

Regional Integration in North America



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Disclaimer

Dear participant,

Thank you for attending this event. It is an honor to have you here!

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USMCA Overview



The United States-Mexico-Canada Agreement (USMCA) is a trade agreement between the named partner countries that replaces the 25-year-old NAFTA trilateral trade pact for the 21st century.

USMCA → **Entered into force** → **July 1, 2020**

- **Main Objectives:**

- ❖ Reduces cost and increases predictability for cross-border transactions between the three partners.
- ❖ Facilitates trade between the parties by promoting efficient and transparent customs procedures.
- ❖ Preserves and expands regional trade and production in the region.
- ❖ Reflects developments in technology , trade practices and adds new rules for certain commodities → Automotive and Textiles.

USMCA Rules of Origin (ROO)

- Goods are **ORIGINATING** if:
 - “Wholly obtained or produced” in Party (US-MEX-CA) **CRITERION A**
 - Produced entirely in USMCA territory using *non-originating* materials, provided the good satisfies all the applicable requirements of ROO. (Annex 4-B) **CRITERION B.**
 - Produced entirely in the territory of one or more of the Parties exclusively from originating materials. **CRITERION C; OR**
 - Produced entirely in party territory and (1) goods fail to satisfy Annex 4-B requirements (due to specific classification or unassembled form reasons) and (2) regional value content is at least 60%-transaction value method or 50%-net cost method. **CRITERION D**

CRITERION A

- Covers goods that are *wholly obtained or produced* entirely within the territory:
- Article 4.3: Wholly Obtained or Produced Goods
 - Mined or naturally occurring extracted substance
 - Farmed, cultivated, harvested, picked, or gathered
 - Animals and livestock grown
 - Fished or caught
 - A good produced exclusively from goods referred to above or from their derivatives, at any stage of production.
- Note: In practice, not many goods benefit from this.



CRITERION B

- The good is produced entirely in the territory of one or more of the Parties using **non originating** materials and the good satisfies all applicable requirements found in Annex 4-B.
- What is an **Originating Material**? “*originating material*” means a component or a material that qualifies as an originating good under Rule A, B or C and provided a 3rd party gives a certification of origin.
- **Criterion B** allows that goods manufactured inside the USMCA with components or materials made elsewhere can qualify for duty-free trade between the three countries. **if:**
 - Each non-originating material used in the production of the finished good complies with the specific rule of origin for the finished good. Two Scenarios:
 - ✓ Non-originating materials are classified under one or more tariff provisions prior to processing and production → finished good is classified under another tariff provision.
 - ✓ No change in tariff classification if a *certain amount of value is added* to the product through USMCA party processing operation.

Regional Value Calculations

- How is Regional Value Content (RVC) Determined?
- There are **two methods** by which RVC can be calculated

Transaction Value Method

Threshold:

Not Less Than 60%

Net Cost Method

Threshold:

Not Less Than 50%

Transaction value is the more common method – net cost is used when:

- ☐ No transaction value
- ☐ “Intermediate materials”
- ☐ “Accumulated” RVC

Product-specific RVC thresholds can be found in Chapter 4, Annex 4-B of the USMCA Agreement

Regional Value Calculations

- A new rule in the USMCA provides that, where a non-originating material is used in the production of a good, the following may be counted as originating content for purposes of calculating RVC under either method:
 - 1) The **value of processing of the non-originating materials** undertaken in the territory of one or more of the Parties; and
 - 2) The **value of any originating material used in the production** of the non-originating material undertaken in the territory of one or more of the Parties.
- This provision also was included in the TPP, providing additional flexibility for traders seeking to satisfy RVC requirements under the USMCA.

De Minimis Rule

- Under the de ***minimis rule***, a good is an originating good, if:
- the value of all non-originating materials used in the production of the good that do not undergo an applicable change in tariff classification is not more than **10 percent** of either:
 - 1) **the transaction value of the good** adjusted to exclude any costs incurred in the international shipment of the good; or
 - 2) **the total cost of the goods.**
- **Note:** if the value of the non-originating materials that do not undergo an applicable change in tariff classification is not greater than 10% of the transaction value of the finished good or its total cost, the good is originating despite the non-originating materials' lack of a tariff shift.
- Exceptions: Agricultural, food and mineral products.

CRITERION C

- The good is produced entirely in the territory of one or more of the Parties exclusively from originating materials.
- This means the goods are manufactured from materials that originate themselves in one or more of the USMCA countries.

- Example: Watch.



CA

- Materials originated in Canada

MEX

- Glass & Metal originated in Mexico

US

- Watch produced in United States

CRITERION D

- Except for a good provided for in **Chapters 61 to 63**:
 - If one or more of the non-originating materials used in the production of the good does not satisfy the requirements set out in Annex 4-B (Product-Specific Rules of Origin) and
 - both the “good” and the “part” are: (1) classified in the same subheading **or** (2) same heading that is not further subdivided into subheadings or,
 - the good was imported in an unassembled or a disassembled form but was classified as an assembled good pursuant to GRI 2(a), **and**
 - the regional value content of the good is not less than 60% under TVM, or not less than 50% if the NCM is used.

MARKING

- ➡ There are **no USMCA Marking Rules** whereas the NAFTA Marking Rules were separate from NAFTA Origin Rules.
- ➡ Under NAFTA, a good had to both qualify to be marked as a good of a USMCA country *and* meet the product-specific rule of origin in order to qualify for preferential NAFTA treatment.
- ➡ Under USMCA, as a general rule, a product need only meet the product-specific rule of origin in order to receive preferential treatment.
- ➡ However, CBP indicated in the Implementing Rules that the NAFTA Marking Rules in Part 102 would apply.

RoO Automobile Sector

New **USMCA** originating rules for autos → **Duty-Free Treatment:**

- ❑ **Regional Value Content Requirements:** More complex and higher thresholds. The USMCA requires an RVC range *from between 62.5-75 %*
- ❑ **Labor Value Content Requirement:** 30-40 % incorporated into a finished vehicle produced by employees located in North America earning *wages of \$16 hour or higher*
- ❑ **Steel and Aluminum Content Requirements** *at least 70% of the steel and aluminum purchased by an auto manufacturer must originate in North America.*
- ❑ **Regional Part RVC Requirement:** Core parts, principle parts and complementary parts of a vehicle *must originate in USMCA countries.*

REGIONAL ECONOMIC IMPACT

- **LOCALIZATION VS LIBERALIZATION**
- **SUPPLY CHAINS AFFECTED**
- **LIMIT INVESTMENT OUTSIDE USMCA**

Resources USMCA



Full text of USMCA agreement

<https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/agreement-between>



CBP Webpages & Information

<https://www.cbp.gov/trade/.../USMCA>



UPDATED USMCA Implementation Instructions (6/30/20)

<https://www.cbp.gov/document/guidance/usmca-implementation-instructions>



Uniform Regulations

<https://ustr.gov/sites/FTA/USMCA/Text/UniformRegulations.pdf>



19 CFR 182 & General Note 11 HTSUS (85 FR 39690) [General Note 11](#) (USITC Publication #15)



<https://www.federalregister.gov/documents/2020/07/01/2020-13865/implementation-of-the-agreement-between-the-united-states-of-america-the-united-mexican-states-and>

Questions?



Thank You!!

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