



January 7, 2026

From: Lawrence Herman
To: Trade Observers
Re: LET'S GET READY FOR THE END OF CUSMA

The era of North American free trade is over.

That point was hammered home by the report on the Canada-United States-Mexico Agreement sent to Congress last month by the US Trade Representative, a prelude to the formal review of the deal set to start in July, but which could get underway earlier.

While it can be read several ways, the report, and USTR Jamieson Greer's oral comments, reveal that even if the CUSMA continues to tick over during the 2026 review, there will be tough demands by the Trump team for concessions from Canada and Mexico, backstopped by the threat of US withdrawal on six months notice.

In the background is the fact that Donald Trump has shown hostility to the very concept of North American free trade from the outset, saying a few weeks ago that the United States will "either let [the trade agreement] expire ... or work out another deal with Mexico and Canada." A few days later, Mr. Greer said the administration is considering breaking up the three-way free-trade agreement and moving toward separate deals instead.

The message from all of this is that Canada should be planning for a future with substantially reworked trading arrangements with the United States, far different from today, even if CUSMA survives in some form. While the talks proceed – with Canada and Mexico on separate tracks – the agreement will be kept in place, sputtering along, but with the hovering threat of US withdrawal.

There are bad and less bad elements in this scenario. The bad elements are that duties on Canadian autos, steel, aluminum, copper and other goods will not change while the talks continue. The not-so-bad elements would be that CUSMA-compliant goods, like auto parts and some other products, will be able to enter the United States duty-free while the two governments try to hammer out new bilateral trade arrangements.

Given the volatility of Mr. Trump's trade agenda with its ever-shifting priorities, it is impossible to predict where this all heads, leaving areas of uncertainty that are bound to affect the financial markets. What does seem certain is that, whatever the outcome in the US Supreme Court on Mr. Trump's emergency tariffs under the *International Emergency Economic Powers Act*, Mr. Trump will never agree to bind US duty rates under any deal with Canada, or to forego the use of tariffs for unrestricted national security reasons.

In addition, we can kiss goodbye to the binational dispute settlement panel system. While it worked fairly well in the early days of NAFTA, it has not had a particularly salutary history in recent years. Even under the Biden administration, the Americans ignored adverse CUSMA panel decisions, such as in the auto sector.

There are many other substantive balls in the air, but leaving aside any CUSMA repackaging, Canada must use every bit of muscle to settle outstanding issues, including US tariffs on steel and aluminum, auto parts, and softwood lumber. Dealing with cyber and border security and supply-managed dairy products are other matters specific to Canada and the United States that are substantively different from those with Mexico.

The Canada-US talks might also cover some key defence issues, notably on the North American Aerospace Defence Command, production sharing and procurement. These are sensitive areas but closely intertwined with trade.

All of this envisages a reworked and asymmetrical North American trading framework, encompassing a series of separate US deals with Canada and with Mexico.

It will take considerable skill on Canada's part to keep CUSMA alive in some way. The downside is that the outcome could be an agreement of reduced scale, replaced by what in essence is a US-centric trading system, far different from the three-way partnership that has been in place since the NAFTA came into effect more than 30 years ago.

Looking ahead, then, the once heralded and laudable North American free-trade ideal is history. Canada-US relations will proceed mostly on a bilateral basis, consisting of managed trade with quotas in key sectors, possibly within a reworked CUSMA that at least provides a framework for stability in commercial dealings.

It is critical that the Canadian side develops clear, proactive ideas about what a future deal – or deals – should look like, rather than reacting to diktats from the United States when trade negotiations resume in the new year.