

# USMCA: In the Moment Import/Export and Supply Chain Considerations

**Presented by:**  
**Jorge A. Torres**  
**President/U.S. Licensed Customs**  
**Broker**  
**Interlink Trade Services**

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# Agenda

- USMCA Update
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  - Statistics
  - Automotive Rules Dispute
- China Section 301 Tariffs
- Supply Chain Disruptions
  - Nearshoring
  - Supplier Base Development
- Summary and Conclusions

# USMCA Update

## General Information

- \* On November 30, 2018, the United States, Mexico and Canada officially signed the United States-Mexico-Canada Agreement (USMCA)
- \* A revised agreement was signed by the 3 countries on December 10, 2019
- \* The revised agreement was ratified by the U.S. House of Representatives on December 19, 2019, and by the U.S. Senate on January 16, 2020
- \* President Trump signed the agreement on January 29, 2020
- \* Implementation date was July 1, 2020
- \* No gradual transition from NAFTA to USMCA (NAFTA ended on June 30, 2020 and USMCA started on July 1, 2020)

# USMCA Update

## General Information

### \* **USMCA Resources:**

- \* USMCA Agreement, Final Text
  - \* <https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada/agreement/agreement>
- \* USMCA Implementation Act (Public Law 116-113)
  - \* <https://www.congress.gov/bill/116th-congress/house-bill/5430/text>
- \* USMCA Interim Implementation Instructions
  - \* <https://www.cbp.gov/document/guidance/usmca-interim-implementation-instructions>
- \* CBP Webpage
  - \* <https://www.cbp.gov/trade/priority-issues/trade-agreements/free-trade-agreements/USMCA>
- \* Final Uniform Regulations (Published June 3, 2020)
- \* 19 CFR Part 182 USMCA Regulations
- \* General Note 11 HTSUS

# USMCA Update Statistics

## \* Trade Statistics

### \* Top 3 U.S. Trading Partners in 2021 (in Billion USD):

#### \* Canada

- \* Exports - \$307.6
- \* Imports - \$357.2
- \* Total - \$664.8
- \* % of Total Trade - 14.5%

#### \* Mexico

- \* Exports - \$276.5
- \* Imports - \$384.7
- \* Total - \$661.2
- \* % of Total Trade - 14.4%

#### \* China

- \* Exports - \$151.1
- \* Imports - \$506.4
- \* Total - \$657.4
- \* % of Total Trade - 14.3%

# USMCA Update Statistics

## \* Trade Statistics

### \* Total U.S. Import Value for Goods:

- \* FY 2020 - \$2.42 trillion
- \* FY 2021 – \$2.8 trillion
- \* FY 2021 USMCA Imports - \$543 billion

### \* Total Entry Summaries:

- \* FY 2020 – 32.8 million
- \* FY 2021 – 36.9 million

### \* Total Section 321 Transactions (De Minimis):

- \* FY 2020 – 636 million
- \* FY 2021 – 771.5 million

# USMCA Update Statistics

## \* Trade Statistics

### \* Total Duties, Taxes and Fees Collected:

\* FY 2020 - \$74.4 billion

\* FY 2021 – \$93.8 billion

\* FY 2021 Section 201 Tariffs (Solar panels, washers and washer parts) - \$955 million

\* FY 2021 Section 301 Tariffs - \$44 billion

\* FY 2021 Section 232 Tariffs (Steel) - \$1.6 billion

\* FY 2021 Section 232 Tariffs (Aluminum) - \$455 million



# USMCA Update

## Automotive Rules Dispute

- \* **Automobile and Automotive Parts**
  - \* The USMCA Elevates Regional Value Content (RVC) Requirements
    - \* Establishes an RVC of 75% (vs. 62.5% in NAFTA) with similarly high content thresholds for core, principal and complementary parts
  - \* New Requirements for Vehicle Producer's Use of Steel and Aluminum
    - \* At least 70% of a producer's steel and aluminum purchases must originate in North America
  - \* New Requirements for Labor Value Content (LVC)
    - \* Requires that a certain percentage of qualifying vehicles (40% to 45%) must be produced by employees making an average of \$16 USD per hour

# USMCA Update

## Automotive Rules Dispute

- \* **Dispute on the Interpretation of USMCA Auto Rules**

- \* The US and Mexico have failed to resolve a dispute over the interpretation of USMCA Automotive Rules of Origin, which are threatening the goal of boosting regional manufacturing under the USMCA
- \* The conflict focuses on how to calculate the percentage of a vehicle that comes collectively from the three countries under the US-Mexico-Canada Agreement
- \* The US insists on a stricter way than Mexico and Canada believe they agreed to for counting the origin of super-core parts (Table A.2) which includes engines, transmissions and steering systems in the overall calculation, which makes it harder for plants in Mexico and Canada to meet the new threshold of 75% Regional Value Content

# USMCA Update

## Automotive Rules Dispute

- \* **Dispute on the Interpretation of USMCA Auto Rules**

- \* For example, if a super-core part uses 75% regional content, and thus qualifies under that requirement for duty free treatment (under its individual rule of origin), Mexico and Canada argue that USMCA allows them to round up the number up to 100% for the purposes of meeting a second, broader requirement for the entire vehicle regional content
- \* The US, however, does not want to permit rounding up or roll up, making it tougher to reach the duty-free threshold for the complete vehicle
- \* As of now, automotive assembly plants located in the US can comply with the regional content requirement if it were to be applied as the US interprets it

# USMCA Update

## Automotive Rules Dispute

### \* Dispute on the Interpretation of USMCA Auto Rules

**TABLE A.2**  
**PARTS AND COMPONENTS FOR DETERMINING THE ORIGIN OF PASSENGER VEHICLES AND LIGHT TRUCKS UNDER ARTICLE 3 OF THIS APPENDIX**

<b>Column 1</b>	<b>Column 2</b>
<b>PARTS</b>	<b>COMPONENTS</b>
ENGINE	Heads, Blocks, Crankshafts, Crankcases, Pistons, Rods, Head subassembly
TRANSMISSION	Transmission cases, Torque converters, Torque converter housings, Gears and gear blanks, Clutches, Valve body assembly
BODY AND CHASSIS	Major body panels, Secondary panels, Structural panels, Frames
AXLE	Axle shafts, Axle housings, Axle hubs, Carriers, Differentials
SUSPENSION SYSTEM	Shock absorbers, Struts, Control arms, Sway bars, Knuckles, Coil springs, Leaf springs
STEERING SYSTEM	Steering columns, Steering gears/racks, Control units
ADVANCED BATTERY	Cells, Modules/arrays, Assembled packs

# USMCA Update

## Automotive Rules Dispute

### \* **Dispute on the Interpretation of USMCA Auto Rules**

- \* Making the USMCA Rules of Origin too complex could cause automakers to not qualify for preferential treatment and instead pay the general duty rate of 2.5% that is applied in the US for automobiles (25% for light duty trucks)
- \* Paying the general duty rate would make the USMCA irrelevant for preferential tariff purposes
- \* Motor vehicles are the top manufactured product traded between the US, Mexico and Canada
- \* On August 20th, 2021, the Mexican Government officially submitted a consultation request to the USTR as per Article 31.4 of the USMCA to resolve this difference of interpretation
- \* On January 6th, 2022, Mexico requested the establishment of a USMCA Panel to resolve this difference in interpretation
- \* A decision on this matter is expected before the end of 2022

# China Section 301 Tariffs

- \* On June 15, 2018, the office of the United States Representative (USTR) issued a press release announcing its intent to impose additional tariffs on products imported from China
- \* The additional tariffs are part of the U.S. response to China's unfair trade practices related to the “forced transfer of American technology and intellectual property” pursuant to Section 301 of the Trade Act of 1974

# China Section 301 Tariffs

- \* Currently, there are 4 lists of products (by Harmonized Tariff Classification) that are subject to Section 301 Tariffs:
  - \* List 1 – 25% - Effective July 6, 2018
  - \* List 2 – 25% - Effective August 23, 2018
  - \* List 3 – 25% - Effective September 24, 2018
  - \* List 4A – 7.5% - Effective September 1, 2019

# China Section 301 Tariffs

- \* In general, China Section 301 Tariffs will remain at least for now
- \* The current administration is still “defending” these tariffs implemented by Trump without much regard on how these tariffs are impacting inflation
- \* Lists 1 and 2 are under review by the USTR and Lists 3 and 4A will likely follow
- \* On September 8, the USTR published a notice in the Federal Register notifying the public that Lists 1 and 2 will continue in effect (Lists 3 and 4A will likely follow the same path)



# China Section 301 Tariffs

- \* The legality of Lists 3 and 4A continues to be in dispute before the Court of International Trade
- \* The litigation is focused on whether the USTR's Remand Determination provides sufficient rationale for Lists 3 and 4A
- \* No final judgement is anticipated from the Court until sometime in mid- 2023 or even later (with appeals to follow)

# China Section 301 Tariffs

- \* The Biden Administration's first national security strategy squarely positions China as the United States' top competitor and outlines trade, economic, and other approaches the U.S. will use to manage that competition
- \* China is “the only competitor with both the intent to reshape the international order and, increasingly, the economic, diplomatic, military, and technological power to do it”, the strategy states
- \* China, like other autocratic governments, often abuses global economic order by weaponizing its interconnectivity and strengths
- \* Examples include arbitrarily raising costs by withholding the movement of key goods, leveraging access to its market and control of global digital infrastructure for coercive purposes, and seeking to make the world more dependent on it while reducing its own dependence on the world
- \* At the same time, China is central to the global economy and has significant impact on shared challenges”

# China Section 301 Tariffs

- \* To cope with China's "emergence as both our most consequential competitor and one of our largest trading partners," as well as other global challenges, the strategy asserts that the U.S. needs to adjust its idea of globalization
- \* This entails moving beyond traditional free trade agreements and longstanding trade rules that "were designed to privilege corporate mobility over workers and the environment" and "fail to cover the frontiers of modern economy"
  - \* Source: Competition with China a Major Factor in U.S. Trade Policy – ST&R Trade Report, October 19, 2022

# Supply Chain Disruptions

- \* **Disruptions to the supply chain are not over yet**
- \* **5 challenges facing global supply chain:**
  - \* **The rising cost of living – Increases in the cost of goods will impact demand which makes it difficult for supply chain planning**
  - \* **Labor unrest – Increases in the cost of goods are creating a demand from workers for wage increases. Strikes in the transportation industry (dock workers, railroad, trucking, etc.) and continued truck driver shortages are creating additional strains in the supply chain**
  - \* **Energy shortages – Increase in energy prices and a shortage of energy supply will cause ripple effects in the global supply chains**
  - \* **Geopolitical uncertainty – The invasion of Ukraine has had a tremendous impact on the global supply chains. Continued tension between the U.S. and China (Taiwan) can continue to create disruptions, especially in the semi-conductor industry**
  - \* **Extreme weather – Climate change (hurricanes, droughts, etc.) have a direct impact in the supply chain by creating delays and transportation routes challenges**
    - \* **Source: “5 Challenges facing global supply chains”, World Economic Forum. Sept. 7, 2022**

# Supply Chain Disruptions

## Nearshoring

- \* **Nearshoring means relocating supply chains to diminish the risks from disruptions that are currently impacting the world**
- \* **Nearshoring makes sense as the pandemic highlighted the weaknesses from the interconnection and dependence on a fully globalized supply chain**
- \* **Regionalization is the answer, and we are seeing the positive impact of that in the North American Region**
- \* **While many companies are taking the steps or relocating their assembly/production facilities, they are also resourcing their parts or components with suppliers in the region**
- \* **Some suppliers are going even further and relocating their operations to be closer to their customers**
- \* **At this point, the relocation of the raw material supply chain is fundamental as risks are involved in not doing so**

# Supply Chain Disruptions

## Nearshoring

- \* Chinese manufacturers are increasingly setting their sights on Mexico for bringing production closer to the American Market, reflecting the higher costs of Chinese exports under U.S. tariffs and disruptions to global supply chains due to the pandemic and other factors
- \* Apart from traditional destinations in Southeast Asia targeted by Chinese producers, Mexico is becoming a new alternative, offering proximity to the U.S., lower labor costs and access to preferential tariff treatment under the U.S.-Mexico-Canada Agreement (USMCA)
- \* Although U.S. companies are relying on low-cost countries in Asia, there is strong evidence that American manufacturers are looking to relocate closer to home, according to a recent report by consulting company A.T. Kearney

# Supply Chain Disruptions

## Nearshoring

- \* A Kearney Survey in March 2022 found that 92% of American manufacturing executives were positive about bringing factories home, compared with 78% the previous year
- \* Among CEOs, 70% said they were assessing, planning or completing the relocation of operations to regions near the U.S., such as Mexico, Canada or Central America (17% said they had already moved operations to Mexico)
- \* “Mexico’s biggest advantage is its proximity to the U.S., enabling controllable logistics costs and much lower risk of supply chain disruptions due to events like the pandemic and U.S.-China frictions”, said He Xiaoqing, president of Kearney Greater China
  - \* Source: “In Depth: How Chinese factories are finding their way to Mexico, Yang Jinxi, Qu Yunxu and Du Zhihang, Caixin, July 2, 2022

# Supply Chain Disruptions

## Supplier Base Development

- \* The manufacturing industry, has relied on the Just-In-Time (JIT) method of production for many years
- \* Companies are now evaluating and implementing the Just-In-Case (JIC) method of production, which basically means to increase material inventory levels to have available in case there is a major supply chain disruption
- \* Having a Just-In-Case method of production might also continue to put pressure on supply chain disruptions as an increase in raw material inventories might translate to additional transportation and logistics requirements (freight, warehouse space, labor)
- \* We will continue to see nearshoring of companies and regionalization of the supplier base, in order to minimize the strain that supply chain disruptions create but this will take time
- \* Mexico will be key for nearshoring and the regionalization of the supplier base



# Supply Chain Disruptions

## Supplier Base Development

- \* **Supply chain disruptions are proving we need more resilient supply chains:**
  - \* Monitor suppliers 24/7
  - \* Source from two suppliers (75%-25%) rather than one
  - \* Map suppliers' manufacturing, warehouse, and distribution sites to ensure they are not all in the same region
  - \* Identify the Tier 2 suppliers that Tier 1 suppliers use for critical parts or materials
  - \* Work with sole-source suppliers to develop alternate source
  - \* Identify and monitor sub-tier suppliers
    - \* Source: Resilinc via Harvard Business Review (Federal Reserve Bank of Dallas Presentation)

# Supply Chain Disruptions

## Supplier Base Development

- \* **The Pan-American Manufacturing Ecosystem:**
  - \* Strengthen trading partnerships with countries in North America, Central America and South America
    - \* Low cost suppliers ecosystem here rather than Asia
  - \* Build a reliable, cost-effective land-based transportation network
  - \* Resulting in:
    - \* Jobs
    - \* Promoting political stability in poor countries in the Americas
    - \* Slow migration to the United States
      - \* Source: The Case for a Pan-American Manufacturing Ecosystem by Bindiya Vakil, Tom Linton, and Dale Rogers, June 14, 2021, Harvard Business Review

# Summary and Conclusions

Muchas Gracias

The information provided in this presentation is solely the opinion of the presenter and is for informational purposes only; it is not to be considered legally binding or to be used as legal advice



# Jorge A. Torres

[jorge@interlinktrade.com](mailto:jorge@interlinktrade.com)

Office: 956-843-9004