

PUBLIC POLICY FOR A MORE GLOBALLY COMPETITIVE TEXAS

THE USMCA AT A CROSSROADS

BILATERAL NEGOTIATIONS, TRILATERAL STAKES, AND TEXAS' STRATEGIC INTEREST

Bottom Line. The USMCA remains in force, but the scheduled July review left its long-term status unresolved. Since then, U.S.-Mexico talks have advanced through a third bilateral round, while U.S.-Canada negotiations have deteriorated into new tariffs, counter-tariffs, and import bans. For Texas, the central objective should be a strengthened agreement that resolves legitimate disputes and restores durable certainty for investment.

The United States-Mexico-Canada Agreement, or USMCA, is the trade agreement that governs most commerce among the three countries. It replaced the North American Free Trade Agreement in 2020, preserving tariff-free treatment for most qualifying regional trade while updating rules for automobiles, agriculture, digital commerce, labor, and dispute resolution. The agreement also requires a joint review every six years, giving the three governments a formal opportunity to assess its operation and decide whether to extend it. The outcome of these scheduled negotiations will have an outsized impact on Texas because these trade agreements have significantly contributed to transforming Texas into the nation's top exporting state by driving hundreds of billions in annual cross-border commerce.

On July 1, 2026, the three governments met through the USMCA Free Trade Commission, but the United States declined to extend the agreement in its current form, saying that it would continue working with Mexico and Canada to address shortcomings and U.S. trade deficits. USMCA remains in force, but the parties now face annual reviews unless and until all three agree to a new 16-year extension.^{1,2}

The negotiations since July reveal a more complicated reality than a single trilateral process. North America is operating on two bilateral tracks with sharply different momentum. The U.S.-Mexico track remains constructive and focused on defined sectors and enforcement issues. The U.S.-Canada track, by contrast, has become entangled with a wider tariff dispute that has already interrupted negotiations and produced retaliation. The legal structure remains trilateral, but the bargaining process is increasingly bilateral.

FROM JOINT REVIEW TO PARALLEL BILATERAL TRACKS

U.S.-Mexico: constructive engagement, but no final package

From July 21-23, U.S. Trade Representative Amb. Jamieson Greer and Mexican Secretary of the Economy Marcelo Ebrard led a third bilateral negotiating round in Mexico City. Greer also met with President Claudia Sheinbaum, underscoring the stakes. The official joint statement identified economic security, labor, agriculture, electronic payment services, steel, aluminum, derivative products, and automobiles as the principal subjects.

The two sides emphasized growing North American manufacturing, strengthening regional supply chains, and preventing non-parties from free riding on the agreement. They directed their teams to meet for a fourth round in Washington in September; the September 28-29 round was later postponed for logistical reasons, with no new date announced. Technical discussions are continuing, and Mexican officials have indicated that the formal round may resume in October.^{3,11}

While that is meaningful progress, the joint statement announced no agreed text, tariff settlement, or extension decision. Key questions remain unresolved: how much additional North American content should be required for automobiles and other industrial goods to receive preferential tariff treatment; how the parties will treat Chinese and other nonmarket inputs in North American-made goods; and whether sectoral tariffs on steel, aluminum, and vehicles can be reconciled with the agreement's promise of predictable regional trade. Sectoral tariffs are duties applied to a specific industry or product category, such as steel, aluminum, automobiles, or lumber, rather than broadly to all imports from a country.^{3,4}

U.S.-Canada: the tariff conflict has overtaken the review

Canada entered the July review urging immediate renewal. It emphasized that CUSMA, Canada's name for USMCA, supports millions of jobs and predictable access to North American markets. Ottawa also tied the review to relief from U.S. sectoral tariffs on Canadian steel, aluminum, autos, and lumber. By early August, Canadian officials said they were negotiating intensively in Washington both to remove existing sectoral tariffs and to make progress toward a modernized agreement.^{2,5}

The talks then broke down. The United States imposed 50 percent tariffs on nearly US\$20 billion (C\$27.6 billion) in Canadian goods under Section 338 of the Tariff Act of 1930, effective August 22, after a short three-day suspension. The U.S. cited Canadian treatment of American alcoholic beverages, dairy products, and motor vehicles. Canada said the United States had asked too much and offered too little, suspended negotiations, and announced matching tariffs of 15, 25, and 50 percent on C\$27.6 billion in U.S. goods effective September 8. After Canada's counter-tariffs took effect, the United States revised the scope of its Section 338 duties effective September 15 and imposed targeted import bans on certain Canadian motor vehicles, alcohol, dairy, and related products. The bans took effect September 29 and cover nearly US\$1 billion in Canadian imports.^{6,7,8,10,12}

The U.S. complaints concern three Canadian actions adopted at different times. Provincial liquor authorities removed American products from government-run retail systems in retaliation for earlier U.S. tariffs. Canada's dairy quota system, including additional access available to European suppliers, is a longer-standing policy. Canada's 2025 automotive remission program was created in response to U.S. auto tariffs and conditions relief from Canadian counter-tariffs on continued production and investment in Canada. The United States characterizes these measures as discriminatory barriers, while Canada maintains that its retaliatory steps were justified responses to prior U.S. actions.^{6,7,8}

The breakdown in negotiations and the tariff measures outlined above do not terminate USMCA, but they strike directly at the confidence the agreement is meant to provide. They show how disputes outside or adjacent to the agreement can overwhelm the review itself, steadily weakening its economic value through sectoral tariffs, retaliation, and the expectation that market access may change with little notice. USMCA can remain legally intact while its economic value is steadily weakened by sectoral tariffs, retaliation, and the expectation that market access may change with little notice. USMCA generally provides tariff-free treatment for qualifying trade, but it does not displace every party's domestic trade-remedy and national-security laws. The United States imposed steel and aluminum duties under Section 232 on national-security grounds and newer duties on Canadian goods under Section 338 in response to what it describes as discriminatory Canadian practices. Canada disputes those justifications and maintains that the U.S. actions undermine the stable market access USMCA is intended to provide.

WHAT THE THREE GOVERNMENTS ARE SEEKING

The three governments still share an interest in a competitive North American production platform, but their public positions show different priorities:

- The United States is pressing for stronger rules of origin, greater alignment in addressing nonmarket economies, improved enforcement, and changes that reduce trade deficits and expand U.S. production.

Its posture treats the review as leverage for structural reforms, not a routine renewal. Nonmarket economies are countries in which government ownership, subsidies, price controls, or other state direction, rather than ordinary market forces, substantially influence production and trade. In the current negotiations, the term is directed principally at China.¹

- Mexico is seeking to preserve preferential access for USMCA-compliant trade while addressing U.S. concerns through targeted negotiations. Its strongest area of common ground with Washington appears to be expanding North American manufacturing and limiting non-party content from receiving the benefits of regional integration without meeting the agreement's obligations.³
- Canada continues to support renewal and modernization, but its immediate focus has shifted to removing U.S. sectoral tariffs and protecting Canadian strategic industries. The suspension of negotiations, reciprocal tariffs, and U.S. import bans now make the Canadian track the largest near-term risk to a trilateral extension.^{8,10,12}

The practical conclusion is that bilateral problem-solving may be necessary, but it is not sufficient. Any bilateral understandings on automobiles, steel and aluminum, agriculture, digital trade, labor, or nonmarket inputs must ultimately be integrated into USMCA's common, trilateral rulebook.

WHY THE OUTCOME MATTERS DISPROPORTIONATELY TO TEXAS

For Texas, USMCA is not an abstract trade-policy debate. In 2024, Texas' land-border ports of entry handled approximately \$553 billion in U.S.-Mexico goods trade. That amount equaled 65.8 percent of all U.S.-Mexico goods trade. It also represented 93.9 percent of the U.S.-Mexico trade moving through Texas; the remaining 6.1 percent moved primarily through Texas airports and seaports. Taken together, the TxDOT figures indicate that roughly 70 percent of all U.S.-Mexico goods trade moved through a Texas land, air, or seaport. Texas' ports, rail lines, highways, energy assets, manufacturers, farms, warehouses, and professional services firms are part of a single regional production system.⁹

That integration magnifies both opportunity and exposure. Stronger regional-content rules and measures against forced labor or nonmarket practices could encourage more production and investment in Texas and elsewhere in North America. But abrupt tariffs and annual uncertainty can raise input costs, complicate sourcing, delay plant expansions, and weaken the nearshoring case that should otherwise favor Texas.

The current split between Mexico and Canada also matters to Texas companies. Many manufacturers do not operate in a simple U.S.-Mexico corridor; their supply chains include Canadian metals, energy, machinery, and automotive components as well as Mexican production. Fragmentation among the three markets therefore creates costs that cannot be measured only by direct Texas - Canada or Texas - Mexico trade totals.

A TEXAS COMPETITIVENESS POSITION

The most constructive outcome is to make targeted, enforceable improvements while preserving the agreement's integrated market. Texas business leaders support the serious evaluation required by USMCA, but prolonged uncertainty can deter both short- and long-term investment.

An updated USMCA should:

- **Restore a path to extension.** The parties should use the 2026-27 negotiating period to resolve a defined set of issues and then extend the agreement, rather than allow annual reviews to become the normal operating condition.
- **Keep bilateral negotiations connected to a trilateral outcome.** Separate talks may resolve country-specific disputes, but the final rules must remain transparent, compatible, and enforceable across all three countries.
- **Preserve tariff-free treatment for qualifying trade and use USMCA enforcement mechanisms wherever possible.** Sectoral tariffs and retaliation should not become substitutes for the agreement's rules and dispute processes.
- **Strengthen North American content and economic security requirements carefully.** Updated rules should address nonmarket inputs, forced labor, critical minerals, and supply-chain transparency without

making compliance so costly or unpredictable that production moves outside the region.

- Pair trade policy with expanding capacity. Texas should continue investing in border crossings, freight mobility, and customs technology as well as underlying infrastructure including energy, water, and workforce systems so that a stronger agreement translates into faster, more reliable commerce.

CONCLUSION

The 2026 review has become a test of whether the three countries can modernize North American trade without damaging the integration they are trying to strengthen. The U.S.–Mexico discussions demonstrate the potential of focused negotiations, while the U.S.–Canada breakdown shows how quickly unresolved disputes and unilateral tariffs can erode trust and certainty.

Texas has more at stake than most states and should be vocal in pushing for a positive resolution to these negotiations. A stronger USMCA should enforce meaningful rules, prevent non-party free riding, and adapt to new technologies and security risks while preserving reliable access to an integrated North American market.

The objective is clear: resolve the current disputes and restore the durable certainty businesses need to invest, hire, build, and compete.

FOR QUESTIONS OR ADDITIONAL INFORMATION:

Please contact TBLC Vice President of Policy, Kelle Kieschnick at kkieschnick@txblc.org

END NOTES

1. Office of the U.S. Trade Representative, "Ambassador Greer Issues Statement on the USMCA Joint Review," July 1, 2026. <https://ustr.gov/about/policy-offices/press-office/press-releases/2026/july/ambassador-greer-issues-statement-usmca-joint-review>
2. Global Affairs Canada, "Statement by Minister LeBlanc following trilateral CUSMA joint review meeting," July 1, 2026. <https://www.canada.ca/en/global-affairs/news/2026/07/statement-by-minister-leblanc-following-trilateral-cusma-joint-review-meeting.html>
3. Office of the U.S. Trade Representative and Secretaría de Economía, "Joint Statement from Ambassador Jamieson Greer and Mexican Secretary of Economy Marcelo Ebrard," July 23, 2026. <https://ustr.gov/about/policy-offices/press-office/press-releases/2026/july/joint-statement-ambassador-jamieson-greer-and-mexican-secretary-economy-marcelo-ebrard>
4. Reuters, "U.S., Mexico set more USMCA talks for September amid differences over autos content," July 23, 2026. <https://kelo.com/2026/07/23/us-mexico-set-fourth-round-of-usmca-talks-amid-differences-over-key-issues/>
5. Global Affairs Canada, "Minister LeBlanc and Canada's Chief Negotiator update provincial and territorial Trade Ministers on Canada-U.S. trade negotiations," August 6, 2026. <https://www.canada.ca/en/global-affairs/news/2026/08/minister-leblanc-and-canadas-chief-negotiator-update-provincial-and-territorial-trade-ministers-on-canada-us-trade-negotiations.html>
6. Office of the U.S. Trade Representative, "Ambassador Greer Issues Statement on President Trump Imposing Section 338 Tariffs on Canada," July 20, 2026. <https://ustr.gov/about/policy-offices/press-office/press-releases/2026/july/ambassador-greer-issues-statement-president-trump-imposing-section-338-tariffs-canada>
7. The White House, "Temporary Suspension of Additional Duties to Offset Canadian Discrimination ...," August 18, 2026. <https://www.whitehouse.gov/presidential-actions/2026/08/temporary-suspension-of-additional-duties-to-offset-canadian-discrimination-against-the-commerce-of-the-united-states-with-respect-to-alcoholic-beverages-dairy-and-motor-vehicles/>
8. Department of Finance Canada, "Canada announces targeted countermeasures and substantive support for workers and businesses in response to U.S. tariffs," August 25, 2026. <https://www.canada.ca/en/department-finance/news/2026/08/canada-announces-targeted-countermeasures-and-substantive-support-for-workers-and-businesses-in-response-to-us-tariffs.html>
9. Texas Department of Transportation, "Texas-Mexico Border Facts," March 2025 (2024 trade and crossing data). <https://www.txdot.gov/content/dam/docs/division/tpp/international-trade/border-sheets-combined.pdf>
10. The White House, "Fact Sheet: President Donald J. Trump Responds to Canada's Retaliation," September 8, 2026. <https://www.whitehouse.gov/fact-sheets/2026/09/fact-sheet-president-donald-j-trump-responds-to-canadas-retaliation/>
11. El Pais, "Fourth round of USMCA talks between US and Mexico postponed due to Xi Jinping's DC visit," September 24, 2026. <https://english.elpais.com/economy-and-business/2026-09-24/fourth-round-of-usmca-talks-between-us-and-mexico-postponed-due-to-xi-jinpings-dc-visit.html>
12. Associated Press, "From motorcycles to booze, U.S. ban on \$1 billion worth of Canadian imports goes into effect," September 29, 2026. <https://apnews.com/article/bdb4d9b946e98f84088c5c0f7f522588>