REPORT TO CONGRESS ON THE OPERATION OF THE UNITED STATES-MEXICO-CANADA AGREEMENT WITH RESPECT TO TRADE IN AUTOMOTIVE GOODS

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OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
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1. Background
Section 202A(g)(1)(A) of the United States-Canada-Mexico Agreement (USMCA) Implementation Act (P.L. 116-113) (the “Act”) requires the U.S. Trade Representative (USTR), in consultation with the Interagency Committee on Trade in Automotive Goods (“the Interagency Autos Committee”), to conduct a biennial review of the operation of the USMCA with respect to trade in automotive goods, including:

1 to the extent practical, a summary of actions taken by producers to demonstrate compliance with the automotive rules of origin, use of the alternative staging regime, enforcement of such rules of origin, and other relevant matters; and
2 whether the automotive rules of origin are effective and relevant in light of new technology and changes in the content, production processes, and character of automotive goods.

Section 202A(g)(1)(B) of the Act requires USTR to provide a report to Congress on each review.

Section 202A(g)(4) of the Act requires USTR to solicit input for matters addressed in this report from producers of automotive goods, labor organizations, and other interested parties and to provide for an opportunity for the submission of comments from the public relating to such matters. USTR issued a Federal Register notice on February 10, 2021, seeking public comment concerning the operation of the USMCA with respect to automotive goods.1 In response, USTR received 15 comments from stakeholders.2

This is the first report submitted under section 202A(g)(1)(B) of the Act. Subsequent reports will be submitted every two years through 2030.

2. Executive Summary
The USMCA contains new, more stringent rules of origin for automotive goods, designed to incentivize automotive investment, production, and well-paying jobs in North America. Evidence shows that, in the two years since USMCA’s entry into force, vehicle and parts producers have been making significant investments in North American sourcing and production in order to meet the rules of origin. Producers are also taking advantage of flexibilities afforded under the Agreement in order to prepare future production—including new electric vehicles—to comply with the USMCA rules.

While industry reports that there are complexities associated with adapting to the new recordkeeping and calculations required under the USMCA’s rules of origin, industry is complying with these administrative requirements. Industry further reports that the increased complexity of the rules, has strained producers that are simultaneously dealing with critical input shortages and supply chain challenges resulting from the COVID-19 pandemic and, more recently, Russia’s unjustified and unprovoked war in Ukraine.

Finally, the USMCA is still in the early years of implementation, and relevant information about its operation is limited at this time. Yet, it is important to acknowledge that the U.S. and North American

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2 Public comments from all stakeholders are available at: https://comments.ustr.gov/s/docket?docketNumber=USTR-2022-0001.
The automotive industry is undergoing an unprecedented transformation towards a zero-emissions and autonomous future. USTR, in consultation with the Interagency Autos Committee, will monitor the USMCA rules of origin to ensure they continue to align with, and support, North American production of these new technology vehicles. Further, we will continue to assess whether the autos rules are effective and relevant in light of future technology and changes in the content, production processes, and character of automotive goods.

3. The North American Automotive Industry and the USMCA

The automotive industry plays an outsized role in the U.S. and North American economies. In the United States, the automotive industry contributed more than $700 billion to the U.S. economy in 2021 and accounted for more than a tenth (11.4 percent) of total U.S. manufacturing output. According to industry sources, the automotive industry is responsible for 10.3 million direct and indirect U.S. jobs (approximately 8 percent of the total private sector jobs in America). Specifically, every additional job with an auto manufacturer in the United States creates nearly 11 other jobs upstream (e.g., auto parts producers) and downstream (e.g., auto dealerships) in the economy.

The USMCA and its predecessor, the North American Free Trade Agreement (NAFTA), have played an important role in the industry’s success. The duty-free treatment granted to originating vehicles and parts has helped to integrate North American production, and the agreements’ rules of origin have incentivized increased investments in North American automotive production. As a result, industry reports that total auto trade (imports plus exports of vehicles and parts) is the largest component of total North American trade, accounting for 22 percent of total trade under the USMCA. (See Appendix 1 for data on U.S. automotive and parts trade with Canada and Mexico and the world.)

The roots of duty-free trade and North American integration of the automotive sector can be traced back to the Canada-United States Automotive Products Agreement (“the Auto Pact”), signed in January 1965. In 1989, the United States-Canada Free Trade Agreement entered into force, and further expanded duty-free trade between the two countries. Then in 1994, the NAFTA entered into force adding Mexico to the free-trade bloc and effectively superseding the Auto Pact and the United States-Canada FTA.

On January 29, 2020, the President signed into law the USMCA Implementation Act, and the USMCA entered into force on July 1, 2020.

Section 202A(b) of the Act requires the creation of an Interagency Committee on Trade in Automotive Goods (“Interagency Autos Committee,” or “Committee”), which was established by Executive Order

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4 Alliance for Automotive Innovation, “Driving the U.S. Economy,” available at: https://www.autosinnovate.org/initiatives/the-industry.
5 Ibid.
13908 of February 28, 2020. Chaired by the United States Trade Representative, the Committee provides advice, as appropriate, on the implementation, enforcement, and modification of the provisions of the USMCA that relate to automotive goods, including the automotive rules of origin and the alternative staging regimes. The Committee also reviews the operation of the USMCA with respect to automotive goods.

Following its establishment in early March 2020, the Committee held regular meetings to prepare relevant information for implementation of the USMCA’s automotive rules of origin, including information for the alternative staging regimes, U.S. Customs and Border Protection (CBP) guidance to traders, and the Uniform Regulations. On June 3, 2020, in coordination with Mexico and Canada, the United States published the trilaterally agreed Uniform Regulations for Chapter IV (Rules of Origin), including provisions related to the rules of origin for automotive goods. The Uniform Regulations assist North American automotive producers, exporters, and importers with their interpretation, application, and administration of the automotive rules contained in the USMCA.

The new rules of origin and the Uniform Regulations became effective upon the USMCA’s entry into force on July 1, 2020.

4. The USMCA Rules of Origin for Automotive Goods

The USMCA contains new rules of origin for motor vehicles, which require a specific amount of North American content in the final vehicle in order to qualify for duty-free treatment under the USMCA. The USMCA raises regional value content (RVC) requirements to 75 percent for passenger vehicles and light trucks, compared to 62.5 percent under the NAFTA. In addition, certain “core parts” must also meet the higher RVC thresholds in order for the entire vehicle to qualify. The USMCA also requires that at least 70 percent of a vehicle producer’s steel and aluminum purchases originate in North America. Finally, the USMCA introduced a new labor value content (LVC) rule that requires that a certain percentage of qualifying vehicles be produced by employees making an average of $16 per hour. Collectively, these new requirements incentivize increased investment in auto and automotive parts production within the United States and North America.

The USMCA eliminated the NAFTA “deeming” rule whereby any auto part that was not specifically identified on a list created at the time the NAFTA was negotiated (in the early 1990s) was “deemed” to be originating in North America, regardless of where it was actually produced. Under the NAFTA, this rule had rendered the autos rules of origin increasingly obsolete as technological advances meant that newer, more valuable content, regardless of source, was automatically granted the preferential treatment originally intended to support U.S., Canadian, and Mexican manufacturers and workers.

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A. Regional Value Content (RVC) Requirement

The RVC requirement requires motor vehicles to meet a defined threshold of North American content (expressed as a percentage of the overall vehicle value) in order to be considered as “originating” and receive the duty-free benefits of the Agreement.

Under the USMCA, the RVC for passenger vehicles\(^9\) and light trucks\(^10\) increased to 75 percent, up from the NAFTA RVC of 62.5 percent. The higher RVC is implemented in equal annual stages over three years and will be fully implemented on July 1, 2023. As of July 1, 2022, the RVC for passenger vehicles and light trucks is 72 percent.

For heavy trucks and electric light trucks,\(^11\) the NAFTA RVC of 60 percent is maintained upon entry into force of the USMCA. However, the RVC for these trucks will increase to 64 percent on July 1, 2024, and to the final rate of 70 percent on July 1, 2027.

B. Core Parts Requirements

In addition to meeting the overall vehicle RVC requirement, the USMCA includes a new separate requirement that certain “core parts” of a vehicle must themselves be originating by satisfying separate RVC thresholds set out for those parts (“core parts origination requirement”). The seven defined core parts – the engine, transmission, body and chassis, axle, suspension system, steering system, and (where applicable) advanced battery – represent some of the most valuable parts of a vehicle. If these core parts are not themselves originating, the overall vehicle does not qualify for preferential tariff treatment under the USMCA.

The USMCA text provides automotive producers flexibility through several options as to how the core parts requirements can be met. One such flexibility permits producers to treat all of the core parts as a single part for purposes of performing the RVC calculation for the core parts origination requirement.

The USMCA core parts requirement is currently subject to dispute settlement proceedings under Chapter 31 of the USMCA. Mexico and Canada requested consultations in August 2021 and formally requested a panel (established as Panel Review Number USA-MEX-2022-31-01) on January 6, 2022. Canada and Mexico submitted initial briefs in March 2022, and the United States (as the respondent) submitted its brief in May 2022. A report by the panel is expected later this year.

In the dispute on this matter, Canada and Mexico have taken the position that if a core part qualifies as originating under the flexibilities provided for by the core parts origination requirement, then the value of the core part is considered to be 100 percent originating, when calculating the overall RVC of the vehicle. In the view of the United States, the USMCA text does not support the Canadian and Mexican interpretation. The United States’ position is that the core parts requirement and the overall vehicle RVC requirement are separate and distinct requirements that a vehicle must meet (in addition to the LVC and steel and aluminum purchase requirements) in order to receive preferential treatment under the USMCA.

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\(^9\) Under the USMCA, passenger vehicles are defined as vehicles of tariff subheadings 8703.21 through 8703.90, but do not include vehicles with compression-ignition (i.e., diesel) engines, three- or four-wheeled motorcycles, all-terrain vehicles, or motorhomes or entertainer coaches.

\(^10\) Light trucks are defined as vehicles of tariff subheading 8704.21 or 8704.31, except vehicles that are solely or principally for off-road use.

\(^11\) Heavy trucks are defined as vehicles of tariff subheading 8701.20, 8704.22, 8704.23, 8704.32, 8704.90, or 87.06 except vehicles that are solely or principally for off-road use. At the time the Agreement was drafted, electric light trucks were classified in subheading 8704.90 and received heavy truck staging.
Several stakeholders referenced the core parts dispute in their public comments to USTR. U.S. labor organizations expressed support for the U.S. interpretation of the core parts requirement. In general, vehicle producer associations agreed with Canada’s and Mexico’s interpretation of the core parts requirement. Several stakeholders expressed a desire to see a resolution to the dispute that provides greater certainty and clarity to the core parts requirements.

C. North American Steel and Aluminum Purchase Requirements
Passenger vehicles, light trucks, and heavy trucks are also subject to new producer steel and aluminum purchase requirements in order to qualify as originating under USMCA. Under these requirements, vehicle producers must purchase at least 70 percent of their steel and aluminum (by value) from within North America. The Agreement provides vehicle producers with several options under which to calculate and certify their purchases of North American steel or aluminum.

D. The Labor Value Content (LVC) Requirement
The USMCA contains a novel labor value content (LVC) provision that requires a specific minimum percentage of the content in passenger vehicles, light trucks, and heavy trucks, by value, to be sourced from North American manufacturing facilities that compensate workers at least $16 per hour. This requirement incentivizes new vehicle and parts investments in the United States, supports high-paying jobs, and helps to ensure U.S. workers and producers are able to compete on a level playing field.

The LVC requirements provide that for a passenger vehicle, light truck, or heavy truck to be eligible for preferential tariff treatment, a minimum percentage of the cost of the vehicle must involve certain high-wage expenditures. At least 45 percent of the value of light and heavy trucks and, after a transition period of three years with gradually increasing percentages, at least 40 percent of the value of passenger vehicles must meet these high-wage expenditure requirements. The three categories of high-wage expenditures are as follows:

1. High-wage material and manufacturing expenditures
   The high-wage material and manufacturing expenditures provision requires that 30 percent of the annual purchase value or net cost of a light truck or heavy truck, and beginning on July 1, 2023, after a phase-in period, at least 25 percent of the annual purchase value or net cost of a passenger vehicle, come from parts and materials that are produced in a North American production plant or facility, or from any labor costs in a North American vehicle assembly plant or facility, with a production wage rate of at least $16 per hour.

2. High-wage technology expenditures
   The high-wage technology expenditures provision allows producers to claim a credit towards the LVC requirements of up to 10 percentage points. The credit is calculated using the producer’s total annual expenditures on wages for research and development or information technology as a percentage of the vehicle producer’s total annual expenditures on production wages in North America.

3. High-wage assembly expenditures
   The high-wage assembly expenditures provision permits producers to claim a single credit of 5 percentage points towards the LVC requirements if the producer has an engine, transmission, or advanced battery assembly plant meeting certain production capacity standards, or has a long-
term contract with such a plant, in North America with an average production wage rate of at least US$16 per hour.

E. Rules of Origin Applicable to Other Vehicles
Under the USMCA, other vehicles (i.e., those not defined under the Agreement as passenger vehicles, light trucks, or heavy trucks)\textsuperscript{12} are subject to a different set of rules of origin. The RVC for other vehicles ranges from 60 percent to 62.5 percent, depending on the type of vehicle. Other vehicles are not subject to the core parts requirements, steel and aluminum purchase requirements, or LVC requirements that are applicable to passenger vehicles, light trucks, and heavy trucks.

F. Establishment of the Alternative Staging Regimes
In order to provide vehicle manufacturers time to adjust to the new requirements, the USMCA provides the opportunity for manufacturers to apply for an alternative staging regime (ASR) that allows for a tailored plan to gradually meet RVC and LVC levels for up to five years before satisfying the standard requirements. The ASR differs from the standard staging regime by providing additional time and a different phase-in of the new requirements. Although the ASR provides an alternative to certain rules of origin requirements for passenger vehicles and light trucks, it does not replace any other rules of origin or any provisions of general applicability for these goods to claim preferential treatment under the USMCA.

For instance, under an ASR, importers of certain passenger vehicles and light trucks will have an additional two years—five years instead of three—to meet the requirements, and during that time period the vehicles may be subject to different RVC and LVC thresholds. Upon expiration of the ASR, importers must demonstrate that the vehicles meet the standard USMCA requirements.

The quantity of passenger vehicles or light trucks eligible for an ASR is generally limited to 10 percent of a vehicle producer's total passenger vehicle or light truck production during the 12-month period prior to entry into force of the Agreement, or the average of such production during the complete 36-month period prior to entry into force of the Agreement, whichever is greater. Vehicle producers could request quantities above this limit if they provide a detailed and credible plan that ensures that these vehicles will meet all the requirements during the ASR period and the standard requirements after the expiration of the alternative staging period.

In addition, the ASR provisions permit companies to receive continued treatment provided for under Article 403.6 of the NAFTA for a limited period of time. Article 403.6 allowed auto producers to meet a lower regional value content requirement for vehicle models produced as the result of new investments in North America for a period of up to five years. USMCA allows vehicles covered by the NAFTA 403.6 treatment as of November 30, 2018, to continue to receive that treatment as part of a USMCA ASR.

On April 21, 2020, the USTR, in consultation with the Interagency Autos Committee, published a Federal Register notice providing procedures and guidance for North American producers of vehicles

\textsuperscript{12} Illustrative examples of “other vehicles” include passenger vehicles with diesel engines, all-terrain vehicles, motor coaches, and recreational vehicles (RVs).
intent to submit a petition for an ASR. Canada and Mexico published similar notices that invited producers to submit requests for alternative staging.

Between April 21 and July 1, 2020, vehicle producers submitted petitions to USTR, including a detailed and credible plan for vehicles to meet the applicable requirements if the quantity of vehicles for which the producer requested an ASR exceeded the 10 percent threshold noted above. The plans included commitments to make additional investments in the United States and North America, or additional purchases of U.S. and North American parts, steel, or aluminum. Given the highly integrated nature of the North American automotive industry, USTR coordinated with the governments of Canada and Mexico throughout the alternative staging process.

Thirteen vehicle producers requested and received approval for their ASR:

- Cooperation Manufacturing Plant Aguascalientes (COMPAS)
- FCA North America Holdings LLC
- Ford Motor Company
- Honda North America, Inc.
- Hyundai Motor America
- Kia Motors Manufacturing Georgia
- Kia Motors Mexico
- Mazda North America
- Nissan North America Inc.
- Tesla Inc.
- Toyota Motor North America Inc.
- Volkswagen Group of America, Inc.
- Volvo Car Corporation

A producer must notify the USTR and the Interagency Autos Committee as soon as practicable of any material changes to the information contained in the producer’s original petition that may affect the producer’s ability to meet the standard USMCA rules of origin once the ASR expires. A producer that makes such a notification may request modifications to its ASR. The USTR, in consultation with the Interagency Autos Committee, will review and make a determination on a producer’s modification request. USTR also coordinates with Canada and Mexico on modification requests with a view towards boosting North American production of autos and auto parts. To date, USTR has received one modification request.

USTR requires producers to submit annual progress reports outlining the extent to which the calculations, projections, and commitments contained in the original ASR petitions remain true and accurate. As part of these annual reports, USTR also asked for updates on producers’ efforts to support local production and any new USMCA-related investments. Producers submitted the first annual reports in December 2021, and subsequent progress reports are due annually until the expiration of the ASR or modification.

If a producer fails to meet the requirements for use of the ASR, the USTR, in consultation with the Interagency Autos Committee, may determine that the producer may no longer receive preferential treatment under the ASR. Further, a producer may lose the ability to use the ASR if it fails to submit an annual progress report or if the progress report demonstrates meaningful deviation from the producer’s original submission.

14 USTR maintains a current list of companies with approved alternative staging regimes on its website at: https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/alternative-staging
15 COMPAS is a manufacturing joint venture that is equally owned by Daimler and Nissan.
5. Enforcement of the USMCA Rules of Origin

The USMCA is the first U.S. trade agreement that requires a certain level of labor value content and specific production wage rates in order to benefit from preferential treatment. The USMCA Implementation Act requires coordination between CBP and the U.S. Department of Labor (DOL) to implement these LVC requirements, which includes promulgating regulations that set forth the procedures for auto producers to establish compliance with these requirements.\(^{16}\)

In order to ensure that these LVC provisions are properly accounted for in the facilitation and enforcement of USMCA imports, CBP and DOL have coordinated their internal procedures and communication to the trade community. For example, as called for by the Act, the two agencies have coordinated to establish policies regarding LVC certifications, including the information that must be included, a timeframe for submission of certifications, and internal processes for CBP and DOL review of the certifications and response to producers.

Guidance and Regulations:

On June 30, 2020, CBP published USMCA Implementing Instructions\(^{17}\) providing guidance with respect to preferential tariff claims under the USMCA, including the auto certification requirements, how to file the certifications, and the averaging election requirements. In addition, CBP published an addendum to the Implementing Instructions on January 12, 2021.\(^{18}\)

On July 1, 2020, CBP issued the USMCA Uniform Regulations\(^{19}\) as Appendix A to 19 CFR part 182 (United States-Mexico-Canada Agreement). These Uniform Regulations, which were agreed to trilaterally, set forth the rules of origin for autos, as well as the LVC, and steel and aluminum content required to claim USMCA preference.

Also on July 1, 2020, in accordance with Section 210(b) of the Act, DOL issued regulations\(^{20}\) necessary to administer the high-wage components of the LVC requirements as set forth in the USMCA and section 202A of the Act. DOL’s regulations at 29 CFR part 810 establish procedures for producers to follow concerning certification and verification of the high-wage components of the LVC requirements. Since the USMCA’s entry into force, DOL has relied on its regulations when reviewing (in consultation with CBP) LVC certifications submitted by producers for omissions or errors, and will similarly rely on them when conducting upcoming verifications of producer LVC compliance.

CBP plans to promulgate additional regulations to supplement the Uniform Regulations, including detailed USMCA guidance for the automotive industry, and provide the opportunity for public comments on those regulations. In the absence of those regulations, however, CBP has continued to enforce and ensure compliance with the USMCA rules of origin. For example, the agency has processed a large number of auto producers’ claims for preferential treatment under the Agreement. In addition, CBP and

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\(^{16}\) See 19 U.S.C. 4532(c).
DOL have reviewed a number of LVC certifications from auto producers, and CBP has reviewed many steel and aluminum purchasing certifications.

**Discussions with Automotive Industry:**
Prior to the USMCA’s entry into force, CBP established the USMCA Center\(^{21}\) to serve as a one-stop shop for information concerning the USMCA. The Center coordinates CBP’s implementation of the Agreement and seeks to ensure a smooth transition by providing consistent and comprehensive guidance to internal and external stakeholders. To achieve this, the Center is staffed with experts from across CBP’s operational, legal, and audit disciplines and frequently collaborates with Canadian and Mexican customs authorities.

Further, CBP and DOL have worked closely with auto producers to solicit the certifications required by the USMCA. Both agencies have engaged with many auto producers concerning their LVC certifications, and worked to promote compliance throughout the certification review process without imposing undue burdens on the industry. For example, the USMCA sets forth a number of time periods for which auto producers could elect to certify LVC compliance that did not always align with the periods for which producers were accustomed to certifying, given that the Agreement entered into force mid-year. Thus, CBP and DOL have worked to facilitate producers’ compliance with the Agreement’s certification requirements in a manner that aligns with the producers’ existing practices.

At the same time, however, the delay in issuing additional regulations designed to implement the USMCA has increased uncertainty and the administrative burden that producers face in complying with the Agreement. For example, notwithstanding the delay, CBP had to establish policies for when producers are required to file LVC certifications, deciding to request them 30 days before the certification period. However, in the public comments solicited in preparation of this report, auto producers noted that this 30-day requirement increases their administrative burden because they must make the calculations twice: the first time using estimated data in order to meet the certification deadline and the second time to recalculate figures when the full data becomes available.\(^{22}\)

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6. Steps Taken by Auto Producers to Meet the USMCA Rules of Origin
North American vehicle and parts producers were already familiar with the complex rules of origin under the NAFTA and the detailed recordkeeping necessary to substantiate claims under those rules. Nonetheless, the phased-in implementation of the USMCA requirements plus the alternative staging regimes provide producers flexibilities in transitioning to the new rules of origin. Not long after USMCA’s text was published in 2018, companies began assessing their supply chains and determining what changes needed to be made in order to qualify under the USMCA rules of origin.

Several stakeholders commented to USTR that the new and more stringent automotive rules of origin have placed greater administrative burdens on vehicle and parts producers. That burden may be particularly acute for parts producers given the rules of origin requirements for a given part may differ depending on whether or not the part is incorporated into a passenger vehicle, a heavy truck, or simply traded on its own. One commenter reported that the burden and costs of certifications is so high that


some suppliers choose not to perform the necessary calculations and documentation and instead simply label parts as “non-originating,” even if the good might otherwise qualify under the USMCA.

Vehicle producers noted that COVID-related and other supply chain disruptions have added significant burdens to producers trying to adapt and implement the new USMCA rules of origin. Often the company supply chain personnel responsible for preparing the necessary information and certifications to demonstrate compliance with the USMCA rules of origin are the same officials who are simultaneously trying to mitigate the negative impacts of various supply chain disruptions (COVID-related and otherwise) on the company’s production. To help ease this burden, commenters urged USTR, CBP, and other Federal agencies to continue working with industry to streamline USMCA certification and compliance procedures and to provide additional clarity on the rules of origin (e.g., through CBP’s domestic regulation, informal guidance, website pages, or audit handbooks).

Vehicle producers also commented on the burden of meeting various certification requirements—particularly those to demonstrate compliance with the LVC and the steel and aluminum purchase requirements. According to the producers, the current certification deadlines do not provide enough time for the producers to gather the necessary data and make the calculations. As noted earlier, producers have expressed frustrations with having to make some calculations twice in order to meet the certification deadline.23

A. Use of the Alternative Staging Regimes

Although specific ASRs varied by company, vehicle producers in general identified current and future investments in local parts production as the path to compliance with the standard USMCA rules of origin. Some of the plans focused on relocating core parts (e.g., engines, transmissions, and batteries) production to North America and boosting company purchases of North American steel and aluminum. Beyond core parts, companies also highlighted plans to increase North American sourcing of key high-value components.

In some instances, producers requested an ASR in order to maintain existing sourcing arrangements for vehicles currently in the late stages of their production cycles. Producers indicated that it would not be economical to retool factories or make major sourcing shifts for these vehicles in order to meet the USMCA rules of origin. Instead, companies indicated that the flexibility provided by the ASR would free up resources to focus on longer-term investments for local parts production for new vehicles or future production cycles of existing models in order to meet the USMCA requirements.

In other instances, producers requested an ASR for vehicles in the middle of their production cycles. This approach provided the producers flexibility to focus on shorter-term investments for local production of certain key components, such as engines and other core parts, without causing serious disruption to the current production cycle.

Several producers requested ASRs for electric and hybrid electric vehicles due to the current lack of availability of North American lithium-ion batteries and related inputs (e.g., cells) necessary to meet the standard rules of origin. Although there are unprecedented levels of investment underway to increase North American battery production, much of that investment will not be fully realized until after 2025. As a result, some producers have to rely on non-originating batteries and cells in order to supply current

23 Ibid.
electric and hybrid electric vehicle production. If investments are not fully realized by 2025, electric vehicle manufacturers will face additional challenges to meet the USMCA rules of origin at that time.

In general, industry expressed support for the ASRs and the flexibility they provide. Taking into account COVID-related and other supply chain disruptions, the automotive industry recommended that USTR maintain or even expand that flexibility for longer periods of time or for new market entrants. There is presently no option for alternative staging available to new market entrants that did not have production online during the ASR submission period in mid-2020.

The Motor and Equipment Manufacturers Association (MEMA) observed that the ASRs present additional burdens on automotive parts producers. In its comments to USTR, MEMA noted that because of the different rules applicable to vehicle producers under the ASRs, “vehicle parts producers need to meet multiple timelines and different targets depending on the alternative staging regime applicable to their automaker customers.” Further, MEMA contended that the lack of a specific form for certifying USMCA origin has also added to the parts producers’ administrative burden. In the absence of a specific form for claiming origin, automakers and parts suppliers up and down the supply chain have created their own forms and formats for information collection, resulting in a lack of consistency across automotive and parts suppliers.

B. Other Automotive Issues Under the USMCA Rules of Origin

Stakeholders have raised concerns with USTR regarding the treatment of used vehicles under the USMCA. The Agreement does not differentiate between new and used vehicles for rules of origin purposes. As a result, used vehicles must meet the same USMCA rules of origin—including the RVC, LVC, and steel and aluminum requirements—as new vehicles in order to qualify for duty-free treatment under the Agreement. The industry argues that these requirements disadvantage used vehicles because such standards did not apply to vehicles produced in North America under the NAFTA (prior to July 1, 2020) and there are no records or other information that can retroactively demonstrate that a used vehicle manufactured prior to the implementation of the USMCA satisfies the USMCA rules of origin.

In order to help facilitate the trade in used vehicles, CBP published a fact sheet to inform the public that an alternative means to duty-free treatment for used vehicles may exist under tariff provisions applicable

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25 The USMCA allows importers to complete a certification of origin to include nine required data elements as well as a certification statement. These data elements do not need to follow a prescribed format. The USMCA also allows a certification of origin to be completed and signed with an electronic or digital signature. These new requirements mark a change from the NAFTA, which required a uniform Certificate of Origin that could only be signed by the exporter or producer of the goods. In addition, NAFTA certificates required a wet signature and did not allow electronic signature.

to U.S. goods returned. Subheading 9801.00.10 of the Harmonized Tariff Schedule of the United States provides for the duty-free treatment of:

Products of the United States when returned after having been exported, or any other products when returned within three years after having been exported, without having been advanced in value or improved in condition by any process of manufacture or other means while abroad.

The burden of substantiating duty-free eligibility lies with the importer of the used vehicle.

7. Effectiveness and Relevance of the USMCA Rules of Origin in Light of New Technologies and Production Processes

USMCA’s rules of origin are effective, as evidenced by the new investments and steps producers are taking to increase North American production. At the same time, in the public input received by USTR, several commenters referenced the unprecedented technological revolution underway in the North American automotive industry as vehicles shift away from internal-combustion engines towards zero-emission electric vehicles, as well as the development of autonomous vehicle technologies. Commenters urged USTR to consider carefully how these new technologies are affected by the USMCA rules of origin and how those rules may be adapted to incentivize increased investments in electric and autonomous vehicle technology in North America.

Several commenters urged USTR to maintain flexibility in the rules of origin given that the North American battery supply has not yet caught up with current and anticipated demand. Many of the minerals and inputs needed to produce electric vehicle batteries are not available in North America, which limits the ability to produce a battery in North America that meets the USMCA rules of origin. As a result, some commenters argued that the USMCA rules of origin are out of alignment with the current status of the electric vehicle supply chain.

At the same time, other commenters have proposed updates to the rules of origin to require more North American components to be incorporated in electric and autonomous vehicles. In its submission, the United Autoworkers proposed additions to the core parts list to include: a) electric vehicle components, such as motors, AC/DC inverters, and electric drivetrain; b) electric vehicle battery components, such as anodes, cathodes, graphite, and nickel; and c) autonomous vehicle components, such as LiDAR and radar sensors, automotive cameras, and vehicle communications systems.

As the USMCA is still in the early years of implementation and relevant information is limited at this time, USTR, in consultation with the Interagency Autos Committee, will continue to assess whether the autos rules remain effective and relevant in light of new technology and changes in the content, production processes, and character of automotive goods.

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8. External Factors Negatively Impacting the North American Auto Industry

Assessing the full impact of the USMCA on the U.S. and North American automotive industry is difficult at this time due to three extraordinary external factors that have adversely impacted the industry since early 2020: the COVID-19 pandemic, the subsequent supply chain shortages of semiconductors and inputs, and the 2022 Russian invasion of Ukraine.

The USMCA entered into force just four months into the COVID-19 pandemic. By then, U.S. automobile production had already come to a standstill for nearly six weeks between April and May 2020 during the first lockdowns of the pandemic. Industry employment fell from a post-Great Recession peak of 245,400 workers in February 2020 to just 120,300 workers in April 2020, lower than the lowest levels seen during the Great Recession (122,500 workers in January 2009).\textsuperscript{30} U.S. light vehicle production in 2020 fell by almost 2 million vehicles, dropping to 8.6 million vehicles produced in 2020 from 10.5 million vehicles in 2019.\textsuperscript{31} The closure of auto dealerships during the pandemic also contributed to the decline in sales, which dropped 15 percent from 2019 to 2020.\textsuperscript{32} Several producers commented in their ASR submissions to USTR that the pandemic had delayed or disrupted their plans to localize production in order to meet the USMCA rules of origin.

In addition, passenger vehicle production has been significantly restrained by the global shortage of semiconductor chips. During the industry-wide lockdown, automotive suppliers anticipated reduced demand for automobiles and cut their orders for semiconductors. At the same time, demand for chip-heavy products such as laptops, mobile phones, and servers increased. When the automotive market recovered more quickly than expected in the second half of 2020, semiconductor production lines had already been switched to produce chips (often with higher margins than automotive chips) for the other products that had maintained growth throughout the year.

In comments to USTR, industry reported that the semiconductor shortage resulted in an estimated production loss of 1.52 million U.S. vehicles in 2021, estimated to be worth approximately $42 billion. The industry estimates a 2022 production loss of more than a million U.S. vehicles as the shortages persist into this year.\textsuperscript{34}

Since February 2022, Russia’s unprovoked and unjustified invasion of Ukraine has also disrupted global supplies of several important materials used in the production of automotive components. Russia is a major producer of aluminum and palladium, which are used in auto parts, and Ukraine is the largest global supplier of neon gas, which is used in the production of semiconductors.

\textsuperscript{30} Bureau of Labor Statistics.
\textsuperscript{31} WardsAuto InfoBank.
\textsuperscript{33} Department of Commerce, Bureau of Economic Analysis.
Aluminum
Russia produces and exports primary unwrought aluminum, and several wrought products which can be used, or further worked into inputs in the auto industry. Although the direct loss of imports from Russia has little impact on the U.S. auto industry, the conflict and related supply chain disruptions globally have contributed to increasing global aluminum prices which, in turn, drives up the prices of auto parts made of aluminum. By October 2021, ongoing supply chain disruptions had already pushed aluminum prices to their highest levels since 2008, and the war against Ukraine has likely exacerbated this surge in prices.

Palladium
Palladium is commonly used, along with other platinum-group metals (PGMs), as the active substance in automobile catalytic converters (as well as the production of semiconductors). The United States relied upon foreign palladium sources to meet 37 percent of its domestic consumption needs in 2021. About one-third (30 percent) of U.S. palladium imports were sourced directly from Russia.

Palladium prices have continued to increase throughout the Russian war against Ukraine. Many companies are attempting to source palladium outside of Russia, but it has been estimated that it would take South Africa (the second largest global producer of palladium) at least five years to ramp up to replace Russian production. These price increases and supply constraints are likely to influence the U.S. catalytic converter market.

Nickel
Refined nickel metal is the primary form of nickel used in batteries for electric vehicles. It is a key component in the cathodes of many of the most common lithium-ion battery chemistries, such as nickel manganese cobalt (NMC) and nickel cobalt aluminum (NCA). The United States does not produce any primary nickel metal (high-grade or low grade) domestically. Russia is a leading global producer of both raw mined nickel ore and concentrates, as well as refined nickel metal. In 2021, Russia produced about 250,000 metric tons of nickel in concentrates, making it the third leading global producer of mined nickel behind Indonesia and the Philippines.

Although Russia is a leading source, some auto producers have entered into supply agreements that would limit the impact of the conflict on their ability to secure nickel. The most immediate impact of the conflict on the U.S. auto industry (and other nickel-consuming industries) could be the resulting global price increase for nickel and downstream products such as batteries.

35 Extruded products, such as bars, rods, and profiles can be used to build car frames and parts of the body, as well as other small auto parts. Aluminum wire is also used in the electrical wiring for automobiles. The use of aluminum plate and sheet in body-in-white and chassis applications, as well as hoods and doors, and heat exchangers has also grown significantly in recent years.
36 Unless otherwise noted, this information is based on DeCarlo and Goodman, “Russia, Palladium, and Semiconductors,” May 2022.
38 U.S. imports of palladium under HTS subheadings 7110.21 and 7110.29. USITC, DataWeb, retrieved May 2, 2022.
Neon\textsuperscript{42}

Neon, specifically ultra-high purity grade (purity greater than 99.99 percent), is commonly used as the carrier gas for lasers used in the production of semiconductors. As of early 2022, Ukraine supplied an estimated 50 percent refined neon globally. The Ukrainian neon industry largely sources crude neon gas inputs from Russian steel production operations, which extract neon as a byproduct. The semiconductor industry accounts for up to 90 percent of neon gas laser demand. The current conflict in Ukraine raises concerns about the security of that supply, further compounding the global semiconductor shortage, which had begun recovering from the shortages related to the COVID-19 pandemic.

9. Other Automotive Issues Under the USMCA

In a side letter to the USMCA,\textsuperscript{43} Mexico affirmed that its domestic motor vehicle safety standards, NOM-194-SCFI-2015, incorporate U.S. Federal Motor Vehicle Safety Standards (FMVSS). Further, Mexico committed to continued recognition and acceptance of U.S. FMVSS as satisfying the relevant specifications for essential safety devices set forth under NOM-194-SCFI-2015 or any amendment or successor instruments to that standard.

In September 2021, Mexico notified to the World Trade Organization its draft Mexican Official Standard PROY-NOM-194-SE2021, which would establish new safety standards for new light-duty vehicles and would cancel NOM-194-SCFI-2015. The U.S. Government and industry provided comments on the draft regulation to Mexico in November 2021, which included raising concerns with certain voluntary standards introduced in the measure, and expressing support for Mexico continuing to accept self-certification with U.S. FMVSS. The United States also raised questions about the measure in several bilateral meetings with Mexico in 2021. In accordance with transparency provisions of the USMCA chapter on Technical Barriers to Trade, U.S. Government representatives participated in a Mexican working group reviewing the draft vehicle safety regulations. The working group concluded its work in late 2021, and the United States will continue to monitor the issue as Mexico is expected to publish final regulations in 2022.

The U.S. Government has also initiated conversations with Mexico on the implementation of its standard PROY-NOM-014-SCT2-2019, which regulates rear underride guards for conventional buses and unit truck-type vehicles over 4536 kg. The Mexican standard diverges from the standard applied in the United States and Canada, and could pose a barrier to U.S. truck exports. The United States continues to engage with Mexico on the implementation of this standard.

10. Conclusions

The USMCA contains new rules of origin designed to incentivize the production of autos and auto parts in the United States and North America. Over the past two years, auto and parts producers have made significant investments in North American production in order to meet those requirements and have

\textsuperscript{42} Unless otherwise noted, this information is based on DeCarlo and Goodman, “Ukraine, Neon, and Semiconductors,” April 2022, available at: https://www.usitc.gov/sites/default/files/publications/332/executive_briefings/ebot_decarlo_goodman_ukraine_neon_and_semic conductors.pdf.

demonstrated compliance with the new rules. However, the severe disruptions due to the COVID-19 pandemic and supply chain interruptions have compounded the expected additional administrative requirements on companies to implement the new USMCA rules of origin.

USTR and the Interagency Autos Committee will work with stakeholders to provide greater clarity and to reduce uncertainty regarding the USMCA’s requirements. At the same time, we will continue to monitor the auto industry’s ongoing transformation towards zero-emission and autonomous vehicles to ensure that USMCA’s rules of origin remain effective and relevant and that they continue to drive U.S. and North American investment and competitiveness.
Appendix 1 – U.S. Trade of Autos and Auto Parts with Canada, Mexico, and the World, 2017-2021
(Millions $)

**U.S. Imports of Autos and Auto Parts**

<table>
<thead>
<tr>
<th>Source</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Passenger Vehicles and Light Trucks</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>42,670</td>
<td>38,824</td>
<td>38,974</td>
<td>28,904</td>
<td>24,842</td>
</tr>
<tr>
<td>Mexico</td>
<td>47,724</td>
<td>53,379</td>
<td>59,314</td>
<td>49,027</td>
<td>52,965</td>
</tr>
<tr>
<td>USMCA Total</td>
<td>90,394</td>
<td>92,203</td>
<td>98,288</td>
<td>77,931</td>
<td>77,807</td>
</tr>
<tr>
<td>USMCA’s Share of World</td>
<td>45.3%</td>
<td>46.1%</td>
<td>47.7%</td>
<td>46.4%</td>
<td>44.5%</td>
</tr>
<tr>
<td>All Others</td>
<td>109,120</td>
<td>107,661</td>
<td>107,622</td>
<td>89,880</td>
<td>96,877</td>
</tr>
<tr>
<td>World Total</td>
<td>199,514</td>
<td>199,865</td>
<td>205,910</td>
<td>167,811</td>
<td>174,684</td>
</tr>
<tr>
<td><strong>Heavy Trucks</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>1,374</td>
<td>1,533</td>
<td>1,779</td>
<td>1,206</td>
<td>1,139</td>
</tr>
<tr>
<td>Mexico</td>
<td>10,726</td>
<td>12,046</td>
<td>13,015</td>
<td>8,895</td>
<td>10,941</td>
</tr>
<tr>
<td>USMCA Total</td>
<td>12,100</td>
<td>13,579</td>
<td>14,794</td>
<td>10,101</td>
<td>12,080</td>
</tr>
<tr>
<td>USMCA’s Share of World</td>
<td>93.5%</td>
<td>93.4%</td>
<td>94.6%</td>
<td>96.1%</td>
<td>95.3%</td>
</tr>
<tr>
<td>All Others</td>
<td>838</td>
<td>955</td>
<td>848</td>
<td>415</td>
<td>599</td>
</tr>
<tr>
<td>World Total</td>
<td>12,938</td>
<td>14,534</td>
<td>15,642</td>
<td>10,515</td>
<td>12,679</td>
</tr>
<tr>
<td><strong>Auto Parts</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>54,242</td>
<td>58,299</td>
<td>59,331</td>
<td>50,595</td>
<td>58,848</td>
</tr>
<tr>
<td>Mexico</td>
<td>16,022</td>
<td>17,158</td>
<td>16,746</td>
<td>14,028</td>
<td>16,408</td>
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<tr>
<td>USMCA Total</td>
<td>70,264</td>
<td>75,457</td>
<td>76,077</td>
<td>64,623</td>
<td>75,256</td>
</tr>
<tr>
<td>USMCA’s Share of World</td>
<td>50.7%</td>
<td>50.1%</td>
<td>51.5%</td>
<td>52.0%</td>
<td>49.6%</td>
</tr>
<tr>
<td>All Others</td>
<td>68,354</td>
<td>75,212</td>
<td>71,779</td>
<td>59,757</td>
<td>76,372</td>
</tr>
<tr>
<td>World Total</td>
<td>138,618</td>
<td>150,669</td>
<td>147,855</td>
<td>124,381</td>
<td>151,628</td>
</tr>
</tbody>
</table>

## U.S. Exports of Autos and Auto Parts

### Passenger Vehicles and Light Trucks

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Canada</strong></td>
<td>23,647</td>
<td>22,820</td>
<td>24,118</td>
<td>18,169</td>
<td>21,971</td>
</tr>
<tr>
<td><strong>Mexico</strong></td>
<td>3,408</td>
<td>3,246</td>
<td>2,889</td>
<td>1,823</td>
<td>3,008</td>
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<tr>
<td><strong>USMCA Total</strong></td>
<td>27,055</td>
<td>26,066</td>
<td>27,007</td>
<td>19,992</td>
<td>24,979</td>
</tr>
<tr>
<td><strong>USMCA’s Share of World</strong></td>
<td>50.1%</td>
<td>50.6%</td>
<td>46.6%</td>
<td>42.0%</td>
<td>43.3%</td>
</tr>
<tr>
<td><strong>All Others</strong></td>
<td>26,988</td>
<td>25,453</td>
<td>30,951</td>
<td>27,573</td>
<td>32,722</td>
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<tr>
<td><strong>World Total</strong></td>
<td>54,043</td>
<td>51,520</td>
<td>57,959</td>
<td>47,564</td>
<td>57,702</td>
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</table>

### Heavy Trucks

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Canada</strong></td>
<td>3,645</td>
<td>4,278</td>
<td>4,531</td>
<td>3,123</td>
<td>3,898</td>
</tr>
<tr>
<td><strong>Mexico</strong></td>
<td>277</td>
<td>328</td>
<td>313</td>
<td>198</td>
<td>204</td>
</tr>
<tr>
<td><strong>USMCA Total</strong></td>
<td>3,922</td>
<td>4,606</td>
<td>4,844</td>
<td>3,321</td>
<td>4,102</td>
</tr>
<tr>
<td><strong>USMCA’s Share of World</strong></td>
<td>82.8%</td>
<td>84.4%</td>
<td>87.6%</td>
<td>86.1%</td>
<td>87.4%</td>
</tr>
<tr>
<td><strong>All Others</strong></td>
<td>812</td>
<td>851</td>
<td>687</td>
<td>533</td>
<td>591</td>
</tr>
<tr>
<td><strong>World Total</strong></td>
<td>4,734</td>
<td>5,456</td>
<td>5,531</td>
<td>3,855</td>
<td>4,692</td>
</tr>
</tbody>
</table>

### Auto Parts

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Canada</strong></td>
<td>24,512</td>
<td>26,807</td>
<td>27,255</td>
<td>20,518</td>
<td>23,975</td>
</tr>
<tr>
<td><strong>Mexico</strong></td>
<td>27,135</td>
<td>26,293</td>
<td>25,213</td>
<td>18,758</td>
<td>18,166</td>
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<tr>
<td><strong>USMCA Total</strong></td>
<td>51,647</td>
<td>53,100</td>
<td>52,468</td>
<td>39,276</td>
<td>42,141</td>
</tr>
<tr>
<td><strong>USMCA’s Share of World</strong></td>
<td>70.9%</td>
<td>71.1%</td>
<td>73.2%</td>
<td>70.0%</td>
<td>70.2%</td>
</tr>
<tr>
<td><strong>All Others</strong></td>
<td>21,230</td>
<td>21,559</td>
<td>19,252</td>
<td>16,795</td>
<td>17,860</td>
</tr>
<tr>
<td><strong>World Total</strong></td>
<td>72,877</td>
<td>74,659</td>
<td>71,720</td>
<td>56,071</td>
<td>60,001</td>
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