

# CUSMA: Overview

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## Introduction

The Canada–United States–Mexico Agreement (CUSMA; called the United States–Canada–Mexico Agreement in the US) is a trade agreement between the three largest countries in North America. Negotiations for the agreement were underway for a year prior to the signing, and the issue was brought to the forefront of North American politics by US president Donald Trump, who, following his election in 2016, threatened to leave the North American Free Trade Agreement (NAFTA) and impose tariffs on US neighbours.

Leading up to the agreement, the Canadian government led numerous consultations with the provinces and with representatives from industries such as agriculture and automotive manufacturing, to determine the needs and priorities of the workers in different sectors that would be affected by the agreement. Throughout the process, Prime Minister Justin Trudeau stated that his aim was to preserve the benefits of NAFTA, which CUSMA would effectively replace, while expanding the benefits and protections put in place for Canadians. The automotive industry was of particular concern in light of the high volume of automobiles and automotive parts exported from Canada to both the United States and Mexico. The new agreement was signed on November 30, 2018, at the G20 Leaders' Summit in Buenos Aires, Argentina. It went into effect on July 1, 2020.

## Understanding the Discussion

**Group of 20 (G20):** An international forum for representatives from nineteen countries and the European Union to discuss issues of international financial and political stability. The group meets annually in different locations around the world.

**Free-trade area:** A geographic region wherein the member countries have removed barriers to trade with each other, but do not necessarily have the same trade policies with respect to non-member countries.

**North American Free Trade Agreement (NAFTA):** Effective 1994, an agreement among Canada, the United States, and Mexico designed to facilitate the movement of goods across North America by removing tariffs.

**Supply management system:** A system used first by the dairy industry and then by the egg and poultry industries in Canada to assess and manage the supply and demand of product to ensure consistent supply and fair prices for farmers.

**Tariff:** A tax imposed by one sovereign nation on another on the import and/or export of goods.



Enrique Peña Nieto, Donald Trump, and Justin Trudeau sign the new Canada-United States-Mexico Agreement (CUSMA) on November 30, 2018, at the G20 Leader's Summit. Photo: US Dept. of State, public domain, via Wikimedia Commons.

## History

While the North American Free Trade Agreement (NAFTA) was enacted in 1994, the seed of it was planted much earlier. US Republican president Ronald Reagan included a proposal to create a free-trade area in North America while in office in the 1980s, but the idea never came to fruition. Mexico was at first uninterested, but a debt crisis later that decade prompted the country to seek a trade agreement with the United States to bolster its economy. In 1988, Canada and the US signed a bilateral trade agreement, and on June 10, 1990, US president George H. W. Bush and Mexican president Carlos Salinas de Gortari released a statement in support of a new free-trade agreement between the two nations. A year later, Prime Minister Brian Mulroney of Canada filled a third seat at the table.

Democrat Bill Clinton won the 1992 US presidential election, and though he expressed concerns that the agreement did not sufficiently address environmental and labour issues, it was too late for him to make major changes. He insisted on side agreements regarding those issues instead.

On January 1, 1994, NAFTA came into effect. Immediately, a Mayan guerilla army in southern Mexico launched an attack on the Mexican government and what it called the government's neo-liberal values, protesting the trade deal in particular. Fighting lasted for several days and resulted in dozens of deaths before the guerilla fighters retreated.

At the time of its inception, NAFTA created the world's largest free-trade area, and in the ten years that followed, trilateral trade more than doubled as NAFTA's policies and regulation were rolled out in phases. By 2008, the agreement had been fully implemented.

While proponents, including President Clinton and Mulroney's successor, Prime Minister Jean Chrétien, touted good jobs as a key benefit of NAFTA, detractors feared that without tariffs there would be no incentive to keep well-paid jobs in Canada and the US when companies could pay far less for labour in Mexico and import goods freely over the border. However, according to statistics from the

United States Bureau of Labor Statistics, manufacturing in the US has been in steady decline since the 1950s, decades before the idea of a free-trade area in North America was broached.

Although many economists agree that the overall impact of NAFTA has been tiny, some have argued that the negative impacts have been concentrated on a relatively small segment of the population: blue-collar workers. The distinction between the small overall impact of NAFTA and the severe effect on a relatively small portion of workers became a significant part of discussions when Donald Trump became US president on a platform that included the intention to do away with the free-trade agreement. Trump argued that the deal was terrible for American jobs and workers, and his focus on the plight of working-class White Americans during the 2016 elections galvanized that demographic in support of Trump's Republican Party.

Trump pressured both of the United States' neighbours to sign a new deal, threatening heavy tariffs if they failed to complete negotiations in a timely way. Despite the pressure, Prime Minister Justin Trudeau held out in the interest of long-protected industries, such as dairy, and on the issue of NAFTA's dispute-resolution mechanism. Trudeau told *CBC News* in the fall of 2018, two months prior to signing, that Canada required the dispute-resolution process outlined in chapter 19 of NAFTA to remain intact because Trump "does not always follow the rules." Trudeau indicated that his main objective was to keep the existing benefits to Canadian industry while ensuring future protection against the whims of the US government. Mexico agreed to the removal of chapter 19 and signed on to the agreement before Canada and the US reached an accord, increasing the pressure on Trudeau to make the deal or risk the consequences of Trump's tariffs.

Until the final weeks of negotiation, Trudeau refused to make concessions on the dairy industry's supply management, a system that assesses and manages supply and demand of dairy products in Canada to prevent shortages and surpluses and to ensure that farmers always receive a fair price. When faced with the potential collapse of the deal, Trudeau conceded access to 3.6 per cent of the dairy market in Canada to US farmers. Trudeau told dairy farmers at a private meeting in Montreal in October 2018 that they would be compensated for the losses they were expected to incur as a result of the deal.

In addition to criticism from the dairy industry, the Canadian government was also criticized for inking the deal without winning exemptions from tariffs on aluminum and steel imports (covered under section 232), and for language that would have allowed significant tariffs on imports of vehicles and automotive parts. Following the initial signing of the document, however, *CBC News* reported that a side letter between the US and Canada had been changed such that Canada was functionally exempt from any future US automotive tariffs.

Other changes from NAFTA to CUSMA included a sunset clause, dictating that the deal expires sixteen years after coming into effect, along with a directive to review the deal every six years; a lengthening of copyright protection from fifty years after the death of the creator to seventy years; a lengthening of the time that new pharmaceuticals are protected from generic competition; and protection for internet companies from liability for user-generated content. New labour provisions state that 40 to 45 per cent of auto parts must be built by workers earning a minimum of US\$16 per hour by 2023, and new language offers protection from discrimination for women, migrants, and other minorities.

Trudeau, Trump, and Mexican president Enrique Peña Nieto signed the proposed agreement in November 2018. It was then further modified in 2019 to address concerns related to labour and environmental protections, among other issues. Following the ratification of the updated agreement by all three countries, CUSMA

finally went into effect on July 1, 2020. While many praised the new deal, critics remained, especially Canadian dairy producers who continued to be unhappy with the terms of the agreement. In particular, they had hoped for the new deal to take effect in August—the start of the dairy fiscal year in Canada—which would have given the industry a year to adjust to the new terms. With the effective date in July, dairy producers had just one month before the new provisions would apply to them. The global COVID-19 pandemic further complicated the deal's enactment, contributing to a slow or uneven implementation of new rules among many industries. Some observers noted that certain industries, such as the automotive industry which was deeply impacted by the pandemic, did not have time to focus on putting the new deal into effect and likely would have a delayed reaction to some parts of the plan.

Concerns involving Canada's dairy industry continued after CUSMA was implemented. In December 2020, the US made a formal inquiry to review alleged unfair measures adopted by Canada. After a resolution was not reached, in May 2021, the US announced that a dispute settlement panel had been requested to further review Canada's actions. The US purported that Canada was denying American dairy farmers and exporters their full benefits under the CUSMA agreement. Specifically, the Canadian government was accused of unfairly allocating its dairy tariff-rate quotas (TRQs), or the amounts of certain dairy products, such as cheese and yogurt, that could be imported at lower duty levels. The US contended that this practice limited the amount of US dairy products that could enter Canadian markets. The dispute panel was the first to be requested under Chapter 31 of the CUSMA.

## CUSMA Today

In 2023, Canada won a panel ruling that allowed for a 75 per cent regional value content rounding, excluding automotive parts, and countered stricter US interpretations. The following August, Global Affairs Canada initiated public consultations for feedback on CUSMA's performance in preparation for the 2026 joint review.

On February 1, 2025, the newly elected US president Donald Trump's administration announced tariffs on Canadian imports—25 per cent on most goods and 10 per cent on energy. Canada retaliated immediately with 25 per cent tariffs on C\$30 billion of US goods. Despite CUSMA exemptions for compliant goods, the US threatened new tariffs on dairy, lumber, and automobiles. By April 2, 2025, the US extended the tariff exemption for USMCA-compliant goods indefinitely, and exemptions from universal tariffs were confirmed. However, by June 2025, steel and aluminum tariffs doubled to 50 per cent.

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