



The Clock is Ticking on CUSMA Renewal

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Expert Group on Canada-US Relations

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1. Introduction

Canada is entering negotiations on trade with the United States from a much weaker bargaining position than it had when NAFTA (now the Canada-U.S.-Mexico Agreement or CUSMA) was renegotiated during the presidency of Donald Trump. It is not simply the prospect of a second Trump administration that casts a shadow over CUSMA renewal. Our own government has a much more uncertain political mandate than last time, and the effort lacks the support of the Official Opposition. Trade with Canada is also less important for the U.S. than in the previous decade because our bilateral trade has not grown as fast as U.S. trade with the rest of the world. Furthermore, the U.S. is well into an election campaign between two candidates who espouse trade protectionism.

Donald Trump, who may return to the White House, has a relationship with the current Canadian government that is, at best, chilly. That chilliness may become downright frigid if our politicians can't resist the temptation to pay the Trump card in the run-up to our own upcoming federal election. What Canadian politicians say is heard by their American counterparts.

To strengthen its hand at the bargaining table, Canada must get its house in order before formal talks begin. We must understand that CUSMA renewal will be influenced by critical American concerns like illegal migration, its strategic rivalry with China, and trade deficits. These key factors will shape negotiations and determine which aspects receive significant attention.

Canada must bolster its bilateral relationship with the U.S. beyond narrow trade concerns to strengthen the prospect of achieving favourable outcomes during negotiations. That includes addressing trade irritants like dairy quotas early in negotiations and building a consensus with Mexico before talks begin.

Given the time constraints imposed by upcoming elections in Mexico and potentially changing U.S. administrations in the November election, Canada needs to develop and initiate a clear negotiating strategy and internal process. In addition, Canada's preparations for the negotiations require an effective bureaucratic structure, including the appointment of a chief negotiator.

2. The Limits of Canada's Charm Offensive

After a period of benign neglect, the government's renewed Team Canada engagement strategy with the United States is remarkably similar to what Canada undertook in the previous negotiations. However, Americans are now taking closer notice of Canada, not necessarily in a good way. In recent months, there has been an increase in negative attention from Americans towards Canada on a wide variety of issues, including Canada's failure to set a clear timeline to reach NATO's two percent GDP goal on defence spending, allegations of foreign espionage at Winnipeg research labs, and U.S. opposition (led by America's digital giants) against Canada's new Digital Services Tax and Online Streaming Act.

Furthermore, proposals like Bill C-282 to amend the Department of Foreign Affairs, Trade and Development Act to prevent changes to Canada's supply management system, especially for dairy producers, will put Canada almost at the top of the list of U.S. targets for retaliatory action. CUSMA will not be extended without discussing specific U.S. concerns, including supply management. The U.S. will insist on being satisfied that Canada is following the letter and spirit of the agreement.

Canadians should also be aware that lists of potential targets for retaliation will be drawn up in Congress, and the U.S. business community will not turn the other cheek, especially when political attacks on companies like Meta and Alphabet are seen as singling out major American corporations.

Canada needs a political equivalent to the Hippocratic principle of "First, do no harm." Canadian measures that target U.S. companies will not augur well for CUSMA negotiations.

3. Developing a New "Core" Narrative Aligned with U.S. Values and Interests

Just as Canada needs to stop pulling at the tail feathers of the American eagle, the second imperative is to respond to what the U.S. considers most important

and not just promote our own priorities on trade. Trade with Canada is well down the list of U.S. preoccupations. To fully engage with the Americans, Canada must address issues related to vital U.S. economic and national security interests, positioning Canada as part of the solution instead of part of the problem.

To take a page from Apple's founder, Steve Jobs, a marketing genius, Canada needs a simple, clear message that appeals to Americans' psyche and not just their pocketbooks. As Jobs famously observed, "Marketing is about values. It's a complicated and noisy world, and we're not going to get a chance to get people to remember much about us...So we have to be really clear about what we want them to know about us."

Trade and investment ties between Canada and the United States should be framed not just in narrow transactional terms, which won't get much notice, but as part of a broader, compelling political narrative of Canada's vital contribution to Americans' overall economic security and prosperity and to their national security in an increasingly dangerous and turbulent world. This broader narrative should be bolstered by a clear expression of Canada's commitment to ensuring North American jobs, economic competitiveness and secure supply chains in energy and other vital commodities that reduce North America's reliance on and vulnerability to external suppliers like China and Russia.

Canada should strengthen its relationship with the U.S. by emphasizing broader bilateral ties encompassing border security and defence cooperation. This renewed priority will increase Canada's bargaining power during negotiations while highlighting areas where collaboration is essential.

The holy grail of our collective endeavours must be to leverage North American global competitiveness by protecting and strengthening our industrial and commercial base. Americans must constantly be reminded that a robust, collaborative, and deeper partnership with their northern and southern neighbours is an essential defence against the enemies of the free world.

4. Engaging the Business Community

Many of Canada's business leaders recognize that the country faces an existential challenge to its ability to compete effectively within North America and globally. However, this view is not universal. The challenges Canada's business community faces include regulatory issues and investment choices, including those affecting Canada's natural resources sector, which is so critical to the country's overall economic strength.

Canada's weak investment climate is compounded by the political uncertainty surrounding CUSMA's future, especially if negotiations are prolonged, which they well might be under a new Trump administration as it seeks to avoid closure and maintain bargaining leverage against Canada and Mexico.

The limited engagement between the government and Canadian businesses on policy matters generally and CUSMA renewal specifically is troubling, especially compared to U.S. businesses, which are already in deep discussions with their government on CUSMA. Given the compressed negotiation timetable and urgent need for consultation, Canada's corporate leaders must become more involved now. A process for structured engagement between government and business on crucial aspects of CUSMA is overdue.

5. Mexico

Mexico's significance in U.S. politics resulting from its influence over immigration routes from Latin America cannot be underestimated. Paradoxically, Mexico's control over migration corridors to the U.S. may give it added leverage and attention in negotiations with the Americans on CUSMA. Given the recent Mexican election it is unclear how the new government will approach renewal discussions. However, working closely with Mexico on a wide range of issues is vital, despite uncertainties about potential outcomes. At the same time, Canada's interests may be more closely aligned with the U.S. than with Mexico on issues such as electric vehicles and the rules of origin for automobiles. Canada will have to be adroit in balancing competing interests and relations with both countries.

6. Is Canada Ready?

CUSMA is set to end in 2036 “unless each Party confirms it wishes to continue this Agreement for a new 16-year term.” Furthermore, “If, as part of a six-year review, a Party does not confirm its wish to extend the term of this Agreement for another 16-year period, the Commission shall meet to conduct a joint review every year for the remainder of the term of this Agreement.”¹

There may not be an extension beyond the 2036 timeframe because of pressure from American businesses. Uncertainties surrounding ongoing annual reviews will require a three-government system to manage this process. However, the upcoming renewal date for the agreement of July 1, 2026, underscores the urgency of the work that is needed and the importance of the political and procedural aspects of Congress's right of review concerning potential changes or extensions to the agreement.

Our embassy in Washington and our consulates throughout the United States understand that Canada must take its case to the U.S. heartland. They are reaching out to so-called red (i.e., Republican) states and local politicians who may help influence Washington after the American elections. Outreach by business leaders and others prepared to take Canada's case to the regions, particularly red states, can also make a vital contribution.

Unfortunately, there is a limited sense of urgency in Ottawa and Canada's provincial capitals. There is also a pressing need for coordination among the provinces as part of the preparatory process. In addition to the increased outreach to the U.S. by some ministers and the Prime Minister, Canada must develop a comprehensive engagement strategy at the governmental and subnational levels.

Canada must undertake a "whole-of-country" mobilisation that engages stakeholders across different political, bureaucratic, and business levels while

¹ Canada-United States-Mexico Agreement (CUSMA) – Chapter 34 – Final provisions. Available at: <https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cusma-aceum/text-texte/34.aspx?lang=eng>.

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ensuring comprehensive involvement beyond Global Affairs Canada. Although the government clearly will want to consult with various interests across the country, it is critical for it to establish a formal and effective structure to manage and incorporate the input it receives.

At the same time, Ottawa should look for specific opportunities to collaborate with the U.S., such as through the revived Regulatory Cooperation Council and in defence procurement that could put Canada on a path to joining AUKUS, the trilateral security partnership for the Indo-Pacific region between Australia, the United Kingdom, and the United States.

The clock is running down faster than Canadians recognize. The American elections are well underway, and Canada needs to mount a campaign that is more strategic, more organized, and far more extensive and carefully calibrated than last time. Canada has yet to mobilize the non-government sector or fully utilize provincial and municipal leaders. To the extent Canada has embarked on a CUSMA renewal campaign, it is still substantially a communications effort that sometimes seems to be directed as much at a Canadian audience as it is at the U.S. We urgently need to step up our game.

