

Current State of Trade Negotiations



A summer of negotiations between Canada and the United States has not yielded a trade agreement. The Carney government appears to have shifted its focus to addressing the disruptions of the Trump policies and to start preparing for the review of the US-Mexico-Canada Trade Agreement (USMCA) in 2026.

Under the terms of the agreement, there are three options. The countries can agree to extend the treaty for another 16 years; they can start a process of annual reviews, after which the agreement will expire in 2036; or they can withdraw from it with six months notice. Renewal of the existing agreement is unlikely as Trump has made trade a Presidential power and renegotiation would require Congressional approval of any agreement. The impacts on all three countries also makes withdrawal unlikely.

Given President Trump "style of governing", annual reviews until 2036 appears to be more likely. This would give Trump the opportunity to keep trade as a political issue while minimizing the adverse impacts on US businesses and jobs going into the 2026 US mid-term Congressional Elections. Currently, the US Inflation Rate and Unemployment Rate are both above 4%.

President Trump may use the annual reviews of the USMCA to extract concessions on automobile content rules, dairy supply management, digital regulation, Canada and Mexico's relationship with China, as well as quotas for "strategic" industries, like steel, aluminum, autos, and lumber.

The impacts of the Trump administration's policies on non-USMCA goods are starting to be felt. More than 80% of the cross-border trade is tariff-free under USMCA. Businesses that are not covered by the agreement are suffering under general and sector tariffs. Non-CUSMA compliant goods are exposed to a 35% tariff. Sectors such as the Aluminum and Steel industries are being hit with 50% tariffs. The most recent employment report in Canada indicated that the Unemployment Rate is 7.1%, a nine-year high. Most recently, General Motors has announced the cancellation of a shift at its Windsor plant resulting in the loss of over 700 direct jobs, and auto suppliers have announced further layoffs of over 1,500 workers.

Canada's focus will be on preserving the USMCA and to reduce the impact of tariffs, specifically sectoral tariffs. In the interim, the federal government announced a series of measures on Friday to address the current impacts of the trade war and bolster the Canadian economy. The announcement included the delay in the mandatory sales targets for electric vehicles, a \$5-billion Strategic Response Fund targeted at sectors directly affected by U.S. tariffs, financial aid for the agriculture sector, a "Buy Canadian" policy for the federal government, the expansion of employment insurance, and new training programs for workers. A federal budget planned for the middle of October will include additional measures which will also need to demonstrate fiscal responsibility.

The Carney government will need to initiate policies and programs that will cushion the economy from the impacts of US trade policies and the renegotiations of the USMCA. The talks will likely be prolonged, and Canadians should be prepared for any "agreement" to be the subject of repeated renegotiations.

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