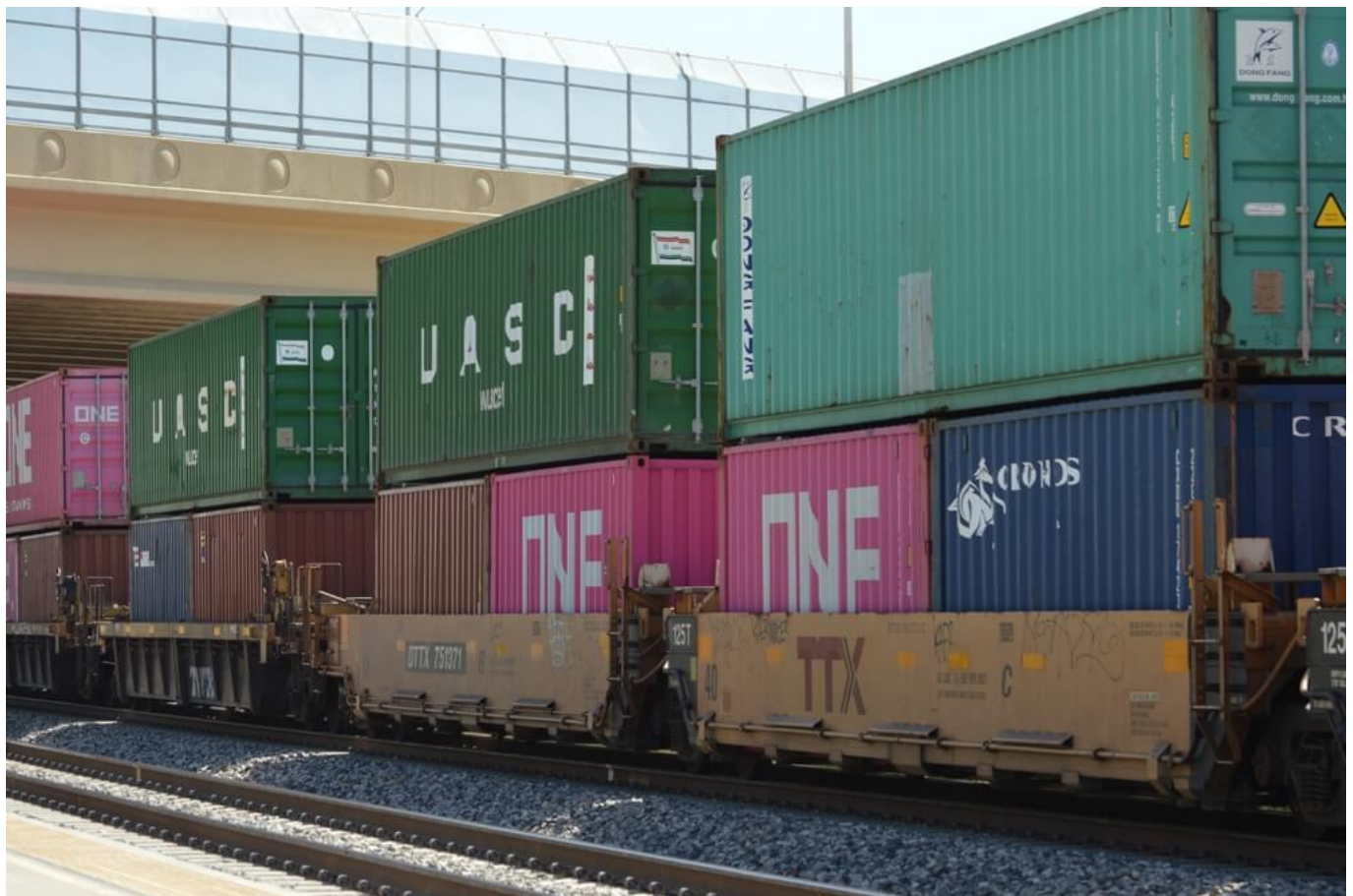




By: TA | AP Insight

US, Canada and Mexico begin complex negotiations to renew the regional trade pact



Tourists from Chattanooga check into beach resorts in Cancun. Canadian auto parts feed factories in the American Midwest – and vice versa.

Happy hour revelers raise glasses of Mexican tequila and mezcal at bars in Seattle.

It adds up. The United States trades \$1.9 trillion a year – \$5 billion a day – worth of goods and services with its neighbors, Canada and Mexico. They have **supplanted China** as America's top two trading partners.

So the stakes are high when it comes to fiddling with the rules that govern trade between the three countries.

And after a year of President Donald Trump's chaotic tariff policies, many U.S., Canadian and Mexican businesses would welcome the return of stability across North America. They are not likely to get it.

The regional trade pact – the U.S.-Mexico-Canada Agreement or USMCA – that **Trump negotiated** and boasted about in his first term comes up for renewal Wednesday, a process that is likely to last months, maybe longer.

And the path forward is lined with landmines.

“There's going to be a lot of drama this summer,” Diego Marroquín Bitar, a fellow in the America's program at the Center for Strategic and International Studies, said last week at a USMCA forum sponsored by the Cato Institute.

A bumpy road ahead for North American trade

The U.S. is making demands that could effectively force Canada and Mexico to surrender some automaking production to the United States.

That might bring more auto factory jobs to the United States. But it would also upend established supply chains and would push up

U.S. prices for new cars that now average nearly \$50,000 at a time when American consumers are already furious about the high cost of living.

Trump, characteristically, has added to the tension by threatening to pull out of his own agreement altogether.

Trump's USMCA ended up being similar to NAFTA

In 2020, the USMCA replaced the 1994 North American Free Trade Agreement, which tore down most trade barriers between the three North American countries.

Trump and other critics had called NAFTA a job killer because it encouraged U.S. companies to move factories south of the border to take advantage of low-wage Mexican labor, then ship goods back to the United States duty free.

His **USMCA** ended up being similar to NAFTA – though it pressured factories to pay higher wages and make sure that more of what they made originated in North America in an effort to prevent Chinese products from slipping across regional borders duty free.

North America trade deal is up for renewal

The USMCA included a novel provision requiring the pact to be renewed every six years.

That deadline is Wednesday, but “nothing is going to happen July 1,” said Oscar Ocampo, director of economic development at the Mexican Institute for Competitiveness.

Negotiators could agree Wednesday to renew USMCA as it is for another 16 years – until 2042.

But that is considered highly unlikely. Instead, they are expected to keep working on ways to

improve it; they have until the current term ends in 2036 to reach an agreement. Otherwise, the pact expires.

Trump doesn't really want to drop the treaty; he just wants to use the uncertainty to keep pressure on Mexico over security and immigration issues - Oscar Ocampo

Meantime, any USMCA country can pull out of the pact provided it gives its two partners six months' notice — a red buzzer that Canada and Mexico, dependent on trade with the United States, fear Trump just might push.

Trump, after all, said in June that he was “not looking to renew” the trade pact with Canada and Mexico. “We don’t need anything that they have,” he said.

Ocampo suspects that Trump doesn't really want to drop the treaty; he just wants to use the uncertainty to keep pressure on Mexico over security and immigration issues.

Canada is out in the cold

The United States and Mexico have held talks on renewing the trade agreement. But Canada has so far been stuck on the sidelines.

Patrick Childress, a partner at the Holland & Knight law firm and a former U.S. trade negotiator, said: “The danger for Canada is this: that the U.S. government and the Mexican government reach agreement on changes to core provisions of the treaty and then show up in Ottawa and say: ‘Here’s what we’ve agreed to. You can take it or leave it.’”



Mark Carney said his priority is to update the USMCA

Canadian Prime Minister Mark Carney said that the three trading partners plan to meet virtually on Wednesday, adding: “I’m not looking for my pen.”

Carney later said in French his priority is to update the USMCA.

Pushing production to the United States

The U.S. wants a refreshed trade pact to do more to make sure that Chinese goods don’t get in through the back door.

But the most contentious issue is that the U.S. is also seeking a brand-new requirement: that 50% of cars be made in the United States, **Carney confirmed** in early June.

Currently, none of the USMCA countries gets a guaranteed share of production. “It’s a red line for both Mexico and Canada, and it goes against the spirit and the letter of regional integration,” Ocampo said.

Vehicle models likely to be hit with higher costs under the plan

Marcos Carias, economist at the credit insurer Coface, said only 1 in 5 Mexican and Canadian cars imported into the United States would currently meet the 50% standard.

Vehicle models likely to be hit with higher

costs under the plan, he said, include Ford's Maverick compact pickup truck, Chevrolet's mid-size Equinox SUV and some Nissan sedans – all made in Mexico.

Carias' "back of the envelope" calculations suggest that prices could increase 5% to 7% on the most-affected models.