



USMCA's First Major Review: Issues to Watch in 2026

Center Forward Basics
February 2026

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Center Forward brings together members of Congress, not-for profits, academic experts, trade associations, corporations and unions to find common ground. Our mission: to give centrist allies the information they need to craft common sense solutions.

Key Definitions:

- **Rules of Origin:** the criteria used in international trade to determine the "economic nationality" of a product, ensuring it qualifies for preferential tariffs under free trade agreements
- **Tariff-Rate Quota:** a trade tool allowing a set amount of a product to enter a country at a low tariff (in-quota rate) and a higher tariff for any quantity imported beyond that limit
- **Digital Services Tax:** national taxes on the gross revenues – not profits – of multinational tech companies from specific digital activities, like online advertising or marketplaces, targeting revenue generated in a country where the company lacks a significant physical presence. These taxes intend to align taxation with value creation and address tax inequities between large multinational companies and traditional local businesses.
- **Non-Market Economy:** an economy where prices and resource allocation aren't determined by supply and

Overview - What is USMCA?

The United States-Mexico-Canada Agreement (USMCA) is the free trade agreement that entered into force on July 1, 2020 and replaced the North American Free Trade Agreement (NAFTA). USMCA has a 16-year term and is intended to strengthen trade and economic cooperation among the U.S., Canada, and Mexico. A full Center Forward policy Basic on USMCA can be found [here](#).

USMCA mandates the U.S., Canada, and Mexico begin a trilateral review of the original agreement by July 1, 2026. This joint review will assess the agreement's efficacy and include negotiations over updates and changes to the framework. Following the review, all three signatories must decide whether to extend the agreement for another 16-year term beginning in 2036. If there is no unanimous agreement to renew after this initial review, there will be annual reviews until 2036 with corresponding opportunities for extension. Unless one party exits the agreement prematurely, it will be terminated only if there is no consensus to renew by 2036.

This Basic outlines the major provisions of USMCA and anticipated areas of negotiation, including automotive manufacturing, tariffs, critical minerals, digital trade, labor, energy, agricultural biotechnology, and national security.

Automotive Manufacturing, Tariffs, & Rules of Origin

The automotive manufacturing sector, which accounts for 22 percent of all USMCA trade and supports millions of jobs, is the backbone of North American economic integration and a core focus of the USMCA review.

While USMCA's **rules of origin** for automobiles and auto parts were intended to encourage increased domestic production and reduce Chinese inputs, some believe they have significantly increased costs for manufacturers. The complexity of the **rules of origin** can pose a major obstacle for manufacturers, especially medium and small ones.

What to Look For:

- **Section 232 Tariffs:** In 2025, President Trump invoked Section 232 of the U.S. Trade Expansion Act of 1962 to impose up to 25 percent tariffs on imports such as steel, aluminum, vehicles, and parts based on findings that those imports threaten U.S. national security interests. Although Section 232 is separate from USMCA, a side letter to the agreement annually exempts up to 2.6 million passenger vehicles imported from Mexico from any future Section 232 tariffs, provided those vehicles meet USMCA **rules of origin**. The side letter also establishes **tariff-rate quotas** for vehicles and auto parts in the event Section 232 tariffs are imposed. Vehicles that fall outside the quota or are non-compliant with **rules of origin** could be

subject to Section 232 tariffs. During the review, parties could negotiate new commitments to address this letter and new tariff impacts.

- **Global Tariff Parity:** During the USMCA review, Mexico and Canada are likely to advocate for tariff parity with competitors such as the EU, Japan, and South Korea, which currently enjoy lower tariffs on automobiles and auto parts as a result of 2025 bilateral trade agreements.
- **Rules of Origin:** USMCA updated the automotive **rules of origin** to require a certain level of North American investment through the “quad”, defined as: regional value content, labor value content, steel and aluminum requirements, and core parts. Mexico and Canada won a dispute against the United States confirming that automakers can use the “roll-up” method for specific core parts, allowing them to treat components that meet the 75 percent regional value content threshold as 100 percent North American. However, as the United States has not come into compliance with the panel report, the parties may wish to update or clarify the auto rules to resolve the outstanding dispute.

demand but by government control and state ownership.

Key Statistics:

- A 2025 American Automotive Policy Council report found auto and auto parts manufacturing companies employ approximately 436,000 individuals in the U.S., and the entire U.S. auto sector supports 9.6 million jobs.

Critical Minerals

Critical minerals, such as lithium, cobalt, and gallium, are integral in the manufacturing of car batteries, wind turbines, solar panels, semiconductors, catalytic converters, and defense manufacturing. They are an increasingly important part of U.S. security, energy transition, and other advanced technologies’ landscapes. While both Mexico and Canada have significant critical mineral deposits, there is currently no codified language in USMCA regarding these materials and other rare earth elements. Western nations have pushed to diversify critical minerals supply chains, especially given China has previously restricted exports of critical minerals to American auto manufacturers and defense-related companies. While a trade truce was reached in late 2025, the threat of future restrictions remains.

What to Look For:

- **Dedicated Critical Minerals Chapter:** Given the economic importance and security implications of cross-border supply chains for critical minerals and rare earth elements, ongoing discussions could focus on introducing a dedicated critical minerals chapter to the USMCA. This chapter could reduce or even eliminate tariffs on critical minerals and align trilateral permitting, safety, and environmental regulations to better incentivize investment in North American mining and refining.
- **Labor Mobility Provisions:** To streamline cross-border supply chains, labor mobility provisions for highly trained professionals in critical minerals and rare earth elements could also be included in a dedicated critical minerals chapter.
- **Coordinated Stockpiling:** To maintain a steady supply of inputs for defense and security technologies, regardless of geopolitical or environmental disruptions to production and importation, the USMCA review could include additional provisions to coordinate stockpiling of critical minerals.

Digital Trade & Artificial Intelligence

Many believe that while innovative when first negotiated, the digital trade provisions outlined in Chapter 19 of USMCA are not equipped to fully regulate digital trade and the dramatic surge of artificial intelligence (AI). Many argue that to fully address national security and data privacy concerns, major changes to the original USMCA framework regarding open digital trade and data mobility between the three countries will be needed.

What to Look For:

- **Digital Services Taxes:** The Trump administration has been vocally opposed to **digital services taxes** (DSTs) and claims they are discriminatory against influential U.S. tech companies. After heavy pressure, including threats of increased tariffs from the White House, Canada rescinded its DST in June of 2025. This could serve as precedent for a formal ban

on DSTs codified into USMCA.

- Online Streaming Provider Protections: Canada's Online Streaming Act imposes fees on American firms earning significant revenue from Canadian content production in a structure similar to traditional broadcasters. However, concerns have been raised that these actions are discriminatory and violate the USMCA framework. The Online Streaming Act could be a significant point of negotiation in the review process.

Labor Rights & Enforcement

Labor rights are expected to remain a major pillar of the USMCA, and the continuation or expansion of labor compliance, minimum wage, and anti-trafficking provisions remain trilateral priorities.

What to Look For:

- Rapid-Response Labor Mechanism Expansion: The USMCA established a rapid-response labor mechanism to ensure that collective bargaining and workers' rights are upheld at specific manufacturing plants across Mexico. This has been touted as a major success of USMCA, and there will likely be an appetite to expand the scope of the mechanism to non-manufacturing sectors and reform the case resolution process.
- Minimum Wage Protection: The U.S. is expected to advocate for stricter compliance with the minimum wage provisions in USMCA.
- Combating Trafficking and Forced Labor: The U.S., Mexico, and Canada continue to support combating human trafficking and forced labor in North American supply chains. This is part of a broader effort to reduce trade reliance on China that may be addressed throughout the review process.

Energy Investment & Market Access

Energy is expected to be one of the most contentious issues throughout USMCA review. While the agreement provides strong protections for cross-border energy investments and facilitates trade in electricity, natural gas, and refined products, Mexico's increasing state dominance in the oil and electricity sectors has repeatedly led to disputes. Electrical flows between the U.S. and Canada were also impacted by tariffs first imposed by the Trump Administration and retaliatory tariffs imposed by the Premier of Ontario. These tariffs risk disrupting deeply integrated cross-border power flows that currently lower costs and improve energy reliability, potentially leading to higher electricity prices in New England and the Great Lakes states. Discussions could also impact the sizable export of natural gas from Texas to Mexico for power generation, industrial feedstocks, and in Mexico's downstream energy sector.

What to Look For:

- Competitive Energy Market Access in Mexico: Both the U.S. and Canada have alleged Mexico has acted discriminately by favoring state-owned enterprises in energy markets. It is anticipated that the U.S. and Canada will push for tax adjustments or other balancing mechanisms to address price differentials that disadvantage American and Canadian energy companies. However, this is likely to be a point of contention, as Mexico's nationalist energy policies were codified in new constitutional reforms.
- U.S.-Canada Electrical Integration: U.S.-Canada electricity tariffs could become a point of discussion in the USMCA review as a test of how well the agreement preserves integrated North American energy markets.

Agricultural Biotechnology & Market Access

USMCA established a trilateral working group to promote information sharing and regulatory alignment regarding North American biotech trade. While the agreement doesn't prevent the U.S., Mexico, or Canada from regulating their own agricultural sectors, the USMCA framework does block arbitrary distinctions between biotech and traditional products.

What to Look For:

- Genetic Engineering Protections: Ongoing contention between the U.S. and Mexico over genetically engineered (GE) corn

crops is likely to be part of the review discussion. Mexico is the top export market for U.S. corn, most of which is now GE. In December of 2024, a USMCA panel ruled that a Mexican proposal to ban GE corn for use in tortilla production and phase out the use of GE corn for animal feed violated USMCA's biotech protections. President Sheinbaum has stated Mexico will comply with the panel's decision, but given the massive economic significance of American GE corn exports to Mexico, there may be interest in strengthening safeguards for this critical U.S. market. Mexico has delayed its plans to ban glyphosate, an herbicide integral to GE crop production. However, the U.S. may still attempt to negotiate to ensure that agricultural products, especially corn grown with glyphosate, are not arbitrarily restricted.

Chinese Investment & National Security

USMCA's Article 32.10 limits trade agreements between the signatories and **non-market economies** such as China. In early 2026 Canada struck a limited agreement with China that established a **tariff-rate quota** for electric vehicles, but did not notify the deal as a trade agreement under Article 32.10. Certain stakeholders argue that Article 32.10 does not adequately address economic and national security concerns arising from increased Chinese investment. Meanwhile, as of January 1, 2026, Mexico began implementing significant import tariffs on countries with which it lacks a free trade agreement. This policy shift disproportionately affects trade with China. From the U.S. negotiating perspective, the USMCA review presents a both politically and economically expedient opportunity to codify a North American approach to trade, investment, and supply chain integration with China that protects shared security interests.

What to Look For:

- **Trilateral Investment Security Screening:** The United States and Canada have investment security screening mechanisms to review and approve foreign investments, with a focus on sectors such as connected vehicles, semiconductors, critical minerals, and AI. Mexico may implement its own investment review to align with its neighbors, or the parties could create a trilateral mechanism to cooperate and focus on Chinese foreign direct investment. This initiative is anticipated to be discussed throughout the review process and presents an opportunity to decrease uncoordinated and ad-hoc investment restrictions to mitigate shared national security concerns.
- **Non-Market Economy Restrictions:** The parties may update **rules of origin** to restrict the amount of content from a third country, including **non-market economies** or foreign countries of concern, in a good qualifying for USMCA duty benefits.

Look Ahead

The 2026 joint review will serve as the first major test of USMCA's durability in an ever-evolving trade landscape. While the agreement lays out a pathway for renewal, the review process creates a unique opportunity for governments to reassess priorities, address implementation challenges, and consider targeted amendments. In the lead-up to July 1, industry leaders will continue to provide informal input on U.S. priorities and posture for the joint review, creating opportunities to shape North American trade, investment, and supply chain integration in the long term.

Link to Additional Resources

- Baker Institute for Public Policy: [Strategic Priorities for the 2026 USMCA Review](#)
- Brookings: [The US has formally started joint review of USMCA](#)
- Center for Strategic & International Studies: [Consequences of U.S.-Canada Electricity Tariffs](#)
- Center for Strategic & International Studies: [USMCA Review 2026](#)
- Council on Foreign Relations: [Trade Calendar 2026](#)
- Ernst & Young: [How companies can prepare for the USMCA review](#)
- Reuters: [China bans exports of gallium, germanium, antimony to US](#)