

We had left the truck at a local establishment to get the tires changed over for the winter just in time. That day it had snowed heavily, and by the time I made my way over there with my wife, there was six inches of fresh powder on it. She left me there with the older two girls, where we dug out and climbed in to the snow-worthy machine.

There is something about getting in to a 4x4 when it has snowed several inches, then crawling away slowly in four-wheel drive. The effect of fresh studded snows adds to the effect, as does climbing high in to the comfortable cab with the engine running. The weather might be frightful, but we were set. Triumphant.

We were nearly the only ones left in the dark night of the parking lot by then, so I turned a big wide sweep across two or three empty parking lanes to make my way toward the exit. Just then, a small security car pulled in to path, blocking me. There was plenty of room for both of us, but he seemed to be on a mission to get in my way.

I tapped on the horn and gestured for him to take the right-of-way, which apparently was some sort of gauntlet dropped to him. He stopped directly in front of me and turned on his high beam lights.

I honked again, this time exasperated. It had been a long day. He stepped out of the vehicle and placed his hands on his hips, except one hand was gripping a back case hanging from his belt.

He wore his security uniform as if it made him in to a towering figure of authority – perhaps an attitude reminiscent of his homeland – which, based on his accent was not Canada. In his heavy boots he stood there, all of 4 ½ feet tall, staring me down (up actually). I revved up the engine, causing him to shrink a little (if that was possible), then slowly glided right next to him, rolled my window down and said: “Hey there little fella. You’re a mall cop, not a border guard, and that’s a radio, not a gun. Go home and radio your mother and tell her you’re a chump.”

We have a saying in my tradition which I will paraphrase here: “Give a man a little authority and it immediately goes to his head.” Speaking of authority figures and chumps, a bit more discussion here about NAFTA negotiations. This is a big deal, made bigger by the fact that it matters more to us than the Americans.

A remote possibility is a Trump tariff tantrum

Our discussion last week generally treated the World Trade Organization (WTO) as a backstop to any changes to NAFTA. A lower-probability scenario is one in which the U.S. abandons both NAFTA and refuses to honour WTO commitments. The Trump administration’s 2017 Trade Policy Agenda itself cited the importance of “America First” ahead of WTO obligations.

The outcome of this potential scenario is uncertain, but could result in significantly more distortionary tariffs along the lines of the 20% import duties on softwood lumber and 300% tariffs on Bombardier C-Series jets already announced by the U.S. Commerce Department.

Given the preoccupation of the president with trade deficits, tariffs under this type of scenario could be focused on areas in which Canada has a trade surplus with the U.S. Of course, it would also expose the U.S. to possible retaliation. The energy sector is by far the largest industry which would be impacted by this, and the original U.S. negotiation objectives did suggest that this sector would be a subject of discussion. With that said, one of President Trump’s first actions as president was to approve the Keystone XL pipeline. That support suggests energy trade isn’t high on the list of current grievances. But in the current environment, it is difficult to rule out any potential outcome entirely.

Canada could be more vulnerable to non-tariff barriers (NTB’s)

An NTB is a tariff dressed up as a change to regulatory requirements. Canada has had some success in the past using the WTO arbitration process, but arbitration can last for years.

The impact of non-tariff barriers is hard to quantify. A Statistics Canada study looked at the impact of a new security regime post-9/11 on truck-borne trade and found a relatively small equivalent tariff increase of about 0.3%. Those measures weren't even designed to disrupt trade. It would be possible for policymakers with a protectionist bent to come up with new rules that could significantly impact trade flows.

Services could be constrained

NAFTA is most often looked at through the lens of goods, but its collapse would leave big questions around market access and non-discriminatory treatment of services. Services are, on average, significantly less trade-intensive than goods production—and so less vulnerable to trade disruptions. Moreover, the U.S. generates a trade surplus in services with Canada in most services categories. So for Canada, the biggest risk would appear to be restrictions to the temporary cross-border movement of professionals.

Mark Ryan is an Investment Advisor with RBC Dominion Securities Inc. (Member–Canadian Investor Protection Fund), and these are Mark's views, and not those of RBC Dominion Securities. This article is for information purposes only. Please consult with a professional advisor before taking any action based on information in this article. Mark can be reached at mark.ryan@rbc.com.