



U.S./MEXICO/CANADA AGREEMENT (USMCA)

The Office of the United States Trade Representative (USTR) has issued draft [text](#) that provides fundamental information on what has been agreed to in principle among the United States, Mexico, and Canada to replace NAFTA. The new Agreement is being called the USMCA. A different name was critical to the Agreement. The text is subject to further amendments and legal review. It is scheduled to be signed in late November, and Congress will consider it under Trade Promotion Authority (TPA) in 2019. The U.S. Enabling Legislation and a total rewrite of the U.S. Regulations will provide additional detail. USMCA provides a measure of stability and certainty to the three countries.

The Agreement includes many subjects not previously provided for in trade agreements. The following is a quick summary of highlights:

- **Motor Vehicle Production.** The content standards will change from 62.5% to 75% over a period of years.
 - **Motor Vehicle Production Wages.** 40-45% by 2023 of auto-content must be made by workers earning at least \$16/hour (not indexed to inflation). This is 3x current wages in Mexico and above some U.S. parts producers.
 - **Section 232 Tariff Exemption Quotas Side Agreement.** 2.6 million vehicles (not including pickup trucks) from Canada and Mexico each (40% above current levels) will not be subject to potential Section 232 tariffs. \$32.4 billion of Canadian and \$108 billion of Mexican auto parts will be exempt.
 - **Steel/Aluminum.** Auto content rules require 70% North American steel and aluminum.
 - Mexican Officials indicated 32% of vehicles currently made in Mexico will not qualify.
 - **Complexity.** The new standards create a high level of complexity.
- **Steel/Aluminum.** The current Section 232 Steel and Aluminum Tariffs remain, but negotiations continue. New Section 232 actions require 60-day notice/negotiation.
- **Rules of Origin.** The Rules of Origin generally follow the previous structure with changes similar to other newer trade agreements. For example, the rules for chemicals are similar to the rules in the Korea-U.S. FTA.
- **Financial Services.** National treatment, most-favored-nation treatment, and market access are provided. Local data storage requirements are prohibited.
- **Intellectual Property.** Increases in Intellectual Property protections and trade secrets for all firms with comprehensive civil and criminal enforcement. There is a new 10-year protection for biologic drugs.
- **Digital Trade.** All digital trade will be Customs duty-free with enforceable consumer protections. Civil liability of internet platforms for third party content is limited. Government ability to require disclosure of proprietary source codes is limited.
- **Agriculture.** Zero tariffs will remain on agricultural products. The U.S. gains expanded (3.59%) access to the Canadian dairy market where it already has a positive balance of trade. U.S. quotas on milk products and sugar remain. U.S. wine cannot be barred from British Columbia grocery stores. Canadian grain grading standards are changed.

- **Environment.** The most comprehensive set of enforceable environmental obligations of any U.S. trade agreement are included.
- **Labor.** The Agreement includes provisions to increase Mexican labor rights and collective bargaining.
- **FTZs.** The critical sentence providing that U.S. FTZs are within the NAFTA territory remains. NAFTA Duty Deferral with changes remains.
- **De Minimis.** Duty-free shipments raised to \$100 to Mexico and \$117 for Canada. The U.S. remains at \$800.
- **Dispute Settlement.** Terminology will change but the fundamental concept remains.
 - **Chapter 20.** State-to-State - not changed.
 - **Chapter 19.** AD/CVD - not changed.
 - **Chapter 11.** Investor State Dispute Settlement will be phased out between the U.S. and Canada. It will remain for Mexico for oil, gas, energy and infrastructure only.
- **Sunset Provision.** The Agreement has a provision for a 16-year term with review and renegotiation for extension.
- **Certificate.** The Agreement replaces the NAFTA Certificate form with a certification with required data elements.
- **Advisory Committee Reports.** All Reports issued under TPA are one-month old and must be updated.

Please contact [Marshall Miller](#), [Sean Murray](#), [Brian Murphy](#), or [Linda King](#) with any questions.

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