Marsh

Credit Specialties

Trade policy outlook for North American manufacturing

Preparing for the USMCA 2026 joint review

September 2025

Contents

Executive summary

Since its implementation in 2020, the United States-Mexico-Canada Agreement (USMCA) has been the foundation of approximately US$2 trillion in annual trade each year. However, the stability and long-term clarity the agreement was expected to deliver is facing unprecedented challenges.

The upcoming mandatory USMCA joint review in 2026, combined with a volatile political landscape and increased use of tariffs by the US, has created a complex and uncertain environment for US, Canadian, and Mexican businesses that had grown accustomed to a broad and stable free trade arrangement across the continent.

Especially for manufacturers, whose product inputs often cross North American or international borders several times during assembly, exposure to trade disruptions is a significant concern. Given these vulnerabilities, assessing the outlook for the continent's trading environment is a crucial step for improving resilience and identifying areas of opportunity.

This report aims to clarify the existing qualification requirements under USMCA, explain how tariffs announced since February 2025 interact with these requirements, and explore potential changes to the agreement that may emerge during the 2026 joint review process.

The report also offers strategic takeaways to help businesses build resilience and navigate the challenges of the coming year and beyond.

Key observations

- **The current trade landscape is complex.** While USMCA preserves the concept of duty-free trade for qualifying goods from the previous North American Free Trade Agreement (NAFTA), its stricter rules of origin had already increased trade compliance costs. Furthermore, sector-specific tariffs introduced by the US mean some goods that previously qualified for duty-free treatment may now face substantial levies.
- **Geopolitical factors are increasingly influential.** Trade and political relations with third countries now play a more significant role in shaping the US-Canada-Mexico trading relationships. These external dynamics are likely to influence the future direction of USMCA as well.
- **The 2026 USMCA review is a pivotal moment.** The agreement's sunset clause requires a joint review beginning in July 2026, during which time the parties must decide whether to extend USMCA to 2042. Failure to agree on an extension would trigger a 10-year countdown to the agreement's termination. While the 2026 review offers a formal opportunity to negotiate potential changes, it also carries the risk of significant disruptions to trade across North America.

USMCA for manufacturers

Effective July 1, 2020, USMCA aimed to preserve duty-free trade for “originating goods” exchanged among the three member countries. It modernized several chapters of NAFTA by introducing new provisions related to digital trade, state-owned enterprises, currency manipulation, and labor and environmental standards.

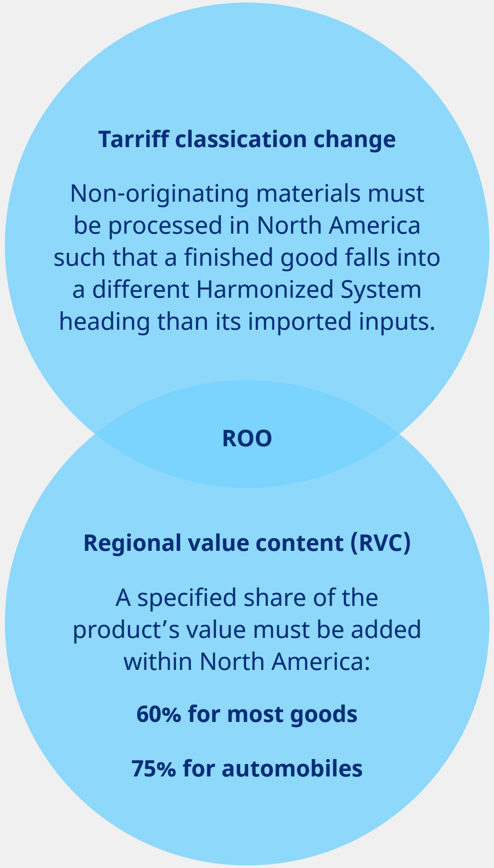
For manufacturers, the primary criteria determining whether a product qualifies for duty-free treatment under the USMCA are the rules of origin (ROO), along with regional value content (RVC) requirements and, in the case of the automotive industry, stricter RVC thresholds combined with an additional labor value content (LVC) requirement.

Qualifying for USMCA benefits: Rules of origin

To be eligible for duty-free treatment, a product must meet USMCA’s ROO criteria, which stipulate that it must “originate” in North America. An “originating good” is defined as one that either: (1) is wholly obtained or produced entirely within the territory of the parties — such as minerals extracted, crops harvested, or goods made exclusively from originating materials, or (2) has undergone sufficient transformation in North America so that non-originating inputs effectively become a new good.

The RVC rule mandates that a minimum percentage of the good’s value — generally 60% for most products — must be added in North America (Figure 1).

Figure 1. How goods qualify for tariff-free treatment under USMCA



Auto-sector specific qualification requirements

Regional value content (RVC): For passenger vehicles to qualify under USMCA, at least 75% of their value must originate from North America, an increase from the 62.5% requirement under NAFTA. Core components, such as engines or transmissions, are also subject to a 75% origin requirement.

Labor value content (LVC): Under USMCA, at least 40% of a vehicle's value (45% for light trucks) must be produced by workers earning a minimum of US$16 per hour. Additionally, USMCA introduced a rapid response mechanism (RRM), which enables facility-specific enforcement of workers' rights. This mechanism establishes a direct link between a manufacturing location's labor practices and its potential eligibility to benefit from USMCA's preferential trade terms.

Meeting these requirements can entail costs for businesses, including additional expenses, time investments, and, in some cases, the development of new supply chains. Furthermore, prior to 2025, the financial impact of not qualifying for USMCA treatment was limited to the application of most favored nation (MFN) tariff rates. For example, automobiles crossing into the US would incur a 2.5% tariff instead of benefiting from duty-free treatment. This relatively modest tariff difference, according to a US Governmental Accountability Office report, appeared not to incentivize some businesses to make the necessary investments to meet the USMCA qualification requirements (Figure 2).

Following the implementation of country and sector-specific tariffs by the US in 2025, however, the potential cost of non-compliance has increased. This shift has altered the analysis for many companies, as products they may have previously viewed as not warranting the effort required for USMCA compliance (due to low standard tariff rates) may now face tariffs of 25% or higher.

This impact is especially pronounced in the automotive sector. According to the US Government Accountability Office, as of 2023, US$16.5 billion worth of US automotive vehicle imports and US$53 billion worth of automotive parts imports did not claim USMCA duty-free treatment.

Figure 2. Implementation outcomes and disputes for USMCA (as of July 2025)

Administrative complexity

More than 40% of small and medium parts suppliers reported increased compliance costs under USMCA.

Selective tariff payouts

Prior to 2025, several OEMs opted to pay the 2.5% MFN auto duty, balancing this cost against the potential higher costs of supply chain retooling.

Automotive dispute

A 2021 USMCA panel ruled that an originating core part may be fully counted when calculating a vehicle's overall RVC. The US had advocated for a stricter, partial count.

Source: *Point 1 USITC Page 111; Point 2: USITC: Page 114; Point 3: USITC: Report Page 59*

Geopolitical dynamics

Developments within North American trading systems and the USMCA are not occurring in isolation; rather, they are influenced by and interconnected with other bilateral trade agreements and the United States' broader trade and industrial policy agenda. As the US administration seeks to reduce strategic dependencies and rebalance relationships with major partners — particularly China — the reconfiguration of supply chains has become a central priority.

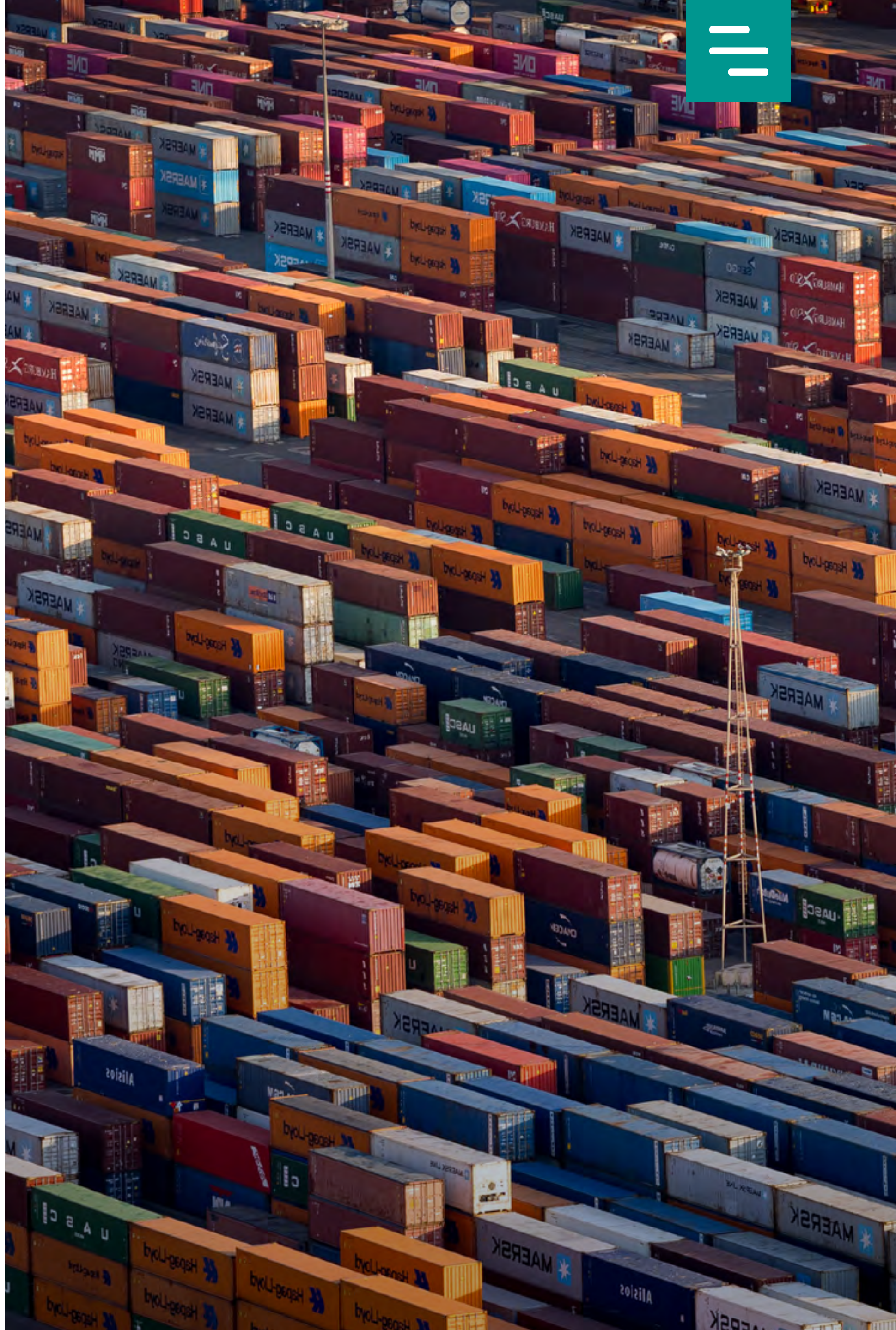
In this context, Canada and Mexico occupy critical yet exposed positions. Approximately 75% of Canada's exports and 80% of Mexico's exports are sent to the US, whereas the US directs only about 30% of its exports to its two North American neighbors. This structural asymmetry is expected to give the US significant power in the upcoming joint review.

Notably, the flurry of bilateral trade agreements reached in the third quarter of 2025 have created certain imbalances; as of September 2025, some US trade partners now face a flat 15% tariff, including on cars, whereas North American and US auto manufacturers continue to contend with more complex and costly tariff measures.

This imbalance, however, is unlikely to persist indefinitely and is likely to be addressed during the review process, either through the simplification of existing North American trade measures or by implementing strategies to elevate barriers on foreign vehicles beyond the scope of recent trade agreements. Regardless, these dynamics highlight the ongoing interplay between regional trade policies, international trade relationships, and geopolitical priorities heading into the 2026 review period.

Strategic considerations for business

A key question for the 2026 negotiations is whether US policymakers will pursue a cooperative, continent-wide industrial strategy or adopt a more inward-looking "Fortress America" approach focused on onshoring and selective tariff use. The answer is likely to determine the extent to which businesses may need to reassess their North American supply chains, adjust compliance strategies, and re-evaluate cross-border investment plans.



The evolving cost of continental trade

Since the start of 2025, assessing the costs associated with trading within North America has become more complex. While some goods that qualify under USMCA continue to trade duty-free, many products — particularly those involving steel, aluminum, or the auto sector — now may face substantial duties upon import into the US, regardless of their previous qualification for duty-free treatment under USMCA.

The most significant new USMCA-relevant tariff measures announced in 2025 (detailed in Figure 3) have been given a prioritization order. This means that a good affected by a "priority 1" auto tariff will not be subject to other tariffs.

An example can illustrate the complexity of these measures, both for trade and within the context of USMCA: in 2024, a refrigerator manufactured in Mexico that qualified for USMCA treatment could enter the US duty-free. However, by August 2025, that same refrigerator would be subject to a 50% tariff on the share of steel and aluminum used in its construction.

Meanwhile, a non-USMCA qualifying refrigerator would also face a 30% tariff on the non-steel or aluminum parts. For importers dealing with a product potentially costing US$1,000s, the difference between paying no duty in 2024 and potentially hundreds of dollars in tariffs in 2025 is significant

After initially imposing retaliatory tariffs, the Canadian government lifted most measures in September 2025. However, 25% tariffs remain in place on US steel, aluminum, and automobiles to protect key Canadian industries. As of September 2025, no retaliatory tariffs by Mexico have taken effect.

Figure 3. Tariff prioritization

Priority	Tariff category	Proclamation/Executive order	Tariff rate	Short description (as of August 2025)
1	Section 232 auto/auto parts	Proclamation 10908 of March 26, 2025 (Adjusting Imports of Automobiles and Automobile Parts into the United States)	25%	USMCA qualifying auto parts are exempt if a vehicle is assembled in the US. USMCA-compliant vehicles assembled in Canada or Mexico have this tariff assessed against them; only the US content is exempt from duty at import.
2	Section 232 aluminum	Proclamation 10947 of June 3, 2025 (Adjusting Imports of Aluminum into the United States)	50%	Applied to raw aluminum and the content of any derivative. Previous USMCA-compliant goods now see this duty assessed.
2	Section 232 steel	Proclamation 10947 of June 3, 2025 (Adjusting Imports of Steel into the United States)	50%	As above. Aluminum and steel are treated equally in the US government's prioritization order.
3	IEEPA Canada/ IEEPA Mexico	Executive Order 14193/ Executive Order 14194 of February 1, 2025	35% (CAN) 25% (MEX)	Not applied to USMCA qualifying goods. Assessed on the non-steel and aluminum content of any product partially made of either metal that is not USMCA compliant.

Source: CSMS # 65236574 – Proclamation "Adjusting Imports of Aluminum and Steel in the United States," Amending Executive Order 14289, "Addressing Certain Tariffs on Imported Articles" Please see the full text of the relevant Proclamation or Executive Order and any subsequent US Customs and Border Protection releases to understand how they might apply to specific content or goods.

Sectoral impact: Automobiles

The auto sector, which represents the largest manufacturing trade flow within USMCA — up to US$120 billion annually —also forms the core of the agreement and explains why the sector has been designated "priority 1" for tariff protection by the US government. As of August 2025, non-USMCA auto parts face tariffs ranging from 10% to 25%, depending on country of origin.

Beyond tariff prioritization (Figure 3), three additional caveats influence the value of USMCA qualification for the auto sector, each impacted by US trade policy actions in 2025:

- For USMCA-compliant vehicles assembled outside the US, only non-US content is subject to the 25% tariff. This contrasts with non-USMCA compliant vehicles, where the entire vehicle faces the 25% tariff.
- Auto parts that comply with USMCA are exempt from the varying tariff rates imposed on auto parts from the rest of the world.

However, this exemption is described as temporary. An Executive Order (EO) issued on June 3, 2025, and subsequent US Customs and Border Protection (CBP) guidance confirm the exemption, but neither explicitly states whether this exemption is now permanent or still temporary. Additionally, the same guidance suggests that exempt auto parts may still be subject to applicable steel or aluminum duties.

- US-assembled vehicles (Figure 4) may qualify for partial refunds on the non-US and non-USMCA content of the vehicle until May 2027.

All three caveats, along with the series of US government orders issued in 2025 concerning the auto sector, demonstrate the additional challenges and, in some cases, costs that manufacturers in North America may face.

Figure 4. Case study: No tariffs for cars produced in the US containing >85% of parts made in the US or USMCA in the first year

	Year 1 (April 2025-April 2026)			Year 2 (May 2026-April 2027)			Year 3 (from May 2027)		
% of parts from USMCA	90%	85%	50%	90%	85%	50%	90%	85%	50%
25% tax on parts									
Retail value of parts from overseas x 25% tax rate	US$1,250	US$1,875	US$6,250	US$1,250	US$1,875	US$6,250	US$1,250	US$1,875	US$6,250
Refund from the US government									
Highest reimbursement	US$1,250	US$1,875	US$1,875	US$1,250	US$1,250	US$1,250	US$0	US$0	US$0
Net tax on auto	**US$0**	**US$0**	**US$4,375**	**US$0**	**US$625**	**US$5,000**	**US$1,250**	**US$1,875**	**US$6,250**

Source: Amendments to adjusting imports of automobiles and automobile parts into the United States, Oliver Wyman analysis based on a US-assembled car with US$50,000.

Based on the examples in Figure 4, three key takeaways emerge:

1. **High USMCA content receives substantial, but temporary, tariff relief:** US-assembled vehicles with ≥85% USMCA-sourced parts benefit from a refund of up to the 25% duties on overseas components during Year 1, eliminating tariff exposure. However, this protection diminishes in Year 2, when the refund level drops to 2.5% of the vehicle's value, resulting in net tariffs (approximately US$625 on a US$50,000 vehicle at the 85% threshold).
2. **Lower regional content and pending expiration increase tariff exposure:** Vehicles assembled in the US with only 50% USMCA content do not qualify for a refund and face net tariffs (around US$4,375 on a US$50,000 vehicle). Additionally, uncertainty surrounds the future tariff-free status of USMCA-compliant auto parts.
3. **The scheme expires in 2027, subjecting all vehicles to the full tariff on non-USMCA components:** This would be the impact regardless of regional content. It could potentially add up to US$6,250 or more per vehicle, depending on qualification outcomes and the ultimate auto tariff rate.

If Section 232 automotive tariffs remain in effect, the value of USMCA qualification for vehicles produced in Mexico and Canada could increase. Non-compliant vehicles would face the full 25% tariff, while USMCA-compliant vehicles would only pay tariffs on their non-US content. The possibility of 15% tariffs on autos from non-USMCA countries such as Japan, however, could alter the value of qualification yet again.

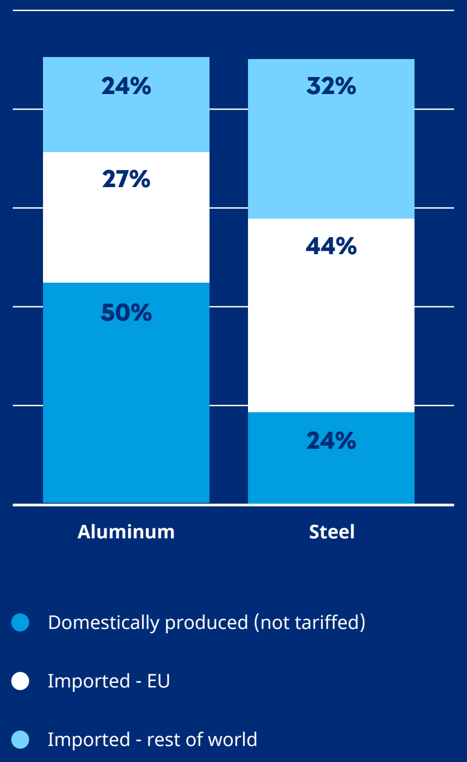
Even though the US-content carveout will likely raise costs for businesses assembling vehicles in Canada or Mexico for US import, it may still incentivize accelerated USMCA compliance. Further, both Mexico and Canada are likely to lobby for the complete removal of tariffs during the USMCA review, with the aim of restoring the original duty-free treatment qualifying vehicles that shaped North American automotive integration.

Sectoral impact: Steel and aluminum

Steel and aluminum are core inputs across multiple manufacturing sectors in North America (see Figure 5). These metals became the focus of a sector-specific US tariff announced in February 2025 and modified in June. The ROO requirements and tariff treatments are central to broader USMCA compliance strategies and supply chain planning.

The 50% tariffs on aluminum and steel introduced in June 2025 apply broadly to nearly every country in the world, including Canada and Mexico. Unlike autos or auto parts, there are no special exemptions or carveouts for USMCA-qualifying steel and aluminum as of August 2025, or their derivatives from Canada and Mexico.

Figure 5. The US imports significant shares of steel and aluminum



Source: *US Census Bureau*

Under the June 3, 2025 EO, importers are required to report the country of melt and pour, or smelt and cast, for the metals used in their products. Because the 50% tariff applies almost universally, three exceptions are noteworthy and could affect import prices:

1. **US-melted and cast metals:** Metals melted and poured or smelted and cast in the US are exempt from the tariff. However, due to the tariff prioritization order, IEEPA tariffs may still apply. The only exception to IEEPA tariffs — 25% on Mexico and 35% on Canada, as of September 2025 — is if the final finished good also qualifies for USMCA treatment by meeting the ROO requirements.
2. **UK-origin metals:** Steel melted and poured in the UK is scheduled to be exempt from US tariffs on these metals, as well as the UK's IEEPA tariff of 10%. As of September 2025, this exemption has not yet been implemented.
3. **Russia-origin metals:** Steel and aluminum originating from Russia face a 200% tariff upon import to the US, a measure in place since 2023.

Mexico has sought an exemption from these tariffs, and Canada is likely to pursue similar efforts. Given the widespread use of these metals across manufacturing sectors in North America, and the broad application of tariffs, the industry is likely to be the subject of debate leading up to, and during, the 2026 USMCA review.

Other Section 232 investigations

Beyond automotive, steel and aluminum, and copper, the US government launched Section 232 investigations into numerous other sectors in 2025, including critical minerals, aircraft and aircraft parts, semiconductors, polysilicon, drones, pharmaceuticals, trucks, and lumber. Ongoing investigations are tracked on the Bureau of Industry and Security website.

On August 1, 2025, the US imposed a 50% tariff on 51 copper products. As a key material used by manufacturers in electronics, wiring, electric vehicles, and construction, this tariff could have broad cost implications, though the exclusion of raw copper from the order should limit its impact.

Addressing Section 232 tariffs — especially those affecting economically significant sectors — will likely be a priority for Mexico and Canada as they prepare for the 2026 USMCA review process. While the specific policies and potential retaliatory responses remain uncertain, two observations from North American manufacturers' experiences in 2025 stand out:

- Existing 232 tariffs can serve as a rough guide for potential future protective measures across other sectors.
- Increasing complexity, varying compliance costs, and shifting valuation of USMCA compliance are now central components of what was once a more straightforward North American free trade regime.

For affected manufacturers, the outcome of the 2026 USMCA review may be vital in shaping decisions about supply chain adjustments and other adaptation strategies.

Potential impact on manufacturers' margins

The convergence of new complexities — IEEPA tariffs, Section 232 duties, and the upcoming 2026 USMCA review — could potentially have far-reaching impacts on the costs and profit margins of North American manufacturers. Key effects may include:

Higher input costs: Tariffs on raw materials such as steel and aluminum could directly increase manufacturing costs. Even companies sourcing metals within the US may face higher prices, as domestic producers have been known to raise prices in response to import tariffs.

Tariffs on components: Companies importing sub-assemblies from across North America could face higher costs if these inputs do not meet USMCA origin criteria or if the rules become more stringent. For example, a US automotive OEM importing US$1,000 worth of Mexican-made components that do not qualify under USMCA would incur a 25% tariff on the auto part. However, if the auto part qualifies for preferential treatment under USMCA, it may still be subject to Section 232 tariffs on aluminum and steel.

Retaliation risk: The trade environment remains uncertain, and unresolved tensions could lead to retaliatory tariffs or barriers from Canada or Mexico, potentially eroding sales and margins for US exporters.

Liquidity and balance sheet pressures: Higher input costs, combined with increased working capital needs, such as larger inventory buffers and extended receivables periods, may squeeze gross margins. Many manufacturers are turning to short-term borrowing to manage cash flow, which can heighten interest-rate exposure and debt servicing costs. Maintaining healthy credit lines and proactive treasury management is important to help avoid liquidity crunches.

Labor mobility and border delays: Stricter customs scrutiny and tighter immigration controls can cause longer border wait times and increased paperwork, raising labor costs and delaying project timelines. Time-sensitive activities like maintenance, warranty repairs, or joint R&D initiatives across the US–Canada–Mexico corridor are particularly vulnerable, with delays potentially impacting service-level agreements and extending working-capital cycles.

Potential implications

Financial risks

- Margin compression from higher input costs
- Liquidity pressures and reliance on short-term debt

Planning risks

- Trade policy uncertainty hindering capital decisions
- Frequent re-forecasting of business plans

Operational risks

- Supply chain disruptions and restructuring pressures
- Labor mobility issues and cross-border delays

The 2026 USMCA joint review

North American manufacturers are navigating a landscape of significant, evolving pressures and trade complexity. While USMCA's carefully negotiated rules provide a foundation for trade across North America, they increasingly coexist with unilateral tariffs and other barriers shaped by shifting trade policy priorities, especially those of the US.

In this context, the USMCA joint review, mandated to begin in July 2026, is fast approaching. If, during the review process, the three parties do not unanimously agree to extend the agreement's term to 2042, the pact will enter a 10-year period of uncertainty until a resolution is reached, or until the treaty expires in 2036.

This section considers what manufacturers can expect from the joint review process. In the first half of 2025, US trade negotiations with a number of partners have often extended beyond technical trade issues to encompass a broad range of non-trade topics, including foreign and economic policy. The US government has given no indication that its approach to the 2026 USMCA review will differ from this broader trade engagement strategy.

For that reason, this section has two parts: first is an overview of the non-technical topics which are likely to be raised. Some sort of agreement on these "big picture" topics will likely need to be reached before discussions can advance to the more technical aspects of USMCA that the parties could reform. These latter aspects are cover in part two.

This is the scheduled timeline:

- **October 2025:** Public comments begin to be formally accepted in the US. Mexico and Canada have already initiated this step.
- **January 2026:** The US Trade Representative is due to report to Congress on the issues the US intends to raise during the 2026 review.
- **July 2026:** The treaty-defined formal start of the joint review.

While manufacturers should be aware of this timeline, it is also possible that negotiations could commence earlier, or the formal process may not be convened at all.

This section of the report is based on the following assumptions:

1. All three parties are expected to attempt a formal renegotiation roughly according to the expected timeline.
2. At least a subset of the big-picture issues will need to be resolved before discussions move on to technical topics.
3. Bilateral or trilateral agreements on big picture and/or technical topics may be reached, potentially without USMCA being formally extended in 2026.
4. No party will choose to formally exit the agreement. If one does, exits are effective six months after written notice.

Big picture topics

As of August 2025, the US government has not made mention of its right to withdraw from USMCA. Instead, it has used Section 232 authority to override USMCA treatment for affected sectors. It has also sought to use the authority of the IEEPA to impose tariffs on non-USMCA compliant goods, citing a need to encourage Mexico and Canada to address a range of perceived trade and non-trade issues.

Given the US's position vis-a-vis its two USMCA partners, some of the stated reasons for these tariff actions can serve as entry points for "big picture" topics that the US may seek to address before proceeding to more technical negotiations in the joint review. Key issues include:

Perceived unfair trade barriers: US concerns extend to Canada's financial and dairy sectors, and Mexico's grain and energy sectors. Resolving these issues may require concessions in sectors that previous Mexican and Canadian governments have considered off-limits.

Prevention of transshipment: This aligns with the US objective of restructuring its global trading relationships. The US may seek stronger USMCA provisions to prevent other countries from using Canada and Mexico as a means to circumvent US tariffs.

Protect and grow certain industries: The US, including through its section 232 tariffs, aims to protect and expand specific industries. Securing exceptions for USMCA-compliant goods will likely be a primary objective for Mexico and Canada in the joint review. However, the willingness of the US to consider exemptions is likely to depend on the other parties' flexibility on the two other topics listed above.

Technical topics

Whether a detailed focus on more technical USMCA issues will be pursued during the joint review may depend on whether the US considers its overarching concerns to be satisfactorily addressed. Figure 6 summarizes such potential topics.

Figure 6. Potential technical topics

Topic	Description
Automotive ROO	The US may pursue a stricter interpretation of the "roll-up" provisions for core parts and could advocate for further increases to the RVC and LVC thresholds.
Tighter ROO in other sectors	To combat transshipping, the ROO level (currently set at 60% for most goods) may be raised, with sector-specific exceptions potentially becoming more stringent.
Labor RRM mechanism	Labor groups are advocating for an expansion of RRM to cover additional sectors, as well as the establishment of a higher North American minimum wage in some sectors.
Dispute resolution	The US has expressed frustration with the outcomes of USMCA dispute panels and may seek to reform the dispute resolution process or amend relevant USMCA provisions to better align with US preferences.
Transshipment	The US is likely to seek stronger measures to prevent other countries from using Mexico or Canada as routes to circumvent US tariffs. This could result in tighter screening and enforcement, especially for key industries.

RVC – regional value content | LVC – labor value content
RRM – rapid response mechanism | ROO - rules of origin.

Ultimately, the joint review is likely to primarily reflect the evolving trade and foreign policy priorities of the US. The US may choose, for example, to pursue a more limited version of the agreement than currently exists. A willingness to agree a formal extension with its two partners, however, could reduce uncertainty levels, clarify compliance requirements and decrease the cost of trade, and thereby ease business decision-making processes.

Alternatively, 2026 may end without a formal extension, leaving a scenario in which current USMCA qualification requirements and MFN rates continue to conflict with new bilateral rules issued by all three parties. Figure 7 outlines both scenarios, highlighting the potential implications of each for the manufacturing sector, based on country of origin.

Figure 7. Scenario outcomes of the USMCA review

Country	USMCA modified but stable	USMCA weakened and unstable
Mexico	A clarified USMCA boosts manufacturing exports by **15% to 20%** for qualifying goods. Nearshoring re-accelerates with clearer rules, attracting **US$8 billion to US$12 billion** in new FDI.	Some manufacturers are able to develop alternative markets in Asia Pacific or Europe.
	Competition from other near-shore locations increases if USMCA benefits are undermined. Manufacturers may need to adapt to more stringent labor or environmental standards.	Tariffs exceeding 10%, including on autos, impact export competitiveness and result in the loss of planned investments, weakening the wider economy.
Canada	Clarified trade rules maintain more than **US$400 billion** annual trade volume. This scenario most enables manufacturers in Canada to maintain production across the continent.	Accelerates diversification by expanding exports into the Asia-Pacific and European markets, reducing reliance on North American trade and deeper Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) integration.
	Higher US tariff rates for non-USMCA goods and tighter qualification requirements undermine margins and complicate long-term pricing and contracting. Managing a tighter regulatory regime, including digital trade and labor mobility, alongside cross-border logistics bottlenecks may strain supply chain resilience.	Elevated and unpredictable tariffs and tightened border restrictions reduce bilateral trade by 20% to 30%, disrupting integrated supply chains and eroding export revenues. Divergent regulatory regimes inflate compliance costs by **8% to 15%**, deterring new investments and serving as barriers to energy exports into the US.
US	Projected increased annual manufacturing growth, paired with low import costs for qualifying goods due to duty-free tariffs trim production expenses and enhance US competitiveness.	Accelerated reshoring and supply-chain diversification under a "Fortress America" model, using federal and state incentives to rebuild domestic manufacturing and reshore production from Canada and Mexico.
	Tighter sourcing or wage rules, particularly in autos and manufacturing, could increase production costs that manufacturers pass on to US consumers.	Uncertainty drives up costs, limiting access to inputs from Mexico and Canada, and delaying more than US$25 billion in planned expansion. Retaliation could also unpredictably affect prices.

Mitigation strategies

Manufacturers across all subsectors are facing mounting pressure to make long-term capital decisions within increasingly compressed timeframes. These challenges arise as evolving USMCA compliance requirements intersect with changeable tariff policies. Success will likely depend on deploying a combination of strategic responses.

Strategic pricing responses

Passing on costs: Implement modest, phased price increases on new product lines to consumers while honoring legacy contracts to maintain distributor relationships. Dynamic pricing models can incorporate scenario planning for potential cost escalations and policy reversals.

Absorbing partial costs: Preserve market share by selectively absorbing duties and sharing costs with suppliers. Long-term sourcing contracts with material producers can help manage price volatility, while strategic inventory buffers provide operational stability during tariff transitions.

Building-up in North America: Onshore stamping, casting, and assembly operations to help reduce tariff exposure, strengthen USMCA eligibility, and create more predictable cost structures. Cross-market partnerships can diversify revenue streams and mitigate concentration risks.

Pulling back and pausing: Maintain flexibility by selectively withdrawing from tariff-sensitive markets, redirecting shipments, or temporarily halting non-strategic imports.

Risk mitigation solutions

Beyond pricing strategies, manufacturers must address broader operational and financial risks. This may include:

Liquidity management: Gain access to revolving credit lines, trade finance facilities, and public-private partnership funding to support operational transitions.

Insurance coverage: Companies can pursue specialized insurance policies to cover contract repudiation risk — protecting revenue if a buyer refuses to accept goods or fulfill contractual obligations due to external shocks such as tariffs or regulatory changes. This can be particularly valuable in volatile markets where contractual disputes or refusals can significantly impact operations.

Firms can also consider trade credit insurance to mitigate the risk of buyer insolvency, surety bonds to replace letters of credit, customs bonds to backstop compliance, marine cargo insurance to protect shipments, and stock throughput coverage to mitigate the risk of inventory losses.

Supply chain resilience and visibility: Establish joint risk-sharing agreements with strategic suppliers and diversify sourcing to promote supply chain resilience. At the operational level, build inventory buffers, explore cross-border logistics alternatives, and craft scenario-based contingency plans to enhance agility. AI-powered platforms — such as Marsh McLennan's Sentrisk™ — can further support this by providing real-time visibility across supplier networks and proactively identifying emerging vulnerabilities, enabling businesses to de-risk their supply chains more effectively.

An integrated approach enables manufacturers to remain agile and competitive amid the accelerated decision-making cycles driven by trade policy uncertainty.

Conclusion

As the 2026 USMCA joint review approaches, businesses should prepare for the scenarios outlined, along with any others that emerging developments may suggest. Scenario planning and comprehensive risk management strategies such as tariff engineering (including adjusting product specifications, shifting assembly locations, or revisiting HS code classifications) and forward-hedging of input and logistics costs, can help organizations navigate a broad spectrum of potential outcomes while continuing to pursue growth in increasingly complex operating environments.

However, it is also essential for organizations to look beyond the operational challenges of the current environment and to recognize that the North American trading landscape, once relatively stable, has entered a period of flux that is unprecedented in the past 30 years.

This period may be temporary, with the 2026 joint review potentially restoring a more stable and predictable environment. Alternatively, the continental trading environment could be entering an extended period of change and complexity, requiring novel risk management strategies. Under such a scenario, new opportunities for trade and investment could materialize, as rules, incentives, and government policies evolve and adapt to the new reality.

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