

USMCA to enter into force July 1

May 2020

In brief

The US, Mexico, and Canada have agreed on a new free trade agreement that will replace the North American Free Trade Agreement on July 1, 2020, with ramifications for Japanese businesses as well. Japanese companies with operations in North America could see changes to their customs duty expense and changes to their operations to meet new requirements under the new agreement.

In detail

The closely-watched United States-Mexico-Canada Agreement (USMCA), the successor agreement to the North American Free Trade Agreement (NAFTA), has been approved by all three member countries and will come into effect on July 1, 2020. USMCA's entry into force will have major ramifications for auto manufacturers and other Japanese companies with supply chains spread across North America.

USMCA's entry into force was formally decided when the US formally notified Canada and Mexico of the completion of its domestic approval procedures on April 24, following similar notification by Canada and Mexico earlier in April. As with NAFTA, USMCA requires goods to meet rules of origin in order to be eligible for preferential duty rates. Prior to the US' formal notification, US Customs also released Interim Implementation Instructions for USMCA, which reflect the agreement's stricter rules of origin for automotive goods compared to NAFTA. These include higher regional value content requirements, as well as a new "labor value content" requirement stipulating that a certain percentage of value be added by workers earning at least a certain wage. For the US, this wage is USD 16 per hour. While the US has released its Interim Implementation Instructions, the Uniform Regulations that will govern how the new agreement is to be applied are still under negotiation and may not be finalized prior to the USMCA's entry into force on July 1.

For automotive companies and other Japanese businesses whose goods will be subject to more stringent rules of origin under USMCA, goods that qualified for duty-free treatment under NAFTA may not qualify once USMCA goes into effect. Furthermore, businesses that declare their goods as USMCA-originating but cannot prove that these goods meet the rules of origin can be subject to penalties when questioned by Customs. Hence, even as USMCA's effective date remains several months away, businesses are encouraged to assess their supply chains as soon as possible, keeping in mind the Interim Implementation Instructions, to ensure they will be prepared for July 1 when USMCA goes into effect and rules of origin change. Japanese businesses operating in the US should also review the interim implementing instructions released by US Customs to ensure that they will be able to comply with all applicable requirements.

What you can do to prepare

Examples of specific actions to take include the following:

- Understand potential changes to rules of origin and how they affect your products
- Model end-to-end supply chain to determine potential impacts of loss of duty-free benefits

- Review current origin determination process for goods imported under NAFTA and assess effects from revised USMCA rules of origin
- Review interim implementing instructions released by US Customs

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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