

BEYOND RENEWAL

Canada's Strategy for CUSMA Review
Expert Group on Canada-US Relations

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Executive Summary

As the 2026 CUSMA review unfolds, Canada faces pressure to reach a quick agreement to reduce investor uncertainty. This report argues that speed will not guarantee stability. President Trump has repeatedly tested the limits of existing commitments, imposed tariffs on Canadian goods, and treated agreements with other trading partners as starting points for further demands.

Canada should instead pursue a disciplined strategy: negotiate in good faith where reciprocity exists but hold firm on core priorities—meaningful tariff-free access and credible dispute settlement. A premature agreement without enforceability would only prolong uncertainty.

Canada's objective should be to avoid a breakdown, preserve existing benefits, and strengthen its ability to manage volatility in North American relations. Achieving that goal will require domestic unity, close coordination with Mexico where interests align, and continued trade diversification in Europe and Asia.

Negotiate with Discipline

Engage in good faith where reciprocity exists, but hold firm on core priorities—meaningful tariff-free access and credible dispute settlement.

Avoid a Premature Deal

A rushed agreement without enforceability would only prolong uncertainty rather than resolve it.

Preserve Existing Benefits

Canada's objective must be to avoid a breakdown, preserve existing benefits, and strengthen its ability to manage volatility in North American relations.



1. Introduction

Canada enters the 2026 CUSMA review at a critical moment in its relationship with the United States. What was intended as a technical review is now a political test of whether Canada can preserve reliable, rules-based access to its principal market while the U.S. administration increasingly questions the agreement itself.

President Trump has imposed tariffs on steel, aluminum, and autos by invoking economic or security grounds and has shown limited regard for CUSMA's dispute-settlement processes. Despite deep supply-chain integration that makes these measures costly for U.S. firms as well as Canadian exporters, he has signalled a willingness to go further.

Canadians, including the Canadian business community, are divided on how best to respond. Some argue for a quick deal to reduce uncertainty, even at the cost of major concessions. Others favour holding firm and waiting for political conditions in the United States to shift in our favour.

In this context, CUSMA's framework continues to support most Canadian exports, but its future is uncertain, and formal agreement alone will not guarantee stability. Canada's task must be not simply to secure renewal, but also to manage ongoing uncertainty while preserving the conditions that matter most to its economy.

Canada should not treat the review as a binary choice between moving quickly at almost any price and moving slowly in the hope that U.S. politics changes. The process involves three overlapping uncertainties:

- a global environment in which the assumptions that guided international economic relations for decades are weakening;
- a U.S. administration seeking to build an economic Fortress America while pressing Canada and Mexico to align with it against China; and
- a Canadian government trying to balance near-term stability against the longer-term need to diversify beyond an increasingly unpredictable U.S. market.

Canada must define its core interests clearly and build its strategy around them. Clarity of purpose and unity in execution have rarely been more important.

That strategy should include coordination with Mexico where interests converge, outreach to U.S. states and communities, and engagement with U.S. businesses that depend on North American supply chains. Canada should also speak directly to Americans, especially in battleground states, by emphasizing the mutual costs of disrupting the relationship.

The analysis that follows outlines the review's framework, assesses possible outcomes, and weighs the strategic question of timing.



2. Background

When CUSMA came into force on July 1, 2020, it largely preserved NAFTA's structure while adding updates for the digital age and modestly deepening integration. The removal of 'North America' and 'free trade' from the title reflected a shift in U.S. priorities under the first Trump administration.

Like NAFTA, CUSMA allows a party to withdraw with six months' notice. Unlike NAFTA and most other trade agreements, however, it includes a 16-year term ending on July 1, 2036, unless the parties agree to extend it. Its first mandatory joint review begins on July 1, 2026, when the parties must decide whether to extend the agreement for another 16 years, to 2042.

This review is not simply a formality. The Trump administration originally opposed a permanent agreement, and current U.S. policy—marked by tariffs and threats—means all outcomes remain possible. While some form of trilateral framework is likely to survive, any revised arrangement would probably tilt more toward U.S. interests, both structurally and in its treatment of third countries, especially China.

Canada has long favoured a trilateral agreement to avoid creating a hub-and-spoke system dominated by the United States. However, Washington's approach to the negotiations has been to divide its two interlocutors. A 'dual bilateral' model is once again on the table, with Washington proposing separate agreements with Canada and Mexico layered onto a trilateral framework. Such an arrangement could reduce congressional involvement and allow for more tailored provisions in areas such as Canada–U.S. border management, regulation, and defence.


Moving to individual agreements between the United States and each of its two counterparts would raise the question of whether a standalone Canada–Mexico agreement would also be needed. Trade between the two countries accounts for only about 3 percent of continental commerce, and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), to which both countries belong, already provides much of the necessary framework.

Donald Trump's actions and rhetoric have seriously undermined the prospects for achieving a fair and balanced agreement. While a revised CUSMA would ordinarily be the product of a joint effort by all three countries, the United States is likely to insist that Canada and Mexico accept its preferred design as a condition of keeping CUSMA alive.

Even as Washington erects walls against imports from Canada and Mexico, it has promoted closer North American alignment on external trade, particularly toward China. Such a common approach would build on CUSMA provisions requiring consultation before a party enters negotiations for a free trade agreement with a 'non-market' economy.

In practice, creating a common front would require Canada and Mexico to align more closely with U.S. policy. Mexico has so far been more open than Canada to such alignment and more willing to accommodate U.S. demands, although its approach may shift given continuing U.S. pressure on non-trade issues.





3. Living with Uncertainty

CUSMA uncertainty has already imposed major costs on all three countries, but particularly on Canada and Mexico. Some firms have shifted operations into the U.S. market, while others have delayed investment decisions until the agreement's future is clearer. That uncertainty will no doubt be raised at Prime Minister Carney's Canada Investment Summit in Toronto in September, where he is seeking to catalyze \$1 trillion in investment over five years.

Despite the Trump administration's efforts to reduce imports from our country, CUSMA still offers Canada significant protection. Because most Canadian exports to the United States meet CUSMA rules of origin, they remain eligible for duty-free treatment. However, the agreement has not shielded Canada from all U.S. trade actions. Steel, aluminum, and some automotive products have faced tariffs under national-security authorities, and the Trump administration has continued to search for other legal tools to impose border measures.

CUSMA reduces Canada's tariff exposure compared to other trading partners, but it does not eliminate the risk. Tariffs also undermine the agreement's basic purpose: to strengthen North America's economic relationship. Ottawa successfully insisted that the 2018 steel and aluminum tariffs be removed before moving forward with CUSMA ratification, but the current environment is harder. Washington now insists on tariffs as part of any renewal.

Canada must weigh the value of an agreement whose terms can be shifted by U.S. pressure. CUSMA is still worth preserving: the U.S. market is too important, CUSMA-compliant goods have generally remained protected, and the agreement rests on stronger legal and political foundations than Trump's other trade arrangements. U.S. politics may also change after the midterms or the 2028 presidential election. Until then, Canada's best course is to preserve as much of the existing framework as possible.

One major weakness in the system has become evident, however. Recent U.S. actions show the limits of CUSMA's dispute-settlement mechanism. Canada fought hard for binational adjudication in the original free-trade negotiations, and it worked reasonably well for many years. But it has proved weak against powerful U.S. sectoral interests and largely ineffective in the current political climate, where Washington is prepared to substitute raw power for the rule of law.

4. The Review Process

The CUSMA review was never designed to function as a full renegotiation. It appears only briefly in the final chapter of the agreement and reflects a compromise: U.S. negotiators wanted an expiry date, while Canada and Mexico opposed one.

Under CUSMA, if any party refuses to extend the agreement at a joint review, the three governments must hold annual reviews until they either agree to a new 16-year extension or the agreement expires in 2036. Given the President's decision not to extend the agreement, the fear now is that CUSMA will be left in a 'zombie' state: not extended, not terminated, and not clearly moving toward resolution.

While far from optimal, this scenario is not necessarily disastrous for Canada. Much of the damage has already been done by U.S. tariffs and by pressure on U.S. companies to invest at home rather than in Canada. In that sense, the process has already been taking place in a climate of permanent uncertainty, with CUSMA operating only to the extent that Washington chooses to respect it.

Although a full extension would have been best for Canada, Mexico, and much of the U.S. business community, President Trump has rejected that path. Barring a dramatic change in his bargaining position, the likeliest alternatives to continued uncertainty during the remainder of his term in office now are:

A. Hard renewal: A fuller renegotiation that forces Canada and Mexico to confront the major issues outlined in Section 5 and make significant concessions. This would fit Prime Minister Carney's warning about major powers trying to 'monetize' trade relationships.

B. Withdrawal: The president will likely again threaten to invoke CUSMA's six-month withdrawal clause as a pressure tactic, despite choosing not to withdraw on July 1. The threat could create leverage, but it is familiar and should not provoke an overreaction. If the United States withdrew, WTO rules would apply, softening the blow somewhat, although the WTO itself has been weakened by U.S. hostility.



5. The Issues

A. Tariffs

CUSMA was designed to preserve tariff-free trade, but Washington now insists that renewal include U.S. duties on imports. The practical question may be which products are covered, at what levels, and whether Canada receives better treatment than other trading partners. Canada has some leverage: U.S. demand for Canadian aluminum, energy, and other inputs remains significant despite President Trump's claim that the United States does not need anything from Canada. Prime Minister Carney will need to show that Canada preserved as much tariff-free access as possible and kept Canadian exports competitive.

B. Autos and rules of origin

Canada and the United States have long shared an integrated auto sector, but Trump views some Canadian production as 'runaway production' that should move south. CUSMA already tightened rules of origin, but Washington now seeks requirements for minimum U.S. content. Rules of origin are normal in free-trade agreements, but rules favouring one partner are not. Ottawa has so far downplayed the issue, noting that average U.S. content already approximates what Washington wants. But converting market-driven production decisions into a formal U.S.-content requirement would mark a significant shift toward a Fortress America model, especially in a sector likely to contract on both sides of the border.

C. China

China already appears in CUSMA through provisions on 'non-market' economies and may now become more central. Washington is likely to seek tighter controls on sensitive high-tech and dual-use trade, stronger enforcement against dumped or forced-labour-linked Chinese goods, and limits on Canada's and Mexico's ability to deepen trade or investment ties with China. At the same time, the United States will want to preserve maximum flexibility for its own dealings with Beijing.



5. The Issues (continued)

D. Dairy and poultry

The United States gained additional access to Canada's supply-managed sectors under CUSMA and continues to run a dairy trade surplus with Canada. Even so, Trump has made dairy a priority and is seeking more access for U.S. producers. This remains one of Ottawa's most politically sensitive files. Parliament has also narrowed the government's room to manoeuvre: Bill C-202 now prevents the foreign affairs minister from making trade commitments that would increase tariff-rate quotas or reduce over-quota tariffs on dairy, poultry, and eggs.

E. Digital trade

CUSMA's digital trade chapter is already dated. Updating it will be difficult because of disagreements over artificial intelligence, regulation, data sovereignty, and cultural policy. Washington also opposes Canada's Online Streaming Act, which supports Canadian-made digital content. Ottawa's recent move to reverse higher mandatory contributions from large U.S. streaming companies was widely seen as a concession to the White House.

F. Critical minerals

Critical minerals could become the deal-making issue in this review, much as oil was in the original Canada-U.S. free-trade negotiations. Washington wants secure access to Canadian supplies, especially given China's dominance in the sector. Canada may be asked to provide preferential access or production assurances, though its own production constraints limit what it can credibly offer.

G. Mexico-specific terms

CUSMA introduced labour provisions aimed at raising wages in Mexico, particularly in autos. Washington is likely to seek stronger requirements and enforcement. It may also press Mexico on restrictions in its state-owned energy sector. Canadian energy companies would welcome greater access, but President Claudia Sheinbaum is unlikely to concede much on a constitutionally protected issue.



6. What Constitutes a Win for Canada?

Trade negotiations usually start from the premise that all parties can gain, even as each seeks the best terms for itself. Durable agreements rest on that belief.

Donald Trump rejects that approach. He treats negotiations as zero-sum contests in which he must be seen to win and the other side to lose.

Under normal circumstances, Canada would use the CUSMA review to fix irritants, defend existing gains, and add new beneficial terms. The three countries would also keep trade separate from defence, foreign policy, and border management, handling them through other mechanisms.

President Trump has upended that process by using tariffs as a tool for almost any bilateral grievance. The so-called fentanyl tariffs showed that he would use them not only for trade policy, but also to coerce action on issues unrelated to trade.

As a result, a renewed CUSMA will be judged less by what it improves than by what damage it prevents. The key tests will be whether Canada preserves meaningful tariff-free access, rolls back existing tariffs where possible, and secures terms that remain clearly better than those offered to other countries.

Enforcement will be just as important. Canada has long relied on dispute settlement to defend against arbitrary U.S. protectionism. Those mechanisms have been weakened, but Canada would be more vulnerable if they were lost altogether. Some form of shield against arbitrary U.S. action remains essential, even if it is less robust than Canada would prefer.



1 Preserve Meaningful Tariff-Free Access

Canada must retain duty-free treatment for the broadest possible range of exports, keeping Canadian goods competitive in the U.S. market.

2 Roll Back Existing Tariffs Where Possible

Existing tariffs on steel, aluminum, and autos represent a baseline that Canada should seek to reduce, not accept as permanent.

3 Secure Clearly Better Terms Than Other Countries

Any renewed agreement must demonstrably outperform what the U.S. offers to non-CUSMA trading partners.

4 Maintain Credible Dispute Settlement

Some form of shield against arbitrary U.S. action remains essential, even if less robust than Canada would prefer. Losing these mechanisms entirely would leave Canada far more vulnerable.



7. Go Fast or Go Slow? — The Case for Speed

Timing matters in the CUSMA review. While Ottawa's preferred option was to roll over most existing provisions and confirm CUSMA's continuation until 2042, President Trump's demands make that outcome unlikely. At this point, Canada's clear interest is to at least preserve the agreement, which still provides a safe harbour for most Canadian exports.

Arguments for an Early Deal

Investor Confidence

Canada's economic model has long rested on offering investors a stable, mid-sized economy with open access to the U.S. market. If the relationship has fundamentally changed, Canada should secure what it can and pivot toward broader diversification.

Delay Is Costly

U.S. tariffs and investor uncertainty have already damaged Canada's steel, aluminum, and auto sectors, and those costs continue to grow with every passing month.

Perception Risk

U.S. negotiators view Canada as dragging its feet, which could invite more aggressive demands and additional punitive measures from Washington.

Risk of Abandonment

The longer talks continue, the greater the risk that Trump reaches a separate deal with Mexico or abandons CUSMA altogether, leaving Canada isolated.

For this camp, speed is the best way to reduce risk and restore investor confidence.

7. Go Fast or Go Slow? — The Case for Patience

While we understand the desire to reach an early agreement, we believe that a **more measured approach is preferable** for several reasons:

→ **Trump's Commitments Are Unreliable**

Countries that moved quickly to sign deals with the White House have discovered that agreements do not hold. Speed does not buy security when the counterparty does not honour its word.

→ **Trump's Political Capital Is Weakening**

Foreign governments are more willing to push back, and Americans are increasingly aware that his policies raise costs. Republicans could suffer losses in the congressional elections if these conditions persist.

→ **The U.S. Business Community Is Canada's Ally**

Many U.S. firms, including in autos, have been harmed by tariffs and supported CUSMA extension in congressional hearings. The longer the process continues, the more pressure they are likely to put on Washington.

→ **Any New Agreement Will Likely Be Worse**

This raises the fundamental question of why Canada should hurry to sign a deal that is inferior to the current CUSMA.

- ⊗ A final reason for caution is sequencing. Washington appears to want Canada to address irritants listed in USTR's 2026 National Trade Estimate Report—including supply management, "Buy Canadian" procurement rules, and digital and streaming regulation—before formal renewal talks begin. If so, Canada would be asked to make concessions before receiving anything in return. With this White House, that is especially risky: when Canada has conceded before, Trump has banked the concession and asked for more. Front-loading concessions would risk leaving Canada weaker before serious bargaining even starts.



8. The Basis of Canadian Resilience

As the negotiations proceed, Canada's unique structural advantages—some longstanding, others emerging—should underpin both the government's strategy and its communication to business:

Deep Economic Integration

Despite the administration's rhetoric, the United States relies heavily on Canadian inputs. Roughly 85% of Canada-U.S. trade continues to flow tariff-free under CUSMA, and Canadian energy, critical minerals, and agricultural resources cannot be easily replaced by domestic U.S. suppliers.

Tangible Trade Diversification

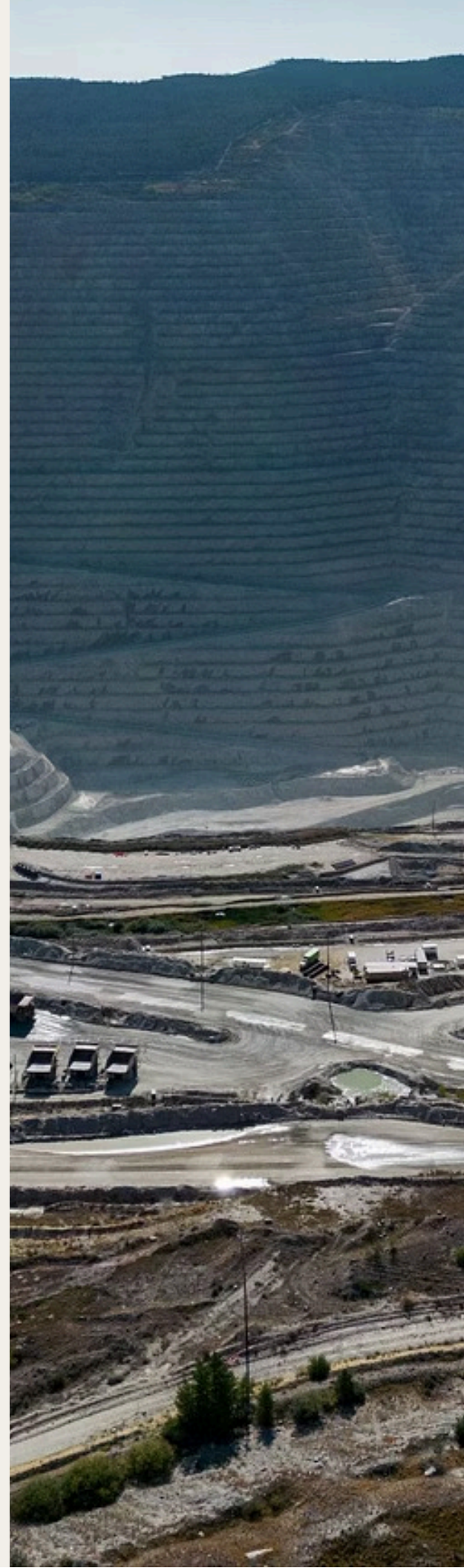
Diversification is shifting from a policy aspiration to a market reality. Driven by corporate derisking ahead of the joint review, Canadian exports to markets other than the United States surged 17% year-over-year in the twelve months to early 2026. Concurrently, net foreign direct investment turned positive for the first time in over a decade, bolstered by a growing engagement across the Indo-Pacific.

Domestic Structural Reforms

Domestically, the government's commitment to dismantling interprovincial trade barriers and streamlining a sluggish regulatory framework will lower domestic costs and spur productivity.

The Institutional Premium

Canada possesses foundational assets that no foreign administration can tax away: strategic geography flanking both the American market and vital Pacific shipping lanes; the rule of law; independent judicial and monetary institutions; and a stable, contract-honouring environment. For institutional capital managing a ten- to twenty-year horizon, this systemic predictability provides invaluable insurance in an increasingly volatile global landscape.



8. Conclusion

Canada faces an unusually uncertain international environment. While governments naturally seek stability and predictability, neither can be taken for granted in North America today. The challenge is not to eliminate uncertainty, but to manage it, particularly in Canada's relationship with an increasingly unpredictable United States.

Canada's most prudent course is to keep negotiating in good faith where our efforts are reciprocated, while refusing to be rushed into a bad deal. Its posture should be firm but constructive. Any renewed CUSMA must rest on more than signatures: it needs enforceable terms, a shared understanding of how the parties will conduct themselves, and credible dispute settlement. Without that, the agreement will not provide real security.

Even as Canada seeks allies within the United States, it should also stay close to Mexico where interests align. Although there are signs that it is pushing back in some areas, Mexico has generally been more willing to accommodate U.S. demands, and its talks with Washington appear to be moving faster. When Canadian and Mexican interests converge, the two countries have more leverage together than apart.

Finally, Canada must deepen partnerships beyond North America, especially in Europe and Asia. It can do so without needless provocation, but caution should not become timidity. Diversification is not a betrayal of North America; it is the rational response of a sovereign country that cannot again stake its prosperity on a single, unpredictable partner. Canada's surest path to a workable CUSMA is to stay focused, measured, and composed.



Negotiate in Good Faith

Keep negotiating where efforts are reciprocated, while refusing to be rushed into a bad deal. Any renewed CUSMA must rest on enforceable terms, a shared understanding of conduct, and credible dispute settlement.



Stay Close to Mexico

Even as Canada seeks allies within the United States, it should stay close to Mexico where interests align. When Canadian and Mexican interests converge, the two countries have more leverage together than apart.



Deepen Global Partnerships

Canada must deepen partnerships beyond North America, especially in Europe and Asia. Diversification is not a betrayal of North America; it is the rational response of a sovereign country that cannot again stake its prosperity on a single, unpredictable partner.