



PIIE PETERSON INSTITUTE FOR
INTERNATIONAL ECONOMICS

Whither the USMCA Review?

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Overview of the talk

- Background of North American trade agreements
- North American trade integration: total merchandise trade, autos, agriculture, and energy
- USMCA Review and its key elements
- Current US tariffs and USMCA prospects

Two important questions:

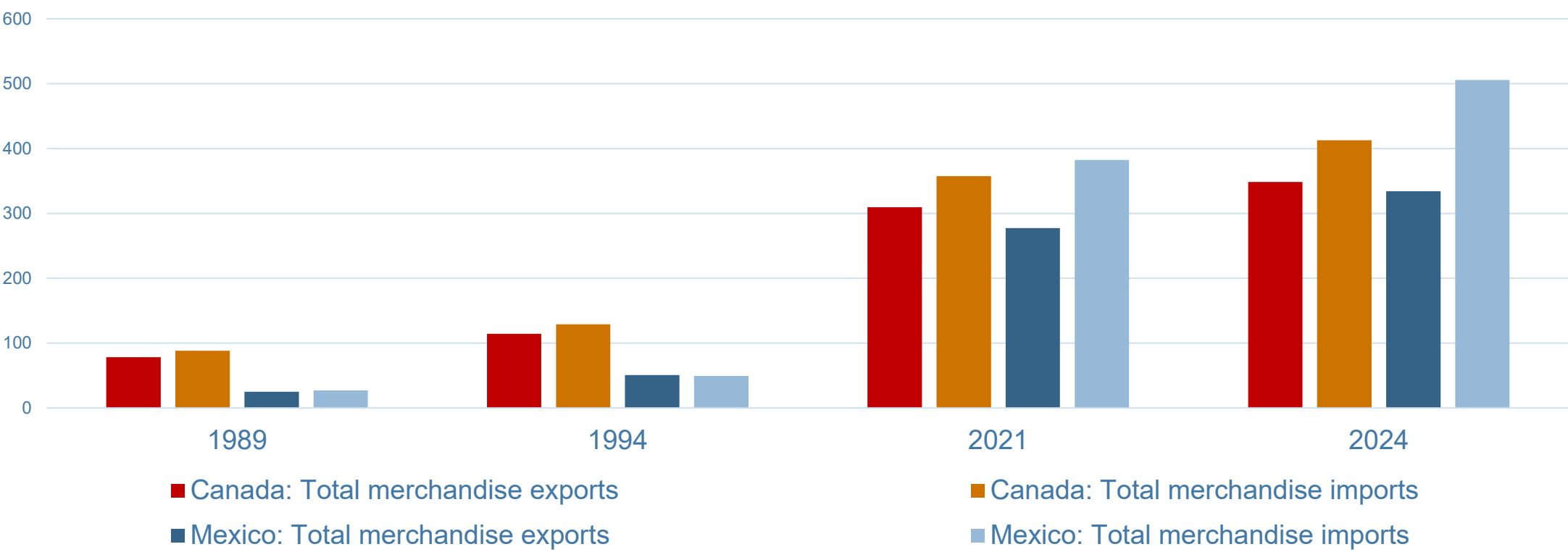
- Will the USMCA survive the new US tariffs and retaliation by its partners ahead of the July 2026 review?
- Could an expedited review or renegotiation of the pact take place this year?

Hallmarks of 60 years of North American trade integration

Agreement	Entry into Force
US-Canada Auto Pact	January 1965
Canada-US Free Trade Agreement	January 1989
North American Free Trade Agreement	January 1994
US-Mexico-Canada Agreement	July 2020

Strong growth of North American merchandise trade over 3 decades

Total merchandise trade with Canada and Mexico (1989, 1994, 2021, 2024), billion US dollars



Source: [United States International Trade Commission \(USITC\) Data Web](#).

Merchandise trade in 2024

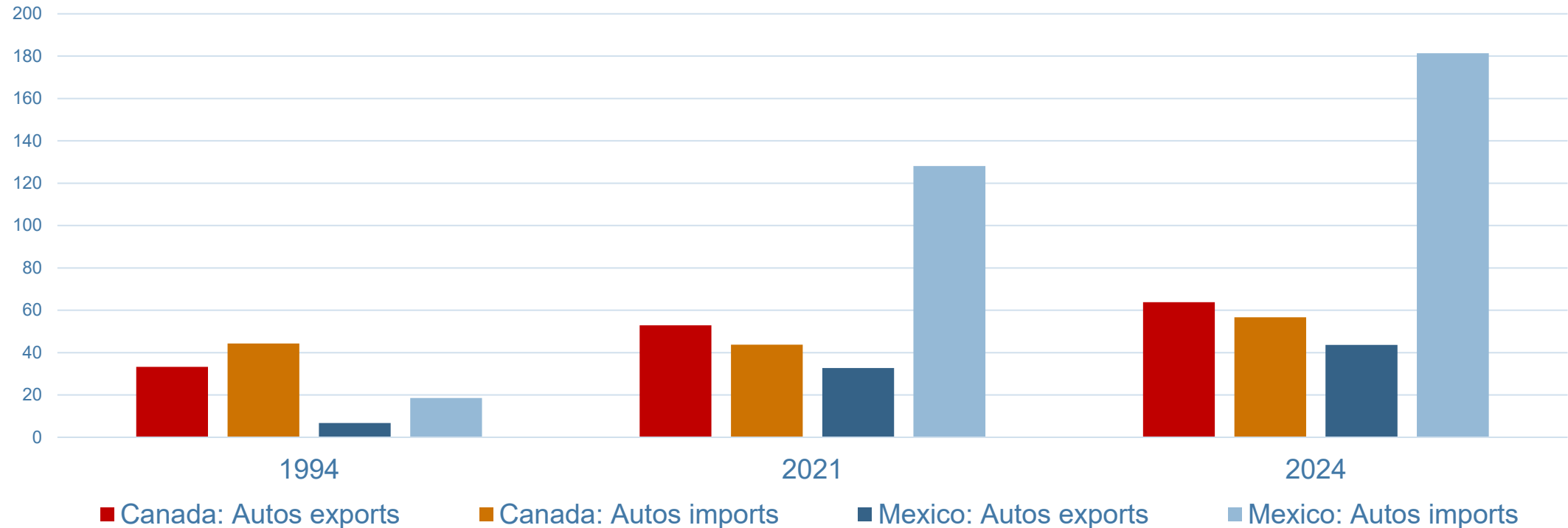
- In 2024, Canada and Mexico together account for **33%** of total US merchandise exports and about **28%** of total US merchandise imports.
- Total merchandise trade in 2024, measured in billion US dollars

Country/Trade flow	Merchandise Exports	Merchandise Imports
Canada	348.5	412.7
Mexico	334.0	505.9
North America	682.5	918.5
US Total	2,064.5	3,287.4

Source: USITC DataWeb.

Strong growth of NA merchandise trade: Autos

Total autos trade with Canada and Mexico (1989, 1994, 2021, 2024), billion US dollars



Notes: Autos trade data are the data from FT900 starting in 1995 is used to approximate trends in autos trade post-NAFTA, as data prior to 1995 is unavailable in FT900.

Source: U.S. International Trade in Goods and Services (FT900), “Exports and Imports of Motor Vehicles and Parts by Selected Countries”.

Autos trade in 2024

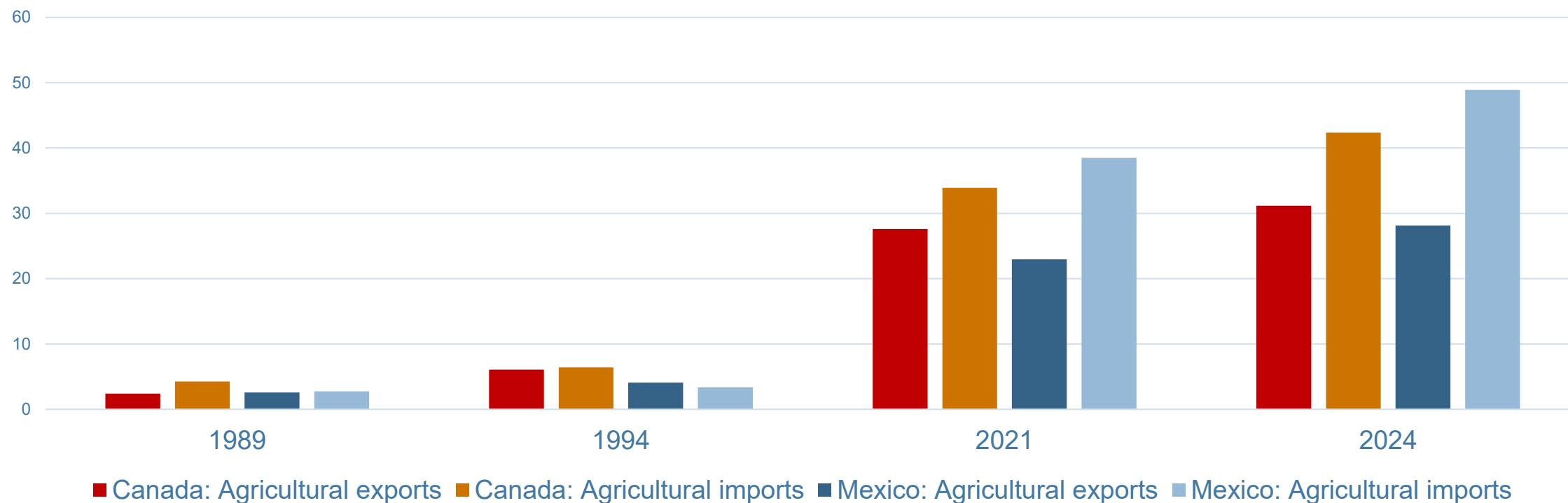
- In 2024, Canada and Mexico together account for around **61.7%** of total US auto sector exports and about **50.5%** of total US auto sector imports.
- Trade in motor vehicles and parts in 2024, measured in billion US dollars

Country/Trade flow	Exports	Imports
Canada	63.8	56.7
Mexico	43.6	181.4
North America	107.4	238.1
US Total	174.1	471.6

Source: U.S. International Trade in Goods and Services (FT900), “Exports and Imports of Motor Vehicles and Parts by Selected Countries”.

Strong growth of NA merchandise trade: Agriculture

Total agricultural trade with Canada and Mexico (1989, 1994, 2021, 2024), billion US dollars



Notes: Data for agricultural trade are trade flows under the Harmonized System Chapters 1 to 22.

Source: USITC DataWeb.

Agricultural trade in 2024

- In 2024, Canada and Mexico together account for around **36.7%** of total US agricultural exports and about **41%** of total US agricultural imports.
- Trade in agricultural products in 2024, measured in billion US dollars

Country/Trade flow	Exports	Imports
Canada	31.2	42.3
Mexico	28.2	48.9
North America	59.4	91.2
US Total	161.7	222.7

Notes: Data for agricultural trade are trade flows under the Harmonized System Chapters 1 to 22.

Source: USITC DataWeb.

Energy trade in 2024

- In 2024, Canada and Mexico together account for around USD **66.7 billion** of energy exports and USD **141.1 billion** of total US energy imports.
- Canadian energy exports account for large US trade deficit in this sector.

US cross-border energy trade with Canada and Mexico in 2024,
trade flows into the US by origin, billions of US dollars

	Category	Exports	Imports	Trade Balance
Canada	Crude petroleum and petroleum products	22.9	113.7	-90.8
	Electrical energy	0.8	2.3	-1.5
	Natural gas and components	1.8	8.7	-6.9
Mexico	Crude petroleum and petroleum products	34.4	16.4	18.0
	Electrical energy	-	-	-
	Natural gas and components	6.81	0.002	6.8
Total	Total energy trade	66.7	141.1	-74.4

Notes: Data for energy trade products are trade flows under the Harmonized System chapters listed under EP ("Energy-related products") sector following the supplementary, interactive data table of Shifts in U.S. Merchandise Trade, 2023.

Source: USITC DataWeb.

Mandated USMCA Review: July 2026

Background of USMCA Article 34.7: Review and Term Extension

- **Why** is there a USMCA review?
 - USMCA terminates after 16 years (in July 2036) unless extended by the parties.
- **When** is the “six-year joint review”?
 - USMCA calls for a “Joint Review” in **July 2026** of the operation of the pact and recommended revisions.
- **What** is the review process?
 - During the review, each member “shall confirm” its desire to extend the pact for another 16 years (until 2042) and hold another joint review of the pact “no later than the end of the next 6-year period.”

Source: USMCA Article 34.7: Review and Term Extension

Background of USMCA Article 34.7: Review and Term Extension

- **What if** a country does not commit to extend the USMCA during the joint review?
 - Then the parties will conduct joint reviews each subsequent year until the pact expires in July 2036. (Ten-year phaseout, 2026–2036)
- **What if** those joint reviews produce agreement to maintain the pact?
 - The duration will be extended for 16 years from that date (2026–2042), and the next joint review is scheduled 6 years hence (2032).

Source: USMCA Article 34.7: Review and Term Extension

Why did Trump 1.0 include USMCA Article 34.7?

- USMCA also has a standard withdrawal clause that allows any partner to leave the pact in 6 months for any or no reason.
- 6-year review requirement is useful if it benchmarks progress, exposes problems, and thus provides information for the better functioning of the pact.
- But adding the withdrawal option and 10-year phaseout of the pact if a country objects to how the USMCA is working seems to have broader objectives:
- Provides US officials leverage to force changes/additional concessions by its partners.

Current US Tariffs and USMCA Prospects

Current US tariffs that affect Canada and Mexico

Country-specific	√: 25% tariffs (10% for Canadian energy and potash) <u>unless USMCA compliant</u> → related to fentanyl/border security → If this is removed, then USMCA non-compliant goods would be subject to 12% tariffs.
	X: Canada/Mexico are NOT subject to new tariffs announced on April 2 that apply 10% tariffs to all countries as well as “reciprocal” tariffs set by country.
Product-specific	√: 25% on imports of steel and aluminum (including derivative products)
	√: 25% on non-US content of USMCA automobile imports; USMCA-compliant parts will remain tariff-free until US officials establish a process to apply tariff to non-US content.
Other potential developments	1. Section 232 investigations on lumber, copper, semiconductors, pharmaceuticals could result in new tariffs on those imported products.
	2. Secondary 25% tariffs on US imports from Mexico if Mexico imports Venezuelan oil after April 2.
	3. Elimination of De Minimis tariff exemptions for covered goods from China and Hong Kong (i.e., on small packages) on May 2.

Implications of Canada/Mexico being treated “less bad” than other US FTA or major trading partners

- **Will the USMCA survive the new US tariffs and retaliation by its partners ahead of the July 2026 review? Could an expedited review or renegotiation of the pact take place this year?**
- **Answers and thoughts:**
 - Trump is less likely to withdraw from USMCA?
 - USMCA review is more likely to be conducted (on expedited basis?) and aim to limit demands for Canada/Mexico changes to specific sectors (e.g., dairy; corn; energy; softwood lumber?)
 - Canada and Mexico may constrain initial retaliation to encourage moderation of US restrictions and improve prospects for USMCA review this year or next.



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