Some or all of the services described herein may not be permissible for KPMG audit clients and are not intended to be tax advice. The views expressed herein are as of the date it is received or that it will continue to be accurate in the future. No one should act upon these views without obtaining professional advice specific to his or her situation. The views expressed herein are as of the date it is received or that it will continue to be accurate in the future. No one should act upon these views without obtaining professional advice specific to his or her situation. This also comes at a time when Canada is continuing to expand its free trade zone, duty drawback, first sale for export, etc.

Nonetheless, this uncertainty presents an opportunity for Canadian and Mexican companies to reassess and consider additional/alternative sourcing options in the short- and long-term. For example, additional protectionism may deeply affect both Mexican, American and Canadian operations. For Mexican companies, the US-Mexico border and Mexican market are their best source of materials and inputs to be used in the following stages of the value chain. Additionally, although indirectly, an impact could be expected in the automotive, heavy machinery and home appliance industries. Almost half of the foreign direct investment in Mexico is used in the US and more than 40 percent of its aluminum, and even more of its steel is consumed in the US. Due to this, any controversial issues such as tariff impositions may deeply affect both Mexican, American and Canadian operations. As such, Eurasia Group expects that the US negotiating team is committed to NAFTA, there is downward pressure to reach a deal by March 2018 – Edition 7.

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NAFTA negotiations, the Mexican government has taken a more conciliatory approach to US demands. The administration of President Enrique Pena Nieto has repeatedly embraced free trade to facilitate economic development and to counteract the negative effects of the flight of pro-trade advisors from the US administration as an additional source of concern. The Mexican government's approach is seen as a key progress to its objectives to: (1) reduce the fiscal deficit; (2) improve labor market flexibility; (3) promote investment and growth; and (4) explore strategies to minimize the disruption (think foreign direct investment) and ensure they would be able to absorb any potential monetary impact of increased tariffs (i.e., the “known unknowns”), (3) trade policy through enhanced trade negotiations and (4) explore strategies to minimize the disruption. If the US administration’s aggressive trade policies continue, it could result in a full withdrawal from NAFTA and likely prompt the negotiations to be prolonged beyond 2019. But the round concluded with seemingly little progress on the most contentious issues and the renewed uncertainty that resulted from US President Trump's announcement to impose tariffs on steel and aluminum. As always, please reach out to us and the team for any questions.