

## Monarch Breaking News Alert

### U.S. Supreme Court Strikes Down IEEPA Tariffs: Implications for Manufacturing in Mexico, USMCA Renegotiation, and the Road Ahead



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#### EXECUTIVE SUMMARY

**What happened:** On Friday, February 20, the U.S. Supreme Court struck down all tariffs imposed by the Trump administration under the International Emergency Economic Powers Act (IEEPA), ruling 6-3 that IEEPA does not authorize the President to impose tariffs. This invalidates the 25% tariffs on Canadian and Mexican imports and the broad "reciprocal" tariffs on imports from all trading partners imposed since early 2025.

#### What it means right now:

- IEEPA-based tariffs are unlawful and should cease. Companies that paid these tariffs may be entitled to refunds — begin documenting paid duties immediately and engage trade counsel.
- Contracts, pricing structures, and supply chain decisions built around IEEPA tariff exposure should be reviewed promptly.
- The ruling does not affect tariffs imposed under other statutes (Section 232, Section 301, and others), which remain in force.
- The Trump administration has already invoked Section 122 of the Trade Act of 1974, initially imposing a temporary 10% global tariff under its balance-of-payments authority for a period of 150 days, absent congressional extension. President Trump later announced on Saturday that he will raise the rate to 15%, the statutory maximum. It remains unclear whether the 15% rate will take effect on Tuesday, February 24, when the previously announced 10% tariff was set to enter into force. Significant exceptions exist for USMCA-compliant goods and other administration priorities.

**Do not treat this as a permanent reset.** This is the single most important message for strategic planning. Here's why:

- **Congress could restore IEEPA tariff authority quickly.** The Court's ruling is a statutory decision, not a constitutional one. Congress can amend IEEPA to add explicit tariff authority. With Republican majorities in both chambers and budget reconciliation requiring only a simple Senate majority, this could happen within 6 to 12 months—*though the administration's grip on Congress today is less certain than it once was.*
- **The administration has other tariff tools.** In addition to the new Section 122 tariffs, the expanded use of Section 232 (national security) and Section 301 (unfair trade practices) investigations can produce significant tariffs, though they require more procedural steps and typically take 6 to 12 months to become effective.
- **Non-tariff pressure is likely to escalate.** Expect intensified pressure on Mexico, including expanded cartel-related sanctions, more aggressive customs enforcement, and continued security-related coercion.

**USMCA implications:** The 2026 USMCA review is underway, and the ruling materially weakens U.S. negotiating leverage. Canada and Mexico may harden their positions, though each nation holds different cards and has different equities at risk. Key areas of concern include automotive rules of origin, Canadian dairy market access, and Mexican energy investment commitments.

**For companies manufacturing in Mexico (including under IMMEX), the immediate tariff relief is real but fragile.**

- USMCA compliant goods remain exempt from the new 15% tariff. Non-compliant goods see exposure drop from 25% to 15%—meaningful but not insignificant.
- Mexico's relative competitive advantage narrows: Countries that previously faced high IEEPA tariffs—such as Brazil, India, Vietnam, and Indonesia—will, at least for now, see significantly lower tariff rates. The gap in tariff treatment compresses under the 15% general rate.

- The administration has maintained the “non-stacking” principle, meaning Section 232 tariffs do not accumulate on top of the new 15% tariff—preserving an important structural safeguard for affected sectors.

**Immediate actions (next 30 days):**

- Audit and document all IEEPA tariff payments for refund claims.
- Review contracts with tariff-related pricing provisions.
- Brief finance, procurement, legal, and supply chain teams.
- Begin scenario modeling under Section 232/301 reimposition.

*Monarch’s full analysis and Alert below provides a more detailed analysis of the ruling, IMMEX and USMCA implications, legislative restoration risk, and a complete recommended action framework. Monarch’s team is available to discuss your specific situation.*

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## I. THE DECISION: WHAT THE COURT HELD AND WHY

### The Core Holding

Chief Justice Roberts, writing for a six-justice majority, held that IEEPA's authorization for the President to "regulate...importation" does not include the power to impose tariffs. Tariffs are a form of taxation, a power Article I of the Constitution vests exclusively in Congress, and IEEPA contains no clear delegation of that power. The Court's reasoning rested on three pillars: the statutory text contains no mention of tariffs or duties; "regulate" does not mean "tax" anywhere else in the U.S. Code; and in IEEPA's nearly 50-year history, no prior President ever invoked it to impose tariffs.

Justices Roberts, Gorsuch, Barrett additionally applied the major questions doctrine, requiring "clear congressional authorization" for an assertion of extraordinary power. Justices Kagan, Sotomayor, and Jackson concurred on plain statutory grounds without invoking that doctrine.

### What Remains Legally Intact

Tariffs imposed under Section 232 (national security), Section 301 (unfair trade practices), Section 201 (safeguard tariffs), or Section 338 (Tariff Act of 1930) are unaffected. These mechanisms carry procedural requirements and scope limitations that IEEPA did not impose. We expect the administration to aggressively pivot to an expanded use of these alternatives.

## II. IMMEDIATE PRACTICAL CONSEQUENCES

Importers who paid IEEPA-based tariffs may be entitled to refunds through the Court of International Trade (CIT). **We recommend companies begin documenting paid duties now and consult trade counsel. Importantly, the Court did not address refund mechanics, and we expect the process will be substantial and slow.**

The administration's invocation of Section 122 means tariff exposure has been reduced and restructured, not eliminated. The 15% tariff now in effect represents a lower rate than the 25% IEEPA regime but remains operative during the statutory 150-day window.

### Fiscal and Macroeconomic Implications

As of market close on Friday, February 20, financial markets reacted cautiously to the Supreme Court’s ruling, with investors assessing both the immediate tariff relief and the administration’s stated intention to pivot to alternative statutory tools. While the invalidation of IEEPA tariffs reduces near-term trade pressure, it does not signal a broad reversal of U.S. trade policy.

Total IEEPA tariff collections since early 2025 may range between \$120 billion and \$160 billion. Widespread repayment could carry meaningful budgetary implications, particularly if refunds intersect with broader fiscal negotiations in Congress. The administration’s 15% Section 122 tariff partially restores revenue flows, though at a lower rate and within a 150-day statutory window. The net fiscal impact will therefore depend on both refund exposure and the duration of the temporary tariff framework.

The shift from a 25% IEEPA-based tariff structure to a 15% temporary tariff reduces, but does not eliminate, import cost pressures. The disinflationary effect is likely incremental rather than structural, and it is unlikely to materially shift Federal Reserve policy, though it may influence short-term inflation expectations and corporate pricing strategies in import-dependent sectors. Currency markets may respond to perceptions about the durability of the 150-day window, the probability of congressional extension, and the likelihood of subsequent escalation under alternative authorities. Trade policy uncertainty remains a meaningful driver of volatility and capital allocation decisions.

CBP implementation will be critical in the coming days; Monarch is monitoring this closely.

Finally, the government argued IEEPA tariffs facilitated trade negotiations worth trillions of dollars with China, the UK, Japan, and others. The legal status of those arrangements now faces uncertainty.

### **III. IMPLICATIONS FOR COMPANIES MANUFACTURING IN MEXICO**

Although Canada and Mexico were among the first countries targeted by IEEPA tariffs based on alleged national security concerns arising from fentanyl and migration, the USMCA—unique among all U.S. free trade agreements at the time—quickly received a carve-out. As of January 2025, before the IEEPA tariffs took effect, only 45.1% of U.S. imports from Mexico entered under USMCA. Indeed, more than half of Mexican trade was operating outside USMCA preferences. That number jumped to 87% by November.

The spike is the unmistakable signature of emergency supply chain restructuring: accelerated compliance investments, sourcing changes to meet regional value content thresholds, and in some cases restructured manufacturing processes—forced expenditures made under duress and at speed. The compliance costs were real, even if the work is now largely done. The elimination of the IEEPA tariff reinforces the importance of USMCA as a strategic framework providing stability and certainty for companies doing business in North America.

### **Competitive Positioning of Mexico Under the New Tariff Framework**

Mexico's relative competitive advantage narrows under the 15% general tariff. North American integration and logistical proximity continue to favor Mexico, but the competitive gap versus certain Asian and European suppliers is partially compressed. Sectoral Section 232 tariffs on steel, aluminum, copper, and autos remain in force and are separate from—and unaffected by—the temporary 15% framework.

### **The IMMEX Program and Maquiladora Operations**

Near-term relief for IMMEX operators is real but transitional. The 150-day Section 122 window should be treated as a strategic planning horizon. Monarch expects the administration to pursue tariff reimposition through Section 232 or Section 301 within 6 to 12 months. Additionally, the USMCA 2026 review creates independent uncertainty around rules of origin, while Chinese-origin inputs processed in Mexico will remain subject to scrutiny for tariff circumvention.

### **Near-Term Strategic Priorities for IMMEX Operators**

Amidst this uncertainty, Monarch suggests companies should nevertheless undertake certain steps to assess their exposure under current and alternative tariff regimes:

- **Cost modeling:** Run scenarios under current tariff levels, Section 232 reimposition, and potential USMCA rule-of-origin changes.
- **USMCA compliance documentation:** Ensure preferential treatment eligibility is fully documented and defensible.
- **Diversification assessment:** Reassess supply chain diversification decisions made under IEEPA tariff pressure.

- **Chinese-origin content audit:** Assess exposure under potential "China-through-Mexico" enforcement actions. Measures against Chinese transshipment will continue to be prioritized both by the U.S. and Mexican governments.

### **The Nearshoring Story: Pause, Don't Reverse**

The fundamental economics and strategic logic of nearshoring remain intact. Companies should not reverse course, but we believe they should factor continued political and legal uncertainty into investment timing and structure.

## **IV. USMCA RENEGOTIATION: A SIGNIFICANTLY ALTERED LANDSCAPE**

The USMCA's 2026 joint review is currently underway, and the Court's ruling arrives at its most sensitive moment. The administration's negotiating posture was built substantially around the threat of IEEPA tariffs, leverage that is now legally constrained.

The **United States** has unquestionably lost its most flexible lever for non-trade issues like fentanyl, migration, and security and may seek to institutionalize those demands directly within the USMCA.

**Canada** will almost certainly harden its positions, particularly on dairy and auto content. Domestic Canadian politics, shaped heavily by tariff pressure, now give Ottawa even more political cover to resist U.S. demands.

**Mexico** faces a more complex calculus. More economically exposed than Canada to sustained U.S. pressure, Mexico may not overplay its hand—but expect slower concessions on energy investment and potentially greater resistance to any USMCA provisions formally acknowledging drug trafficking and migration as bilateral trade compliance issues.

**The structural implication:** The ruling re-establishes that durable trade policy requires congressional buy-in. Any USMCA renewal designed primarily around executive tariff threats rests on a fragile post-ruling foundation.

Several bilateral arrangements were negotiated when elevated reciprocal tariffs served as negotiating leverage. Their durability now depends on whether the current temporary tariff structure is extended, replaced, or escalated through other statutory mechanisms.

## V. HOW THE ADMINISTRATION MAY SEEK TO RECOVER LEVERAGE

Section 122 is capped at 15% and expires after 150 days absent congressional extension. Section 338, Section 301, and Section 232 remain available but require investigative processes. None replicate the breadth, immediacy, or flexibility of IEEPA—but collectively they constitute a diversified tariff toolkit that preserves policy optionality for the administration.

### **The Military Intervention and Cartel Risk**

The administration has already moved toward a more militarized posture: designating Mexican cartels as Foreign Terrorist Organizations (FTOs) and Specially Designated Global Terrorists (SDGTs), authorizing expanded special operations activities, and making public statements about potential unilateral military action against cartel infrastructure. A tariff-constrained administration may lean more heavily on security-related leverage.

We assess that the risk of actual military action in Mexico is real but not high in the near term — Mexican sovereignty concerns, blowback risk against U.S. nationals and businesses, and catastrophic bilateral consequences all counsel against it. The more probable scenario is a sustained escalation of secondary economic pressure combined with intensified rhetorical coercion.

**For companies with Mexico operations, the relevant risk is a deteriorating bilateral relationship creating regulatory unpredictability, security instability in manufacturing regions, currency volatility, and cross-border logistics disruption—not a military incident per se.**

Additional pressure tools include secondary sanctions via SDGT/FTO designations targeting financial institutions with cartel exposure; migration-linked visa restrictions and enhanced border enforcement; and more aggressive CBP enforcement and forced labor import bans. Any or all of these should be anticipated given the administration's predictably hostile reception of the ruling.

## VI. THE LEGISLATIVE RESTORATION RISK

The Court held that IEEPA, as currently written, does not authorize tariffs—not that Congress cannot grant that authority. With Republican majorities in both chambers, the administration could pursue an explicit IEEPA amendment through **budget reconciliation**, requiring only a simple Senate majority. Tariff revenue is material to budget math, and a restoration could be framed as a revenue provision in a broader fiscal package. Because Section 122 expires automatically absent congressional action, legislative restoration of broader authority remains a material policy variable within 6 to 12 months.

Congressional action is possible but not certain. Genuine obstacles include Senate Republican heterodoxy from import-dependent constituencies; business community opposition from retail, technology, and manufacturing sectors; the need for rate and duration constraints; and trading partner retaliation risk.

**Monarch's assessment:** Do not plan around the permanent unavailability of broad IEEPA-style tariff authority. Model scenarios in which that authority is legislatively restored within 6 to 12 months.

## VII. RECOMMENDED NEXT STEPS

With so much uncertainty in the air, we believe it's prudent for companies to take a phased approach to the Court's decision. The following recommendations chart a pragmatic path to consider:

### Immediate (Next 30 Days)

- Audit all IEEPA tariff payments and preserve documentation for refund claims through the CIT.
- Review and renegotiate contracts with tariff-related pricing, escalation, or force majeure provisions.
- Reassess supply chain reconfiguration decisions made under IEEPA tariff pressure.
- Brief internal stakeholders across finance, procurement, logistics, and legal.

### Near-Term (30–180 Days)

- Model Section 232/301 reimposition scenarios at 10%, 15%, and 25% for most exposed import categories.
- Strengthen USMCA compliance: review origin certification, regional value content calculations, and product-specific rules of origin.
- Assess IMMEX program resilience under a range of tariff and rule-of-origin scenarios.
- Monitor USMCA review developments and engage industry associations and trade counsel.

### **Strategic (180 Days+)**

- Engage congressional relationships on any legislative response to the ruling.
- Develop a bilateral relationship risk framework for Mexico operations covering security protocols, supply chain redundancy, financial institution exposure, and cross-border logistics alternatives.
- Evaluate and maintain diversification optionality across supplier, geographic, and contractual dimensions.

## **VIII. CONCLUSION**

*Learning Resources v. Trump* is a significant legal victory for the constitutional principle that Congress controls the power to tax. For businesses, it provides meaningful relief relative to the 25% IEEPA regime. However, the immediate invocation of Section 122 confirms that tariff pressure remains embedded in U.S. trade policy, albeit at a lower rate and within a defined statutory timeframe.

The administration retains substantial tools to exert trade pressure, the USMCA review remains at a critical and uncertain juncture, the legislative path to IEEPA restoration is real, and the U.S.-Mexico bilateral relationship faces pressures that extend well beyond tariff policy. The companies best positioned to navigate this environment will be those that plan for a range of scenarios, maintain supply chain flexibility, protect their USMCA compliance posture, and stay closely engaged with the policy developments that will shape the trade landscape through 2026 and beyond.

**Monarch's team is available to assist companies with scenario modeling, USMCA compliance reviews, IMMEX program assessments, and strategic guidance on the matters addressed in this Alert. Please contact us to schedule a consultation.**



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