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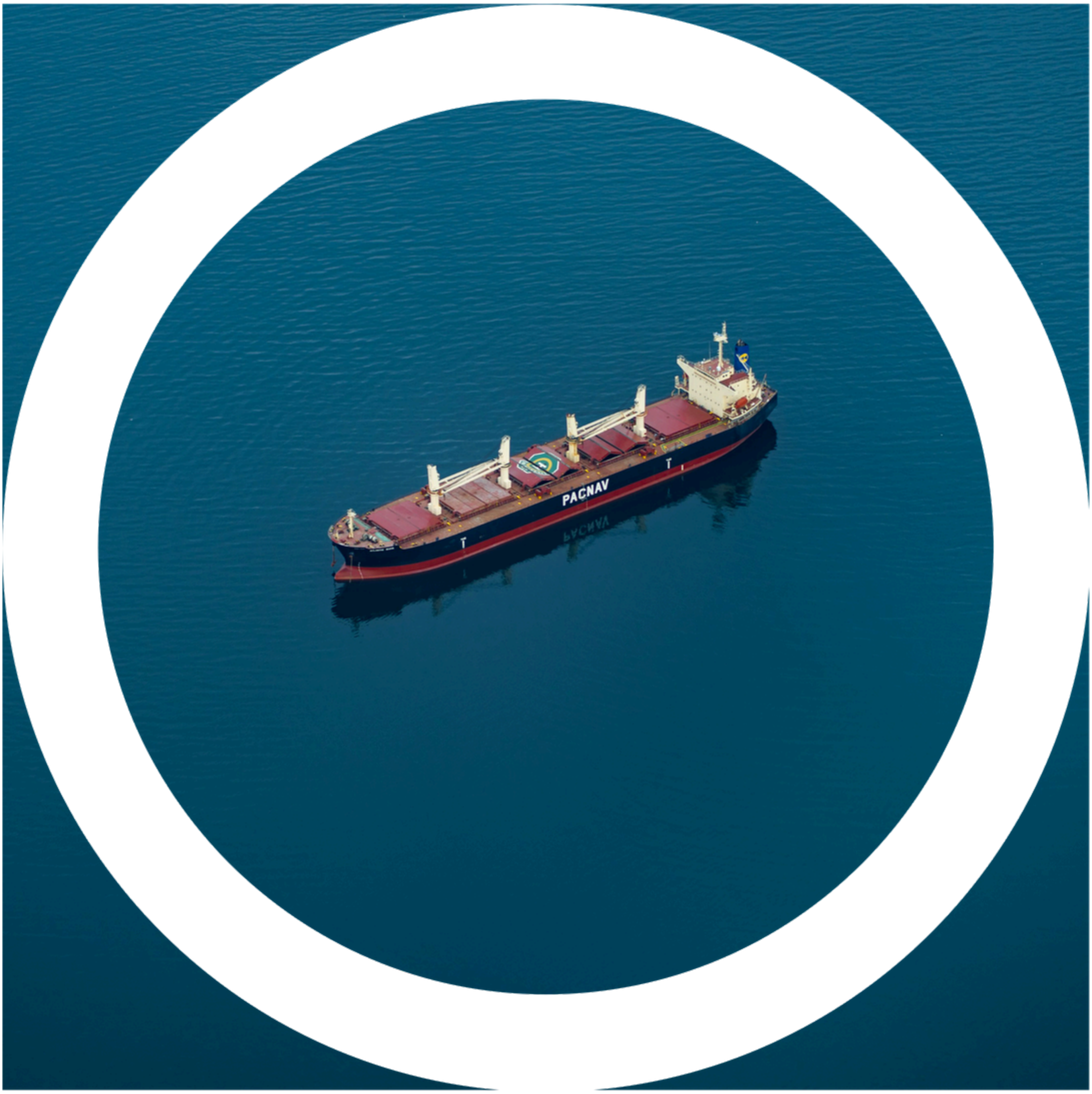
USMCA Renegotiations:

Trade, Leverage, and the Limits of Trilateralism



Executive Summary

Chai Hyeong Han

The United States-Mexico-Canada Agreement (USMCA) entered into force on 1 July 2020, replacing the North American Free Trade Agreement. Now the decision of the three neighbors to extend the agreement for another 16 years looms with a 1 July 2026 deadline.

The USMCA's principal innovations included among other things stricter rules of origin for automotives, targeted sanctions for facilities in breach of workers' rights, and the first binding currency manipulation disciplines in any US free trade agreement. These reflected both the structural obsolescence of the original agreement and the political conditions of its ratification. Under Article 34.7, all three parties must confirm in writing by 1 July 2026 whether they wish to extend the USMCA for a further 16 years; if any party declines, the agreement enters a cycle of annual reviews until its expiry in 2036.

The political environment surrounding the review has been defined, above all, by the Trump administration's tariff regime. The 25% tariffs imposed on Canadian and Mexican imports from February 2025 under IEEPA emergency authority were struck down by the Supreme Court in February 2026. The administration responded with a universal 10% tariff under Section 122 of the Trade Act of 1974, whilst Section 232 tariffs on steel, aluminium, and automotive goods remain in effect on a separate statutory basis. This cycle of executive action, legal challenge, and further executive action has generated sustained uncertainty for businesses operating across the continent. USMCA's dispute settlement mechanisms were not invoked in any operationally substantive way throughout this period. Separately, repeated threats by senior US administration officials to Canada's and Mexico's territorial sovereignty have strained bilateral relations well beyond trade.

The economic consequences are already visible. Trilateral trade reached $1.8 trillion (£1.3 trillion) in 2025, but new manufacturing investment in Mexico fell approximately 10% year-on-year in early 2026, with major automakers publicly delaying capital commitments pending clarity on the agreement's future. The automotive sector sits at the centre of the negotiations: the US is pushing for stricter rules of origin and new disciplines targeting Chinese foreign direct investment in Mexican EV supply chains, which has reached nearly $10 billion (£7.3 billion); Mexico's stated top priority is zeroing out tariffs on automotive vehicles and parts; Canada is focused on protecting cross-border supply chains and its dairy supply management system.

The three governments have entered the review from different positions. US Trade Representative Greer stated in December 2025 that a rubber stamp of the agreement is "not in the national interest", and the US launched Section 301 investigations in March 2026 targeting excess manufacturing capacity across 60 countries, Mexico and Canada among them. Mexico, under President Sheinbaum, has pursued de-escalation and direct bilateral engagement, with scoping discussions having begun in March 2026 and technical meetings following closely. Canada, under Prime Minister Carney, has signalled its preference for a 16-year extension with limited scope, whilst coordinating with Mexico through the Canada-Mexico Action Plan 2025-2028, a bilateral arrangement designed to preserve leverage within what risks becoming a US-dominated negotiating structure.

As of early May, preparatory talks remain bilateral and narrowly scoped, with no new text on the table ahead of the 1 July deadline. A clean, on-time extension now appears unlikely. The most probable near-term path is a negotiated extension concluded beyond the statutory date, focused on rules of origin, external competition disciplines, and enforcement architecture. Should the deadline pass without consensus, the agreement enters annual review cycles, a scenario that would sustain the investment uncertainty already weighing on North American supply chains. For business and investors operating across the three countries, the period ahead will be defined by that uncertainty, regardless of which outcome prevails.

1: Background: USMCA in Context

Chai Hyeong Han

From NAFTA to USMCA: The Structural Case for Modernisation

When the North American Free Trade Agreement (NAFTA) entered into force in January 1994, it formed one of the largest free trade blocs in the world by gross domestic product, encompassing the economies of the United States, Canada, and Mexico. Over the following 25 years, trade among the United States, Mexico, and Canada expanded rapidly; US-Mexico bilateral trade alone grew from approximately $100 billion (£78.3 billion) to over $670 billion (£524 billion) annually. Yet by the mid-2010s, the structural limits of NAFTA had become increasingly difficult to ignore. The agreement was concluded before the advent of the commercial internet, contained no effectively enforceable provisions on labour rights or currency manipulation – the parallel North American on Labour Cooperation (NAALC), whilst nominally binding, failed to yield a single successful enforcement action – and was designed based on a geographical supply chain landscape that had been fundamentally reshaped by China's accession to the World Trade Organisation (WTO) in 2001. Meanwhile, NAFTA's Investor-State Dispute Settlement (ISDS) mechanism provoked sustained political backlash on both the left and the right, as it allowed companies to challenge domestic regulations before private arbitration panels.

The formal catalyst for change came in May 2017, when Donald Trump's administration notified Congress of its intention to renegotiate NAFTA in accordance with the legal requirements of the Trade Promotion Authority Act, which mandates that the administration provide Congress with 90 days' notice before initiating trade negotiations. Negotiations concluded at the end of 2018, and following the passage of the USMCA Implementation Act, the United States-Mexico-Canada Agreement (USMCA) entered into force on 1 July 2020.

The USMCA's Enforcement Adjustments for Modern Global Trade

The USMCA's main changes are intended to reflect a more modernised version of NAFTA's 1990s context. Its main adjustments come in the form of its restructuring of supply chains, labour enforcement mechanisms, and overall actualisation in regard to modern trade practices.

Its reconfiguration of supply chains is most evident in the agreement's Rules of Origin (ROO) provisions. The regional value-added requirement for automobiles was raised from 62.5% under NAFTA to 75% under the USMCA, bolstered by a Labor Value Content rule requiring 40-45% automotive parts to be produced by workers earning a minimum of $16 (£12.50) per hour. By tightening these requirements, the USMCA functions as a de facto anti-circumvention mechanism, raising barriers for manufacturers seeking to incorporate Chinese components via Mexico or Canada whilst claiming preferential tariff benefits. This shift has effectively positioned the agreement as a pivotal instrument in the broader context of Sino-US systemic competition.

The USMCA has similarly shaped how labour standards are enforced across borders. The labour and environmental side agreements under NAFTA were frequently criticised for being functionally ineffective, failing to yield a single successful enforcement action through the agreement's dispute settlement mechanism. In a significant departure, the USMCA incorporates these obligations directly into the treaty's core text, ensuring they are subject to the same rigorous dispute settlement procedures as trade provisions. Mexico's labour reforms, which mandate genuine trade union democracy and collective bargaining, were stipulated by the US House Democrats as a non-negotiable precondition for ratification. Central to this new enforcement architecture is the Facility-Specific Rapid Response Labor Mechanism (RRM), which provides for independent panel investigations into the denial of labour rights at specific facilities, rather than relying on government inspections. This represents a paradigm shift in trade statecraft: it moves beyond protracted state-to-state litigation to allow for targeted sanctions against specific factories. By enabling the suspension of preferential tariffs for individual facilities found to be in breach of freedom of association and collective bargaining rights, the RRM introduces an enforcement architecture without precedent in US trade agreements.

Where NAFTA had no architecture to respond to, the USMCA seeks to address an existing gap through the codification of 21st century trade disciplines. The agreement prohibits data localisation requirements and customs duties on digital products. It also introduces transparency and competitive neutrality disciplines, specifically designed to mitigate the trade-distorting effects of government-backed firms. Most notably, it marks the first instance of a US free trade agreement containing binding provisions against currency manipulation. Whilst nominally trilateral in scope, the provision carries direct relevance for economies whose exchange rates have long been a focal point of American strategic scrutiny.

Article 34.7: The Agreement's Built-In Instability

Perhaps the most significant feature of the USMCA is not found within its substantive chapters, but rather in a procedural mandate buried in its final provisions. Article 34.7 – the agreement's sunset clause – stipulates that the three parties must conduct a joint review of the Agreement's operation by 1 July 2026, following which all three governments must reach a unanimous decision to extend the Agreement's term for a further sixteen years.

A failure to reach consensus in 2026 does not trigger immediate termination; instead, it initiates a period of institutional purgatory. Should any party decline to renew, the Agreement enters a cycle of annual reviews until its ultimate expiry in 2036. The result is a structural architecture that ensures the USMCA remains perpetually subject to political leverage, less a permanent fixture of North American trade than a 'living agreement' whose continuation is contingent on sustained trilateral consensus.

The provision's significance lies not only in its timeline, however, but in its extraordinary procedural brevity. Article 34.7 mandates a joint review whilst offering no language whatsoever specifying what such a review entails, nor does it include a prescribed format or agenda-setting mechanism. This ambiguity means the joint review could range from a brief ministerial meeting to a comprehensive renegotiation, though none of the three governments has signalled appetite for the latter. The USMCA's implementing legislation similarly does not envision the review as a renegotiation, further concentrating interpretive authority within the executive branch. The scope of the 2026 review is thus itself a negotiating variable: one shaped by the relative leverage and political interests of three governments navigating a more adversarial bilateral environment than existed when the agreement was signed. On 17 September 2025, the United States Trade Representative (USTR) formally set the process in motion, publishing a Federal Register notice soliciting public comments, soon followed by parallel notices from Mexico and Canada.

The 2025-2026 Backdrop: Three Governments, Three Crises

The joint review is opening against a political and economic backdrop that renders its management considerably more volatile than originally envisioned.

In the United States, the Trump administration's February 2025 executive orders imposed 25% tariffs on imports from Mexico and Canada under the International Emergency Economic Powers Act, engineering a strategic paradox: Washington is leveraging punitive instruments against the very partners bound by an agreement it ostensibly supports – though goods compliant with USMCA rules of origin, accounting for roughly 85% of US-Canada and US-Mexico trade, were exempt from the tariffs. Brookings' tracking data indicates that by mid-2025, Canada faced a trade-weighted average tariff of 9.8% and Mexico 5.2%, against baseline rates of 0.1% and 0.3% at the start of the year. These tariffs did not trigger USMCA's dispute settlement mechanism in any operationally substantive way, casting doubt on whether the agreement's enforcement architecture can function under conditions of sustained executive unilateralism.

In Mexico, the Sheinbaum administration faces a more structurally exposed position. Domestically, it continues to assert policy sovereignty whilst managing labour reforms that have rendered individual Mexican facilities directly subject to US-initiated sanctions under the RRM. Externally, Washington's push to tighten rules of origin and supply chain transparency places mounting pressure on Mexico's deepening economic ties with China, a tension the 2026 review is likely to bring into sharp relief. Mexico thus enters the review as the agreement's most structurally exposed party: simultaneously bound by its obligations, subject to its enforcement mechanisms, and caught between the competing imperatives of its two largest trading relationships.

Canada's strategic posture has been redefined by a change of government. Prime Minister Carney's May 2025 summit with President Donald Trump produced a joint statement notable for its emphasis on Canadian defence investment commitments, suggesting that Ottawa has concluded that demonstrating its value as a security partner is key to stabilising the trade relationship before the July 2026 review convenes. The trade-defence nexus has thus become the primary lens through which Canada navigates its USMCA obligations.

Why the 2026 Review Is Strategically Significant

The 2026 joint review cannot be read in isolation from the broader structural transformation of the global trading order. The multilateral framework anchored by the WTO has seen its usage effectively paralysed since 2019, the Doha Development Round has failed to yield binding outcomes, and major economies have progressively shifted their regulatory ambitions toward preferential and regional arrangements. Trade analysts have characterised this trajectory as 'managed multilateral drift', not a sudden collapse of the system, but a gradual, deliberate migration of trade governance toward bilateral frameworks as states seek to lock in advantageous rules outside the increasingly sclerotic WTO.

Against this backdrop, the USMCA's significance extends well beyond the scale of the relationships it governs – with US-Mexico trade at $935.1 billion (approx. £731.6 billion) and US-Canada trade at $909.1 billion (approx. £711.3 billion) in 2024. Its provisions on digital trade, labour, currency, and supply chain origin represent a concerted attempt to architect global commerce in the absence of multilateral consensus, making it the most ambitious template yet for 21st century trade norms.

What is at stake in July 2026, then, is not a simple administrative renewal. It is a litmus test for whether Washington can sustain a rules-based approach to its primary economic partnerships at a moment when its own posture has become markedly more unilateral – a choice between treating Canada and Mexico as strategic partners in the systemic competition with China, or drifting further toward a go-it-alone approach whose full costs are only beginning to be quantified.

2: Political and Regulatory Risk Landscape

Hannah Jones

Trump Tariff Regime Strains Economic Relations

Against this structurally fragile backdrop, the political and regulatory environment surrounding the 2026 review has become increasingly volatile, due, in large part, to the unpredictability of the Trump Administration's policy on trade. The President's second-term economic agenda has been predicated on his belief that the US trade deficit harms the American economy as well as its national security. In his view, lax import restrictions in the United States, coupled with alleged unfair trade practices implemented by foreign governments, have incentivised companies to manufacture their products abroad, to the detriment of the American working class. In an effort to address what the administration characterises as a threat, the Trump Administration announced new tariffs on nearly every country proportionate to its trade surplus with the US.

However, the 25% tariffs on Canadian and Mexican goods imposed by the Trump Administration were not justified in these terms. Instead, the Administration argued that both countries had played a central role in the trafficking of persons and illicit drugs into the United States. Resultingly, the President, using the emergency authority to regulate international commerce afforded to him under the International Emergency Economic Powers Act (IEEPA) of 1977, would be imposing tariffs to encourage the Canadian and Mexican governments to take action against the threat. In August 2025, the Trump Administration increased tariffs on Canadian imports by 10%, arguing that the Canadian government had made insufficient progress in combatting the fentanyl crisis.

These proclamations have come under intense legal scrutiny within the United States, where jurists have questioned the Administration's ability to impose tariffs without Congressional action. On 20 February 2026, the US Supreme Court invalidated tariffs imposed under IEEPA, including the broad-based tariffs on Canadian and Mexican goods not exempted under the USMCA. Writing for the majority, Chief Justice John Roberts asserted that the 1977 law did not delegate to the President the power to impose tariffs, an authority provided to the US Congress under the Constitution. The Trump Administration responded by imposing a new, universal tariff of 10% under the authority provided to the President by Section 122 of the Trade Act of 1974, which remains in effect despite legal challenges from several states. This cycle of executive action, followed by legal challenge, followed by new Administration action, has led to widespread confusion and uncertainty.

Moreover, this tariff policy has strained the US's economic and diplomatic relationships with countries around the globe, including its closest neighbours. Both Former Prime Minister Trudeau and Prime Minister Mark Carney responded forcefully to the Trump Administration's tariff regime. The former rebuked the Trump Administration's initial decision to impose tariffs on its northern neighbour as "dumb" in a March 2025 speech announcing the imposition of retaliatory tariffs on the United States. Later that month, newly appointed PM Carney asserted that "The old relationship we had with the United States based on deepening integration of our economies... is over." An October 2025 advertisement produced by the Ontario provincial government using language from a 1987 Ronald Reagan speech to criticise Trump's tariff policy drew further ire from the US President, who responded by levying an additional 10% tariff on Canadian imports and halting trade negotiations between the two countries.

President Sheinbaum and the Mexican government have taken a different tack in their response to the Trump Administration's tariff regime, prioritising private, direct negotiations between the two Presidents and choosing to de-escalate wherever possible. Thus far, this strategy has proven somewhat more effective than the Canadians'. The Mexican government has avoided the imposition of additional broad-based tariffs. To date, US-Mexico USMCA negotiations have moved much faster than those between the US and Canada; however, the close relationship between the American and Mexican presidents has not entirely insulated the country from Trump's tariff regime.

Neighbours Voice Sovereignty Concerns

Further complicating negotiations between the US and its northern and southern neighbours are the regular threats members of the Trump Administration have made to each country's territorial sovereignty. Trump has repeatedly expressed a desire to annex Canada, making it the country's "51st state." In January, the Financial Times reported that representatives from the Trump Administration had met with campaigners for Alberta separatism, raising additional concerns over Canadian sovereignty. PM Carney has responded to the threats by reaffirming Canada's sovereignty and expressing the Canadian public's interest in remaining an independent country. The Sheinbaum government has had to contend with threats by senior Trump Administration officials, including the President himself, to engage in direct military action against cartel members and infrastructure on Mexican soil. As President Sheinbaum asserted in a March press conference, such actions would represent a direct violation of Mexico's territorial sovereignty, which the Mexican government would not tolerate. Though the US President has, thus far, stopped short of taking action on either threat, they have nevertheless strained relations between the country and its neighbours.

Potential for a Negotiated Renewal

As the July 1 deadline draws closer, concerns that the agreement may fall through are mounting. President Trump has suggested that his administration may be interested in scrapping the trilateral framework and, instead, negotiating two bilateral agreements. While alarming, this outcome is unlikely, as any such plan would be time-consuming and challenging to execute. Under the existing agreement, a party must provide six months' notice to the other members before withdrawing. Moreover, the legal question over whether the Administration possesses the authority to make such a move remains unresolved, with some jurists arguing that the Administration reserves the right to withdraw pursuant to Sec. 125 of the Trade Act of 1974, while others assert that any decision to exit the agreement would require Congressional approval. Even if the parties fail to meet the 1 July deadline, the agreement would remain in effect until 2036, providing an extended horizon for further negotiations.

Amid these growing tensions, Canada and Mexico have indicated their intentions to strengthen their own bilateral relationship. In February 2026, the two countries announced an "action plan" intended to strengthen their economic ties. The plan directs the two countries to establish a series of working groups on a wider range of issues than those covered by the USMCA, to expand and strengthen the bilateral relationship to better address the "evolving needs for joint actions." In effect, the initiative is intended to mitigate the threats posed by the increasing unpredictability of US government policy.

However, both countries also recognise that reaching an agreement remains the preferred outcome. While the Trump Administration's new tariff regime has had significant economic consequences, the USMCA has shielded them from the worst of its effects. The majority of products imported from Canada and Mexico are exempt from tariffs under the USMCA; absent the free trade agreement, all imports from both countries would be subject to the unpredictability of the US tariff regime. The effects of this could be highly disruptive for local businesses and for multinational corporations that rely on the ease of transit to facilitate complicated, cross-border supply chains.

Sectoral Challenges — Eyes on the Auto Industry

In addition to the country-specific tariffs discussed above, the Trump Administration's second-term tariff regime includes a number of sector-specific tariffs. Shortly after taking office, in February 2025, the Trump Administration reimposed 25% tariffs on steel and aluminium imported from Canada and Mexico, a rate which was raised to 50% in June. In April 2025, the Administration imposed a 25% tariff on the non-US-produced value of USMCA-compliant automotive vehicles and automobile parts imported from Canada and Mexico. Because these tariffs are authorised under Section 232 of the Trade Expansion Act of 1962, not IEEPA, they remain in effect even after the Supreme Court's February ruling. In response to these tariffs, the Canadian government levied an additional retaliatory tariff of 25% on US steel, aluminium, and auto imports, which also remains in effect.

These sector-specific tariffs, coupled with the ambiguity surrounding the future of the USMCA, have complicated future-planning for companies in affected sectors. Leaders of major automakers have stated that their plans to increase North American production have been complicated by the new tariff regimes and doubt over whether the USMCA will be renewed. Absent guarantees that the tariffs and other restrictions imposed on the industry will be removed, many are delaying their investments.

Recognising the importance of the auto industry to the three countries' economies, it has become central to the conversation surrounding renegotiation. President Sheinbaum has indicated that the Mexican government's top priority in negotiations is reaching an agreement to zero out tariffs on automotive vehicles and parts. Canadian negotiators are similarly interested in protecting cross-border auto supply chains. US negotiators appear more concerned with increasing regulations to prevent Chinese companies from exploiting the agreement for their own gain and in protecting domestic auto production. Given the three countries' conflicting priorities, regulations over the auto industry are likely to form the crux of negotiations. These dynamics are now shaping the structure and priorities of the ongoing review process.

3: Economic and Sectoral Exposure

Alexander Bergh, Chai Hyeong Han

Commencement of the 2026 Mandatory Review

Building on these political and regulatory tensions, the 2026 review process has now moved from preparation to active negotiation. Established as the successor to NAFTA, this agreement contains a unique sunset clause that requires a joint formal review every six years to ensure the framework remains relevant to evolving economic conditions. As of April 2026, the three nations are navigating the lead-up to the 1 July deadline, a date that will determine whether the agreement is extended for a full 16-year term or falls into a cycle of annual reviews. With trilateral trade hitting a record $1.8 trillion (£1.3 trillion) in 2025, the economic consequences of these talks are far-reaching for the entire continent.

Preparations for this mandatory review began in earnest throughout 2025 and have intensified in the first quarter of 2026. The Office of the USTR submitted its comprehensive report to Congress in early January 2026, following a public consultation period that saw over 3,000 formal comments from industry leaders and labour groups. This preliminary phase has surfaced tensions over automotive rules of origin, energy and agriculture provisions, and the risk of non-market economy inputs entering North American supply chains. Unlike traditional trade agreements that remain in place indefinitely, the USMCA requires an affirmative written declaration from all three countries to continue. If consensus is not reached by the July deadline, the agreement enters a state of non-renewal that mandates yearly reviews for the remaining ten years of its lifespan. This creates a ticking clock scenario that provides significant leverage to whichever party is most willing to walk away.

Priorities and Objectives

The United States is entering the June negotiations with a clear mandate to push for stricter policies and enforcement rules. A primary focus for Washington is the perceived circumvention of trade barriers by non-market economies, specifically in the automotive sector. Whilst official Mexican statistics record cumulative Chinese FDI at approximately $2.9 billion (£2.1 billion), or $4.6 billion (£3.4 billion) including Hong Kong, the Baker Institute estimates the actual figure to be closer to $15 billion (£11.1 billion), with a significant portion concentrated in the automotive and electric vehicle supply chains. US negotiators have expressed concern that these investments allow third-party nations to utilise the North American platform to bypass Section 301 tariffs. Consequently, the US is pushing for even stricter Rules of Origin, potentially increasing the regional value content requirements for high-tech components beyond the current 75% threshold to ensure that trade benefits remain within the bloc.

In contrast, Canada and Mexico are prioritising regional stability and the preservation of the current market access. For Mexico, the agreement has been an engine of growth, as the country recently surpassed China to become the largest trading partner of the

United States, with bilateral trade reaching approximately $873 billion (approx. £639 billion) in 2025. Mexico City is focused on maintaining current labour and energy provisions, though the joint announcement of the bilateral review process on 5 March 2026 indicated a shared commitment to reducing dependence on extra-regional imports and tightening rules of origin. Canada remains focused on defending its supply management system for dairy, a domestic pricing and quota framework that the US argues has consistently denied American exporters the market access promised under the USMCA, whilst also seeking exemptions from US national security tariffs on steel and aluminium. Both nations seek to avoid a full overhaul that would expose their economies to further uncertainty, given their structural dependence on US market access.

Risks of Stalemate and Economic Consequences

The risk of a stalemate remains high as the three countries enter the final stretch of the review process. If no agreement is reached by July 2026, the transition to prolonged annual reviews would likely trigger a period of sustained economic volatility. Analysts have already noted a cooling effect on long-term capital expenditures, with new manufacturing investment in Mexico reportedly down 10% year over year in early 2026 due to the uncertain outlook. A failure to secure a long-term extension would force companies to adopt shorter-term sourcing contracts, and could lead to a fragmentation of the integrated supply chains that define North American production. This uncertainty is particularly acute in the automotive and semiconductor industries, where investment cycles typically span a decade or more.

Prospects for Partial Renegotiation

The most likely outcome of the June negotiations is a partial renegotiation rather than a complete overhaul of the treaty. Each nation faces sufficient domestic political pressure to avoid a total collapse of the agreement, yet has not indicated willingness to grant an unconditional 16-year extension. Negotiators are currently exploring the use of side letters or specific protocols without reopening the core text of the agreement, an approach USTR Greer has publicly indicated he expects to result in separate arrangements with Canada and Mexico built on top of the existing trilateral framework.

By addressing specific American grievances regarding Chinese industrial influence, but preserving core duty-free access for Canada and Mexico, the parties may reach a compromise that allows for a conditional extension. However, the threat of the agreement falling through entirely remains a credible risk if the US pursues a more aggressive protectionist stance during the final sessions.

The 2026 review represents the first test of whether the USMCA's built-in renewal mechanism can function under conditions of sustained political and trade friction between its three members. With preparatory talks remaining bilateral and narrowly scoped as of early May, the most probable path is a negotiated extension concluded beyond the statutory date, focused on rules of origin, external competition disciplines, and enforcement architecture. Should the deadline pass without consensus, the agreement enters annual review cycles, a scenario that carries tangible costs for businesses and investors operating across a trade corridor worth nearly $1.8 trillion annually. How the three governments navigate the final stretch of negotiations, and the implications of each possible outcome, is examined in the following section.

4: 2026 Review / June Negotiations & Implications

Julian King

As negotiations intensify, the structure and implications of the July 2026 review are becoming clearer. On 1 July 2026, the three USMCA member governments are scheduled to hold the first-ever joint review of the agreement under Article 34.7. Following the "sunset clause", if a new agreement cannot be reached, it then enters a cycle of annual reviews during a ten-year countdown, expiring in 2036 unless the parties resolve their differences. No previous US free trade agreement has included a comparable provision. As a result, all three governments are now navigating a process with no precedent and few binding procedural rules. What was initially expected to be a routine procedural review now appears likely to function as a key test of North American economic cohesion.

US Preparations

On 16 and 17 December, USTR Greer briefed the House Ways and Means Committee and the Senate Finance Committee in closed-door sessions [CRS, R48787]. In his publicly released opening remarks, Greer stated that "the shortcomings are such that a rubber stamp of the Agreement is not in the national interest." Areas of concern include automotive rules of origin, agriculture and energy disputes with Mexico, dairy market access in Canada, Canada's digital services tax, and the risk of non-market economies using Mexico or Canada as a backdoor for exports into the United States. Greer separately described interest in "possible structural and strategic reforms" to the agreement. Taken together, these signals suggest that Washington is approaching the joint review as an opportunity to push for substantial changes, likely ones deemed more aligned with national security and economic interests.

Adding to the pressure, USTR launched Section 301 investigations on 11 March 2026, targeting structural excess manufacturing capacity and alleged unfair labour practices across 60 countries, Mexico and Canada among them. Whether this is intended as direct leverage for the USMCA review or as a parallel track remains unclear, but the timing will likely further complicate the negotiating conditions.

The US–Mexico Bilateral Track

On 5 March 2026, Greer and Mexican Secretary of Economy Marcelo Ebrard jointly announced the start of bilateral scoping discussions in advance of the formal July review. Negotiators were directed to focus on ensuring the agreement's benefits flow primarily to member nations, with emphasis on reducing dependence on extra-regional imports, strengthening rules of origin, and enhancing supply chain security. Technical meetings began the week of 16 March. The discussions have so far been bilateral rather than trilateral, a point worth noting given that the treaty envisions a three-party review.

Mexico's position heading into these talks appears cautious. President Sheinbaum's government has generally avoided retaliatory tariffs in response to US trade actions, opting instead for an approach centred around de-escalation with action and diplomatic messaging. That approach may have helped avoid the most severe blanket tariffs on Mexican exports, but it also carries risk: if Washington continues to raise its demands, Mexico could find itself making concessions without clear benchmarks for what it receives in return.

Mexico's business community, meanwhile, has expressed a strong preference for continuity. A Ministry of Economy report drawing on 30 sectoral roundtables, consultations across all 32 federal entities, and 573 questionnaires to companies, chambers of commerce, and industry associations found that 84% rated the agreement's impact as positive, and the prevailing view favoured modernisation of the agreement rather than a full reopening of its core chapters.

Canada's Position

A wider deterioration in the bilateral relationship with the United States has shaped Canada's approach. Prime Minister Mark Carney, upon his election in April 2025, declared Canada's historical relationship of integration with the United States to be over. By January 2026, however, he had adopted a more measured public tone, telling reporters that the upcoming review would be "robust" and describing President Trump as a tough negotiator, while also suggesting that some of Trump's rhetoric should be viewed in the context of positioning ahead of talks.

One issue that could prove particularly difficult is the question of trade policy alignment with the US on China. When asked directly in January 2026 whether Ottawa would agree to closer coordination with Washington on external trade rules, Carney declined to answer, saying "I find one of the most effective ways to negotiate is not to negotiate in public." Despite Carney's guarded responses, Ottawa has expressed its desire for a sixteen-year extension of the agreement, hoping to limit the scope of the review rather than reopen the entire text. Sector-specific tariff negotiations between Canada and the US on steel, aluminium, and automotive goods are now likely to be incorporated into formal talks around USMCA renewal.

On the Mexico-Canada axis, Prime Minister Carney and President Sheinbaum launched the Canada-Mexico Action Plan 2025–2028 during Carney's September 2025 visit to Mexico City, the first by a Canadian prime minister in eight years. The plan is structured around four broad strategic pillars: Prosperity; Mobility, Inclusivity and Well-being; Security; and Environment and Sustainability. In support of this strategic partnership, both countries have agreed to frequent high-level dialogue and coordination across foreign affairs, trade and investment, agriculture, energy, natural resources, and finance. This appears to be a form of strategic hedging by both parties, strengthening mutual ties to guard against the damages of US unpredictability. By coordinating bilaterally, Canada and Mexico may be better positioned to maintain leverage within a trilateral framework rather than being pulled into entirely separate bilateral tracks, both dominated by US interests.

Possible Outcomes

A clean, on-time extension by 1 July now appears highly unlikely. With no new text on the table and less than three months before the statutory date, experts point towards a "painful extension" as the most probable scenario. This could see negotiations stretching into late 2026 or beyond, focused on autos, energy, China-related disciplines, and enforcement architecture, with Mexico and Canada making concessions to secure renewal. This appears to be the outcome that most market participants are expecting.

A second possibility is that no agreement is reached by July, and the USMCA enters annual review cycles. The agreement would remain in force, but under persistent uncertainty that could discourage long-term investment. This dynamic was present during the previous NAFTA renegotiation period, when "the private sector paused investment until the outcome was clearer, and risk could be estimated." For firms operating in a trade corridor worth nearly $2 trillion (£1.4 trillion) annually, such ambiguity has tangible costs.

Outright termination remains a remote possibility. President Trump stated in January 2026 that the United States does not need the USMCA and called the agreement "irrelevant". This most likely reflects a negotiating posture rather than a settled policy, but the agreement does contain a withdrawal clause requiring only six months' notice. With the current US administration having shown its willingness to walk away from multilateral institutions and international agreements, Canada and Mexico may feel obliged to plan for worst-case scenarios.

The 2026 review was initially designed as a mechanism to update and modernise North American trade. Whether it functions that way will depend on how the three governments manage competing domestic pressures and the gap between what Washington wants and what Ottawa and Mexico City are prepared to concede. The most likely path forward is some form of extension, but one accompanied by hard-fought revisions to rules of origin, new restrictions on non-market economy inputs into North American supply chains, and stronger enforcement provisions. For businesses and investors operating across the three countries, the period between now and the July review, as well as beyond it, will be defined by uncertainty.

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