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## **NORTH AMERICAN FREE TRADE IS GONE, DEAD AND BURIED**

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Any lingering hope about the survival of any kind of North American free-trade area – let alone the USMCA itself – was put to rest this week with Donald Trump saying he is “not looking to renew” the agreement and that he has the right to terminate it, then repeating the point that the U.S. does not need anything from Canada or Mexico.

While some could read this as this a tactical ploy aimed at applying maximum pressure on these trading partners, his comments actually reflect a key part of the MAGA philosophy – a deep-seated antipathy to trade agreements and to the very idea of a North American free-trade area in particular.

The lofty words in the USMCA preamble about creating a “high standard new agreement to support mutually beneficial trade leading to freer, fairer markets, and to robust economic growth in the region” are gone, dead and buried.

Mr. Trump’s threats should not come as a surprise. The notion of freer, fairer and a mutually beneficial North American trade area was actually put to rest when, almost immediately after being sworn into office, Mr. Trump imposed across-the-board tariffs on Canada and Mexico. This was followed by sectoral tariffs on Canadian autos, aluminum, steel, and other products.

So much for the overdrawn objectives in the USMCA preamble. So much for the international law principle that countries are to abide by treaty obligations in good faith.

Mr. Trump got a few things mixed up in this week’s press conference. He confused the point about the three-country review of the USMCA to see whether it should be continued for another 16 years (to 2042) with the right of the U.S. to withdraw from the

deal on six months' notice, something it can do at any time under the agreement anyway. This same withdrawal right was in both the NAFTA and in the original 1988 Canada-US Free Trade Agreement.

While it is commendable that Canadian ministers, including Dominique LeBlanc, have been steadfastly optimistic about the future of the agreement – how could they not be? - Mr. Trump's series of destructive moves after his re-election showed that the deal was on life support almost from day one and that no treaty entanglements would be permitted to curb his tariff policies. His top trade official, Jamieson Greer, has stated, in effect, that no country has an automatic right of access to the U.S. market, and that such access can only be extended on reciprocal terms set by the U.S. - comments betraying decades of international trade rules formulated by the U.S. itself, under the GATT, the WTO Agreement, the NAFTA and down to the USMCA.

It was pretty clear early on that the U.S. would never agree to extend the USMCA in the upcoming review process, even with a few adjustments here and there. And it was a given that the U.S. could always file notice of withdrawal. The hope was that the deep integration of the North American economy and pressure from the U.S. business community would put a brake on that notion. But we now see how deep-seated these MAGA trade policies run.

The question is where do we go from here, even if the agreement continues in some way through the mandated review process?

Assuming the review goes ahead more or less as prescribed, it will involve separate U.S. negotiations with Canada and with Mexico, aimed at extracting maximum concessions from each country, all the while with the threat of U.S. withdrawal hovering in the background.

It means that there will be ugly battles with the Trump team over this period, not about renewing or modernizing the USMCA, but about the entrance fee each country is prepared to pay for continuing access to the American market. And from what the President has said previously that fee will include tariffs on Canadian autos, steel, aluminum, copper, softwood lumber and other goods. And maybe other entrance fees as well, like Canada giving way on regulating online streaming and other things.

This does not mean Canada lacks leverage in negotiating entry. That leverage includes Canadian energy, critical minerals, important high-end biotechnology, cybersecurity and related fields. It includes uranium supplies and nuclear stuff. It includes pressure from American businesses that rely on Canadian products, from

U.S. consumers who are paying added costs for a range of goods supplied by Canada, such as lumber, furniture, aluminum.

In the give-and-take in the bargaining, Canada has cards to play and a strong and experienced team that knows how to play those cards. But one thing is clear – the nature of the game has shifted. We are no longer playing in the North American free-trade arena but horse-trading for entry into the U.S. tent.

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