bird.

The Canada-US-Mexico agreement or, the American version of it, the United States-Mexico-Canada Agreement, USMCA - is a treaty that governs trade between the three North American countries. It replaced the North American Free Trade Agreement or the NAFTA. CUSMA still is a free trade agreement, but one that dare not speak its name.

It entered into force in 2020 and it's coming up for review in 2026. The governments of Canada, the United States and Mexico have launched consultations on what needs to be improved. And then the discussions will begin in earnest between the three governments sometime in the New Year. What is it about? What brought us here? And where are we heading?

Stephen and I will give you a bit of background, and then we will be joined by one of, one of the giants of Canadian trade policy to figure out how it all hangs together.

First, the deep background. It's 1854 and the Canadian Confederation is, more than a decade away. The Civil War has not yet happened in the United States.

Queen Victoria is Canada's sovereign and, a propos of nothing, Prince Albert, her consort, is still alive. A world away, and yet there is something familiar about it. Canada's Governor General, the Lord Elgin known for the Lord Elgin Hotel - or is it the other way around? - and the US Secretary of State have just concluded a trade agreement.

It's known as the "Reciprocity Treaty" of 1854 – as in *reciprocal* removal of barriers by *both* parties following bilateral *negotiations*. Now, it's not very detailed. It's got only seven articles. But it is ambitious: it covers fisheries and the navigation of the St. Lawrence. And it provides for liberalized trade in a large number of products including: grains, meats, produce, livestock, dairy, metals of all kinds, timber and lumber.

The 1854 treaty would be relatively popular at the outset. In its first decade trade between the parties increased by 150%. The distribution of trade was particularly interesting: A US congressional committee found that, "To a remarkable extent", and I'm quoting, "To a remarkable extent, our present trade with the provinces is what might be characterized as a pure commerce of convenience."

That is, the neighbouring parts of each country traded with the other, rather than inside the country. Which when you look at the map makes sense. Until, of course it does not. And this is where politics intervened. There was the issue that the British government quietly supported the Confederacy when the Civil War did break out.

Generally, not good for trading relations. But also, commercial interests in the United States opposed that quote, "commerce of convenience". Trade is convenient until it hurts your bottom line, and then it is evil and nefarious and, naturally must be stopped. The US Congress eventually voted to abrogate the treaty.

Which in turn, strengthened the argument for a confederation of the British North American colonies to improve Canada's domestic market. And that's how we ended up with Charlottetown and 1867 and Sir John A. And all of that. History is funny that way. Once the treaty ended, and the Civil War ended too, the United States went on a remarkable tariff tear.

Starting in 1873 and lasting for a good three decades, the United States imposed tariffs of up to 60% on a variety of imports. Very disruptive to trade and diplomatic relations, but to be fair, very lucrative for both the US Treasury and the Robber Barons who owned and ran the US economy. At the same time, that *commerce of convenience* between Canada and the United States continued. By 1910, there had been some relaxation of US tariffs; as a result, there was substantial trade between Canada and the United States. Around 37.5% of Canadian exports and 60% of Canadian imports came from and went to the United States.

President Taft of the United States sought to balance the tariff relationship and proposed another reciprocity agreement. The proposed 1911 Reciprocity Agreement, negotiated by Wilfred Laurier and his government, would seek to reduce tariffs on agriculture, fishing, forestry, and mining products. To say the Agreement was received poorly would be an understatement.

Prominent businesspeople in Canada signed the manifesto that opposed reciprocity. Its main headline being that Canadian nationality was threatened with a more serious blow than ever. It even led to Conservatives and Liberal dissidents to, to join forces. Once Laurier called an

election, Borden's campaign was clear. Attack reciprocity.

The Conservatives won by a landslide. Free trade would have to wait. For 77 years as it happened. Another election was fought over free trade with the United States. This time the roles were reversed. And this time free trade won. The United States Free Trade Agreement... the Canada-United States Free Trade Agreement came into force in 1989.

It had, and achieved, two principal objectives. One, secure tariff-free access to Canada's largest export destination. And two, establish an effective framework for the settlement of disputes; this included an innovative, indeed unique, binational panel process in respect of anti-dumping and countervailing duties.

It proved to be one of the shortest-lived trade agreements ever. Not because it failed, but because it was too successful.

Stephen de Boer:

So that Canada-US agreement was quickly expanded. In 1994 the North American Free Trade Agreement came into force, what we refer to as the NAFTA. Originally, the US had conceived of a second bilateral trade agreement with Mexico to mirror the Canada-US Agreement, and this would've reduced Canada's preferential access to the US.

So Canada made the case for a trilateral agreement. In short, the Canadian government wanted to be part of the negotiations in order to eliminate any chance of substantial trade and investment in, and with, the US market being diverted. NAFTA created the world's largest free trade area. It was conceived as creating a North America economic space and a counterweight to the other large trading block, the European Union. Trade and investment relations seem to improve quickly. But political cooperation remained weak. The United States looked at this as an opportunity to shore up the power of the Mexican government, aiming to likely at least somewhat control the political economy south of the border.

The US was explicit in its aim to shore up the Mexican economy, to de incentivize Mexicans seeking economic opportunities in the US. The objectives of the agreement were essentially the same as the objectives laid out in the Canada-US Free Trade Agreement. Intellectual property protection and enforcement were an additional element.

Notably chapter 11 of NAFTA, which implemented an investor state dispute resolution mechanism. This would become a highly criticized inclusion. The chapter would end up being used numerous times to critique environmental protections that allegedly interfere with foreign investment. From 1995 to 2018, Canada paid out over \$219 million in damages in Chapter 11 cases.

Notably, the USMCA eliminated the investor state dispute settlement mechanism between Canada and the US, and Canada and Mexico. There was a three-year transition period. The US investors can no longer use investment arbitration and will instead have to resort to Canadian courts. The US and Mexico can continue to use investment arbitration, but only in exceptional circumstances, in the case of expropriation and non-discrimination. By strengthening the rules and procedures governing trade and investment throughout the continent, NAFTA was proven to be a solid foundation for building Canada's future prosperity. All good things, however, come to an end. By 2017, the new US President, Donald Trump, threatened to cancel the deal. His main message being that those who benefited from the agreement did so at the expense of the United States.

This really signaled the end of the vision of a free trade relationship creating one North American economic space. Trump sought to bring back more manufacturing jobs to the United States. So, resorting to his most used tool in the toolbox, he imposed tariffs on Canadian steel at 25%, and aluminum at 10%, in an effort to expedite negotiations.

Canada responded with tariffs of their own on roughly \$16.6 billion of steel, aluminum, and hundreds of other products including whiskey, maple syrup, and ketchup. Ultimately, these tariff measures were removed when Canada agreed to essentially meaningless quantitative restrictions. This agreement was subsequently floated when Trump imposed steel aluminum tariffs on Canada this year.

A few months later, the United States and Mexico announced they reached a new free trade agreement. So, Canada could either be left behind or jump in. On September 30th, Canada agreed to join the United States-Mexico-Canada Agreement. It would go into effect in July of 2020. Notable in this new agreement was for a car or truck to be exempt from tariffs. 75% of its components were to have been manufactured in North America. That's up from the 62.5% in NAFTA. This is what we call the rules of origin. At least 30% of work on tariff exempt vehicles must have been done by workers earning at least \$16 an hour, clearly aimed at Mexico. It established a committee to monitor Mexico's labor reform and compliance with labor obligations.

More access for dairy farmers to the Canadian market was granted. New intellectual property protections were also introduced, and there was a binding dispute resolution mechanism. What was meant to be a mere update of the NAFTA turned into a massive saga. A multi-year negotiation was complete and the "worst deal that was ever made" as defined by President Trump, with a few changes, was now CUSMA. One big change arguably was the undermining of this notion of creating one North American economic space. We see this most clearly with the imposition of new measures to bring back auto manufacturing to the United States, as evidenced by the higher rules of origin requirements.

This now takes us to CUSMA review. Because although Trump has praised the agreement, he's also described it as "transitional" and questions its purpose and necessity. Next year marks the mandatory review of CUSMA by the three parties. Prior to this, there must be public consultations. The US Trade Representative has thus kicked off 45 days of public consultation.

That process is supposed to inform the formal review. The Canada-US Trade Minister has also launched Canada's consultations. Canada will be looking to engage with industry leaders, provinces, territories, and indigenous partners. It has proposed an economic and security partnership stemming from the United States' recent tariff agenda. So the clock is ticking.

As CUSMA has so far saved a plethora of products from tariffs, should the review of CUSMA by the Trump administration be one that finds the agreement unnecessary, any adjustments or a full withdrawal could be catastrophic to the North American and global trading landscape. The United States Trade Representative is accepting comments until November 1st.

The public hearing is set for November 17th. Time is ticking, and as talks start to accelerate, so does the need for answers and clarity.

Rambod Behboodi:

We are joined here today by John Weekes, one of the giants of the Canadian Trade Policy establishment. John has the distinction of having been Canada's ambassador to both the GAT and the World Trade Organization and a senior official in charge of Canada-US relations, for many years. He is going to help us navigate what is likely to happen in the months and, and the year ahead.

John, thank you very much for joining us today. You have just published a paper, and set out your view, your assessment, of what the 2026 review is likely to accomplish or might well accomplish. Could you walk us through that?

John Weekes:

Well, in my paper, I thought it was important to set out some of the considerations that needed to be borne in mind as we approach this review, which could well turn into a negotiation.

And I think it's interesting how views change over a relatively short period of time. When President Trump initially announced his tariffs on Canada and Mexico, the so called, Fentanyl border tariffs, he, it appeared that they might affect a very large proportion of Canada's exports to the United States. And this was a serious matter because these were 25% tariffs subsequently increased on, I guess it was August 1st, to 35%.

Well, back in February, when you looked at Canada's exports to the United States, and you took the statistics from the United States Custom Service, it appeared that about only 35% of Canada's exports to the United States were what the Americans term compliant with the USMCA. A compliant means that they met, they demonstrated these exports had documentation associated with them when they were imported, that showed that they, met the requirements of the, of the free trade agreement for being products of Canadian origin.

So, this looked like a very big hit indeed. However, by July, it turned out that a large number of companies had taken that time to decide that they would go through the expense of documenting that they complied with the agreement. And so about 85% of Canada's exports were compliant with the NAFTA.

So, this change made a very dramatic change. We went from a situation where it appeared that, basically, President Trump had rendered the CUSMA almost useless to Canada, to a situation where, contrary to what he was doing with other countries in the world, he was for approximately for 85%, with one exceptional I'll get to in a minute, but for 85% of Canada's exports to the United States, he, was respecting the duty-free obligations of the NAFTA and no other country in the world except for Mexico, was in that situation. It's, the exception of course is a very important one because for other reasons and under other provisions, whether it's for national security or trade remedies, antidumping, countervailing duties, the United States keeps adding to this list of sectoral tariffs that adversely affect Canada. And we have tariffs on steel and aluminum products at 50%, as Stephen de Boer just mentioned a few minutes ago. We have tariffs on, automobiles of 25%, which of course is a very serious blow to the automobile industry in central Canada. And I could go on, but, I think I'll stop there. So, the overall assessment is that this agreement is still the NAFTA, the CUSMA, the USMCA, is still very beneficial to Canada and important for very many producers in our economy.

So, I think that it's really a no brainer we should be gearing up for and aiming for an effective review of the USMCA. And one, which will lead to the conclusion that, the agreement should be extended for a further 16-year period.

Stephen de Boer:

John, what do you think the Trump administration will hear when they're conducting these consultations? Or there's hearings on November 17th?

John Weekes:

Well this is very important, and I guess there are two ways of looking at this. One is, what Canadian practices are going to be in the crosshairs? But there's another which I would argue systemically, might be even more important. And what indications will we get in Canada, about the importance that to which leading American businesses and others attached to the Canada-US trade relationship, and the importance of seeing that agreement continue. So, I think that, and most of this is public, so the submissions, I believe that the American administration has asked people to make on the operation of the CUSMA and on how it might be improved.

I, think, are going to, be very, are they're going to be public. So, we'll be able to, and then of course the hearings that will take place in November will also be public. So, we will get a pretty good reading of the lay of the land. This won't tell us what the administration's going to do, who can predict what Donald Trump will do anyway. But it will show us what his constituency thinks is important.

And I think if you look at some of the recent public opinion surveys, it shows that Trump is not gaining in support in the United States. His support is waning. There is growing dissatisfaction with his, trade and tariff policy. And the American economy is slowing down. And they're going to have midterm elections a year from now.

So, the review process is scheduled to, the formal part of it take place on July one of next year. That's just four months or so from the midterm elections. So, then the conduct of any subsequent work following from the review will be taking place in the run up to those elections and perhaps afterwards.

Now, if you're a betting person, which not a good idea to bet in trade policy matters, but there's a reasonable proposition that the Republicans are not going to do as well as they might hope in next year's elections. And that therefore, the pressure on Canada to do what the Americans want may be less.

So, I think, some Canadians think we should be rushing quickly to see if we can get a deal with the Americans because we want to end the, this uncertainty. And uncertainty is a very big problem for Canada. Very big. It's, we could talk about that separately. But, I think, that, that, we'll this suggests that our chances of getting a better deal out of this, review process is going to be better if it takes a bit longer than if it's a bit shorter. Now, interesting, I was listening to Ambassador Hoekstra on a podcast, earlier this week, and I, heard him saying that he thought it, it would, that the review process and any subsequent negotiation might well go right through the midterm elections and, on into 2027. And he noted that, that, trade agreements often take longer to conclude than their proponents originally suggest. So, I think that's something we need to bear in mind, that the flow may be working in direction of allowing us to be able to negotiate at a time when the pressures on Trump, may be such that our chances may be better.

Rambod Behboodi:

Let me pick up on, on a word that you used. And that's uncertainty. And it seems to me that there are, two sorts of uncertainty that would, that we're dealing with right now. The first one is the uncertainty of outcomes. What could be the outcome of this review? The second one, and to me that the more troubling one, is the uncertainty of does it even matter if there is a favorable outcome?

Now, I'm reminded of the great line in, in the movie my, my favorite movie, the Lion In Winter, there's no point complaining about the air if it's the only thing to breathe. And so if, we have to, come to an agreement, we have to come to an agreement. But, Prime Minister Carney appears to have settled on the first uncertainty.

That is the uncertainty, of not having a deal and going with the current state of affairs so far, than the other uncertainty of, doing what we can to get a deal, only to have that deal to be overturned. Or ignored.

John Weekes:

Well, I think, as I see the uncertainty problem, it's, the biggest problem out there. It's, and as the Prime Minister said, our relationship with the United States is never going to be the same. And curiously, you know, I'm part of a group called the Canada-US, expert group on, sorry, the expert

group on Canada-US relations.

And I've been writing an article recently which has been contributed to the series that this group has produced and came out yesterday or day before. And, so I did some research. I went and looked at what have we said before? And the group did a major piece that came out on January one that really addressed this uncertainty issue. And I was one of its authors and made the point that, we really needed, because of this uncertainty we needed to work to invigorate our economy by reform, by reducing the burden of regulations, by removing barriers to interprovincial trade. And we also needed to look at how we could strengthen our economy in a way that would make us more attractive partners for other countries, including, notably the European Union and our partners in the Trans-Pacific Partnership Agreement.

And this sounds awfully like Prime Minister Carney's sort of agenda. The difference was though that this article was published two weeks before he announced his candidacy for the Liberal Party of Canada. So, when I come out saying things that sound like I'm supporting the Prime Minister, I wouldn't want to say that he'd adopted our agenda, but we have a similar sort of view of, what's needed.

I think the big problem with uncertainty is it scares investors. After what's happened with Trump one and now Trump two, who is going to want to invest in Canada, in the manufacturing sector to supply the North American market? Who's going to be able to stand up and tell their board of directors, "so this is not a problem, there's this agreement Canada has duty free access, and, the Americans will clearly respect that". You're talking about an investment where maybe 60% of the production, for instance, might be, going to go to the US market to make it successful. Well, I think you know, if we get a better outcome in this agreement, or we get a satisfactory outcome, it's not going to make this basic fear go away.

That Genie has been let out of the bottle. And the only thing we can do ourselves in Canada to address that is to our own domestic reform, to reinvigorate our economy, but also to strengthen our partners with other countries. And this is where I think the emphasis on the natural resource sector becomes so important.

Because there's never been a better opportunity to think of how to increase the supply of Canadian natural resource products to Europe than right now. There's a broad consensus in Canada that we should work in that direction and also to, partners like Japan and Korea. And the Europeans have never been more interested in doing this kind of partnership with Canada because they've got the Russians breathing down their neck and they're actually worried that not only from a trade point of view, but from a security point of view that the Russians might try to take them over.

Stephen de Boer:

But this, just to summarize almost, but this is transformational in that the major plank of Canada's investment attraction regime was access to the US market.

And that's been pulled out from under us. And so now we were, we have to use other levers and other ideas in order to make us an attractive, investment climate. Interesting.

John Weekes:

I know, I was a negotiator of the North American Free Trade Agreement. I know that's what we tried to do, but I, it was sometimes a hard sell.

Rambod Behboodi:

Let me, ask, maybe, a final question. And, it has to do with - related to the question of uncertainty - and it has to do with the question of asymmetry, asymmetry of expectations out of, whatever deal will we come up with. The, United States and Mexico can, I think, reliably expect that Canada will respect its obligations under a future trade agreement.

If the CUSMA is negotiated, or as it goes along, Mexico in the same way. As you noted, the old relationship that we had with the United States, that doesn't exist anymore. And we will always be in this, era about this for the time being in this era of uncertainty that, that we don't know whether a legal obligation is a legal obligation that will be respectful or not. Ought Canada give up this asymmetrical, relationship?

And I ask that because of what we heard yesterday from the European Union. That they basically, for the first time ever, they said they can't go on in this scenario of asymmetry.

Now the European Union is similar in size to the US so they have a bigger margin of maneuver. But, where does that leave us? Can we continue in this scenario of asymmetry, or ought we be really thinking about the whole, kit and caboodle of the rules based, framework that, we've been operating under?

John Weekes:

Well, I think, the rules-based framework is critical for Canada. Not just with the United States, but also with other countries. So, if we're talking about diversifying our trade relationship, which is something that isn't going to happen overnight, and frankly I think the United States will always be our most important trading partner.

It is an asymmetrical relationship whether or not we have an agreement, because there are 400 million people and we're 40 million people. We export 75% of our exports go to the United States of goods, and for the US to Canada, I don't know what it is,

Stephen de Boer:

It's probably between 30 and 40%, isn't it?

Rambod Behboodi:

It's, less than that. Less than that.

John Weekes:

It's 20 something. Well and of course, and then in terms of, as a percentage of GDP there's no comparison because it's, a rounding error for the United States economy and for us it's our lifeblood. So, and, it's so easy to do business with the United States with the people there, with the companies there, and a lot of people want to buy Canadian products. So, we're, not going to say, the one way we could really lessen our dependence on the United States would be to prohibit exports to the United States across the board. Well, that sort of thing is not going to happen. If you're not going to do that, they're always going to be an important part of our trade picture. But I think, we have a big interest in, making sure that working with other countries to make sure that the World Trade Organization, is not destroyed by the Trump trade policy.

And they're worrying things that have happened now because on these deals that Trump has struck with other countries. These deals that are really just handshake deals. I mean they're not based in a US law on how durable they are as anybody's guess, and whether they're treaties or

probably not even, they're certainly not treaties in terms of anybody's ratification, procedures.

So, I think we have a big stake in that because we need it for managing our trade relations with other kinds. But frankly, we also have a stake in it because it will help anchor the Americans when they come back to their senses and decide that, there's always going to be changes in the way trade is managed, but I think it's a good bet that after this experiment in Trump trade policy, the Americans will conclude that they need to return to something that's more predictable.

Frankly, the predictability of it, providing certainty is more important than the exact level that tariffs are at. So, I think, I think that we need to continue to push a rules-based world. It's critical for a smaller country. And we're in a relatively good situation because despite the fact that a lot of other countries are now violating also the WTO MFN principle, because they're giving the Americans better treatment than a lot of other countries. Although a free trade partner like Canada to many people is probably still in as good a situation. But it's, so we rely on our, these other trade agreements we have the one with the EU, the Transpacific Partnership, which now interestingly also includes the United Kingdom. So, our best trade agreement with United Kingdom is arguably right now in the Transpacific Partnership. Well and in the WDO. But, so I, think it, it can be very frustrating for Canadians because it sounds like an unfair partnership, but we still have an enormous amount of economic benefits to gain from a close relationship with the United States. That's the dilemma for Canada. How do we put up with this and how do we try to minimize to create rules that are going to work as well as possible for Canada?

Stephen de Boer:

So John, Prime Minister Carney has just come back from Mexico and there's much discussion about the nature of that relationship. And it was rather problematic right after Trump made his tariff threats and announcements as to how Canada should be treating Mexico. Given your experience negotiating, with, Mexico in the context of the NAFTA. What can Canada reasonably expect in discussions with Mexico? Is there anything there that will be helpful? Or is this more of a window dressing with respect to that relationship?

John Weekes:

No, I think it's very important that, Mexico's there with us.

We, and I, found in the original NAFTA, it was very useful to have Mexico in the room. Mind you, the whole situation was quite different in the original NAFTA negotiation because the three countries were committed at the level of their heads of government. The two presidents in our Prime Minister all committed to the idea of a high-quality agreement across the board with as few exceptions as possible. And doing it as quickly as possible. It was actually a very, constructive and positive experience to participate in that negotiation. In many ways because of that instruction. But there was also a very good relationship among the negotiating teams.

Just to give one small example, I used to at, when we'd have a chief negotiators negotiating session, by the way, we did the whole negotiation of the original NAFTA in 14 months, not including the site agreement negotiations, but 14 months. That's remarkable. And, I used to sit down with Bob Clark, who was my deputy chief negotiator, and we would sit down with Herminio Blanco and Jaime Zabludovsky, our Mexican opposite members. At the beginning of each of these sessions, we usually had dinner the night before sort of compare notes. Because on a lot of issues we were in constant touch with the Americans, but we were not quite as, so it was good to get in the Mexican perspective and here, what would they be?

Because they might be raising something the next day maybe that we didn't like, for instance, or that. Or that we would like to support, or where we might be able to, chip in and say, the Americans, this is quite a good idea. So, you can make a lot more things happen by having a

cooperative relationship.

Plus, frankly, on, trade negotiations as we've now learned, don't just take place at the table. And one of the aspects that's really important is the, is the networking with other interested groups in the United States, for instance. And, we talk about getting provinces to provinces, businesses to businesses, municipalities talking with their counterparts and really trying to, point out to our American friends how important this negotiation is and how it is important to our bilateral economic relationship, which is actually very, beneficial to them. Well, the Mexicans are doing the same thing. And I in, in the United States, and I think that's very helpful too because we're, both making the same type of arguments.

We're both committed to the idea of ensuring that the CUSMA continues as a high-quality agreement between the three countries. And so that's good. Plus, the Mexicans have a lot of leverage, some leverage that we don't have. They're now actually a larger trading partner of the United States than we are, although we still, buy more American goods than any other country in the world. Including by the way, the EU of 27. So, having them there is positive.

Now everybody knows that of course there are going to be some issues on which we disagree with the Mexicans. That's normal. I mean when we talk about working with them in the negotiations to achieve positive outcomes, we're not saying that we expect to have each other's backs all the time. This is not an alliance with a, a an, a come to the aid of if the other country's attack clause like NATO. So, I think we have to understand that. And you mentioned near the beginning, one of you did, I, what happened in the previous renegotiation of the NAFTA, that the Mexicans actually, concluded an agreement with the Americans, finally because the negotiation had broken down and, whether the Mexicans went to the Americans, the Americans went to the Mexicans, or they both did. Anyway, they did work out the broad contour of an agreement, and then they came, and we'd been having real trouble getting the Americans to engage on some of the things that we thought were important.

And, and then they reached this deal, and they came to us and said, okay, take it or leave it. And, we had a, that actually gave us quite a bit of leverage. We suddenly had leverage we didn't have before because the American Trade representative of Lighthizer gave us this sort of ultimatum. But he quickly found out that the Congressional actors were telling him that, by the way, if you bring an agreement here that's just the US and Mexico, it ain't going to make it through Congress. So, you'd better figure out how to get the Canadians on board. Now that gave us leverage, not unlimited leverage, but it meant we could actually make important adjustments to the agreement.

Just to add a further twist to this complexity of getting. A lot of the really good things that we like, like improved dispute settlement provisions in the new NAFTA, actually came after we concluded the agreement and signed it in all three countries.

But the Democrats took control of Congress and they said, we're only going to support this agreement if it's got provisions on dispute settlement that apply also to the provisions dealing with labor and environment. And these provisions have got to work better than the old ones did in the Canada, in, in, the NAFTA in the original NAFTA for generally for other products. So, Democrats in Congress actually helped us get a better agreement out of Trump the first time around too.

The other final thing I'll say about Mexico is, they're, one I, forget, I've, looked this up every now and then, but they're in the top 10, I think, or 12 or something as a GDP in the world. So, it's a really important trading partner, and they happen to be our third largest trading partner. Depending with how well you count, the EU is one. But anyway, they're, right up there. Much more significant than Indonesia, for instance, with which we just concluded an agreement. So, if we didn't have a trade agreement with Mexico, it would be very high on our priority list for, getting it done quickly. That's also beneficial.

Rambod Behboodi:

John, thank you very much, for your time and for a, an upbeat message at the end of, what might well have been quite a...

John Weekes:

Or was it fatalistic?

Rambod Behboodi:

Not at all. Not at all. It was ... I'm an eternal optimist and so I take what you, what you said as not so much an admonition, but rather an encouragement to the trade policy community in the country, and of course to the officials, that there is still, a path forward to get us out of this present difficulty.

This brings us to the end of our session today. Stephen and I would like to thank John Weekes for his exceptional insight. As well, a project that this kind requires a lot of work to bring together. In particular, honorable mention is reserved for Alex Zoutis, our articling student and our producer, Jason Chute. And of course, the entire technical staff of BLG.

Thank you.

John Weekes:

Thank you.

Episode 2 – Whither the WTO in its Thirtieth Year

What happens when world trade rules break down? Hosts Rambod and Stephen welcome [Valerie Hughes](#). Valerie Hughes is Canada's first nominated member of the Multi-Party Interim Appeal Arbitration Arrangement (MPIA), and also served as Director of the WTO Appellate Body Secretariat, Director of the WTO Legal Services Division, General Counsel at Canada's Trade Law Bureau, and Counsel and Assistant Deputy Minister at the Department of Finance Canada.

Together, they tackle the WTO's biggest challenges: leadership voids, industrial policy tensions, and whether middle powers can step up to fill diplomatic gaps.

This isn't your average policy talk, it's a closer look at how global trade really works, told by someone who helped write the playbook.

Transcript

Rambod Behboodi:

This is Rambod Behboodi, Senior Counsel at Borden Ladner Gervais in Ottawa. I'm here with Stephen de Boer, former Canadian Ambassador to the World Trade Organization. And this is *The Tariff Home Companion*, a new podcast to shed light, not heat, on trade and tariff issues affecting Canada and Canadians.

We're back, to talk trade. Last time it was about CUSMA and the path forward. In this episode, we are going to zoom out and look at the global landscape. The WTO.

Stephen and I will, as usual, provide a bit of background. We are then joined by a stellar figure, in not just Canada's trade law firmament, but globally, to provide some perspective.

In a different context, under different circumstances, 2025 would be a landmark year in global trade law and policy – indeed in global economic relations.

Only last week, the WTO Agreement on Fisheries Subsidies entered into force.

It's a remarkable achievement – an agreement that seeks to control and reduce subsidies that contribute to overfishing. It's an important crossover between trade and the environment, and a key compromise between developing and developed economies.

And even more remarkable that it happened *this* year, the 30th anniversary of the WTO itself.

And yet, neither has made it to the headlines of major media in North America.

What does it all mean? Why should we care? What is the WTO?

And if an agreement enters into force and Canadian journalists are not there to hear it, did it ever happen?

Let's take a step back. Last time we started in 1854. This time we go back only eight decades.

To the end of the last global war.

The victorious powers, in order to avoid the economic and trade circumstances that had contributed to the outbreak of World War II, established multilateral institutions to cover trade currency, stability, and economic development.

The General Agreement on Tariffs and Trade, which entered into force provisionally in 1947, was *not* a free trade agreement. It required though that signatories agree to ceilings to tariffs, and established a framework for periodic multilateral negotiations to progressively reduce those tariffs. A truly reciprocal arrangement, if you will.

It was wildly successful in those rounds of negotiations.

Naturally, the parties – having got significant tariff reductions all around – got more ambitious.

In successive rounds, they negotiated a series of codes covering trade remedies, subsidies, and non-tariff barriers.

And they developed increasingly sophisticated dispute settlement mechanisms.

Eventually, they agreed to the establishment of the World Trade Organization. The WTO started working in 1995 – with 128 members and covering 90% of global trade.

Stephen de Boer:

So as of August 30th, 2024, the WTO has 166 members. Areas of coverage include, but are not limited to, agriculture, textiles, and clothing, banking, telecommunications, industrial standards and product safety, food sanitation regulations, and IP.

There are also core fundamental governing principles. Trade without discrimination. Freer trade, gradually, through negotiation. Predictability, through binding and transparency provisions. Promoting fair competition and encouraging development and economic reform.

The WTO's mandate to ensure that trade is as fair as possible and is open, as is practical, is fueled by negotiations.

As noted above, a long history of negotiations by signing countries led to the creation of the WTO. The organization's agreements thus are the result of negotiations. Notable negotiations include liberalizing telecommunication services in 1997. A 2001 work program that included rules on anti-dumping and subsidies and IP. A multilateral accord, the first of its kind reached at the WTO, in 2013 to cut trade costs and lift global exports by as much as \$1 trillion US dollars per year, which is referred to as the Trade Facilitation Agreement. Expansion of the Information Technology Agreement in 2015 to eliminate tariffs on IT products valued at over \$1.3 US trillion per year. Amending the WTO IP Agreement, easing poorer countries access to medicines. The Ministerial Conference in 2022 adopted the landmark Fisheries Subsidies Agreement responses to the food crisis and COVID-19 pandemic, and endorsed further liberalization for services domestic regulation.

The WTO and its members will continue to facilitate negotiations to establish reform agreements and regulations.

And this list does not undermine the notion that this is a dysfunctional organization. It is obviously working, albeit at a slow pace.

Another fundamental provision is with respect to Trade Policy Review Mechanism. Surveillance of national trade policies is a fundamental activity of the WTO and is controlled by the trade review mechanism.

These reviews take place in the Trade Policy Review Body, and its main goal is to enhance transparency of members trade policies. All Members are subject to review, and Members with the four largest shares of world trade are mandated to be reviewed every two years. The next 16 biggest trading Members are to be reviewed every four years and others are to be reviewed every six years.

The objectives of the reviews are to increase the transparency and understanding of countries trade policies and practices through regular monitoring, improve the quality of public and intergovernmental debate on the issues, and enable a multilateral assessment of the effects of the policies on the world trading system.

The reviews focus on Members' own trade policies and practices, while taking into account the countries' wider economic and developmental needs, their policies and objectives and the external economic environment that they face. These reviews are seemingly meant to encourage governments to abide by WTO rules and fulfill their commitments.

Another one of the WTO's key activities is to promote developing countries' participation in the global trading system. Thus, building trade capacity is essential. The WTO provides assurance to building trade capacity through a variety of ways, but mainly by instructing developing country delegates on how their countries can gain through the trading system.

Thus, the vast bulk of the WTO's technical assistance spending is dedicated towards helping officials better understand complex WTO rules so that they can implement WTO agreements in positive ways.

It also comes in other ways, and mainly through WTO cooperation with other organizations to help build more efficient ports and roads, educate entrepreneurs, provide customs officials with automated equipment, for example.

As some WTO Members do not have the human, institutional, and infrastructural capacity to participate effectively, the WTO strives to accelerate and contribute to development.

The Doha Declaration of 2001 has played a huge part in this mandate. It was seen as a new commitment from the WTO Members on technical cooperation and capacity building. The Doha Declaration spurred on a major round - the so-called development round - of negotiations, and this round has largely been declared dead, but remains arguably a stumbling block to further liberalization efforts and continues to animate development discussions at the WTO.

Rambod Behboodi:

The WTO was *also* established to serve as a platform for the settlement of trade disputes between its Members.

What's a trade dispute?

A dispute arises when a Member considers that another Member is violating an obligation that it has negotiated and agreed to under the WTO Agreement, and where bilateral diplomatic attempts to resolve it are not successful. Instead of attacking each other with unilateral measures, the WTO Agreement requires its Members to bring those disputes to something like an international court.

The Dispute Settlement Body of the WTO is the highest diplomatic body overseeing the rules-based settlement of trade disputes in the WTO. But the real work takes place in the panels and, when it was still functioning, the Appellate Body.

Panels consist of international trade law or policy experts. The Members and only the Members, these are the governments of the WTO – governments of the Members of the WTO – may bring legal arguments backed up by evidence and expert testimony before impartial arbiters, who will then decide whether a claim or violation has been made out. After that, in principle, there's an appellate procedure.

The Appellate Body of the WTO was a Canadian innovation. It was established in 1995 to bring a measure of security and predictability to dispute settlement between Member governments and, in particular, to ensure that – and strengthen – the legitimacy of arbitral findings and recommendations by panels.

The Appellate Body was conceived initially as a mechanism to correct for egregious errors; the prospect of an appeal, of correcting panel findings – in fact of a *second* bite at the apple proved too tempting – however. Starting with the first case under the WTO, appeals became routine.

And the Appellate Body proved, as an international judicial mechanism, successful beyond anything imagined in 1995.

That success, that routine use of the appellate procedures, in the end grated against key interests in the United States. The US eventually refused to allow Members of the WTO, to appoint, Appellate Body Members. And, the term of the last sitting appellate body Member expired on November 30th, 2020. This plunged the dispute settlement mechanism of the WTO into a crisis that it has not yet been able to recover from *as an organization*.

Nature – and multilateral organizations – hate a vacuum. And so it was that Canada, the European Union, and other like-minded countries established an interim appellate mechanism, the Multi-party Interim Appeal Arbitration Arrangement or the MPIA for short. We are exceptionally fortunate today to have with us Canada's first nominated member of the MPIA, Ms. Valerie Hughes. Valerie has had an incredible career, and I have been particularly fortunate to work for her, and with her, and alongside her, across these past thirty years. Her journey has taken her to the International Court of Justice, two senior positions in the WTO, head of the Trade Law Bureau of the Government of Canada, and Counsel to the Department of Finance. In addition to teaching and private practice.

And now she can talk to us, not just, about the WTO, but the rules-based framework governing trade more, more generally. Val thank you so much for coming here. Let me start by asking a softball question.

Is the WTO relevant still?

Valerie Hughes:

Well, first of all, thank you Rambod for inviting me to join you and Stephen on this podcast today.

Is the WTO relevant? You bet it is. This is the only place where you have 166 members developed, and developing, and least developed that are working together on a lot of issues. You just told us that they, this year agreed, came into force the fisheries agreement on something extremely important to the world, the declining fish stocks.

So this agreement will support governments in eliminating subsidies that, that support overfishing. So there we have a very key, a key example of how it is relevant. We also have the dispute settlement mechanism that you were talking about. It is, it has been, I think, the most incredible and important and successful international dispute settlement mechanism in history. You compare what the ICJ did you to what was able to be done in the WTO over 600 cases filed.

And many, many, successful, very complex disputes, dealt with. And they're still bringing disputes. Governments are still bringing disputes, many disputes to the WTO to be resolved. Even though the Appellate Body is no longer functioning, the panel system is still working. And where else in the world, if you have a dispute against China, are you going to bring it about trade?

Nowhere else. It's the only place to go.

Stephen de Boer:

So I, I understand all of that, but we've got one significant Member of the WTO, the United States who, has undermined the Appellate Body process, is now engaging in activities that does violence to one of the fundamental principles of the WTO. So how does the WTO move forward or how should they be engaging with the United States in that forum?

And I would also, I would note there's nothing right now from the United States that suggests that they would leave the WTO. There's been no threats from them, but, but how, how would members engage, or what is the role for the United States? What is the role of the membership in, in moving forward?

Valerie Hughes:

Well, the United States was of course, one of the principal crafters of the organization and one of the drivers of the organization, their leadership was invaluable to the organization. And it started to pull away, even during President Obama's term when there were concerns about how the Appellate Body was resolving disputes. So it has come now a long way, away from what the United States used to be to the WTO.

And indeed, they've not even paid their annual contribution for this year, which is about 11% of the WTO budget. So that's significant and it's having an effect. I was there just last week and there's a lot of contracts that are not being renewed. There's, technical assistance that is being

limited, so there's a lot of impact just because of the United States not paying their contribution. But more importantly, I think is the lack of their leadership. They are not the, the leading discussions on important issues like the environment, like e-commerce, like digital trade. The, the places where the WTO needs to move forward to, to really have an impact on, on, on trade as it goes forward.

And also regrettably, the United States is not, not at all, concerned about violating their, their obligations under the Agreement. Things that we've seen lately about imposing different tariffs on different countries is nothing like the non-discrimination rules that the WTO calls for. So we do have a problem, but there are 165 others that are still working there and are still bringing their interests forward.

And I do believe that the United States will continue to participate, just not in a leadership role. And I, and I think the United States, like you say, it hasn't said it's going to leave. They did threaten that when President Trump had his first term. It didn't happen. We haven't heard it this time. And also, interestingly, they appointed a reasonably, recently, a new ambassador to the WTO, who has, got a good reputation in the field. And they also have a new, what they call the Deputy Director General. An American that is apparently from the, you know, Trump Circle, someone who is respected by, and who respects, President Trump. So by putting these two people in place, it suggests to me that they're going to be there, perhaps not the leadership role, but they won't undermine it. And we have 165 others. The European Union, Japan, India. We have Brazil. We have a lot of countries that are very powerful and, and doing a lot of, of good work, and I suspect it will continue.

Rambod Behboodi:

I think, one, one thing that is, obviously distracting from the bigger picture is that the question of tariffs is dominating the conversation. And the, this differential imposition of tariffs, obviously they're important because, the United States is violating Articles I and II of the GATT, I mean, the two foundational principles. At the same time, I think, what is getting lost, in the, in the conversation is that the WTO Agreement covers a whole lot of other disciplines, other areas.

And they, those continue to be respected. We have not yet heard from the United States or elsewhere, that for example, countries are going to go ahead and impose sanitary and phytosanitary measures, food safety measures without a scientific assessment, for example, or that they're going to have discriminatory technical regulations.

So I'm, in a sense confirming, your observation about, about the WTO, continuing to be relevant. The question I have though is that, do you think that will continue or is it likely that this opening of the door by the United States of the, the violations, key violations of the two foundational principles of the organization will encourage others to take a perhaps more cavalier attitude towards, towards their obligations. And not, not to renounce the WTO, but rather to, to start picking and choosing which obligations they're going to, they're going to, honour.

Valerie Hughes:

Unfortunately, it probably will encourage some to be less vigilant. We were, Canada was not, absent in doing that when the tariffs were put on before.

And Canada retaliated with its tariffs, obviously would, they would probably, the Canadian government would argue that they had, justification for that under the rules. But in any event, you're going to see others. And yesterday, only yesterday we saw someone be, an EU official when they were discussing the, raising of tariffs on steel, saying, well we're not going to impose rules on ourselves that no one else is committed to and no one else is complying with.

The trouble is that there's a lot of, there's a lot of, for us to lose as a middle power and for various countries to lose as, as not the United States in quitting that system and, and, and violating the rules. Like you talked about, food safety, like you, the variety of services, agreements and, and rules that are in play the intellectual property rules, the protection of intellectual property. So have a lot to lose as a Canadian, the Canadian government, the Canadian people, and in countries like ours. So yes, there will be violations. The tariffs area in particular, I'm sure we will all see retaliation and counter tariffs and things that have happened before.

But I think the, the core fundamentals will still continue. And what the WTO allows is something called a specific trade concern. So you don't have to bring a full fledged dispute, but you can air your disputes. And this is happening more and more often. And so you're having opportunity to have this transparent airing of concerns.

And so I think it will. Yes, there will be some holes and yes, we, people will poke at some of the rules, but overall I think it's in the benefit of the 165 others to keep doing what they've always been doing, which is generally complying with the rules.

Stephen de Boer:

So what next for the WTO? You've made a pretty compelling case as to why, countries should continue to, engage, why they should be following the rules.

But what's on the horizon for, and I, I'm going to park just dispute settlement because that one doesn't seem like it's, doable in the, in the short term. But what should the WTO be thinking about? They're coming back from, from the summer holidays. What's, what's the work? What, what should it look like?

Valerie Hughes:

Well, they, they keep telling us that they are working on reforms and, there are a variety of things that they want to reform. Dispute settlement, let's put that aside. But it's the way they work and the deliberative function. What the WTO requires in the rules is that things are done by consensus. And that means that one "no" stops everything.

And that had its benefits, as the WTO was created in 1995 and you know, there was a lot of, buy-in by developing countries, especially because they had, you know, they had a vote just like the economies. And so what we need to understand is that reform is difficult when you have a consensus-based system.

And what we're seeing is something that probably is what they need to do going forward is have more of these plurilateral and not a hundred percent consensus agreements. And working towards things that are important to a number of Members, if not a hundred percent of Members. And have them come to agreements on things like digital trade, on e-commerce, on environmental goods, on fisheries subsidies because they have to continue work there. So if we can have countries work in these plurilateral negotiations, that are eventually open to anyone else that wants to be a party to that, this is where the WTO has to, has to, you know, put, put its emphasis.

Now, there is more to do and the, we've seen when we had the pandemic, how this disrupted, trade flows. How, there were, export restrictions on medical equipment. All of these things the WTO was, was very much involved in trying to work through those problems. And I think these are the kinds of things we have to be ready for that kind of, disruption. We have to be ready to address supply and demand, and these supply chains that, that get disrupted by, these pandemics or, or world events.

So there's lots to do. I don't think that, pens will go down. And what happens in the WTO every day of the week is they meet and discuss the various issues and make sure that the agreements are being addressed. It'll continue perhaps more slowly because you won't have the leadership of the United States, but it will continue.

Rambod Behboodi:

So about 20 years ago when we first worked together in Geneva, the concept that was in vogue was "variable geometry". Are we, I mean, not the, the name, doesn't seem to be in play anymore, but that's, that's what you are, that's what you're suggesting will, is likely to happen. In the same way that we now have a patchwork of trade agreements around the globe, variable geometry, in terms of trade liberalization within the WTO, there will be variable geometry in terms of rights and obligations.

That could go, that could allow the WTO to continue. But what does that do to the, to the core bargain at the heart of the WTO? Which is essentially the thing that we've always heard, "nothing is agreed until everything is agreed." That developing and less developed countries agreed to, a certain set of demanding obligations in areas that they really didn't, weren't interested in. In return for getting the kind of access that now they're, they're being denied. If we bring that patchwork in, how will the ethos of the WTO continue to work?

Or is it that that ethos will now have to change?

Valerie Hughes:

Well, I think there's two things. One is that the WTO does provide for plurilateral agreements. It's in the system and there are a number of them. Government procurement is one, and probably the most active one. So that it doesn't really mean that the WTO is against or prohibits plurilateral approaches.

And we had this in, you know, Stephen mentioned the IT Products Agreement that's, not everyone was part of that at the beginning, but it covered a substantial amount of trade for those governments, those Members interested in reducing tariffs on IT products. Not everyone is interested in access to medicines, but for those countries that were interested, that amendment, went through.

So it goes, it doesn't go against WTO ethos to have plurilateral approaches. But by the same token, if you do have, you know, the smaller economies, the developing countries that don't feel they have the power or the ability to influence the system, influence what the WTO is going to study or negotiate that will of course undermine, the, the system more broadly. Because, it is because it covers 98% of the world trade that it is a, it is an organization that's going to continue that is not going to collapse because it just covers, it's, it's just too big to fail.

We've heard that in some language. So, but it, we do have a number of what the, a number of governments that are pushing forward with separate initiatives. And you mentioned one, which is the MPIA. It started with 19, 18 or 19 Members. Now there's 27. And it, and as you know, for example, Japan wasn't a part of the original MPIA group. And then it had a dispute that was going to go to appeal and it didn't want to have the appeal into the void because there was no appellate body to decide. And Japan joined.

And so I think that's what's going to happen with these various variable geometry approaches. It'll work.

Stephen de Boer:

My own, my own observation is that it, it is variable because the economies are variable. There, there's a lot of countries that are not engaged in certain segments of the international economy.

So why should they be subject to new rules or why should they engage? I mean, civil aviation is a great, a great example. So by, by definition there's a patchwork there already. But I, based on my experience, I would suggest that it, it also means that there are some Members, some fairly large significant Members of the WTO who are going to have to change the way that they operate and that the, and the way that they, think about, think about these things.

I mean, to the early, to your earlier point, it seems to me, if the US is breaking the rules and that may encourage others to break the rules. But hopefully they will come to their senses and realize if there ever was a case for rules and all of us following them, this is it. Because now we know the consequences.

So maybe a year from now if we have this conversation, we'll see a different situation. Trying to be optimistic here.

Rambod Behboodi:

You were just in, Geneva. You attended the public forum. What's the mood?

Valerie Hughes:

The mood is subdued. I talk to, of course, a lot of, of the members of the WTO Secretariat staff.

They're, they're feeling, they're feeling that their jobs are not secure. They're, you know, they, they cannot do any sort of traveling or missions or go to conferences. Temporary contracts are, are being cut. So the staff itself is feeling a little bit under siege. The Membership as well is concerned because of the lack of leadership by anyone. United States being one. But there isn't really a lot of leadership amongst the Membership. You haven't, you've seen China seek to, take a, a lead on certain things. They've just announced that they won't claim developing country status going forward. You see them trying to be the, the big guy around in town. But you know, there's also China's, industrial policies that are bothering a lot of other members.

So you don't, I don't see them really being the lead that everyone is going to look to. There's not a, there, there's a vacuum. There's a bit of a problem. There's a bit of a feeling of, you know, now what? They are working on these reforms heading for a ministerial conference in, in the winter of, of 2026.

That will be where the core work is going to go. Are we going to get anything agreed then in terms of some of the reforms on the way we work. But I think it's subdued. It's, it's, there was some excitement that there was a US ambassador, that was named and, and put in place. There was excitement that there's this new Deputy Director General that seems to have the, the ear of, or at least, the, you know, high regard from the president.

So that would be something that people are going to hang on to, but it is subdued.

Stephen de Boer:

Is there a role for Canada here? You talked about a leadership void. Is there something Canada can be doing or showing leadership?

Valerie Hughes:

You know, perhaps in my naive way, I always, think that Canada, we were, you know, part of the quad in the old days.

Very, central role in developing policy, and as Rambod mentioned, you know, Canada was at the forefront of the creation of the Appellate Body. It was Canada that came up with the idea of having a, an international organization when, and the WTO became that. So I believe that Canada does have a role. One, because we aren't the United States, but we have a lot of the same sort of development as the United States has.

Our economy is, I don't know, 10th in the world or something – it's not the biggest, but it's not, it's not, you know, small enough to, to be irrelevant. I do think that Canada can play a role because I think we're trusted and I, I do see our current Prime Minister having an international face on things, being out and, and promoting multilateralism or at least, some sort of, international approach to trade.

I would think that there was, there was a lot of people calling for, a lot of Members calling for a multilateral group coming together to, to lead things and to have some, someone come forward. And I've heard 2, 3, 4 times that, you know, Canada could be a good leader of that group that is pushing forward as a sort of a collective action kind of group.

And I've heard Canada's name said a few times as a, you know, an ideal leader. We're not the United States, we're not China, we're not India, we're not Brazil, we're not the EU. It's a, you know, you have to distinguish yourselves from the kinds of interests that those other groups represent. And Canada seems to me the neutral, going back to the old days, honest broker and, and with our current Prime Minister being, sort of doing what he's doing I see, I see a role for Canada and I, I would hope that Canada steps forward.

Rambod Behboodi:

You mentioned Canada and, and China, and, there are, I, I suppose two, crosscurrents there.

The first one being that our hands are not clean either in some respects. we impose unilateral measures on Chinese EV vehicles. There, there, there may be any number of good industrial policy or, or security reasons for it. But, but as it happened, we had the option, last year of, referring the matter to the panoply of agencies and departments and investigative authorities that we have to do the, to do it properly. And then we decided that we're just going to go ahead and impose the measures. And that has had consequences. So just putting that out as a, as an asterisk on the, on the honest broker.

But then there is the other angle, and it is that, the, China, as you mentioned, has, said that it's not going to assert its developing country status on, in respect of a number of obligations. And yet, the core issue with China's industrial policy remains, remains unsolved and, one could argue in the context of the current rules and the current negotiating framework, unsolvable. And maybe – we don't want to impose too much on your time, but maybe, one of the final observations on your part – how, so the first one, the first issue being, can we really serve this honest broker function, if the perception is that, we continue to have to, abide by continental concerns? That's the first one. And second one being, how do we address reform in the WTO if the, the Chinese industrial policy, overcapacity across the board, isn't in some way addressed?

Very, very easy questions.

Valerie Hughes:

If I knew the answer to that last question, I'd be, running the WTO myself today, I think. But just to go back to whether or not we, you know, we don't have clean hands. Yeah. We, Canada and China, were the only ones who put countermeasures or tariffs on the United States, the only ones in the world.

But what I think we have to understand and why we put, you know, a hundred percent tariffs on EVs from China. Where are we located? Geography is going to compel us to do certain things. And we are going to be, perhaps like the EU says, we're not going to impose, certain things on ourselves, you know, that others wouldn't.

So yeah. Not clean hands completely. But you know, I think that when you look back and you see where Canada sits geographically there, I think people will give us a bit of a, a buy. And I do think that that's an important ... maybe they think we can bring the US along a bit. Maybe we can have an influence a bit on the United States because we work with them on EVs or on other policies.

How are we going to fix China's industrial policy? And I think most people would agree that the current rules at the WTO are insufficient to keep them in check and, and to, you know, state owned enterprises and the way they're acting in the, in commerce. We don't have the answers. But over time, you know, we just have, we have to be positive that they're, you know, we fix little things along the way.

I can't see us fixing that very quickly. But we can address other challenges and we can't let that get in the way of making progress on the second fisheries agreement. On how AI is going to, be dealt with. How digital trade will be dealt with and how we can do something about supply chains. I, why if we can't fix everything, it doesn't mean we don't try and fix some things.

Rambod Behboodi:

Well, we're, yet again, ending on a positive note. Qualified positive note, but still a positive note. This brings us to the end of our session. Stephen and I would like to thank Valerie Hughes for exceptional insight, today. As well, a project of this kind requires a lot of work to bring together.

In particular, honorable mention again is reserved for Alex Zoutis our articling student, and our producer Jason Chute. And of course the entire technical staff of BLG.

We'll be back, in three weeks to talk sectoral impacts of the current Canada US tariff spat.

Episode 3 – Canada's historic search for the third option: Trade diversification away from the United States

Discover how a century of trade decisions shaped the course of Canada's economy.

Join hosts Rambod Behboodi and Stephen de Boer as they unpack the story of Canada–U.S. trade relations, the search for alternative export markets and trade partners, the contentious 1988 free trade election, and today's complex web of international agreements – and where Canada should go for new markets and opportunities.

Rambod and Stephen are joined by the [Honourable Sergio Marchi](#), Former Minister of International Trade and Ambassador to the WTO, who shares insider perspectives on Canada's trade strategy and offers six concrete steps for trade diversification to secure Canada's long-term economic interests.

Transcript

Rambod Behboodi:

This is Rambod Behboodi, Senior Counsel at Borden Ladner Gervais in Ottawa. I'm here with Stephen de Boer, former Canadian Ambassador to the World Trade Organization, and this is the *Tariff Home Companion*, a new podcast to shed light, not heat, on trade and tariff issues affecting Canada and Canadians.

We're back to talk trade.

This time on diversification. We're joined by an eminent figure in Canadian politics and trade policy.

In our first episode, we took a relatively brisk walk through the latter half of the 19th century, the explosion of trade between Canada and the United States and the tragedy of the Civil War.

We saw how trade, or lack thereof, with the United States was one of the factors spurring the British North American colonies of Canada, New Brunswick and Nova Scotia to economic and political union.

We saw the rise, and then the fall, of the Golden Age of tariffs in the United States.

The new country, Canada, reacted to US protectionism by putting in place, in 1897, a policy of Imperial Preferences. Other Dominions followed suit, but Imperial Preferences, championed by the populist industrialist Joseph Chamberlain, tore the Tory party apart in the Mother Country.

The Liberals came back into government. And free trade won out for a while. Back to Canada, the United States under President Taft changed tack and again asked for reciprocity.

The Laurier Liberals obliged; the country did not.

The Reciprocity Election of 1911 was not just the end of Laurier, but signalled the birth, under Robert Borden, of a new Canadian national economic identity backed by a growing sense of Imperial-Dominion unity.

Or did it?

As both countries were expanding west after the first Reciprocity Agreement and its demise, trade had continued. As Congress found, it was a "commerce of convenience": The trade did not follow the agreement; it reflected the geographic realities of the two continental countries.

And so early in the new century, we saw two currents.

One economic and continental; the other, oddly, both nationalistic and Imperial, and essentially nostalgic.

By 1920, even though reciprocity had failed, even with Imperial Preferences in place, even with nascent trade agreements between Canada and a handful of other countries, the United States was Canada's largest trading partner.

All good things and all that.

In 1929, Wall Street crashes.

A year later, the United States imposes punishing tariffs on all its trading partners. Anyone with a passing familiarity with Ferris Bueller's Day Off knows of the Smooth-Hawley Tariff Act.

Building on Chamberlain's long lost imperial preferences, the United Kingdom and the Dominions gathered in the Ottawa Conference to hammer out a new set of preferences to counteract the US tariffs. And the agreement was between the UK, Canada, Australia, India, and New Zealand, the Irish Free State and the Union of South Africa.

And then there was World War II.

As we saw last time, the Allies established institutions to combat the economic problems that, in their view, had contributed to the global catastrophe.

That's how we ended up with the World Bank, the IMF and the GATT.

Now we had a multilateral framework that governed and sought to reduce trade barriers.

So far so good.

And yet, for all the disruptions to Canada-US trade after Smoot-Hawley, for all the preferences negotiated at the Ottawa Conference, for all the global institutions we'd set up by the 1950s, that "commerce of convenience" was back.

Canada-US trade would continue to be the economy's main driver. All the efforts to expand trade relations with other countries were at best supplementary to Canada's economic development.

Enter John G. Diefenbaker.

Upon taking over the leadership of the Progressive Conservative Party in 1956, Diefenbaker launched a populist, nationalist, and strongly nostalgic campaign against the long-running Liberals.

He promised greater domestic ownership of Canadian enterprises, shift of trade from the United States to the Commonwealth, and an increase in interprovincial trade. In this way, changing the historical pattern of the commerce of convenience.

Diefenbaker sought to divert as much as 15% of Canadian trade to the Commonwealth.

It came to naught.

The Liberals returned to government in a series of minority governments in the 1960s. This was a particularly productive time for Canada-US economic relations. Realizing that in at least one sector of the economy, geography really was destiny, Prime Minister Lester B. Pearson and President Lyndon Johnson launched the Canada-US Auto Pact to create a unified North American auto market.

The two countries removed tariffs on vehicles and parts traded between them. Between 1966 and 1977, trade in autos and auto parts grew tenfold. The auto industry became Canada's largest export industry. Just about then, stagflation hit North America. As gas lines extended, inflation ran rampant, unemployment exploded, and civil institutions in the United States looked close to implosion under the weight of Watergate and Vietnam, the new Liberal government under Pierre Trudeau sought a new approach.

The Third Option, as it was called, would diversify Canada's trade, economic and cultural relations away from the United States.

After 1867, after 1911, after 1957, this was economic nationalism 4.0, or perhaps the beta version in a hundred-year loop.

Throughout the 1970s Canadian exports to the US never dropped below 65%. By the early 1980s, they held, they were held steady at over 70%.

Was geography, destiny?

The Royal Commission on the Economic Union and Development Prospects for Canada, established by Trudeau in 1982 to investigate the Canadian economy, certainly thought so.

The Commission issued its report in 1985 for the new Prime Minister, Brian Mulroney. It rejected the Third Option and recommended the promotion of tighter integration with the United States.

Rejecting again, the Third Option, this is what it said:

“Geography combined with similar cultural and ethical backgrounds have given rise to an interrelationship between the Canadian and US economies. Canada's economic wellbeing thus depends substantially on our relations with the United States.”

If until the 1980s we had stumbled into economic dependence in a fit of absent mindedness, this was deliberate hitching of our fortunes to that of our American cousins.

Now, Royal Commission reports do not end up in single issue elections and transformational policies just like that.

Integrationism was helped along by other facts.

The 1984 election was transformational. For all the animosity between Trudeau *père* and both Nixon and Reagan, here was Mulroney singing, *singing* “When Irish Eyes are Smiling” on a stage with Ronald and Nancy. So the baseline was moved.

Not that the personal relationship helped avoid trade disputes.

My first memory of a trade issue was shakes and shingles.

I found the title funny and was infuriated with the retaliatory tariffs being imposed on books. To be fair, I was 19 and prone to passionate intensity. Be that as it may, here was the issue.

President Reagan implemented a five-year program of tariffs on red cedar shakes and shingles, beginning at 35%. So we retaliated, and then there were additional tariffs on Canadian softwood lumber, so we retaliated even more, and then those tariffs ended up hurting *us*.

So of course, we removed the retaliatory tariffs. Trade history is a cycle of farce on endless repeat.

So if you want to know the why and the wherefor of, of the Canada-US Free Trade Agreement and the 1988 election, that's it. Shakes and shingles. That led to the NAFTA, and before you know it, by the 2010s, some 80% of Canadian trade was with the United States. Whither the Third Option?

Stephen de Boer:

The Canada-United States Free Trade Agreement touched on by Rambod evolved into the North American Free Trade Agreement. This agreement, which came into force in 1994, created the world's largest free trade area. Canada – all three members of the NAFTA for that matter – enjoyed preferential tariffs relative to other countries vowed to strengthen the rules and procedures that govern trade amongst the three nations, fostering a foundation for the Canadian economy to grow into what we know it to be today.

Now the question then becomes why? Why would Canada enter into the NAFTA when it already had negotiated a free trade agreement with the United States?

The answer essentially begins and ends with preference erosion.

Canada did not want to see nor reap the consequences of a fair trade agreement between the United States and another country, in this case, Mexico. "Preference erosion" refers to the reduction of a competitive advantage enjoyed by a country due to preferential trade treatment. Economists have described this phenomenon as the hub and spoke model.

In this case, the US would be the hub with Mexico and Canada being spokes to the US hub. The most attractive trading partner in this model would be the US as they would have a preferential trading relationship with both Mexico and Canada, while Canada, for example, would only have a preferential relationship with the US.

This issue has reemerged in the context of the USMCA review where President Trump has suggested that perhaps USMCA might be replaced with two bilateral agreements. Getting back to NAFTA, Canada and the Mulroney government were not the most interested in exploring a free trade agreement with Mexico.

Put gently, they were reluctant to give up their preferential access to the world's largest trading market. However, when it became clear that the deal would likely happen with or without Canada, well, the country was all in. The Mulroney government eventually decided it was better to be part of the negotiations, than sit idly by and watch trade-in investment, be diverted away from Canada.

So with NAFTA at the forefront, what was going on in the global background? Well, as we heard in 1995 and shortly after the enactment of NAFTA, the World Trade Organization was established. Notably, the WTO continues to be the only international organization dealing with the rules of trade between nations.

WTO established core governing principles. These principles include trading without discrimination, freer trade by lowering barriers, binding rules and commitments, transparency and encouraging development and economic reform. The WTO is meant to foster and promote fair competition. For example, a notable inclusion in the establishment of the WTO was the reduction of the most favored nation tariffs.

Under WTO rules, if a country reduces its most favored nation tariff for one member or country, it must do the same for all other members. As we've heard from one of our terrific guests, Valerie Hughes, the WTO still serves an essential and necessary purpose in the prosperity of world trade. But now what?

Canada has just reestablished free trade relations with the biggest market in the world. Well, what's better than one free trade agreement? Two free trade agreements. The momentum gained from the NAFTA negotiations catapulted Canada into a new era, the Free Trade Agreement era. Not long after the NAFTA in 1994, Canada had negotiated and signed multiple new agreements to name a few.

These include the Canada-Israel Free Trade Agreement, which came into force in 1997. This would be Canada's first free trade agreement outside of the Western Hemisphere. The Canada-Chile Free Trade Agreement, which came into force in 1997. This would be Canada's first free trade agreement partner in Latin America other than Mexico.

The Canada-European Free Trade Association Agreement, which came into force in 2009, and includes the countries of Iceland, Lichtenstein, Norway, and Switzerland. Canada-Korea Free Trade Agreement, which came into force in 2015, and as of 2024, 90% of Canada's exports are eligible for duty free access into Korea.

The list goes on and on, but hopefully this provides a quick snapshot of the post NAFTA landscape in the country. Though not all of these negotiations were good for good times. As we discussed the successes of free trade agreements, we must also touch upon some of the failures. The Free Trade Area of the Americas aimed to create the largest free trade area in the world. It would've encompassed all countries in the Western hemisphere, excluding Cuba, catering to a population of approximately 800 million people.

In 1994, leaders of these countries gathered for the summit of the Americas. President Clinton was poised to establish this historic agreement by 2005. These negotiations were divided into different negotiating groups. Some notable groups include a market access group, an IP group, a group on subsidies, anti-dumping, countervailing duties, and a dispute settlement group. The negotiations took part under a structured approach, and the agreement was to be implemented no later than December of 2005.

The agreement stalled and ultimately failed.

A large roadblock in the negotiations was the disapproval from Latin American countries towards the United States. Government's desire to include domestic subsidies into the agreement, the terms and scope of the agreement ultimately proved to be impossible to reconcile. Next up, we have the Transpacific Partnership; however, this one comes with a happy ending.

The Transpacific Partnership was a proposed trade agreement between 12 countries, including Canada, the United States, and Mexico. The TPP began as an expansion of the Transpacific Strategic Economic Partnership Agreement, which was negotiated between Chile, Bruna, Singapore, and New Zealand. Additional countries agreed to join negotiations in an effort to broaden the agreement.

The TPP contained measures to lower both non-tariff and tariff barriers to trade, while establishing an investor-state dispute settlement mechanism. The agreement was signed and en route to ratification until President Trump and the United States had other ideas.

Prior to his election, he argued the agreement would undermine the US economy and its independence.

Upon his election, on January 23rd, 2017, the United States had withdrawn from the agreement. So rather than deciding to use this as an excuse to forego the agreement's ratification, several signatories decided that they instead intend to rework the agreement without the participation of the United States.

And this brings us to the Comprehensive and Progressive Agreement for Transpacific Partnership.

This free trade agreement encompasses 11 countries and is currently the trading block of 580 million consumers and 15.6% of global GDP. It importantly provides Canada with preferential access to key markets in Asia and Latin America.

We then shift our focus to Europe and the European Union. The Canada-European Union Comprehensive Economic and Trade Agreement is a progressive trade agreement between the EU and Canada. It was provisionally entered into force in 2017, and as we still await the national ratification process to take place by 10 EU member states.

But in the meantime, 98% of duties on all tariff lines have been eliminated.

As of 2021, Canada EU trade grew enormously compared to its pre-CETA indicators.

For example, exports in 2021 to the EU reached \$32.5 billion. A 46.4% increase from 2016. Duty savings totaled over 890 million during that span. The EU's annual imports alone are worth more than Canada's GDP, and this agreement has opened up new options and a new competitive advantage for a country in a global context.

Finally, Canada has long been involved strategically with the Association of Southeast Asian Nations or ASEAN. Since 1977, Canada has worked with these nations on political and security issues, regional integration, economic interests, transnational crime and disaster risk reduction. More recently, however, Canada took a bigger step forward solidifying its dedication to fostering this relationship.

In 2023, the ASEAN-Canada Strategic Partnership was launched. Canada is facilitating increased cooperation in political security, economic and social cultural areas. Of course, the prospect of a free trade agreement has been floated around as well. In November of 2021, Canada and the ASEAN agreed to negotiate an ASEAN-Canada Free Trade Agreement.

Chief negotiators have met multiple times since November 2021. Most recently in May of 2025. The parties continue to prioritize concluding these negotiations as soon as possible. In the meantime, last month Canada signed a free trade agreement with Indonesia. What's next may remain to be seen, but as we heard from John Weekes, there is no replacing the United States economically or geographically.

With the CUSMA review looming, all Canada can do is wait rounding out the edges, one more free trade agreement at a time.

Rambod Behboodi:

The Honourable Sergio Marchi has had an amazing career. After serving as an MP during the Mulroney era and fighting the good fight of the Free-Trade election, he became the Minister of Citizenship and Immigration and then Minister of Environment, and finally, Minister of International Trade under Prime Minister Chrétien.

He was then named Ambassador to the WTO. I had the great honour of working for him in different capacities and working on files that, he had oversight for as Minister of Environment, in the 1990s. We're fortunate to have him with us to talk "the Third Option".

Thank you so much, Sergio. I know it's late where you are. It's really good to see you after such a long time.

Sergio Marchi:

My pleasure. Thank you for having me.

Rambod Behboodi:

Sergio, you've just published a book, about it's called *Pursuing a Public Life: How to Succeed in the Political Arena*.

And, of course, your successes came after, the, the Liberals did not succeed in two series of elections, 84 and 88. You were elected. But, especially in 1988, the Liberals under John Turner failed to stop the Free Trade Agreement with the United States. The end result was, of course, one could argue, two decades of relative peace. But at the same time, that came at an enormous cost.

That is to say, as, as I mentioned, we ended up with 80% export dependence on the United States' market.

So let me lob a softball at you.

Was the US free trade agreement in retrospect, a bad thing? Were you right in 1988?

Sergio Marchi:

No, I don't think so. I think, you know, John Turner, as you mentioned, was very, very passionately opposed to the free trade proposal. And as you will recall, the 1988 election was essentially a referendum on entering a, a trade agreement with the United States.

There were no other issues that came close, and that's why it was almost like a referendum and, and at one point it looked like John was going to win, the tide was turning, and then Mr. Mulroney emptied the bank on ads, both in radio, television, newsprint, and gathered the corporate community and they overtook John. But I think when I, when you look back, I've freely admitted that a number of us were concerned with John's position. That is to say. Many of us were free traders.

Many of us believed also in the constitutional architecture of Pierre Trudeau. So the trade and constitutional issues really ripped the caucus and the party apart. But on the election front for the trade agreement, a lot of us kind of, held our noses, and and on we went. But I think it was a good deal.

I think the numbers prove it. It was not a perfect deal.

I don't think a perfect deal exists, but it was a great deal with the superpower of our era, the largest economy, and it was next door.

So when people talk about diversification, you know, governments, and you've mentioned Trudeau's third option have tried to diversify, but it's a bit like going against the water flow because if any other country occupied the real estate space that Canada does, I think their business community would've done the same thing.

In other words. If they were to contemplate exporting their products and services, why would they not want to dip their first toes in American waters? Since it's close, since it's the largest, most lucrative market, since our cultures are more similar, since they speak English, it was a no brainer.

So while governments tried to urge businesses to diversify the companies were doing well in America, and so why go to Indonesia when you can sell in Idaho?

And so it's easy to say, now we've made a mistake. But I think it was a natural inclination of the business community. Now the issue is obviously sifting.

Now we must diversify if we are to survive the Donald Trump earthquake.

So I think, I think the trade deal was the right one. I think the integration economically, helped our country. The reality is who saw Donald Trump coming, for a second time and being uncorked on so many different fronts?

Stephen de Boer:

So. That makes perfect sense. And when you actually when you look at a map, there's, there's Canada around like we're attached to one country surrounded by water and it's certainly, when you think about some of the commodities that we are selling, they're, they're not necessarily easily transportable.

So, oil, gas, the auto sector, some of these things are, are either difficult to transport or extremely heavy.

But when we do think about a Third Option or entering other markets, what sector, are there any sectors that you think would be winners for, for Canada?

Like if we're thinking about in, the CETA context or, for example, you had mentioned Indonesia and how this is a NAFTA is far more valuable or CUSMA than, than in Indonesia, but what, what are some of the opportunities?

What should Canadian firms, or what should the Canadian government be doing to encourage Canadian firms to export? What should be exploited?

Sergio Marchi:

Yeah. Let me throw out a number of points that came to my mind before this interview and then we can delve into them as you wish. The first is that our public diplomacy forever and a day between both Liberal and Conservative governments has been the balanced advocacy of both interests and values, so that when we export, we're not only exporting our goods, but we're also exporting the values that lie behind them. And I'm not suggesting that we sell our soul, but I think Canadians now have an expectation with the economic crisis from our largest trading partner that we now need to accentuate on interest and perhaps less so on values. In other words, Canadians expect their governments to collaborate and to be much more pragmatic when it comes to trade and investment. Secondly, that will mean that for all ambassadors and all embassies and of course our team of trade commissioners, job, priority one should be trade and investment opportunities.

Again, you don't have to forget about everything else, but you need to know which side of the bread the butter is on at this point in our history.

Thirdly, I wouldn't recreate doing a whole bunch of new trade deals. We can and we should, but initially, as you guys noted, we have some 15 free trade agreements with countries that number 51 countries, 60% of GDP and a market of a billion-point-five billion.

And so these are underutilized because as Rambod and Stephen were saying, despite these 15 FTAs, we still overwhelmingly export and import with the United States.

So I think we need to utilize these FTAs that we've already negotiated. Let business know of these. Let them know what the export markets look like.

Talk about the cultures in these countries and begin to take advantage of them, including, settling the European Accord where 10 countries are still to, endorse, the protocol.

Fourthly, I think internal free trade must go from words to deeds. I think it's a, it's a no brainer, and Trump may be the instigator and finally freeing up our own Canadian economy, which, which I think would be significant if the barriers come off.

Fifthly, I would, if I was Carney, appoint a minister, for foreign investment, inward bound, because right now foreign investment lies between a number of different ministries. But because of the crisis, I would centralize it, I would make it more focused. I would make it more strategic. I

would have one minister and their department be the global envoy for chasing and hopefully getting, for an investment into Canada.

And finally, I think it's time to revitalize and, bring back the, team Canada missions that were pioneered by Jean Chretien when he would take all the premiers, the trade ministers, and hundreds of business leaders to a different part of the world for 10 days, of the, of the year.

And not only did that open important doors because all the senior mandarins and politicians, had a command performance when you have the President or Premier of China, asking you to, but it was also good for collaboration between the premiers and the Prime Minister, something we desperately need today with this crisis because Jean Chretien used to say that the best, the 10 best days of federal provincial relations were happening when the Team Canada was working abroad because the leaders would share buses, they would share meals, they would share meetings and ceremonies. And not only did they work on trade and investment promotion, but they actually discussed and worked on domestic issues back home.

So I think there's a number of, of things that we can do, but I, I think there needs to be a shift from, from values to interest in a very pragmatic way. Carney talks about it as a hinge moment, which it is. But we've now got to translate those words into, into actions. And it's not going to be easy because it's going to take time. Nothing gets done overnight.

So there'll be short term pain as a result of our friend Donald Trump. But I think this might shake us out of our complacency for a long term, sustainable, economy, which relies less on the United States.

I agree. It's tough to replace the United States. At the same time, Carney is right when he says the old relationship we had is gone.

And it really doesn't matter whether it's Donald Trump or someone else because everyone around the world is now taking their own actions because they don't trust the American Administration and they're not sure what's going to come after. So people and countries and companies are already factoring in their decisions and there's no going back.

Rambod Behboodi:

A lot of food for thought there in, in the six, points that you raised. Let me pick on, a couple of the, couple for elaboration. Let me start with, your idea of a Minister of Inward Investment. Makes a lot of sense and there is in fact, a, we have, we have, investment review and some investment responsibilities at Industry Canada. Then, of course the Trade Commissioner service, itself is, engaged in raising awareness about Canadian possibilities.

But, to go back, what, what Stephen said at the, during the opening, investment, inward investment is spurred on, in part by, access to the Canadian market itself, but we're a small market.

A lot of that, was, and this, this was the whole, hub and spoke, concern that, that spurred us to, to, try to accede to the, to the NAFTA and, and eventually succeeded in doing that. We, we, basically, presented ourselves and we continue to present ourselves as, as a, a, a gateway to the rich US market.

So, in this context, if that US market is either closed or uncertain, what is the selling point of a Minister of Investment if not access to other markets, the third markets, the, the, the markets of the 15, countries with which we have, a free trade agreement and, and or the 15, free trade agreements we've got and, and, and then any other free trade agreements that we open up.

Sergio Marchi:

No, there's no question in that part of the strategy of Trump in, in hitting us and other countries with tariffs is his belief that this will increase investment to the United States. In other words, if companies in Canada are going to suffer as a result of the tariffs, then what he says in broad daylight is, well then move to the United States.

I call it an America only because he can't care less if firms drop out Canada or Africa, or Europe or Asia for the United States. That's what he wants to do. So I get your point, but I just don't buy into, notwithstanding that gateway that is being undermined by Trump's actions, I just don't support, spacing investment across a number of different portfolios.

I think we need to be much more strategic, I think we must be more focused, more aggressive, and even if, Trump is, would rather prefer that the government of Canada deal with investment through a central prism, as opposed to two or three or four different locations with things falling between the cracks.

So irrespective of the gateway, I just think it makes much more sense that a Minister and a Department knows the business of where those investments are. Go there, become a global envoy, face them. Of course, the gateway concept was a great, great, PR or more than PR, a substantive element of that attraction for investment.

But hopefully once Trump is gone, we might not get another Trump alike. We might go back to some more quote unquote normal times. At which case I think that would, become, increasingly important. So I'm, I'm talking about more about the process for how we get investment as opposed to the gateway, which, which obviously is a little bit outside of our control, given the unpredictability that Trump has injected into global trade and investment.

Sergio Marchi:

Yeah, no, I think Stephen, I was, I was making the point of saying, look, there's a reason that we created 15 free trade agreements with up to 51 countries representing 60% of the global GDP and a person market of a billion and a half people. There's a reason we chose those 15 free trade agreements and there's a reason why they're still not working as well. And that's because business has continued to go to make its gold brick in America. And I get it. Well, gold making in America is coming to an abrupt end, if not an end, a difficult, a difficult road because of what Mr. Trump has done.

So rather than recreating the wheel, even though I think like in the case of Indonesia, or in the case that you pointed out that you can bring new bells and whistles into the agreement, of course. But it seems to me that conceptually we need to re-educate Canadian business on the agreements that we have, on the advantages that they present to us, on what the key elements of products and services for each of these FTAs are, and get them to reorient.

In other words, if the business in the United States is not going to be as lucrative, then it seems to me that those 15 free trade agreements right off the bat, provide part of a solution. And so we've got to take the horse to water. It's been difficult before to get the horse to drink non-American water. I get that. And we just went through why.

But now the United States is no longer, can it be considered trustworthy under Trump, or a friend, or an ally, and therefore I think we need to make moves towards those 15 free trade agreements and of course, add new ones as we can. But it seems to me that it would buy us a lot of time if we concentrated in bringing those companies to those FTAs, and then adding the bells and whistles as, as we see fit, which includes also the 10 countries that have still not ratified the European-Canada trade accord.

So, I, I would, I didn't say that we just should stop at the 15. I'm just saying that the 15 represent an opportunity, an immediate opportunity of access.

Let's use it, let's bring business, to the fore and let's make sure they understand that we've got a few other doors to knock on.

Rambod Behboodi:

So a CPTPP Team Canada.

Stephen de Boer:

Exactly.

Rambod Behboodi:

Speaking of, of new bonds, and, and, you know, I don't know if you were aware of my existence back, in the Brazil Canada dispute days, but that was my biggest file. and,

Sergio Marchi:

So it was your fault.

Rambod Behboodi:

Well, we, we did win, some of it at least.

Sergio Marchi:

I remember them well from my WTO days. It seemed that every week I was, bumping into Celso Amorim, the trade ambassador

Rambod Behboodi:

Absolutely.

Sergio Marchi:

For Brazil over planes and Embraer and, and, our good guys.

Rambod Behboodi:

Absolutely. So, here's a thought. In terms of – and I know your interest in the region – in terms of, new, potentially new, agreements and new areas to explore, we know that the EU and Mercosur have finally, agreed to a new, a new agreement, a free trade agreement after some 25 years of negotiations. We have been negotiating on and off. It hasn't gone anywhere. So, what

do you think about a Canada Mercosur free trade agreement? Should we bother? Is it worth the effort? Is it, is it more, does it have strategic value above and beyond the, the, the, the monetary value? Is there, in your view, a market in, in Brazil, that we could exploit that we have not?

Sergio Marchi:

Yeah. Well, I think, my personal opinion is Brazil has, has always been a difficult trade partner. I, I say that, quite openly and quite frankly, I would've probably even said it had I still been wearing my WTO hat. Brazil, I found quite indignant, quite arrogant about its position. Brazil has always played like they are the America in the Americas, and there's other countries who despise that. So I'm not surprised that it took Europe almost 25 years of talking and badgering to get to first base.

Should we be doing that? I wouldn't hope that we'd spend 25 years chasing Brazil and the other countries.

But I do recognize that, our minister was there recently. He was in Brazil. Trying to get the Mercosur Canada relationship perhaps not back on track, but on track. So should we take a look at it? Yeah. Would I bet the farm on it? No. And when we talk about new quote unquote trade deals, we should also be mindful of, of not old deals, but countries like China that I think are hugely, hugely important and, and the Chinese Canada relationship has been in the deep freeze for a long time.

I think Justin Trudeau had an incredible opportunity when the Chinese invited him days after he was elected prime minister to visit China, which meant that they were, looking forward to the Trudeau era after Stephen Harper basically ignored China because he would throw red meat to his right wing cabal in in caucus, which in part was China and also on the part of, Justin Trudeau's father who was revered, right until the end. He was always treated as a prime minister when he went to Canada, when he went to China rather, since he, you know, opened diplomatic, relations even before America back in 1971.

And I know that China is not everybody's cup of tea. And I know that people have many complaints about what China means today as opposed to years ago. But I don't think we can ignore China. I don't think we can isolate China. That's why I, I think Carney would be smart in, as he has been, in pursuing a, a new interest in China as well as a new interest in India.

And these are some pretty sizable entities. And, you know, we can chase Mercosur for 25 years, or we can take a couple of years to get China and India, right. If you ask me which one, I, I think it's an obvious selection, but we have to now accentuate, a Chinese, India, collaboration like never before.

Again, both files tricky, but again, you're not going to be able to isolate either Canada or China, and we'd be dumb if we tried to.

Stephen de Boer:

One of the things that, there was a lot of discussion, I think in the late eight 1980s, early 1990s, Baghwati talking about the spaghetti bowl of free trade agreements and the WTO was, was supposed to resolve or attempt to resolve, resolve that. Canada then went off and negotiated a series of free trade agreements and that work is continuing by others. So we just talked about the EU Mercosur agreement, interest in others joining CPTPP. How much of that do you think is a problem, and how much of that is going to be a problem for Canadian business trying to diversify?

Sergio Marchi:

Yeah, I think for so many years the cornerstone of our global trade policy was anchored in the WTO for a good reason. I mean, that's where the rules were made. That's where there was a rule of law that we Canadians subscribe to. And while we didn't win every one of our cases, we won a lot more than we lost.

A country of the size of Canada would always do much better in a World Trade Organization rather than the old rules of the Wild West where the biggest and the most powerful control things. But I'm worried about the WTO is I hope you are as well because. It hasn't been working. the Doha Development, is, is still offside after all these years.

The WTO has lost relevance. The United States, which used to be the locomotive that pulled all the other countries, for the most part, has now become, has become a caboose. So it's part of the problem. And so if the US is not leading the WTO forward, who is stepping into the breach? Right now, I can't see anybody stepping into it or if those who have tried have, have failed.

So the WTO is now in a weakened state and you've got a guy in the White House who actually espoused getting rid of the World Trade Organization. So I'm not sure as long as Trump is there, that the WTO is going to provide the kind of leadership that traditionally we would've wanted and hoped for. I'm not advocating that we get rid of the WTO, but I don't think that's going to be our answer during this tricky time.

I think we, we have to take it upon ourselves and resolve it for ourselves and perhaps the WTO can march forward under better times. Because right now the WTO, I'm afraid to say, is like a stationary bicycle. Lots of ambassadors, spinning wheels, sweating, losing weight, but for what? It hasn't moved forward.

So, when I was there, I was excited to be there because the WTO, since the Second World War, contributed a hell of a lot of economic prosperity and predictability and certainty. But right now it's in a bad place, and in part it's in a bad place because trade has shifted. When I was trade minister, I always viewed the trade portfolio as one of the best cabinet positions to be had, because it was largely a positive file, you were helping business sell our products and, and, and services around the globe. We were bringing down trade barriers and opening up new relationships with peoples and countries around the globe and today, the WTO is, is, is, is showing a totally different image in part because the political leaders have moved away from the WTO and trade.

Many leaders join a parade against the WTO because they kind of put their finger up in the air and, and figure out which way the wind is blowing. So you don't have leaders who are courageous. You've got leaders who are blaming trade for their economic job losses. You've got people saying that, you know, the WTO is too bureaucratic or that the United States controlled it too much.

All I know is that the WTO and its, and its predecessor did a lot of positive good for, for countries like Canada and the globe. But right now the, the WTO is somewhat paralyzed and it's paralyzed because there hasn't been political leadership and political courage to continue what ironically America and most of the West, did after the Second World War, which was to revamp, how we did trade and, and its rules and its how we deal with products.

So for me, the WTO in the short term is not the answer. I'm hoping that it can come back in the long term, but right now I think we march to a different drummer.

Rambod Behboodi:

Thank you very much. This brings us to the end of our session today. Stephen and I would like to thank Sergio Marchi for being with us as well. A project of this kind requires a lot of work to bring together. In particular, honorable mention is reserved for Alex Zoutis, Articling student, and our producer Jason Chute and of course, the entire technical staff of BLG.

Thanks again, Sergio and Stephen this is the end of the session.

Stephen de Boer:

Thank you, Sergio.

Sergio Marchi:

It's a, it's a pleasure and, let's keep hope alive.

Stephen de Boer:

Yeah

Rambod Behboodi:

Absolutely.

Stephen de Boer:

Absolutely. Thank you Sergio.

Rambod Behboodi:

Thank you.


Sergio Marchi:


Thank you. Bye-bye.

Key Contact

Rambod Behboodi
AVOCAT-CONSEIL PRINCIPAL

 Ottawa

 RBehboodi@blg.com

 [613.369.4770](tel:613.369.4770)

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