



Sent via email to: CUSMA-Consultations-ACEUM@international.gc.ca

October 31, 2024

Global Affairs Canada
Trade Negotiations – North America (TNP)
John G. Diefenbaker Building
111 Sussex Drive
Ottawa, Ontario K1N 1J1

Re: Consulting Canadians on the operation of the Canada-United States-Mexico Agreement

Good afternoon,

The Canadian Chamber of Commerce welcomes this consultation regarding the 2026 Canada-United States-Mexico Agreement (CUSMA) joint review.

The Canadian Chamber of Commerce is Canada's largest business association, comprised of a network of over 400 chambers of commerce and boards of trade as well as more than 100 sectoral associations. Together, we represent over 200,000 businesses of every size, from all regions and economic sectors of Canada.

Since its entry into force in 2020, the CUSMA has been crucial to enabling the success of the North American economic partnership. Taken together, the combined economies of the three countries now account for nearly a third of global GDP. Given the uniquely integrated nature of North American economic and commercial ties, our close proximity, and extensive trade flows, Canada, the U.S., and Mexico share a common interest in strengthening North American economic growth, prosperity, and competitiveness. The concept of North American economic security is today especially relevant given the current highly uncertain global economic and security environment.

However, the future of the North American economic partnership faces an existential risk as we approach the 2026 CUSMA joint review. In recent years, a growing bipartisan consensus in the U.S. has developed in favour of protectionist trade and industrial policies. This is mirrored by similar developments in Mexico that call into question the commitment of the incumbent Morena Party to the Agreement. The 2024 Presidential election has further heightened this risk, with Vice President Kamala Harris having recently expressed that she intends to reopen the Agreement to protect U.S. manufacturing jobs, and former President Donald Trump explicitly stating his intention to renegotiate the Agreement. Moreover, as demonstrated in a recent report of the Canadian Chamber's Business Data Lab, [*Partners in Prosperity: How the Canada-U.S. Trade Relationship Goes Beyond Buying and Selling*](#), Donald Trump's commitment to a 10% tariff on all U.S. imports would have a similarly disruptive negative impact for both the Canadian and U.S. economies.

Canada is a trading nation, with international trade being responsible for roughly two-thirds of our GDP. To a significant degree, Canada's economic success is linked to trade with the United States and Mexico, which are our first and third largest international trading partners respectively. A constructive review of CUSMA in 2026, that strengthens rather than undermines the trilateral trading relationship, is of vital importance for the economic success of Canada.

For the government's consideration, the Canadian Chamber of Commerce is pleased to share the attached comments to help inform Canada's preparations for the first joint review of CUSMA in 2026 and

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priorities for work being undertaken in 2025, including Canada's chairing of the fifth CUSMA Free Trade Commission meeting.

In order to ensure that the 2026 CUSMA review is a successful endeavour that advances Canada's economic interests, the government should approach the review with the following strategic priorities.

- Canada should first and foremost prioritize ensuring the continuity of the Agreement and its existing key provisions. Given the importance of the Agreement to all three parties, it is imperative that the review preserve the continuity of the Agreement. The review should not become an opportunity for a renegotiation. A fractious review in 2026 would harm businesses in all three countries that rely on the stability and predictability of the trilateral trading relationship that CUSMA enables.
- Canada should work collaboratively with the U.S. and Mexico to advance targeted measures to strengthen the Agreement and enhance North American economic security. Rather than being a disruptive exercise, the review should be viewed as an opportunity to build upon the successes of the Agreement, address shared geopolitical challenges, and access the untapped potential of the North American economic relationship.
- In advance of the review, Canada should prioritize minimizing and resolving key irritants. To ensure that the review is constructive, it is important that Canada work with the U.S. and Mexico to proactively address key irritants that could obstruct or hinder the review process in 2026. Canada should adopt a strategic approach to key irritants, focusing on resolving 'low hanging fruit' that can help to strengthen our position with the U.S. when it comes to other major risks. Canada should also identify and take stock of the broader array of major irritants that are impeding Canadian businesses and work with the U.S. and Mexico to address them.

We cannot take the future of CUSMA and the North American trading relationship for granted. The preservation and strengthening of CUSMA is integral for a thriving and dynamic Canadian economy, and for enabling the success of Canadian businesses, workers, and communities.

For Canadian businesses, North American economic cooperation and a successful CUSMA review are a top priority. In the fall of 2023, the Canadian Chamber launched our [U.S. engagement initiative](#) to create opportunities for our members to voice their insights on the upcoming review as well as many other aspects of the North American economic relationship. Notably, this has included business-led trade missions to the U.S. on key areas where there are significant opportunities for growth and synergy with the U.S. economy. These missions have focused on critical minerals, life science supply chain resiliency, North American economic security, and artificial intelligence. Through these missions, Canadian businesses are proactively engaging with the U.S. government, legislators, businesses, and the wider U.S. public policy community in order to strengthen North American economic cooperation. The priorities and recommendations outlined in this submission are informed by these ongoing efforts, as well as a broad-based engagement of the Canadian Chamber's membership.

We look forward to continuing to engage with the government on this important issue and would be pleased to provide further information.

Sincerely,

Matthew Holmes
Executive Vice President, International and Chief of Public Policy
Canadian Chamber of Commerce



ANNEX

Key priorities and recommendations for the 2026 CUSMA Review

i) Understanding the importance of preserving the Agreement

Since CUSMA came into effect in 2020, the Agreement has helped to facilitate significant growth in trade, investment, and jobs within North America. Notably, there has been a 47% increase in North American trade and an additional four million jobs supported by trade in North America. In 2023, the total value of trade within North America exceeded \$1.88 trillion. This growth has positioned Mexico and Canada as the among the top trading partners of the United States, with merchandise trade volumes estimated by the Brookings Institution to be 195% higher than U.S. goods trade with China in the first four months of 2024.

According to the CUSMA review clause in article 34.7, Canada, the U.S., and Mexico must decide whether or not to continue the Agreement on July 1, 2026. Unless each party agrees to support the continuation of the Agreement for a new 16-year term at a joint review by the Free Trade Commission (FTC), there will be annual reviews until the Agreement expires 16 years after the date of its entry into force (i.e. July 1, 2036).

Given the importance of the Agreement, all three parties must prioritize the continuation of the Agreement and must avoid turning the 2026 CUSMA review into a substantial reopening or renegotiation of the Agreement. A renegotiation of the Agreement would risk jeopardizing key provisions of the Agreement that are relied on by Canadian businesses and are important for enabling North American economic competitiveness. A renegotiation would also substantially increase the risk of the Agreement not being renewed during the first joint review in 2026. Failure to secure the continuation of the Agreement during the 2026 review would create a high degree of unpredictability that would significantly undermine business confidence and hamper trade and investment within North America. Subsequent annual reviews, even if CUSMA were to be eventually renewed, would further compound these challenges.

ii) Opportunities to strengthen the Agreement and North American economic security

While maintaining the core priority of preserving the continuity of the Agreement's existing provisions, Canada should also aim to identify and advance key opportunities for strengthening the Agreement and North American economic ties. Such measures should be targeted, oriented towards enhancing and building on existing provisions of the Agreement, and, whenever possible, should have buy-in from both the U.S. and Mexico. Additionally, Canada should look to strengthen North American economic security and resilience, which is an increasingly relevant shared priority for all three parties to the Agreement. For the government's consideration, the Canadian Chamber of Commerce has identified the following key opportunities to strengthen the Agreement and North American economic security.

Establish a robust competitiveness agenda

A key addition in the CUSMA was the establishment of the North American Competitiveness Committee (chapter 26). The Competitiveness Committee is comprised of government representatives from all three countries and aims to promote further economic integration among the parties and enhance the competitiveness of North American exports. To date, the Committee



has primarily focused on workforce development issues and the establishment of a process for cooperation during emergency situations that affect North American trade flows. The Committee can play a more significant role in promoting a broader competitiveness agenda for North America. In particular, the Committee should prioritize fostering resilient and competitive North American supply chains that are critical for preserving North American economic security.

Additionally, although a series of meetings of the Competitiveness Committee have taken place, the Committee has not made public a comprehensive workplan for its activities and priorities. The Competitiveness Committee should publicize its work plan and commit to engagement with stakeholders to ensure that the Committee's priorities and activities are aligned with the interests of the private sector.

Areas of focus for the Competitiveness Committee should include the following.

- *Automotive.* CUSMA plays an essential role in enabling and shaping the North American automotive industry, which is today amongst the most significant and integrated in the world. The three parties should work together to find ways to enhance the competitiveness of North American automotive supply chains, focusing in particular on the transition towards electrification and the parallel supply chain being created across North America from the mining of critical minerals to battery cell production and vehicle final assembly.
- *Aerospace and defence.* Since the Ogdensburg Agreement of 1940, Canada and the United States have developed an integrated approach to continental defence, reinforced with the creation of the North American Aerospace Defense Command (NORAD) in 1957. In addition to this, our two countries have also integrated their defence industrial bases. In light of heightened international security threats, the three countries should explore measures to enhance the competitiveness of aerospace and defence supply chains that underpin the continental defence industrial base.
- *Critical minerals.* Critical minerals play an essential role in nearly all advanced technologies, including batteries for electric vehicles, renewable energy systems, and semiconductors. A strong supply chain for critical minerals ensures Canada can meet the rapidly growing domestic and international demand, reducing reliance on China. The three parties should take steps to 'continentalize' critical mineral supply chains and align efforts to de-risk critical mineral projects. This should include efforts to ensure tariff-free reciprocal market access for continental critical minerals and the associated supply chain, including production inputs and finished goods.
- *Energy.* CUSMA already includes provisions that aim to strengthen energy cooperation and integration between Canada and the U.S. The three countries can collaborate on further improving energy security, reliability, and efficiency. Notably, the three countries should explore energy cooperation to help fuel data centers, which are critical infrastructure for the regional digital economy.
- *Life sciences.* The pandemic has ushered in a new era of health innovation and renewed prioritization for preparedness, with countries re-evaluating the importance of domestic and regional capabilities as a means of ensuring resiliency in the face of future health emergencies. A robust North American life science supply chain is vital for the development and distribution of pharmaceuticals and medical devices, directly impacting public health



and safety. The three countries should look towards establishing a policy framework that incentivizes health care innovation, expedites the cross-border movement of critical goods, and reduces or eliminates tariffs on medical goods.

- *Advanced manufacturing.* Prioritizing strengthening North American manufacturing resilience, investment, innovation, and technology adoption to secure global leadership is critical to the success of Canadian manufacturing. Key priorities should include enhancing the harmonization of standards and regulations to reduce cross-border barriers and streamline manufacturing supply chains across North America. To foster technological advancement, the Committee should support initiatives in digital infrastructure, such as 5G/6G, artificial intelligence, digital twinning, and robotics. Workforce development and cross-border credential recognition should also be emphasized as addressing labor shortages in skilled trades and high-tech roles is essential to manufacturing competitiveness. Lastly, there needs to be a robust North American manufacturing supply chain strategy to reduce dependence on high-risk regions, ensuring a secure and resilient production base aligned with Canada's economic and national security goals.

Ensure that the Agreement keeps pace with advancements in digital technologies and heightened cyber threats

Greater cooperation on policies related to digital trade and emerging technologies has enormous potential for all three parties to the Agreement. Although CUSMA includes comprehensive commitments governing digital trade via its Digital Trade chapter (chapter 19), advancements in digital technologies and services across all economic sectors, as well as the potential of AI to drive significant productivity gains and economic growth, necessitate that the three parties ensure that the Agreement keeps pace with technological advancements. Additionally, given the highly integrated nature of North American supply chains, it is important that the three parties enhance North American cyber security capacity. In particular, Canada should work with the U.S. and Mexico to advance the following measures.

- *Establish a North American forum focused on digital trade and emerging technologies.* Establish a mechanism under the Digital Trade chapter for the three parties to exchange information, coordinate new regulatory approaches for digital issues, promote interoperability, identify related technology opportunities for North America, and address issues of shared concern. That the three parties should consider establishing such a forum is noted in Article 19.14 of the Agreement. An important area of focus for this forum should be how the three countries can further enable digital trade and deploy AI to improve the competitiveness and efficiency of North American trade.
- *Address challenges related to financial data localization.* The Financial Services chapter (chapter 17) should be strengthened to explicitly prohibit unnecessary requirements that may result in de facto or de jure data localization and ensure the free flow of financial data and information across borders. This would enable financial institutions to leverage the best options available on cloud computing, data analytics, and other digital technologies.
- *Non-discriminatory cybersecurity certification standards.* A commitment to non-discriminatory cybersecurity certification standards and measures would address the increasingly prevalent trend of governments using cybersecurity measures as a means to discriminate against non-domestic digital/cloud service providers. These types of policies



prevent governments and consumers from having access to the best-in-class services available on the market and serve to undermine cybersecurity broadly.

- *Establish harmonized cybersecurity standards and frameworks.* The three parties to the Agreement should work towards adoption of common cybersecurity frameworks like NIST or ISO across sectors. This would provide a consistent set of standards for businesses operating in all three countries, reducing the need to comply with divergent national regulations.
- *Mutual recognition/reciprocity of cybersecurity certifications.* Provisions allowing cybersecurity certifications issued in one country to be recognized across North America would eliminate duplicative compliance costs for businesses. For example, there are a few key differences between the U.S. Cybersecurity Maturity Model Certification (CMMC) and Canada's developing Canadian Program for Cyber Security Certification (CP-CSC). The actual security controls implemented differ due to using different versions of the NIST standard. This creates potential challenges for companies operating in both markets, as they may need to navigate slightly different requirements and processes to achieve certification in each country.
- *Promote public-private cooperation mechanisms to improve cybersecurity capacity.* Public and private organisations alike must invest and adapt to ensure they remain protected from evolving cyber threats. A major area of focus currently is how organisations can best share information to ensure they understand and can respond to cyber threats. The three parties could leverage existing provisions, including those in the Digital Trade chapter (chapter 19), to encourage formal mechanisms for industry and governments to collaborate on cybersecurity policies, best practices, and threat information sharing relevant for cross-border business operations.
- *Ensure alignment on patent term adjustment.* There are significant deficiencies in Canada's patent term adjustment (PTA) system that are at odds with Canada's obligation under the CUSMA chapter on Intellectual Property (chapter 20). These deficiencies make PTA unavailable to patentees in all but the most exceptional circumstances. The time, cost and uncertainty to determine whether any PTA is owed, coupled with the multiple and significant reductions in time through a variety of measures, will deter patentees from seeking a remedy that Canada committed to providing under CUSMA.

Prioritizing North American regulatory alignment

Regulatory inconsistencies hinder the free flow of goods and service across borders, ultimately stifling economic growth and collaboration among North American businesses. All three parties should prioritize reducing compliance costs across North America by ensuring better regulatory alignment. These efforts should be broad based but with a particular focus on key areas that are important for enhancing North American competitiveness and economic security. Key areas of focus should include AI, agriculture and agri-food products, advanced manufacturing, cybersecurity, critical minerals, chemicals management, medical devices, energy, food products, health products, and government procurement. These efforts should occur trilaterally as well as bilaterally through existing bodies like the Canada-U.S. Regulatory Cooperation Council. In particular, Canada should work with the U.S. and Mexico to advance the following measures.



- *Actively engage the Committee on Good Regulatory Practices.* The three parties should be more actively engaging the Committee on Good Regulatory Practices, established in the Good Regulatory Practices chapter (chapter 28). This Committee could serve as a central coordinating body for enhancing dialogue, collaborating on more standard Regulatory Impact Assessments (RIAs), improving transparency, and setting priorities for enhancing collaboration in areas not specifically addressed in CUSMA. The Committee should conduct regular reviews of regulatory practices and harmonization efforts, adapting to evolving market conditions and technological advancements, and should also closely engage with industry and other stakeholders from all three countries.
- *Bolster the efforts of the Canada-U.S. Regulatory Cooperation Council.* A reinvigorated Canada-U.S. Regulatory Cooperation Council (RCC) can play a significant role in promoting bilateral trade by reducing technical barriers, aligning standards, and enhancing public health and environmental outcomes. It is important that both governments formalize stakeholder engagement by ensuring that the RCC regulator-stakeholder forum occurs every two years as per the 2018 RCC MOU. Regulatory authorities on both sides should also carry out online and in-person domestic engagements to inform the planning and implementation of RCC initiatives.
- *Alignment of Canada's Valuation of Duty Regulations with CUSMA obligations.* The Canadian government's proposed regulatory amendments to the Canada Border Services Agency (CBSA) Valuation for Duty (VFD) Regulations aim to "level the playing field" by modifying how duties are calculated to disadvantage Non-Resident Importers. In effect, the proposed VFD regulatory amendments would introduce considerable legal ambiguity and unpredictability to how duties are calculated, result in increased duties for some Canadian resident importers, and would increase the lack of uniformity in valuation methods within North America as well as among Canada's major international partners. If implemented, the regulatory amendments could also lead to legal challenges or potential punitive trade measures from our trade partners. The government should withdraw or modify its proposed regulations to ensure that Canada's VFD regulations are in line with CUSMA, World Trade Organization (WTO), and World Customs Organization (WCO) obligations.
- *Enhance alignment on government procurement.* Canada is not a signatory to the CUSMA Government Procurement chapter (chapter 13). As a result, suppliers from the United States and Mexico have to look to other trade agreements to support and enforce equal access to Canadian public sector markets. This omission of Canada within CUSMA's Government Procurement chapter has made it difficult for companies to effectively advocate for fair and transparent procurement processes (including the publication of post-award explanations of procurement decisions) in government procurement. While procurement opportunities between the United States and Canada continue to be covered by the World Trade Organization Government Procurement Agreement (GPA); among other challenges, the GPA has a higher monetary threshold than the CUSMA. Canada should look to find ways to increase alignment in procurement measures via existing bilateral and trilateral mechanisms, including through potentially signing on to the Government Procurement chapter.

Enhancing workforce development and mobility



The North American workforce suffers from long-standing skills gaps and mismatches. Employers often have a hard time identifying employees who have the specific skills needed for particular positions, and employees often face difficulties acquiring the education and training necessary to prepare for existing jobs and the transition to jobs of the future. These challenges are undercutting ongoing efforts to build resilience in North American supply chains. Measures to enhance workforce development and mobility should focus on the needs of sectors of particular importance in existing North American supply chains, including those related to automotives, advanced manufacturing, agriculture and agrifood, and emerging technologies. Canada can exercise leadership in advancing frameworks that improve labor mobility, particularly for skilled workers, across Canada, the U.S., and Mexico. Canada should work with the U.S. and Mexico to advance the following measures.

- *Continue efforts to advance workforce development via the Competitiveness Committee.* Since 2021, Canada, the U.S., and Mexico have hosted four trilateral workforce development forums to highlight innovative school-industry partnerships in key sectors, effective local and state-level partnerships and programs, and best practices in focusing and integrating underserved communities in workforce development programs. In addition, workforce complementarity across the three countries could be explored and advanced as a way to strengthen resiliency in key economic sectors
- *Promote collaboration between industry and educational institutions.* The three parties should identify approaches and strategies to encourage companies to collaborate with educational institutions, trade unions, sub-federal governments, and others to better align curricula with evolving labor market needs. These approaches could include pilot programs that include partnerships between government and relevant stakeholder groups to bolster workforce capacity.
- *Expand eligibility for temporary entry.* The three parties should work towards expanding the list of professionals covered by the temporary entry provisions of the Temporary Entry for Business Persons chapter (chapter 16) of CUSMA to include specialized technical manufacturing roles and other roles related to key areas of focus for the Competitiveness Committee identified above (e.g. critical minerals, energy, life sciences, automotive, and aerospace and defense).

North American coordination on trade and security risks posed by non-market economies

At the fourth annual meeting of the CUSMA Free Trade Commission (FTC) on May 22, 2024, the three parties agreed to “jointly expand their collaboration on issues related to non-market policies and practices of other countries.” Canada, the U.S., and Mexico should strengthen cooperation and coordination on policy responses to unfair trade practices by the Peoples Republic of China, as well as other non-market economies. As we approach the 2026 review this is of particular significance as there is a bipartisan consensus in the U.S. regarding the risks posed by China, with many officials viewing China’s attempts to gain indirect access to the U.S. market through Canada and Mexico as a critical issue. Canada should work with the U.S. and Mexico to advance the following measures.

- *Coordination on responses to unfair trade practices.* The three countries should pursue alignment on measures to address the risks posed by unfair trade practices by China, such as those related to Chinese electric vehicles. Any measures or policy responses



implemented by three countries in this area should aim to be consistent and aligned with WTO rules and obligations.

- *Coordination on cybersecurity risks related to connected vehicles.* Canada should implement measures in alignment with the U.S. to address national security risks associated with connected vehicles technologies from countries of concern such as China and Russia.
- *Increased collaboration and information sharing related to foreign investment screening.* In December 2023, the U.S. and Mexico signed a memorandum of intent to affirm the importance of foreign investment screening in protecting national security and announced their intention to create a bilateral working group that would exchange information about investment screening. Canada should join this group and share the steps it has taken to reform the Investment Canada Act to enhance national security provisions related to foreign direct investment by state-owned enterprises in sensitive sectors (e.g. critical minerals).

iii) Addressing irritants and other challenges in advance of the 2026 review

All three parties to the Agreement should take steps to meaningfully address major irritants in the North American trading relationship in advance of the 2026 CUSMA review. These outstanding major irritants undermine confidence in the Agreement and increase the risk of a fractious review process. In particular, certain irritants are likely to be used as justification for the expansion of the scope of the 2026 review. This could entail a more fundamental reopening or renegotiation of the Agreement, which would introduce a high degree of uncertainty regarding the future of the Agreement for businesses across North America that rely on a stable and predictable trading environment. Given both U.S. Presidential candidates have indicated that they intend to reopen the Agreement via the 2026 review to address concerns related to their domestic priorities, it is especially important that the risk for disruption posed by irritants is minimized.

As there are a wide array of issues that might be deemed to be irritants, it is important that Canada adopt a strategic approach to addressing them that is pragmatic and ultimately advances the interests of Canada and Canadian businesses during the 2026 review. In the short term, Canada should prioritize addressing key irritants that 1) pose a high risk of harming Canada's trading relationship with the United States, 2) are shared areas of concern for the Canadian and U.S. business communities, and 3) can be resolved or meaningfully mitigated by unilateral actions taken by Canada. Such key irritants might be considered 'low hanging fruit' and the Canadian government should take steps to address them immediately. Moreover, Canada should seek to leverage the resolution or mitigation of these key irritants, which will benefit both Canadian and U.S. business communities, to strengthen Canada's position with the U.S. when it comes to other major risks (e.g. Donald Trump's proposed 10% import tariffs).

In addition to these strategic key irritants, it is important that Canada work with the U.S. and Mexico towards resolving other major outstanding irritants. Notably, the government of Canada should also be prepared to work with the U.S. government on shared concerns related to Mexico's policies and practices.



Strategic key irritants

- *Digital Services Tax.* The Canadian government's intention to press ahead with a unilateral Digital Services Tax (DST) via Bill C-59 is a major concern for Canadian and U.S. businesses. Specifically, Canada's DST is at odds with CUSMA's Digital Trade chapter which states: "...that the Parties will not discriminate against or impose custom duties or other charges on online digital products," while also contravening Canada's WTO obligations. The USTR has already opened dispute settlement consultations with Canada under CUSMA, and a multitude of senior Congressional leaders across party lines have shared public concern that Canada's DST unfairly impacts U.S. businesses, some calling for trade retaliation from the United States. Further, the fact that Canada's current DST proposal is retroactive to January 2022 is an unprecedented move that could have a chilling impact on the investment climate in Canada. Moving forward with Canada's current DST proposal runs counter to Canada's longstanding commitment to a multilateral approach on related issues, including the OECD/G20 Inclusive Framework. Businesses across a variety of sectors in Canada's economy are seriously concerned about the potential impacts of DST-related trade retaliation on the affordability and availability of their products and supply chains. There is still time for the Canadian government to reverse course and manage the economic risk associated with the DST. The government can change the tax via regulations, including retroactivity, before the first payment deadline in June 2025.
- *The Artificial Intelligence and Data Act.* The Artificial Intelligence and Data Act (AIDA) component of Bill C-27, in its current form, has provoked concern from businesses who question the impact that its perceived lack of interoperability with other AI regulatory regimes could have on businesses that operate or seek to operate in Canada. Specifically, passing AIDA would put Canada on a differing path from the approach being taken by its key trade partners: the U.S., U.K., Japan and Australia. Many businesses, including start-ups, small-and-medium size businesses, have conveyed to us that AIDA is viewed as being unnecessarily broad and punitive, and that it would likely dampen opportunity for investment in our economy. This proposed Act will likely impede Canada's competitiveness in the innovation space. To resolve this irritant, it is recommended that AIDA be removed from Bill C-27. The government should re-think how AI can instead be leveraged as a productivity tool, with interoperability and alignment to international best standards.
- *Canada's defence spending and continental security.* Canada's failure to meet the NATO defence spending target of 2% of GDP has come under increased scrutiny from the U.S., particularly in relation to Arctic security and the modernization of the North American Aerospace Defense Command (NORAD). This scrutiny is likely to further intensify as threats to the transatlantic alliance continue to grow. The government needs to prioritize developing a credible plan for meeting the 2% defence spending commitment. This should include a commitment to renewing the continental defence industrial base, focusing in particular on leveraging the industrial development opportunities that can stem from the once-in-a-generation modernization of NORAD.
- *Frequent labour disruptions.* Recurring labour-related supply chain disruptions are inflicting damage to Canada's economy and straining our trading relationships. As trade accounts for more than two thirds of Canada's GDP, our ability to get goods to and from market is of critical importance for the success of the Canadian economy. In addition to the cost of disrupted trade for businesses and consumers, the reputational cost of these ongoing



disruptions is particularly worrisome with regard to our principal trading partner, the U.S. The prevalence of these disruptions is undermining our credibility as a reliable trade partner, and also runs counter to the government's Team Canada engagement efforts. The government should consider providing new dispute resolution tools, including the authority for the federal cabinet to compel binding arbitration for the resolution of labour disputes that disrupt Canada's critical supply chains, such as those related to railways and ports.

Other major trade irritants

- *U.S. approach to Rules of Origin related to autos.* All three parties must work to implement rules of origin on autos as negotiated in CUSMA. As determined by dispute settlement processes, the U.S. should comply with the auto core parts ruling of 2023 under chapter 31, which found in favour of Canada and Mexico. Although the U.S. has signaled its disagreement with the ruling, compliance will be important for bolstering U.S. legitimacy when raising its disputes with the other Parties to the Agreement.
- *Country of origin labelling.* Canada and Mexico successfully challenged U.S. mandatory country of origin labeling at the WTO by demonstrating that the law was discriminatory against Canadian and Mexican hog and cattle farmers. However, as of January 1, 2026, U.S. regulations will require meat that carries the "Product of U.S.A." label to be derived from animals exclusively born, raised, and processed in the United States. Despite the differences between the new labelling rule and the previous labelling legislation, many Canadian livestock producers believe that the new regulation will cause similar discrimination against Canadian live animal exports as did the former origin legislation. This could harm established supply lines and increase food prices for consumers on both sides of the border.
- *Constitutional reforms in Mexico.* A proposed constitutional amendment being considered by Mexico's Congress would eliminate the country's autonomous constitutional bodies, agencies originally created to make decisions without political influence and conflicts of interest. These proposed measures have raised concerns that judicial certainty and independence could be substantially weakened in Mexico, undermining rule of law in the country. The measures would increase government control over the economy and harm the business environment in the long term.
- *Mexico's energy policies.* Canada and the U.S. have initiated consultations with Mexico regarding Mexico's energy policies that contravene CUSMA's investment and state-owned enterprise provisions by unfairly favouring Mexican state-owned enterprises over Canadian and U.S. energy companies. Although these concerns were raised in 2022, recently proposed Constitutional reforms could exacerbate these challenges by permitting the government to reverse Mexico's 2014 energy liberalization reforms.
- *Mexico's treatment of genetically modified agricultural products.* Canada and the U.S. have requested a CUSMA panel regarding Mexico's agricultural biotechnology policies. Mexico's decision to ban imports of genetically modified (GM) corn for flour production and to "gradually" phase out GM corn used for animal feed are not science-based and so are at odds with its commitments under the Agreement.