United States – Mexico – Canada Agreement (USMCA)

Specific Rules of Origin

The objective is to establish the **essential, clear and specific rules**, which were agreed upon with procedures that **facilitate certification and verification of rules of origin** with new cooperation and application provisions.

The sectors that changed their specific rules of origin are **chemical products, glass products, titanium products, steel and fiber optic, televisions and electrical manufactures**.

Automotive Goods

- The **automotive sector** is one of **the main pillars of the regional economy**. **Mexico and the U.S. annually exchange 131 billion dollars in automobiles and auto parts**; 13% of light vehicles in the U.S. are produced in **Mexico,** which is also the **main supplier of auto parts in the U.S**.
- **Gradual increase of the Regional Value Content** (RVC) for light vehicles from **62.5% to 75%,** under the methodology of Net Cost for cars and trucks, applicable in four increases. An adjustment term of two additional years is granted to the new automotive plants.
- Seven auto parts were defined as **essential and must originate in the region: engine, transmission, suspension, steering, chassis, batteries and bodywork.**
- **Steel and aluminum purchases** assemblers within the region must be at least **70% originating from the region**.
- A regional salary index is established, which requires a **Labor Value Content (LVC) of 40% in the manufacture of light vehicles**, applicable in four increases. LVC is comprised for the following: 40% of the content must come from regions that use **minimum wages of 16 USD / hr**, **25% materials and manufacturing costs, and 15% for Research and Development**, Information Technology services, and engine assembly operations, transmissions or advanced batteries.
- Vehicles that **do not comply** with the rule of origin will pay the **Most Favored Nation (MFN) tariff of 2.5%** up to a **maximum quota of 1.6 million units**.
- **Mexico and Canada signed a side letter with the U.S. granting exemption to both in case new tariffs were imposed under Section 232 of the Trade Expansion Act of 1962. This letter came into force with the signing of the Treaty in November 2018.**

Chemical products

- In the chemical sector, most of the **rules were simplified and made more flexible**, except for some sensitive products. **Change in tariff subheading are**

allowed and in some cases, the current RVC percentages are maintained or decreased.

- Unlike the original Treaty, the **USMCA includes alternative processes to confer origin**, such as chemical reaction, purification, mixtures, change in particle size, standardization of materials, separation of isomers and biotechnological processes. In this way, **technological changes are adapted to the productive processes carried out**.

<u>Televisions and electrical manufactures</u>

- Rules were updated to be **consistent with current technologies and facilitate technical language.**
- Changes were implemented in rules of origin that became obsolete because of technological changes. It was maintained the option of using **the change in tariff subheading to confer origin.** It was also **maintained** the concept **of substantial transformation of inputs when transformed into a final good for purposes of calculating Regional Value Content (VCR)**

<u>Arabic Gum, optic fiber, glass, titanium and steel intensive products</u>

- **The rule of origin for arabic gum is more flexible, considering that there is no supply for the region; however, it is required that certain processes such as spraying and refining be carried out in the region.**
- In order to promote the development of value chains in North America, for certain **glass and titanium products**, the rule of origin was modified. With this rule, the **inputs must be originated in the region**.
- For certain **steel-intensive manufactured products**, the product is required to be **originating**. RVC alternatives are included where the percentages **increase from 65% to 75%**. They will have **transition periods** for their implementation of 2 to 5 years depending on the good.