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USMCA at Six Years: What the mandatory review means for trade and North American supply chains

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- USMCA remains a central pillar of North American economic integration as it governs nearly \$2 trillion of annual trilateral trade. The impending 2026 review is expected to focus on several contentious policy areas that could reshape trade dynamics and increase uncertainty, including stricter automotive rules of origin, ongoing tensions over energy policies, agricultural market access disputes, and tariff-related pressures on metals. Together, these issues reflect broader frictions between country-specific domestic policy priorities and USMCA's rules-based trade framework.
- Sector-level impacts highlight exposure to policy risk. Metals supply chains are already under strain from tariffs and weakening trade flows, while the automotive sector remains relatively stable but faces rising vulnerability to changes in rules of origin and cross-border logistics. These developments underscore how policy shifts are increasingly shaping supply chain performance.
- Uncertainty around the direction of the review remains elevated. Canada and Mexico have expressed support for extending the agreement, while US signaling toward renegotiation or bilateral alternatives raises the risk of disruption. The outcome will be critical in determining trade flows, business confidence, and the outlook on North American supply chains.

The USMCA and its economic impact to date

The United States-Mexico-Canada Agreement¹ (USMCA) entered into force on July 1, 2020, succeeding the North American Free Trade Agreement (NAFTA). The agreement is now up for review with a deadline of July 1, 2026. It is important to note that this date is not an expiration of the agreement but rather a mandatory review process implemented to allow the parties to revise terms based on emerging economic conditions and renew for an additional 16 years. Following the July 1 review meeting, if the parties fail to agree to extend the agreement, it will trigger mandatory annual reviews to require continued negotiation until all three parties agree to an extension. If a party desires to withdraw from the agreement, this is separately done by a six months' written notice to the other parties.

USMCA preserved the NAFTA framework of largely tariff-free trade while introducing modernized provisions aimed at providing greater certainty around intellectual property

¹ Full text of the Agreement: [Agreement between the United States of America, the United Mexican States, and Canada 7/1/20 Text | United States Trade Representative](#)

protection, labor enforcement, and operations in digital commerce and agribusiness (Figure 1).

Figure 1: Key differences between USMCA and NAFTA

	NAFTA	USMCA
Structure	No expiration; no formal review; weaker dispute system; labor/env. in side agreements; broad ISDS coverage	16-year sunset; review every 6 years; stronger dispute panels; labor/env. fully enforceable; reduced ISDS; added digital & regulatory transparency framework
Intellectual Property Rights	WTO's Trade-Related Aspects of Intellectual Property Rights (TRIPS); copyright life + 50 years	Stronger IP; copyright life + 70 years
Agriculture	Tariffs mostly eliminated; limited dairy access	Expanded U.S.–Canada dairy access; more market access overall
Advance Rulings	Limited, slower determinations	Binding pre-import rulings; clearer, faster decisions
Tariffs, Certification & Rules of Origin	Zero tariffs on qualifying goods; 62.5% auto content; outsourcing incentives	Zero tariffs on qualifying goods; 75% auto content; wage requirement (\$16/hr share); steel/aluminum rules; self-certification
Labor	Weak enforcement; outsourcing to lower wages (e.g., Mexico)	Labor reform + rapid-response enforcement panels
Environment	Weak, underfunded side agreement	Stronger enforcement + dedicated funding (~\$600M)
Technology / Digital Trade	No digital trade framework	Free data flows; no data localization; platform protections

Today, USMCA governs approximately \$1.8-2 trillion in annual trilateral trade (Figure 2), reflecting a deeply integrated economic partnership with dense cross-border supply chains and investment flows across the three economies. The US remains the central hub, serving as the primary export destination for both Canada and Mexico, while Mexico has grown into the largest source of US imports, surpassing China, and second-largest destination for US exports².

² [Mexico | United States Trade Representative](#)

Figure 2: Total value of exports, USD in billion

	2025	2024	
	Goods	Goods	Services
US → Canada	\$ 329.80	\$ 348.50	\$ 90.27
Canada → US	\$ 404.21	\$ 435.17	-
US → Mexico	\$ 337.96	\$ 334.04	\$ 50.42
Mexico → US	\$ 545.39	\$ 503.42	-
Canada → Mexico	\$ 6.35	\$ 6.28	-
Mexico → Canada	\$ 21.95	\$ 18.61	-
Total trade value	\$ 1,645.66	\$ 1,646.03	\$ 140.68

Note: 2025 and certain 2024 trade data on services are unavailable
Source: International Trade Centre, MUFG Bank Economic Research Office

Focus points for the 2026 review

A central and likely most contentious issue up for discussion during the review is the implementation of automotive rules of origin (ROO). Recent reports indicate the US is seeking to raise the regional value content threshold further to 82% (from 75% under current USMCA terms) and to require that at least 50% of a vehicle's value be sourced from the US³. Canada and Mexico have historically resisted stricter interpretations of ROO. While tighter rules aim to incentivize regional sourcing, they could increase costs for producers, risk non-compliance, and ultimately weaken North American competitiveness under limited flexibility.

Energy policy alignment is also a focal point of discussion that has caused friction in the past, particularly between US and Mexico. In its efforts to push energy sovereignty in Mexico, the government enacted legislation that could be seen as contradictory to fair access to energy markets. In 2021, passed legislation required Mexico's national grid operator to prioritize state-owned enterprises like the Federal Electricity Commission (CFE) over privately owned companies. In 2025, an additional requirement to have at least 54% of electricity to the grid be CFE-supplied was introduced. The US has recognized that these policies clash with USMCA's investor protection and non-discrimination commitments⁴.

Agricultural market access remains a frictional point in the USMCA as well. Much of the disputes are about the balance between trade liberalization and domestic protection across all three economies. The most prominent issues for the US are stronger enforcement of Sanitary and Phytosanitary (SPS) measures, as well as limited access to partner markets due to policy measures in other economies. For instance, the US argued that Canada's domestic supply management efforts unfairly restrict market access through tariff-rate quota allocations that constrain US dairy exports to Canada. In Mexico, decrees banning domestic cultivation of biotech corn, and more broadly, genetically engineered corn, resulted in restrictions on imports. Though dispute panels ruled in favor of Canada in the dairy dispute⁵ and the US in the corn dispute⁶, these issues remain contested among producers and policymakers of the respective losing economies.

³ [Trump administration wants to raise North American auto content to 82%, with half from US | Reuters](#)

⁴ [United States Requests Consultations Under the USMCA Over Mexico's Energy Policies | United States Trade Representative](#)

⁵ [USMCA Dispute Panel Limits Canadian Market Access - NMPF](#)

⁶ [United States Prevails in USMCA Dispute on Biotech Corn | USDA](#)

Other issues expected to be discussed include labor provisions, digital trade and services, critical minerals, border security, and dispute settlement procedures.

While not a core element of USMCA itself, another area likely to be raised during the review is the use of US Section 232⁷ tariffs and related retaliatory measures. First invoked by the first Trump administration in 2018 and expanded by the second Trump administration in 2025, these authorities to impose tariffs have, at times, conflicted with USMCA's framework of tariff-free trade, particularly affecting cross-border supply chains in steel, aluminum, and copper. In response, Canada maintained reciprocal tariffs on US metals and certain automotive products. Further discussions around tariff relief or potential adjustments in these industries are likely.

Supply chain resilience in certain sectors put to the test

So far, the US Trade Representative announced scheduled bilateral negotiations between the US and Mexico, focusing on agriculture, rules of origin, and economic security⁸. Talks between the US and Canada remain in preliminary stages. However, Canada has formally expressed support for renewing the agreement for another 16 years⁹.

Mexico has also indicated a willingness to extend the agreement, but the Trump administration has made statements signaling reluctance to renew, suggesting favoring substantial revisions to the USMCA or separate bilateral agreements. This presents significant uncertainty for industries tied to the key issues up for discussion. While the energy and agricultural industries are more reactive to global pricing, geological conditions, and/or sometimes geopolitical climate, more policy-sensitive sectors such as metals and auto are facing particularly uncertain outcomes.

Current conditions of North American supply chains for these sectors indicate some may be increasingly vulnerable following the expansion of the Section 232 tariffs in April 2025. Trade flows and cross-border freight data for metals exhibit sustained weakness with US imports growth rate for iron and steel notably remaining negative and volumes of transported metal declining at a rate of about 20% y/y in April 2026 (Figure 3 and 4). Although the recent June 1 adjustments of US tariffs¹⁰ on metals could result in some relief, the eventual terms of agreement from the USMCA may prove more consequential in shaping the outlook for metals trade.

Meanwhile, automotive trade appears more resilient but remains relatively subdued at 0.8% y/y growth while cross-border freight flows declined by 5.0% y/y in April 2026. This could indicate that cross-border movement of finished vehicles is experiencing some strain. The outcome of the USMCA review will be critical for the automotive sector, as potential adjustments to rules of origin and related provisions could either ease compliance burdens and support cross-border production or further constrain supply chain flexibility and weigh on trade flows.

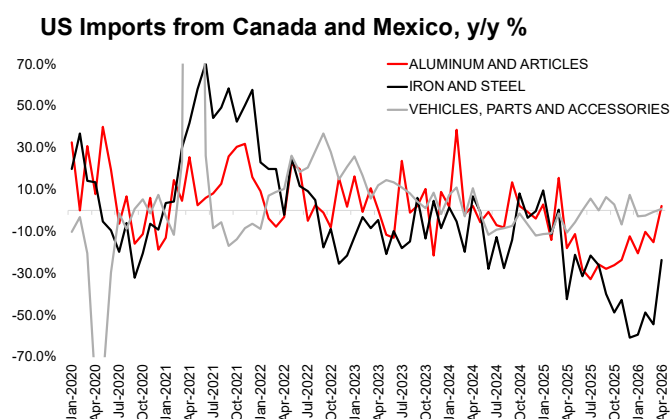
⁷ The US Section 232 gives the US President authority to restrict imports if they are found to "threaten to impair" national security. [Section 232 of the Trade Expansion Act of 1962 | Congress.gov | Library of Congress](#)

⁸ [Joint Statement from Ambassador Jamieson Greer and Mexican Secretary of Economy Marcelo Ebrard | United States Trade Representative](#)

⁹ [Canada's Recommendations for the Joint Review of the Canada-United States-Mexico Agreement \(CUSMA\)](#)

¹⁰ [Further Adjusting the Tariff Regimes for Imports of Aluminum, Steel, and Copper into the United States – The White House](#)

Figure 3: North American trade flows for policy-sensitive sectors



Source: US International Trade Commission MUFG Bank Economic Research Office

Figure 4: North American freight data by commodity in quantity, y/y% for month of April

	ALUMINUM AND ARTICLES	IRON AND STEEL	VEHICLES, PARTS AND ACCESSORIES
Apr-18	1.0%	8.8%	5.1%
Apr-19	-9.9%	-2.6%	4.7%
Apr-20	3.3%	-1.8%	-7.0%
Apr-21	5.2%	3.0%	-13.6%
Apr-22	9.6%	33.6%	9.7%
Apr-23	4.6%	-8.4%	16.2%
Apr-24	0.7%	-3.8%	10.4%
Apr-25	-2.3%	-6.0%	-5.8%
Apr-26	-19.1%	-20.6%	-5.0%

Source: US Department of Transportation-Bureau of Transportation Statistics, MUFG Bank Economic Research Office

Possible outcomes of the review

As some of these sectors continue to recover from 2025 disruptions, outcomes of the review will play a key role in determining the level of strain in these supply chains. The range of possible outcomes spans from a straightforward extension of the agreement to more contentious renegotiation paths. The direction taken will depend on the balance between preserving existing trade integration and addressing emerging policy frictions. The non-exhaustive table below (Figure 5) outlines four plausible scenarios along with their potential implications for trade flows, investment decisions, and regional supply chains.

Figure 5: USMCA review scenarios and potential implications

	Description	What can happen	Potential implications
1. Smooth Renewal / Extension	Agreement is extended with minimal changes	Broad political alignment; limited revisions; reaffirmation of existing rules	Supports policy stability; reinforces nearshoring trends; minimal disruption to trade and investment
2. Targeted Negotiation (Base Case)	Select provisions are updated while core framework remains intact	Adjustments to address key issues, for instance, ROO implementation, labor enforcement clarity, and dispute settlement processes; possible changes in energy, agriculture, and digital trade	Modest policy clarity improvements; maintains integration while addressing frictions; stricter rules increase compliance cost for firms; relatively short-term pressure to trade flows as firms adapt to updated rules, with supply chains remaining largely intact
3. Contentious Renegotiation	Significant disagreements lead to prolonged negotiations and partial revisions	Disputes over energy policy, labor enforcement, and stricter ROO thresholds; potential reintroduction of tariffs or safeguards in select sector; Bilateral deals may remain inside USMCA framework	Heightened policy uncertainty; supply chains face reconfiguration risks; delayed investment; uneven impacts across sectors
4. Review Breakdown / Non-Renewal Risk	Failure to reach agreement on extension timeline or review terms	Escalation of disputes; reduced cooperation; potential shift toward bilateral arrangements or unilateral trade measures as a replacement	Significant downside risk to regional trade; disruption to integrated supply chains; weaker investment outlook and increased volatility

Building on this, greater clarity around the review process will be critical not only for reducing uncertainty but also for anchoring expectations among firms operating across North American supply chains. Even in scenarios where major renegotiation is avoided, incremental adjustments to the rules could still mean shifts in cost structures or supply chain optimization. As a result, the review outcome will serve as an important barometer for the trajectory of regional integration, shaping both business confidence and the resilience of cross-border production networks.

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