Canada-US-Mexico Agreement

Four Scenario Outcomes from the Bank of Canada

SCENARIO 1

Extension with Limited Changes

16-Year Extension

Agreement renewed until 2042, providing long-term certainty

Status Quo Maintained

Current trade rules and tariff structures remain intact

Reduced Uncertainty

Exporters gain predictability for strategic planning and investment decisions

Base-case scenario: This outcome is assumed in the base case scenario that forms the foundation for the BoC's economic forecasts presented in the January 2026 Monetary Policy Report. Tariffs and trade policies in place on January 23, 2026, persist.

Bank of Canada’s tariff assumptions

Average tariff rates (goods only) embedded in the outlook (%)

	Before 2025	July 2025	October 2025	January 2025
US tariff rate on Canada	0.1	4.4	5.9	5.8
Canadian tariff rate on the US	0.0	2.6	1.0	1.2

Source: Bank of Canada
Based on tariffs in place or officially agreed on as of January 23, 2026
Base case scenario

SCENARIO 2

Significant Renegotiation

Potential Increases in Trade Costs

Some Sectoral Tariffs Could Be Lower

The net impact depends on negotiation outcomes. Stricter compliance measures may offset sectoral tariff reductions, creating mixed effects across industries.

SCENARIO 3

Withdrawal from CUSMA

Bilateral Options

Two-country deals may partially offset impacts

Higher Tariffs

Return to WTO rates increases costs dramatically

If one or more members withdraw:

- Trade barriers would increase substantially
- Tariffs would revert to Most Favored Nation rates under WTO rules, significantly higher than current CUSMA levels
- Supply chains would face immediate disruption

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SCENARIO 4

No Agreement

The least desirable outcome involves failing to reach agreement in 2026, triggering annual reviews until 2036 or until parties negotiate an extension. The resulting prolonged uncertainty would deter long-term investment and complicate strategic planning for businesses.

1. **2026**

   No agreement

2. **2027-2035**

   Annual review cycles create ongoing uncertainty

3. **2036**

   Agreement expires without extension

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