WELCOME

THE MEETING WILL BEGIN PROMPTLY AT 10:00 A.M. CDT

This meeting is being recorded. The recording will be posted later today on the committee’s web page at csgmidwest.org.

To reduce background noise, all participants will enter in “listen-only” mode. Please mute your line when not speaking to reduce noise.

We will take questions periodically throughout the meeting. Click on the “raise hand” button. Type questions using the “chat” pane.

For audio access, we will unmute lines. If you self-muted, you also will need to unmute. We will open the line for telephone users to ask questions.

A copy of the meeting materials can be found as an attachment in the chat panel.

If you lose your Zoom connection, try these options
(1) Close Zoom and reconnect with the meeting link
(2) Reboot your computer and reconnect with the meeting link
(3) If you cannot reconnect electronically, you can call in: 312-626-6799
The US-Mexico-Canada Agreement (USMCA) and Its Impact on the Region’s Exporters and Cross-Border Supply Chains

A Virtual Meeting of the MLC Midwest-Canada Trade Subcommittee

Tuesday, October 13, 2020 | 10:00 – 11:15 a.m. CDT

MODERATORS

Senator Karen Tallian | Indiana | Co-Chair, MLC Midwest-Canada Trade Subcommittee
MPP Percy Hatfield | Ontario | Co-Chair, MLC Midwest-Canada Trade Subcommittee
Representative Mark Huizenga | Michigan | Co-Chair, MLC Midwest-Canada Trade Subcommittee

PRESENTERS

Mr. Edward Alden | Senior Fellow | Council on Foreign Relations
Mr. Dan Ujczko | Chair | International Practice Group at the Dickinson Wright Law Firm
MLC MIDWEST-CANADA TRADE SUBCOMMITTEE VIRTUAL MEETING

HOUSEKEEPING

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Zoom tool bar

- Mute and unmute audio
- Show or stop webcam
- View participants
- Chat to ask questions
HOUSEKEEPING

ZOOM TOOLS

- Raise your hand
- Mute/unmute audio
- Show/hide webcam
MLC MIDWEST-CANADA TRADE SUBCOMMITTEE

OFFICERS

Senator Karen Tallian
Indiana
MLC Midwest-Canada Trade Subcommittee Co-Chair

MPP Percy Hatfield
Ontario
MLC Midwest-Canada Trade Subcommittee Co-Chair

Representative Mark Huizenga
Michigan
MLC Midwest-Canada Trade Subcommittee Co-Chair
Today’s meeting will include:

- The current state of trade between Canada and the U.S. and a look at U.S. trade policy more generally
- Some of the key provisions of the USMCA and how it differs from NAFTA
- What the impact of the USMCA is likely to be on industries in the region
- Questions and answers
- Discussion with participants
THE US-MEXICO-CANADA AGREEMENT (USMCA) AND ITS IMPACT ON THE REGION’S EXPORTERS AND CROSS-BORDER SUPPLY CHAINS

PRESENTERS

Edward Alden
Senior Fellow
Council on Foreign Relations
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Dan Ujczo
Chair
International Practice Group at the Dickinson Wright Law Firm
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USMCA PHASE I

CSG Midwest

Dickinson Wright
1. USMCA Effective Date was July 1, 2020
   • Reasonable Care
   • Certification and Recordkeeping
   • “Satisfactory Progress” & “Good Faith Effort”

2. US-CBP “Show Restraint in Enforcement” / “Maximum Flexibility”

3. Exceptions are the three new certifications for automotive: (a) labor value content (LVC), (b) steel, and (c) aluminum
Strategies-Checklist

- Assemble documents from purchasing/procurement, customs brokers, financial team./accounting on how currently using USMCA (Certificates of Origin a great start)
- Look at all Purchase Orders, Standard Terms and Conditions
- Review IP Portfolio
- Look at 3PL, transportation (incl. reverse logistics), and broker contracts
- Independent Customs Self-Assessment – Check China
- Adopt a Know My Supplier’s Suppliers Mindset

DickinsonWright
The “Renovation” of NAFTA to USMCA

Templates
(“Fresh Coat of Paint”)

Modernize
(“Upgrade the Fixtures and Appliances”)

Rebalancing
(“Knocking Down Walls”)

Dickinson Wright
1. Small and Medium-Sized Enterprises
   • NAFTA Trilateral SME Dialogue
2. Competition
3. Technical Barriers to Trade
4. Anti-Corruption
5. Good Regulatory Practices
6. Sanitary and Phyto-Sanitary Measures (SPS)
7. Telecommunications
8. Environment
9. Financial Services
10. Chemical and Food Patents/Formulas
Eight new rules pursuant to which specific production processes that occur within the region are sufficient to confer origin (with some exceptions):

1. the Chemical Reaction Rule;
2. the Purification Rule;
3. the Mixtures and Blends Rule;
4. the Change in Particle Size Rule;
5. the Standards Materials Rule;
6. the Isomer Separation Rule;
7. the Separation Prohibition Rule; and
8. the Biotechnological Processes Rule.
10. Digital Trade in Goods and Services
   • “TPP Plus Proposal”

11. Customs and Trade Facilitation
   • “Platinum Standard”
   • Locks In Beyond the Border and Technology/Risk Assessments

12. Energy
Knocking Down the Walls

**PRIORIT Y #1**
Close the Back Door to China through Mexico and Canada

**PRIORIT Y #2**
Rebalance Trade with Mexico

**PRIORIT Y #3**
Settle All of the Family’s Business in North America
USMCA IMPLEMENTATION:
LABOR
USMCA brings much needed certainty but it also presents important challenges, particularly, related to labor issues.

- Chapter 23: the most ambitious labor chapter ever negotiated in an FTA
- **New labor obligations:** strengthened dispute settlement mechanisms and possible trade sanctions for:
  - The governments of Mexico, US and Canada
  - Enterprises of the three member countries (on a facility-specific basis)
- Rapid Response Labor Mechanism allows sanctions on covered facilities, including:
  - Suspension of preferential tariff treatment, penalties and denial of entry of goods / services
- **It is critical for firms with a presence in Mexico to:**
  - Design and implement a plan to mitigate labor risks before they occur; and
  - Be able to respond quickly if they materialize
    - Complying with USMCA will depend not just on the company
## Priority sectors for surveillance of RRLM labor compliance in Mexico

### 10 priority sectors subject to the Rapid Response Labor Mechanism

<table>
<thead>
<tr>
<th>USMCA – Annexes 31-A / 31-B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aerospace products &amp; components</td>
</tr>
<tr>
<td>Autos and auto parts</td>
</tr>
<tr>
<td>Industrial baked products</td>
</tr>
<tr>
<td>Steel &amp; Aluminum</td>
</tr>
<tr>
<td>Cosmetic Products</td>
</tr>
<tr>
<td>Glass</td>
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<tr>
<td>Pottery</td>
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<tr>
<td>Plastic</td>
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<tr>
<td>Forgings</td>
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<td>Cement</td>
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### 8 priority subsectors for surveillance and compliance of the US’ Interagency Labor Committee

<table>
<thead>
<tr>
<th>US’ Implementing Bill</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aerospace</td>
</tr>
<tr>
<td>Auto parts y auto assembly</td>
</tr>
<tr>
<td>Industrial bakeries</td>
</tr>
<tr>
<td>Steel &amp; Aluminum</td>
</tr>
<tr>
<td>Electronics</td>
</tr>
<tr>
<td>Call centers</td>
</tr>
<tr>
<td>Mining</td>
</tr>
</tbody>
</table>

21
USMCA – Textiles and Textile Apparel
USMCA – Autos
Four requirements:

1. Regional Value Content percentage (RVC)
2. Originating Core parts for passenger vehicles and light trucks
3. Labor Value Content percentage (LVC), which includes high wage transportation services
4. Originating purchases of Steel and Aluminum

NAFTA rules:
- RVC and
- Tracing
Regional Value Content Percentage (RVC)

A. The **RVC** increases from 62.5% to 75%
B. Four year transition period
C. Maintains Net Cost methodology
D. Eliminates tracing
E. Eliminates “Deeming Originating”
F. Allows “averaging” as in NAFTA

On the date entry into force or January 1, 2020*

- 66%  
  One year after entry into force or January 1, 2021*

- 69%  
  Two years after entry into force or January 1, 2022*

- 72%  
  Three years after entry into force or January 1, 2023*

- 75%  
  *Whichever is later
### ROO for the Automotive Sector

**Light Vehicles**

<table>
<thead>
<tr>
<th>Labor Value Content (LVC)</th>
</tr>
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<tbody>
<tr>
<td>40% cars (4 increases) / 45% pick-ups (EIF)</td>
</tr>
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</table>

**Regional Value Content (RVC)**

<table>
<thead>
<tr>
<th>Core Parts* RVC / Net Cost / 4 increases</th>
</tr>
</thead>
<tbody>
<tr>
<td>66% 69% 72% 75%</td>
</tr>
</tbody>
</table>

*7/7 must be originating

**Steel and Aluminum**

|  
|≥70% vehicle producer’s purchases must be originating |  

**Technology and assembly expenditures**

| ≤15% cars and pick-ups |  

**Average hourly base wage rate**

|$≥$16/hour |

**Material and manufacturing expenditures**

| ≥25% cars / ≥30% pick-ups |  

**Heavy Vehicles**

<table>
<thead>
<tr>
<th>Labor Value Content (LVC)</th>
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<tbody>
<tr>
<td>45% (EIF)</td>
</tr>
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</table>

**Regional Value Content (RVC)**

<table>
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<tr>
<th>70% / Net Cost / 3 increases 7 years</th>
</tr>
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<tbody>
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<td>60% 64% 70%</td>
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**Steel and Aluminum**

|  
|≥30% |  

**Technology and assembly expenditures**

| ≤15% |  

**Average hourly base wage rate**

|$≥$16/hour |

**Material and manufacturing expenditures**

| ≥70% vehicle producer’s purchases must be originating |  

1/ Technology expenditures include R&D and IT expenditures related to prototype development, design, engineering, testing, or certifying operations; software development, technology integration, vehicle communications, and information technology support operations. Assembly expenditure includes engine assembly, transmission assembly (PC of 100,000 OG) or an advanced battery assembly plant (PC of 25,000 OG).

2/ Technology expenditures include R&D and IT expenditures related to prototype development, design, engineering, testing, or certifying operations; software development, technology integration, vehicle communications, and information technology support operations. Assembly expenditure includes engine assembly, transmission assembly or an advanced battery assembly plant (PC of 20,000 OG).
**Other Vehicles**

Current ROO

**Light Vehicles**

Net Cost / 4 increases

<table>
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<th>Core*</th>
<th>Principals</th>
<th>Complementary</th>
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<td>66% 69% 72% 75%</td>
<td>62.5% 65% 67.5% 70%</td>
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**Heavy Vehicles**

Net Cost / 3 increases 7 years

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<td>60% 64% 70%</td>
<td>50% 54% 60%</td>
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</table>

**Super Core**

Key Parts (Table A.1)
• 5 years light vehicles
• 7 years heavy vehicles
• 10% of production
• Case by case
USMCA IMPLEMENTATION: COMPLIANCE
De Minimis & Low Value Entry

**Low Value Entry**
- Canada
  - CAD $150, but CAD $40 for GST
- United States
  - USD $800
- Mexico
  - USD $117, but USD $50 for taxes

**De Minimis**
- Good is considered originating if all non-originating materials are less than 10% of the cost
- HTS Chapters 1-27 + textiles & apparel have different de minimis rules
• NAFTA Form 434 expired on June 30, 2020 for new entries.
• This becomes critical as importers of record will need to investigate entire supply chain; particularly autos, textiles and imports from third countries such as China.
• US-CBP is redefining USMCA advance rulings and substantial transformation in a series of recent rulings relating to 301.
• US-CBP also is revoking past decisions on Chapter 98 (repairs, alterations, returns) (e.g., wheel grinding).
• Effect is what was NAFTA may not be USMCA duty-free
• Creating an environment for that recognizes USMCA favorable businesses such as advanced technology vehicles, energy, chemicals, polymers, food processors and tech

• Developing cross-border strategic partnerships with states/provinces to collaborate on pro-USMCA areas and “GAPS”

• Major GAP is in the procurement space. Look for neighboring state/reciprocal procurement partnerships because it’s going to be about INFRASTRUCTURE.

• Workforce, Workforce, Workforce

• Private Sector Assistance to Your Efforts
DANIEL UJCZO
International Trade and Customs Attorney

Email:  dujczo@dickinsonwright.com
Phone:  614.744.2579
April Car Traffic at Selected Crossings 2019 vs 2020
Source: Bridge and Tunnel Operators Association
June Car Traffic at Selected Crossings 2019 vs 2020
Source: Bridge and Tunnel Operators Association
August Car Traffic at Selected Crossings 2019 vs 2020
Source: Bridge and Tunnel Operators Association
April Truck Traffic at Selected Crossings 2019 vs 2020
Source: Bridge and Tunnel Operators Association
June Truck Traffic at Selected Crossings 2019 vs 2020
Source: Bridge and Tunnel Operators Association
August Truck Traffic at Selected Crossings 2019 vs 2020
Source: Bridge and Tunnel Operators Association
Questions? Comments?

“Raise your hand” and unmute your line when we announce your name

OR

Type your question in the chat pane to be read by staff