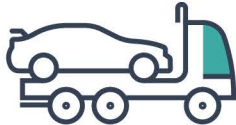


AUTOMOBILE SECTOR

A. Generality



The Origin Regulations for the automobile sector are located in Chapter 4: Origin Regulations and Specific Origin Regulations from the new Agreement known as United States – Mexico – Canada Agreement (USMCA).

This Agreement includes three lateral letters between United States and Mexico, the first relative to Automobile Security Standards. The second and third are referenced to the commercial restrictions of “national security” from Section 232. Canada and United States signed the same letters.

With the first letter between Mexico and United States, their compromise to strengthen North America in the automobile sector, promoting and actively facilitating fair and mutual commerce between these two countries has been reaffirmed. Consequently, Mexico will continue acknowledging and accepting the Federal Motor Vehicle Safety Standards (FMVSS), which is the normative system in automobile matter from the United States.



Recalling the actual investigation that is being held against automobiles with basis in Section 232 (announced on May 2018), the US-Mexico 232 Side Letter, and their Canadian alike, stipulate that Mexico and Canada will receive certain exceptions in relation on the possible restrictions in automobile import or automobile parts that the US can impose. Agrees to exclude:

- 2,600,000 passenger vehicles annually per country.
- Light trucks imported from each country
- Autoparts worth \$32.4 billions of dollars for Canada and \$108 billions of dollars for MexicoA

The last pair of lateral letters stipulate that, if United States impose tariffs or restrictions to Canada or Mexico’s goods or services imports based on Section 232, there will be a 60 days period before the implementation while the parts will "attempt negotiating a proper result based in the industry dynamism and historic commercial patterns". Dictates that, is the measures takes were incompatible with the NAFTA, the USMCA or the World Trade Organization



Agreement, Canada and Mexico can take equivalent reprisals, and retained the WTO rights to dispute those measures.

In the Agreement, there is no reference to the current tariffs to steel and aluminum. The commercial representatives from Mexico and Canada had declared to take initiative and begin conversations with their American similar with the purpose to eliminate the tariffs before being signed by the President of the USMCA.

According to the United States Trade Representative the new Agreement will create a more balanced and mutual commerce. It indicates that the update for the origin regulations for passenger vehicle, light truck and Autoparts will stimulate the incorporation of goods and origin materials in the USA and North America.

The content increase in the regional value encourages the economic regional growth and in the USA fabrication when demanding for 75% of automobile contents to be produced in North America.

The new commercial regulations will conduce to higher salaries when demanding for a 40-45% of automobile content to be operated by employees that earn at least \$16 dollars per hour. Finally, automobile companies will be encouraged for a higher investment in investigation and regional development. For the Secretariat of Economy (SE), the origin rules consolidate the regional value chains and increase the incentives for local providers development.

- **Light trucks and vans**

- 75% of their value should be originated from processes and consumables done in the region and 40% from higher level wage zones in North America.

- **Heavy vehicles**

- Should be originated from processes and consumables done in the region and 40% from higher level wage zones in North America.

- **Autoparts:**

Between 65 and 75% from their value should be originated from processes and consumables done in the region.

The increment in the origin regulation will be gradually held, starting January



1st. of 2020 it will be increased up to a 66%, aiming to reach a 75% from the Agreement due to 2023.

B. BACKGROUNDS



Since the beginning of the NAFTA renegotiation to the Origin Regulation of the automobile sector was one of the most complex themes to discuss, even at the end of the negotiation, this topic was one of the three points that delayed the Agreement closing.

In the end of 2017, the USTR reached their goals for the Treaty negotiation, in which established:

- **Market access:**
 - Improve the commercial balance in the United States and reduce the commercial deficit with the TLCAN countries.
 - Boost the transparency in import and export license tramits.
 - Moderate the import and export monopolies to avoid commercial distortion.
- **Origin Regulations:**
 - Upgrade and strengthen the origin regulations, according to the case, to guarantee that NAFTA benefits are destined to genuinely elaborates products in the United States and in North America.
 - Ensure that origin regulations incentivate the production in North America, specifically in North America.

Therefore, during great part of the process, American negotiators presented different propositions to strengthen the automobile origin regulation and close the gap (incentivized by NAFTA) on low salaries in automobile and pieces production.

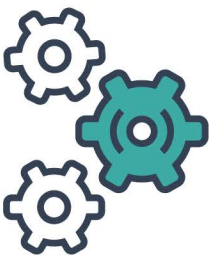
In the beginning of the negotiation, the proposal from United States established an increase in the percentage of regional content form 62.5 up to 85%; salary demands; a list of seven “essential” components and between them, the motor, transmission, suspension, and chassis, ensembled should add 75% of regional content; 70% steel and aluminum used by vehicle fabricants originated in North America; and eliminate the tracking regulation.

The Mexican private sector valued this proposal as strict, therefore, transitional periods were proposed for the increase of regional content of the origin regulations as for the percentage of contents of an ensembled vehicle with 16 dollars-labor.

On June of 2018, United States applied 25% tariffs to the import of diverse steel products and 10% tariffs to various aluminum products. Canada and Mexico were not excluded from such applied measures; therefore, reprisals were made against diverse products originated from the US.

Such measures generated tension in between the negotiations, mostly when on May the Minister of Commerce of the United States announced the beginning of the investigation against automobiles and Autoparts with basis to Section 232. In view of this scenario, a negotiation for a “insurance” emerged in case of tariff measures application from the US, aiming to maintain the capacity for current and future exports.

C. USMCA



Chapter 4: Origin Regulations and Specific Origin Regulations, are made of:

- Article 4.1: Definitions
- Article 4.2: Originated Goods
- Article 4.3: Goods Totally Obtained of Produced
- Article 4.4: Procedures for retrieved materials used in the Remanufactures Good Production
- Article 4.5: Regional Content Value
- Article 4.6: Materials used in Production Value
- Article 4.7: Materiales Value Adjustment
- Article 4.8: Interval Materials
- Article 4.9: Indirect Materials
- Article 4.10: Automobile Industry Good
- Article 4.11: Accumulation
- Article 4.12: *De Minimis*

- Article 4.13: Fungibles Goods and Materials
- Article 4.14: Accessories, renovations, tools or other materials
- Article 4.15: Containers and container materials for retail
- Article 4.16: Containers and packaging materials for shipment
- Article 4.17: Group of goods, kits or compound goods
- Article 4.18: Transit and Transshipment
- Article 4.19: Unqualified Operations
 - Annex 4-A: Exceptions to *De Minimis*
 - Annex 4-B: Specific Origin Regulations
 - Appendix to Annex 4-B: Dispositions related to Origin Regulations for automobile goods.

It is relevant to inspect the appendix, because it established periods for the compliance in regional value content, as in workmanship content value.

■ Origin Regulations for light vehicles:



- 75% Regional Content Value (RCV), under the Net Cost methodology, for cars and trucks, applicable in 4 increments, for which should adjust the RCV, aiming to reach the agreed percentage.
- 40% Laboral Content Value (LCV) for cars and 45% for trucks, applicable in 4 increments. The LCV is contained by two components:
 - Materials and manufacture costs (25 % for cars and 30% for trucks).
 - Investigations and Development (I&D), Information Technologies Services, and operating motors ensemble, transmissions or advances batteries, that represent a 15% LCV.
- At least a 70% of Steel and aluminum should be originated from the North American region (assembly plants to comply).
- Three categories have been defined for Autoparts: Essentials (North American Origin), principals and complementaries, whose RCV are established between 70%, 60% or 65%, depending the autopart type, and the increment will be applicable in 7 phases.

- Three categories have been defined for autoparts: essentials, principals and complementaries, whose RCV are established between 70%, 60% or 65%, depending the autopart type. The RCV increment also will be effected in 4 increments.



■ **Origin Regulations for heavy vehicles:**

- 70% RCV, under the Net Cost method and applicable in 7 increments, for which the RCV should be adjusted until it reaches the stipulated percentage.
- 45% LCV, contained by two components:
 - 30% Materials and manufacture costs
 - I&D, Information Technologies Services, and assembly operations of motors, transmissions, or advanced batteries, which represent 15% of LCV
- At least a 70% of Steel and aluminum should be originated from the North American region (assembly plants to comply).
- Three categories have been defined for Autoparts: Essentials (North American Origin), principals and complementaries, whose RCV are established between 70%, 60% or 65%, depending the autopart type, and the increment will be applicable in 7 phases.



■ **Vehicles that violates Origin Regulations:**

- Hasta 1,600,000 unidades pagaran el arancel de la Nación Más Favorecida (NMF) que es de 2.5% (en caso de que EE.UU. decida incrementar el arancel NMF), cumpliendo la regla de origen pactada en el TLCAN.
- Autoparts: up to 108 billion dollars of exports will face a 2.5% MFN tariff (in case the US decides to raise the MFN tariff), complying with origin regulation agreed in NAFTA.

■ **Autoparts for light vehicles:**

- 3 categories are created.
 - Category 1: Essential Parts

- A maximum value of 70% of VCR has to be achieved, or under the Transaction Value of 85%, in 4 increments.
- Made in the region:

**TABLE A.1
CORE PARTS FOR PASSENGER VEHICLES AND LIGHT TRUCKS**

HS 2012	DESCRIPTION
840731	Spark-Ignition Piston Engine for Vehicle Ex Railway Not Over 50 Cc
840732	Spark-Ignition Reciprocating Piston Engine Etc Nov 250Cc
840733	Spark-Ignition Reciprocating Piston Engine Etc >250 Nov1000Cc
840734	Spark-Ignition Reciprocating Piston Engine Etc > 1000 Cc
840820	Compression-Ignition Internal Combustion Piston Engine Etc
840991	Spark-Ignition Internal Combustion Piston Engine Parts Nesoi
840999	Spark-Ignition Reciprocating Internal Combustion Piston Engine Parts
850760	Lithium Ion Batteries
870600	Chassis W Engine for Trac, Motor Vehicle for Pass/Good & Special Purpose
870710	Bodies for Motor Cars/Vehicles for Transporting Persons
870790	Bodies for Road Tractors and Motor Vehicles (Pub Tran, Etc)
870840	Gear Boxes for Motor Vehicles
870850	Drive Axles with Differential for Motor Vehicles
870880	Suspension Shock Absorbers for Motor Vehicles
870894	Steering Wheels, Columns & Boxes for Motor Vehicles

TABLE A.2
PARTS AND COMPONENTS FOR PASSENGER VEHICLES AND LIGHT TRUCKS

Lorem ipsum

Column 1	Column 2
PARTS	COMPONENTS
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

- Category 2: Principal Parts.
 - A maximum value of 70% of VCR has to be achieved, or under the Transaction Value of 80%, in 4 increments.

TABLE
PRINCIPAL PARTS FOR PASSENGER VEHICLES AND LIGHT TRUCKS

HS 2012	DESCRIPTION
401110	New Pneumatic Tires of Rubber, for Motor Cars
401120	New Pneumatic Tires of Rubber, for Buses or Trucks
401211	Retreaded Tires of Rubber, for Use on Motor Cars
401212	Retreaded Tires of Rubber, for Use on Trucks
401219	Retreaded Tires of Rubber, Nesoï
401310	Inner Tubes of Rubber for Mot Cars, Buses & Trucks
700711	toughened Safety Glass of Size a Shape for Vehicles Etc
700721	Laminated Safety Glass for Vehicles, Aircraft Etc.
700910	Rear-View Mirrors for Vehicles

841330	Fuel, Lub/Cooling Med Pumps for Internal Comb Piston Engine
841350	Hydraulic Fluid power Pumps
841391	Parts of hydraulic fluid power pumps
841430	Compressors Used In Refrigerating Equipment
841459	Fans, Nesoi (turbochargers and superchargers)
841480	Air/Gas Pumps, Compressors and Fans Etc, Nesoi
841520	Automotive Air Conditioners
841590	Parts, Nesoi, of Air Conditioning Machines
847989	Electronic brake systems incl. ABS and ESC systems
848210	Ball Bearings
848220	Tapered Roll Bearings, Including Cone & Roller Assemblies
848230	Spherical Roller Bearings
848240	Needle Roller Bearings
848250	Cylindrical Roller Bearing Nesoi
848280	Other Ball or Roll Bearings, Inc Comb Ball/Roll Bearings
848291	Balls, Needles and Rollers for Bearings
848310	Transmission Shafts (Inc Cam-& Crank-Shaft), Etc.
848320	Housed Bearings, Incorp Ball or Roller Bearings
848330	Bearing Housings; Plain Shaft Bearings
848340	Gears; Ball or Roller Screws; Gear Boxes, Etc
848350	Flywheels and Pulleys, Including Pulley Blocks
848360	Clutches and Shaft Couplings (Incl. Universal Joints)
850132	Dc Motors & Generators W Output > 750W; N Over 75 Kw
850133	Dc Motors & Generators W Output > 75Kw; N Over 375Kw
850520	Electromagnetic couplings, clutches and brakes
850590	Other Electromagnets and permanent magnets, including parts
851140	Internal Combustion Engine Starter Motors
851150	Internal Combustion Engine Generators, Nesoi
851180	Elect Ignition/Start Equipment for Spark/Comp Engine; Generator Nesoi
851190	Pts Elect Ignition/Start Equip; Generators & Cut-Outs
853710	Controls Etc W Elect Appr for Elect Cont Nov 1000 V

870810	Bumpers and Parts, for Motor Vehicles
870821	Safety Seat Belts for Motor Vehicles
870829	Parts & Accessories of Bodies of Motor Vehicles, Nesoi
870830	Brakes and Servo-Breaks; Parts Thereof
870870	Road Wheels & Pts & Accessories for Motor Vehicles
870891	Radiators for Motor Vehicles
870892	Mufflers and Exhaust Pipes for Motor Vehicles
870893	Clutches and Parts Thereof for Motor Vehicles

- Category 3: Complementary Parts.
 - A maximum value of 70% of VCR has to be achieved, or under the Transaction Value of 80%, in 4 increments.

TABLE C
COMPLEMENTARY PARTS FOR PASSENGER VEHICLES AND LIGHT TRUCKS

HS 2012	DESCRIPTION
400912	Pipe, Not Reinforced/Comb. W/ Materials W/ Fittings
400922	Pipes, Vulc Rub, Reinforced/Combo With Metal, W/ Fitting
400932	Pipe of Vul Rub, Reinforced W/ Text Only Mat, W/Fittings
400942	Pipe, Reinforced/Comb W/Other Textile Mat, W/Fittings
830120	Locks of a Kind Used On Motor Vehicles, Base Metal
842139	Catalytic converters
848120	Valves for Oleohydraulic or Pneumatic Transmissions
848130	Check Valves
848180	Taps Cocks Etc for Pipe Vat Inc Thermo Control Nesoi
850110	Electric Motors of an Output Not Exceeding 37.5 W
850120	Universal Ac/Dc Motors of an Output > 37.5 W
850131	Dc Motors & Generators W Output N Over 750 W
850720	Lead-Acid Storage Batteries Nesoi
850730	Nickel-Cadmium Storage Batteries
850740	Nickel-Iron Storage Batteries
850750	Nickel-metal Hydride Batteries

850780	Storage Batteries Nesoi
851130	Distributors; Ignition Coils
851220	Elect Lighting/Visual Signaling Equipment Ex for Bicycles
851240	Windshield Wiper Defroster & Demister for Cycle/Motor Vehicle
851981	Sound Recording/Reproducing App Magnetic/Optical/Semiconductor Nesoi
853650	Elect Switches for Voltage Not Over 1000 V, Nesoi
853690	Elect Apparatus for Protect to Elect Circuit Nov 1000 V Nesoi
853910	Sealed Beam Electric Lamp Units
853921	Tungsten Halogen Electric Filament Lamps
854430	Insulated Wiring Sets for Vehicles Ships Aircraft
903180	Measuring & Checking Instrument, Appliances & Mach Nesoi
903289	Auto Regulating Ins & Appr Ex Thermostat, Mnstat, Etc

■ **Auto parts for heavy-duty vehicles:**

Two categories are created:

- Category 1: Essential Parts.
 - A maximum value of 70% of VCR has to be achieved, or under the Transaction Value of 80%, in two increments.

TABLE D
PRINCIPAL PARTS FOR HEAVY TRUCKS

HS 2012	DESCRIPTION
840731	Spark-Ignition Piston Engine for Vehicle Ex Railway Not Over 50 Cc
840732	Spark-Ignition Reciprocating Piston Engine Etc Nov 250Cc
840733	Spark-Ignition Reciprocating Piston Engine Etc >250 Nov1000Cc
840734	Spark-Ignition Reciprocating Piston Engine Etc > 1000 Cc
840820	Compression-Ignition Internal Combustion Piston Engine Etc
840991	Spark-Ignition Internal Combustion Piston Engine Parts Nesoi
840999	Spark-Ignition Reciprocating Internal Combustion Piston Engine Parts
841330	Fuel, Lub/Cooling Med Pumps for Internal Comb Piston Engine
841459	Fans, Nesoi (turbochargers and superchargers)
841480	Air/Gas Pumps, Compressors and Fans Etc, Nesoi
841520	Automotive Air Conditioners
848280	Other Ball or Roll Bearings, Inc Comb Ball/Roll Bearings
848310	Transmission Shafts (Inc Cam-& Crank-Shaft), Etc.

848340	Gears; Ball or Roller Screws; Gear Boxes, Etc
848350	Flywheels and Pulleys, Including Pulley Blocks
850132	Dc Motors & Generators W Output > 750W; N Over 75 Kw
850133	Dc Motors & Generators W Output > 75Kw; N Over 375Kw
851140	Internal Combustion Engine Starter Motors
851150	Internal Combustion Engine Generators, Nesoi
853710	Controls Etc W Elect Appr for Elect Cont Nov 1000 V
870600	Chassis W Engine for Trac, Motor Vehicle for Pass/Good & Special Purpose
870710	Bodies for Motor Cars/Vehicles for Transporting Persons
870790	Bodies for Road Tractors and Motor Vehicles (Pub Tran, Etc)
870810	Bumpers and Parts, for Motor Vehicles
870821	Safety Seat Belts for Motor Vehicles
870829	Parts & Accessories of Bodies of Motor Vehicles, Nesoi
870830	Brakes and Servo-Breaks; Parts Thereof
870840	Gear Boxes for Motor Vehicles
870850	Drive Axles with Differential for Motor Vehicles
870870	Road Wheels & Pts & Accessories for Motor Vehicles
870880	Suspension Shock Absorbers for Motor Vehicles
870891	Radiators for Motor Vehicles
870892	Mufflers and Exhaust Pipes for Motor Vehicles
870893	Clutches and Parts Thereof for Motor Vehicles
870894	Steering Wheels, Columns & Boxes for Motor Vehicles
870895	Safety Airbags with Inflator System; Parts Thereof
870899	Parts and Accessories of Motor Vehicles, Nesoi
940120	Seats of a Kind Used for Motor Vehicles

- Category 2: Complementary Parts.
 - A 70% of VCR, or under the Transaction Value of 70%.

**TABLE E
COMPLEMENTARY PARTS FOR HEAVY TRUCKS**

HS 2012	DESCRIPTION
841350	Hydraulic Fluid power Pumps
847989	Electronic brake systems incl. ABS and ESC systems
848210	Ball Bearings
848220	Tapered Roll Bearings, Including Cone & Roller Assemblies

848230	Spherical Roller Bearings
848240	Needle Roller Bearings
848250	Cylindrical Roller Bearing Nesoi
848320	Housed Bearings, Incorp Ball or Roller Bearings
848330	Bearing Housings; Plain Shaft Bearings
848360	Clutches and Shaft Couplings (Incl. Universal Joints)
850520	Electromagnetic couplings, clutches and brakes
850590	Other Electromagnets and permanent magnets, including parts
850760	Lithium Ion Batteries
851180	Elect Ignition/Start Equipment for Spark/Comp Engine; Generator Nesoi
851190	Pts Elect Ignition/Start Equip; Generators & Cut-Outs

Additionally, the following chapters should be observed:

Customs Administration and Commerce Facilitation

- Incorporates dispositions related to cooperation and customs fulfillment, that grasp the following actions:
 - Regional and bilateral cooperation, to improve the coordination between customs and promotes initiatives for detections and Customs felony prevention.
 - Exchange of information that permits customs felony prevention.
 - Verifications through the collaboration between customs for documentation attainment and conducting visits to the companies.

Investment:

- It is divided in two sections:
 - The first section contains protection disciplines to foreign investment
 - The second section contains the mechanism for investment arbitration (Investor-Estate)
- The investors from any sector can appeal to an arbitration procedure in case of any violation in the following disciplines: National Treaty, Most-Favored Nation Treaty, Direct Expropriation.
- The solutions mechanism for investors controversy – Estate does not apply for Canada.

Laboral:

- Specific dispositions are included for Mexico in collective negotiations matter, that aim to guarantee this right.
- Activity or inactivity cases sustained o frequent in the application of laboral legislation from a government will be attained to the solutions mechanism for investors controversy.

Origin Procedures

- The origin certification can be issued by the exporter, producer or importer.
- The certification format is eliminated and the certification in an invoice or any commercial document is allowed, if the minimum information is declared.
- In case of the importers violating stipulated terms related to the merchandise origin, each country will determine if a civil, criminal or administrative sanction will be applied.

Intellectual Property

- The authorities can shut those suspicious goods that have been counterfeited in their entrance or exit from the country.
- Implementation of measures against counterfeited goods and piracy in a commercial scale.v

1. <https://www.gob.mx/tlcan/acciones-y-programas/resultados-de-la-modernizacion-del-acuerdo-comercial-entre-mexico-estados-unidos-y-canada?state=published>
2. <https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/united-states-mexico>
3. <https://www.whitecase.com/publications/alert/united-states-canada-and-mexico-announce-new-trilateral-trade-agreement-replace>
4. IQOM
5. Autoparts National Industry, A.C.