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Canada–U.S.: Gaming Out the Trade Negotiations

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Introduction

This report examines three key issues:

- The prospects for concluding a trade agreement from a Canadian perspective
- How the regionalization of global supply chains and focus on economic security will shape the design of any future agreement
- The implications of recent Canada-China trade developments for these negotiations

Assessing the Likely Outcomes of Trade Negotiations

Although the USMCA is scheduled for review on July 1st, it is widely expected that discussions will continue well beyond that date. We believe that two scenarios are the most likely:

Scenario 1: The agreement is renewed and the three countries agree to extend the USMCA for an additional 16 years. Any new commitments by the United States would likely be incorporated through side agreements, thus enabling the administration to avoid having to seek congressional approval. Given the Republicans' narrow congressional majorities and the possibility of losing control of one or both chambers following the November 2026 midterm elections, congressional approval could prove difficult to obtain.

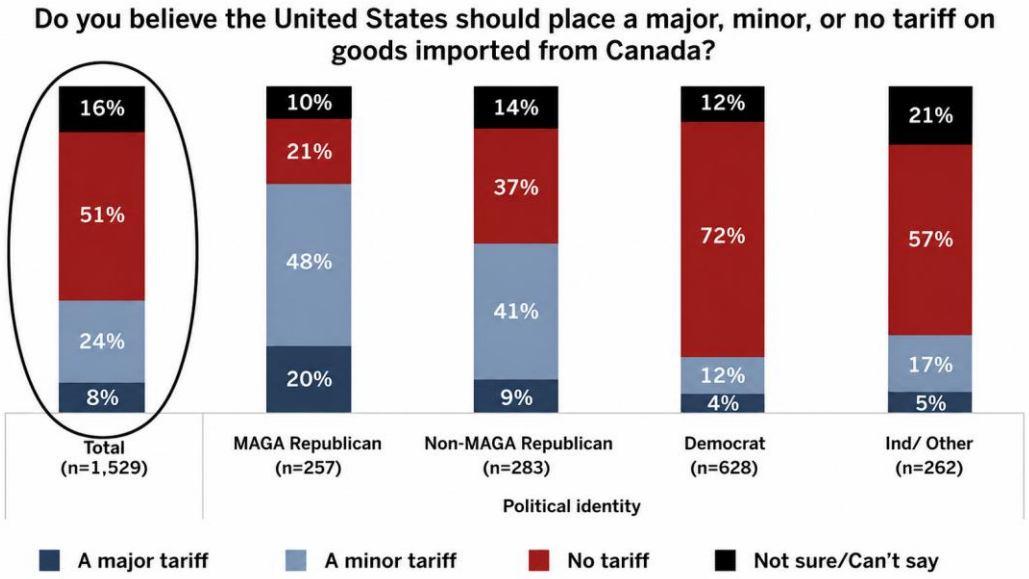
Scenario 2: The agreement is neither extended nor terminated but is instead made subject to another annual review in 2027. This would prolong the period of uncertainty. Annual reviews would continue until the parties agree to an extension or until one party decides to withdraw. Otherwise, the agreement is slated to expire July 1, 2036.

Our assessment: The broader global trend is for governments to place greater emphasis on economic security, supply-chain resilience and the protection of strategic industries. Consequently, a return to the highly liberalized trade environment of previous decades is unlikely for the foreseeable future. Thus, while we consider Scenario 1 to be the most probable outcome of the review process for the reasons outlined below, any agreement will be shaped by a more protectionist and security-focused global landscape. Details of a potential agreement are provided later in this report.

U.S. Public Opinion and Businesses Support Lower Tariffs on Canada

When assessing the long-term durability of President Trump's tariffs, two factors are worth noting:

1. Trade measures imposed through executive action can be reversed by a subsequent president.
2. Public support for tariffs targeting Canada appears limited. For instance, a March 2026 Angus Reid Institute survey revealed that most Americans were against substantial tariffs on Canadian imports.



Source: "Trump and Trade: Half of Americans say there should be 'no tariffs' on Canada," Angus Reid Institute, March 10, 2026

It is important to note, also, that most U.S. industry associations are urging the Trump administration to preserve the USMCA. This sentiment is reflected in comments submitted last December to the U.S. Trade Representative in response to the legally required call for public input on the functioning of the agreement. The following example illustrates this view.

- The National Association of Manufacturers described the USMCA as "the most pro-U.S. manufacturing trade agreement in history."[1]

In a report released the same month, the U.S. Chamber of Commerce seemed to question the long-term viability of significant tariffs on imports of aluminum from Canada, stating:

- "Replacing aluminum imports with domestic production would require new electricity generation equivalent to that of the entire state of Nevada."[2]

This comment was published before the outbreak of the conflict with Iran and the subsequent disruption of global aluminum supplies. For instance, Al Taweelah, an aluminum smelter located in the United Arab Emirates, accounted for almost 10% of global production until recently. However, an Iranian strike forced the facility to shut down, causing the aluminum in its smelting pots to solidify. According to the company, it could take up to a year to restore full production.[3]

In this environment, Canada's abundant natural resources and distance from major geopolitical flashpoints make it an increasingly attractive partner for the United States and its allies. For example, according to Jean Simard, president of the Aluminum Association of Canada, aluminum shipments from the Middle East take about 60 days to reach the United States, compared with just three to five days from Canada.[4]

But a Return to the Liberalized Trade Environment of the Past Is Unlikely

While public pressure, business lobbying, rising prices, and higher borrowing costs may eventually lead a Democratic or Republican administration to roll back some tariffs, a return to the highly liberalized trade environment that prevailed in previous decades appears unlikely for the following reasons.

Protectionism enjoys bipartisan support. While the Trump administration's aggressive use of tariffs during its second term was a significant escalation, the support for protectionist measures transcends party lines. The Biden administration had maintained many of the tariffs imposed on China during Trump's first term and even expanded some of them. The Inflation Reduction Act introduced substantial subsidies to promote domestic production in the United States. This prompted Canada and other countries to implement similar support measures for sectors such as electric vehicle manufacturing.

Economic security is increasingly taking precedence over efficiency. The United States and many other economies are expected to continue prioritizing reshoring, supply-chain resilience, and national security considerations. In a global environment characterized by declining trust—not only among geopolitical rivals, but also among traditional allies—governments are likely to continue using trade restrictions and industrial policies to support strategic industries.

The conflict in Iran has reinforced these trends. Disruptions to energy markets and concerns about the vulnerability of key maritime chokepoints have highlighted the risks of certain global supply chains. Consequently, governments and businesses are likely to increase investment in supply-chain redundancy, regionalized production networks and the strategic stockpiling of essential goods.

The United States is not alone in pursuing these policies

In the European Union, for instance, the proposed Industrial Accelerator Act would require foreign investors in strategic industries such as alternative energy and EVs to hire more European workers, source more locally produced components, and transfer technology to European partners in order to access the EU market. Another proposal has been made to introduce 'Buy European' requirements for major public procurement contracts.[5]

China, too, has taken steps to strengthen government oversight of supply chains and overseas investment. In recent months, it has introduced new national security review requirements for certain outbound investments and expanded its ability to scrutinize efforts to relocate supply chains outside the country.[6]

Similar policies are also being pursued by other major economies. The most prominent include:

- India: *Make in India* and *Atmanirbhar Bharat* (Self-Reliant India)
- Brazil: *Nova Indústria Brasil* (New Industry Brazil)

Trade with China

In a significant departure from Canada's decision in October 2024 to impose a 100% tariff on Chinese electric vehicles—a measure largely in line with U.S. policy—Prime Minister Carney announced a major shift in policy last January. Canada agreed to allow up to 49,000 Chinese EVs to enter the country in 2026 at the preferential tariff rate of 6.1%, with the quota expected to rise to approximately 70,000 vehicles over the coming years. In return, China agreed to reduce tariffs on Canadian canola seeds from 85% to 15%, and to suspend tariffs on canola meal, lobster, crab and peas until at least the end of the year.

1 "U.S. industry groups strongly back renewing CUSMA," CBC, December 1, 2025
2 "The Special Case of Canadian Aluminum," U.S. Chamber of Commerce, December 17, 2025
3 "The third Gulf war will scar energy markets for a long time yet," The Economist, April 8, 2026
4 "Quebec aluminium smelters more resilient than expected from U.S. Tariff, The Canadian Press, Jun 5, 2026
5 "The EU and China are stumbling into a trade war," The Economist, May 12, 2026
6 "China Builds an Economic Fortress as Global Tensions Rise," The New York Times, June 5, 2026

The key question is how this approach will align with Washington's push for closer coordination between the United States, Canada and Mexico when it comes to applying a common USMCA tariff framework towards China in strategic sectors. The challenge is compounded by the fact that a tough stance on trade with China remains one of the few issues with strong bipartisan support in the United States.

Recent developments illustrate this consensus. For example, 73 Democratic members of the U.S. House of Representatives recently signed a letter urging the President not to allow Chinese automakers, including those operating in other countries, to build or sell vehicles in the United States. The lawmakers argued that such vehicles would “pose a direct threat to American manufacturing, workers, and national security.”[7]

Some politicians have proposed even stricter measures. For example, Senator Elissa Slotkin and Representative Haley Stevens, both Democrats from Michigan, have introduced legislation that would prevent Chinese EVs from entering the United States via Canada or Mexico. Supporters of this legislation argue that these internet-connected vehicles can collect large amounts of data and pose risks to national security.[8]

Consequently, Canada may be pressured to make certain concessions regarding its trade relationship with China.

What about Mexico?

After having been relatively open to car imports (both EVs and gasoline-powered vehicles) from China to the point where they accounted for roughly 25% of vehicle sales in 2025, Mexico has taken the opposite approach.[9] It has imposed tariffs of up to 50% on vehicles, auto parts, and more than 1,400 other products imported from countries that do not have a free trade agreement with Mexico. Although the measures apply to several countries, they are widely viewed as targeting China primarily.

Mexico's strategy reflects more than a desire to strengthen its negotiating position with the United States. By aligning itself more closely with Washington's efforts to reduce dependence on Chinese imports, Mexico is positioning itself to attract investment and expand its role in North American supply chains. Given its low-cost manufacturing base, it could be a major beneficiary of efforts to shift U.S. supply chains away from Asia.

Canada and Fortress North America

Even if future U.S. administrations adopt a less confrontational approach to trade, the bipartisan push towards a Fortress North America strategy in key sectors is likely to continue. This would involve stricter North American content requirements for a wider range of products.

Moreover, many companies choose to invest in Canada in order to secure lower-tariff access to the U.S. market. This point was highlighted by Goldy Hyder, President and CEO of the Business Council of Canada: "For large investors from Asia or Europe looking at Canada, any decision to deploy capital would necessarily take into account not only our national investment climate but also our connections to the North American continental economy as a whole."[10]

Perhaps recognizing that the global trend toward regionalization is too strong to resist, Carney appears to have softened his position of late. Having spent much of the past year arguing that Canada's deep economic integration with the United States had become a risk, he recently changed his tune. Speaking in Toronto, he said that Canada "remains open to deeper integration" with the United States in certain sectors, "including options for Fortress North America."[11]

What a Final Trade Deal Could Look Like

To facilitate trade negotiations, Canada has increased defence spending, cancelled the digital services tax, paused plans to require major online streaming providers to contribute more to Canadian content, and promised to strengthen measures to restrict imports of goods produced using forced labour. Other actions or concessions could include:

- Stronger rules of origin and enhanced measures to prevent third-country goods from being rerouted through North America in order to gain preferential access to the U.S. market
- Enhanced American access to Canadian critical minerals, energy resources, and strategic materials through the deeper integration and regionalization of key North American supply chains
- Closer coordination by Canada with the United States and Mexico when it comes to applying a common USMCA tariff framework towards certain countries in strategic sectors
- Higher North American content requirements for automobiles could also be introduced. The threshold was raised from 62.5% under NAFTA to 75% under the USMCA in 2020, and reports suggest that the United States is seeking to increase it to over 80%.12 Washington is also reportedly pushing for at least 50% of a car's components to be produced in the United States to qualify for lower tariffs.13 In April 2025, the President of the Canadian Vehicle Manufacturers' Association estimated that vehicles produced in Canada contained between 30% and 50% U.S. content.14
- The introduction of tariff-rate quotas for steel and aluminum, and potentially timber, which would permit a specified volume of imports to enter duty-free or at reduced tariff rates, with higher tariffs applying to imports exceeding the quota
- Continued purchases of significant quantities of U.S. military equipment by Canada.

7 Congressional letter to President: https://debbiedingell.house.gov/uploadedfiles/china_auto_letter.pdf
8 “Proposed U.S. bill targets Canadian drivers in Chinese cars, driving,” Toronto Sun, June 5, 2026
9 “Chinese EVs may hit U.S. within a few years, one way or another,” CNBC, June 6, 2026
10 “Mark Carney’s trade push collides with reality of U.S. dependence,” Reuters, June 9, 2026
11 “Carney walks a tightrope on Fortress North America as trade review looms,” The Globe and Mail, May 23, 2026
12 “US demands tougher rules for cars parts in Mexico trade talks,” Financial Times, June 5, 2026
13 “Trump Administration Wants Autos Under USMCA to Be at Least 50% Made in America,” Wall Street Journal, May 29, 2026
14 “Canada Auto Sector Benefits From High U.S. Parts Content, Weaker Canadian Dollar,” Wall Street Journal, April 2, 2025

Can the U.S. President Withdraw from the USMCA Without Congressional Approval?

The legal answer is not entirely clear.

On the one hand, the USMCA is an international agreement, and U.S. presidents have historically had broad authority over withdrawing from such agreements. For instance, President Trump withdrew the United States from the Paris Climate Agreement without seeking congressional approval.

On the other hand, the USMCA is embedded in U.S. domestic law through the USMCA Implementation Act passed by Congress. Consequently, some argue that the President cannot legally withdraw from this trade agreement without congressional action, and that any attempt to do so would likely face legal challenges.

However, even if the courts ultimately ruled against unilateral withdrawal, it could take many months for the litigation to reach a final resolution. In the meantime, Canadian businesses would continue to face uncertainty. What's more, such litigation would not prevent the continued use of sectoral tariffs or other trade measures.

Conclusion

While the upcoming USMCA review is likely to generate significant political uncertainty, we believe that a negotiated outcome is still the most probable scenario. Despite the Trump administration's rhetoric, there is very strong U.S. support among businesses and the public for maintaining the agreement.

Another factor supporting an agreement is that the spike in costs and concerns about supply security resulting from the conflict in the Persian Gulf, particularly in sectors such as aluminum, steel, fertilizer and energy, has increased the value of secure, low-cost access to Canadian resources. This should provide further incentive to reach an agreement.

However, Canada will probably have to accept that some tariffs and other trade restrictions will remain in place, albeit at lower levels than those currently in force. The country will also face pressure to align more closely with the United States on trade policies in sectors that are considered important for North America's economic and national security.

Finally, it is important to note that protectionism, the regionalization of supply chains, increased domestic content requirements, and a greater emphasis on economic security are not just American policies. Similar measures are being pursued by governments around the world—a trend that has been reinforced by the conflict with Iran. As a result, Canada's central challenge will be to adapt to these global trends within the North American context.

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