

Nafta

Mexico retaliates against steel levies with tariffs on US imports

Peso falls as prospect of Nafta deal worsens and US repeats desire for bilateral talks



Crates of US green apples on display at a Mexico City neighbourhood market, which would cost between 15% and 25% more under new tariffs © AFP Jude Webber in Mexico City, Adam Samson in London and Gregory Meyer in New York 4 HOURS AGO

The peso plunged on Tuesday after Mexico imposed tariffs on US imports including bourbon, apples, potatoes, cheese and pork in retaliation to the Trump administration's levies on steel and aluminium.

The announcement of tariffs ranging from 15 per cent to 25 per cent came as the future of the Nafta trade agreement came under fresh attack from the White House.

“An open trade war has finally erupted in the backyard of the US, with potentially dire repercussions for the survival of Nafta,” said Eswar Prasad, a professor of trade policy and economics at Cornell University.

Mexico's peso, which has lost 13 per cent from mid-April under pressure from the strong dollar, was hostage to a tariff conflict that could damage relations between the allies, said Juan Francisco Caudillo, a senior technical analyst at Monex, a Mexican bank.

The peso was 1.4 per cent lower at 20.35 to the dollar in early trade. “It could hit 21 pesos before the Mexican elections,” on July 1, Mr Caudillo added.

The list of US products subject to new tariffs did not include the top two US agricultural exports to

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Larry Kudlow, economic adviser to Donald Trump

Mexico: corn and soybeans. This would allow the animal feed components to continue to flow to Mexico's local livestock and poultry industries.

"Mexico seems to be in a precarious position in that they must respond to the US action and draw up this list. At the same time they have to be sensitive to their farmers and their constituents who would be impacted ahead of their election," said Bill Lapp of Advanced Economic Solutions, a US-based agricultural consultancy.

"Not putting tariffs on corn and soya meal, but doing so on pork would implicitly give a sizeable advantage to their livestock producers," Mr Lapp said.

The tariff move came after the Trump administration reiterated its desire to push for bilateral talks on Nafta with [Mexico](#) and [Canada](#).

Larry Kudlow, economic adviser to [President Donald Trump](#), said Washington now favoured such a "shift", telling Fox News that "countries that are different probably deserve different deals".

Mr Kudlow added: "His preference now, and he asked me to convey this, is to actually negotiate with Mexico and Canada separately."

Mexico has resisted such attempts to split the [North American Free Trade Agreement](#) allies, and one source said he did not expect such a suggestion to fly in Ottawa. "They'll say 'why do we have to accept things that Mexico isn't?'," said one source close to the negotiations.

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Jaime Zabudovsky, one of Mexico's original Nafta negotiators

Dealing with countries separately would expose Canada to tough talks on its dairy sector, dispute resolution mechanisms and government procurement — three areas where it has opposed US demands.

"The US is frustrated by the fact that Mexico and Canada have successfully played two-on-one throughout this negotiation," said Eric Miller, president of Rideu-Potomac Strategy Group, a Canadian consultancy.

"Canada and Mexico will continue to hang together until there is nothing to hang around," he said.

The Mexican source added: "One thing that they seem to forget is that they don't have TPA for bilateral negotiations, just for Nafta" — a reference to the fast-track Trade Promotion Authority

powers granted to the administration. “I’d like to see what Congress thinks of that.”

Jaime Zabludovsky, one of Mexico’s original Nafta negotiators, said Mr Trump’s desire to negotiate separately made no sense and also went against US private sector interests.

“I don’t know why Trump thinks that the problems that exist in the trilateral negotiations will disappear in bilateral negotiations. Everything that hurts Mexico, hurts Canada — and 90 per cent of what hurts Canada hurts Mexico,” he said.

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Mr Prasad said it was now difficult to see a “path to a negotiated settlement among the three countries that preserves Nafta in something close to its present

form.”

“Trump’s attempt to divide and rule America’s Nafta partners in order to get a better deal might well end up uniting Canada and Mexico in opposition to US demands.”

The idea of separate bilateral talks is also likely to be resisted by many Republicans in Congress, which would have to approve any deal, and the US business community.

“Now is the time to stay the course and work with our trading partners to find a path forward on an updated Nafta that will meet the high-standards of bipartisan [congressional trade instructions] and gain the support of Congress,” said Orrin Hatch, the Republican chairman of the Senate Finance Committee.

Additional reporting by Shawn Donnan in Washington

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