

The “Renovation” of NAFTA to USMCA



Templates

(“Fresh Coat of Paint”)



Modernize

(“Upgrade the Fixtures and Appliances”)



Rebalancing

(“Knocking Down Walls”)



PHASE I IMPLEMENTATION

- 1. USMCA Effective Date was July 1, 2020**
 - Reasonable Care
 - Certification and Recordkeeping
 - “Satisfactory Progress” & “Good Faith Effort”
- 2. US-CBP “Show Restraint in Enforcement” / “Maximum Flexibility”**
- 3. Exceptions are the three new certifications for automotive: (a) labor value content (LVC), (b) steel, and (c) aluminum**

The New Rule of Origin (ROO) for autos and pick ups

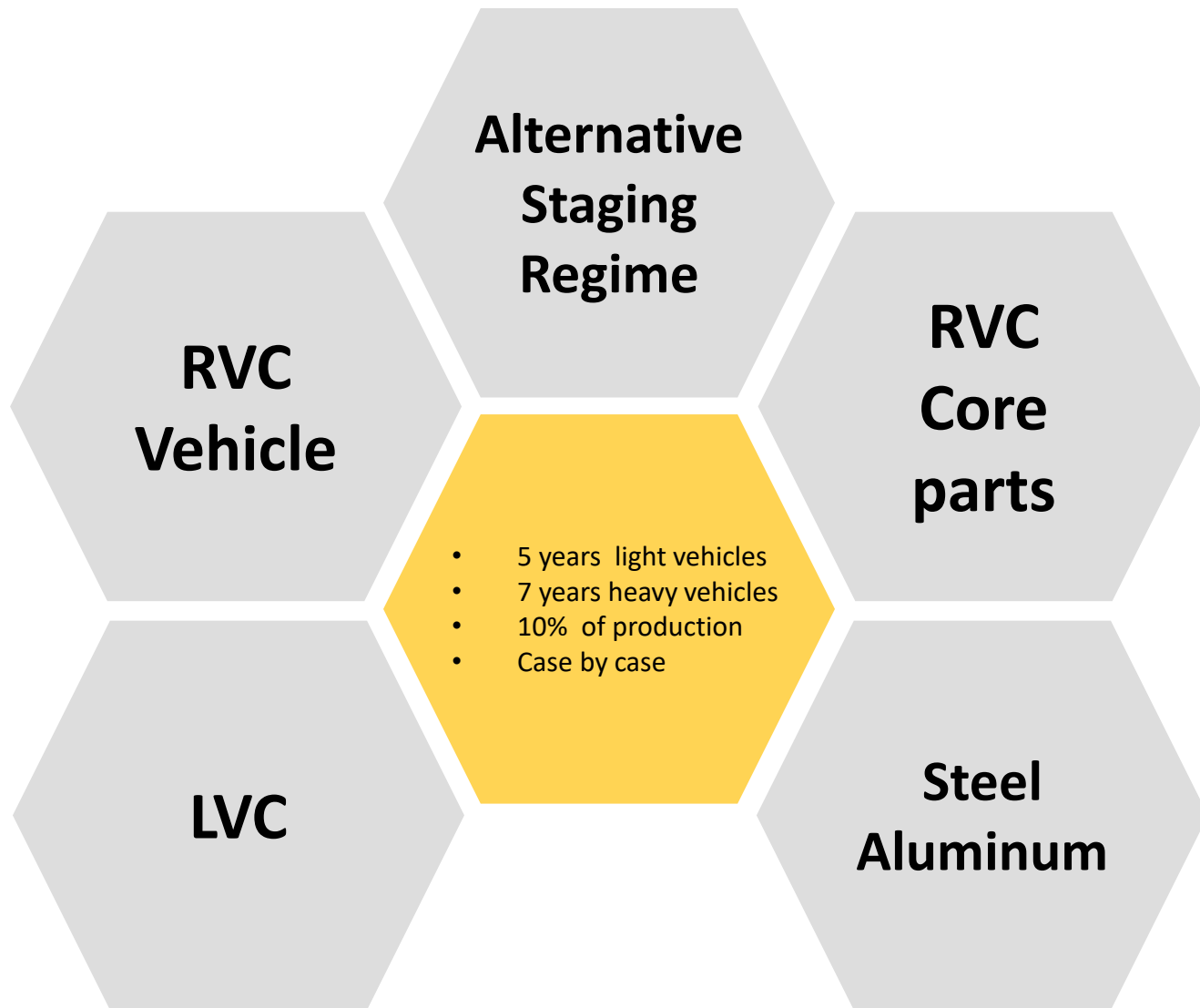


Four requirements:

1. Regional Value Content percentage (RVC)
2. Originating Core parts for passenger vehicles and light trucks
3. Labor Value Content percentage (LVC), which includes high wage transportation services
4. Originating purchases of Steel and Aluminum

NAFTA rules:

- RVC and
- Tracing



ROO for the Automotive Sector

Light Vehicles

Labor Value Content (LVC)

40% cars (4 increases) / 45% pick-ups (EIF)

Average hourly base wage rate $\geq \$16/\text{hour}$

Material and manufacturing expenditures $\geq 25\%$ cars / $\geq 30\%$ pick-ups

Technology and assembly expenditures^{1/} $\leq 15\%$ cars and pick-ups

Steel and Aluminum

$\geq 70\%$ vehicle producer's purchases must be originating



Regional Value Content (RVC)

75% / Net Cost
4 increases

66% 69% 72% 75%

Core Parts* RVC / Net Cost / 4 increases

66% 69% 72% 75%

Engine, transmission, body and chassis, axle, suspension system, steering system, and advanced battery

* 7/7 must be originating

Heavy Vehicles

Labor Value Content (LVC)

45% (EIF)

Average hourly base wage rate $\geq \$16/\text{hour}$

Material and manufacturing expenditures $\geq 30\%$

Technology and assembly expenditures^{2/} $\leq 15\%$

Steel and Aluminum

$\geq 70\%$ vehicle producer's purchases must be originating



Regional Value Content (RVC)

70% / Net Cost /
3 increases 7 years

60% 64% 70%

1/ Technology expenditures include R&D and IT expenditures related to prototype development, design, engineering, testing, or certifying operations; software development, technology integration, vehicle communications, and information technology support operations. Assembly expenditure includes engine assembly, transmission assembly (PC of 100,000 OG) or an advanced battery assembly plant (PC of 25,000 OG)

2/ Technology expenditures include R&D and IT expenditures related to prototype development, design, engineering, testing, or certifying operations; software development, technology integration, vehicle communications, and information technology support operations. Assembly expenditure includes engine assembly, transmission assembly or an advanced battery assembly plant (PC of 20,000 OG)

ROO for Autoparts

Other Vehicles
Current ROO



Heavy Vehicles			
Net Cost / 3 increases 7 years			
Principals		Complementary	
60%	64%	50%	54%
70%		60%	

Light Vehicles								
Net Cost / 4 increases								
Core*			Principals			Complementary		
66%	69%	72%	62.5%	65%	67.5%	62%	63%	64%
	75%			70%			65%	

* 7/7 must be originating

Super Core
Key Parts (Table A.1)



USMCA brings much needed certainty but it also presents important challenges, particularly, related to labor issues

- Chapter 23: the most ambitious labor chapter ever negotiated in an FTA
- New labor obligations: strengthened dispute settlement mechanisms and possible trade sanctions for:
 - The governments of Mexico, US and Canada
 - Enterprises of the three member countries (on a facility-specific basis)
- Rapid Response Labor Mechanism allows sanctions on covered facilities, including:
 - Suspension of preferential tariff treatment, penalties and denial of entry of goods / services
- **It is critical for firms with a presence in Mexico to:**
 - Design and implement a plan to mitigate labor risks before they occur; and
 - Be able to respond quickly if they materialize
 - Complying with USMCA will depend not just on the company

Priority sectors for surveillance of RRLM labor compliance in Mexico

10 priority sectors subject to the Rapid Response Labor Mechanism

USMCA – Annexes 31-A / 31-B

Aerospace products & components

Autos and auto parts

Industrial baked products

Steel & Aluminum

Cosmetic Products

Glass

Pottery

Plastic

Forgings

Cement



8 priority subsectors for surveillance and compliance of the US' Interagency Labor Committee

US' Implementing Bill

Aerospace

Auto parts y auto assembly

Industrial bakeries

Steel & Aluminum

Electronics

Call centers

Mining

Contact Information



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