

United States Mexico Canada Agreement (USMCA) Auto and automotive parts sectors

USMCA Automotive Rules of Origin

- The United States-Mexico-Canada Agreement (USMCA), once in force, will replace the existing NAFTA, including the automotive rules of origin that determine what goods are eligible for tariff preferences.
- The USMCA rules of origin will increase the minimum regional value content (RVC) required for vehicles and automotive parts to be eligible for preferential tariff treatment:
 - for vehicles, USMCA increases the RVC requirement from 62.5 to 75 per cent
 - for automotive parts, USMCA increases the RVC requirement to between 60 and 75 per cent.
- In addition to increasing the RVC requirement for vehicles, USMCA also imposes labour cost requirements and local steel and aluminium purchasing requirements for vehicles (see background).
- Vehicles and automotive parts manufactured in the United States, Mexico and Canada, which do not meet these rules, will not be eligible for tariff preferences under the USMCA.

Potential effects of USMCA Automotive Rules of Origin

- Under NAFTA, a very high proportion (90 per cent and above) of Canadian and Mexican vehicles and automotive parts exports to the US meet the rules of origin and are traded under preference.
- The USMCA rules of origin will make it less attractive for vehicle manufacturers to source parts and components from outside North America and could result in manufacturers reducing their supply chain exposure to non-parties (including Australia).
- Australia exports around \$399 million of automotive parts to North America¹:
 - \$383 million (96 per cent) to the United States²;
 - \$11.5 million (3 per cent) to Canada; and
 - \$4 million (1 per cent) to Mexico.
- Possible implications for Australia:
 - USMCA rules of origin would only have the potential to impact Australian exports of auto parts that are used as intermediate goods in North American manufacturing supply chains;
 - the rules will not affect Australian automotive parts used in the production of vehicles in the United States for domestic consumption in the US or those for export to non-USMCA markets;
 - the USMCA does not impact on Australia's ability to export automotive parts duty-free to the United States under the Australia-US Free Trade Agreement

¹ Australian Bureau of Statistics (ABS), three year average data from 2015-16 to 2017-18. A summary table of Australia's exports of auto parts to the world and top 10 trading partners is provided on page 3.

² Note this figure is higher than the US International Trade Commission (ITC) estimate of Australian exports of automotive parts to the US. This is because the US ITC uses a more narrow definition/scope of automotive parts.

(AUSFTA) or any future trade to Mexico or Canada under the Comprehensive and Progressive Trans-Pacific Partnership Agreement (TPP-11);

- the existing NAFTA rules require a higher proportion of originating content than what is commonly found in many preferential trade agreements.

Background

- Vehicle producers will face purchasing requirements for steel and aluminium, and labour value content requirements:
 - passenger vehicles, light trucks, and heavy trucks will only be eligible for preferential tariff treatment if at least 70 per cent of steel purchased by the vehicle producer originates in the United States, Mexico or Canada and is compliant with the USMCA rules of origin; and
 - passenger vehicles will only be eligible for preferential tariff treatment if production meets a labour value content of 40 per cent, consisting of at least 25 percentage points of high wage (US\$16 / hour) material and manufacturing expenditures.

Australia's exports of automotive parts to the world

FY2018	AU exports to	FY2016	FY2017	FY2018	3-year average	3-year average
Rank	Partner country	A\$000	A\$000	A\$000	A\$000	Share of total
1	United States	436,979	344,671	368,695	383,448	23.5%
2	New Zealand	216,649	240,820	267,793	241,754	14.8%
3	United Arab Emirates	67,662	107,100	117,687	97,483	6.0%
4	Japan	73,330	92,916	112,763	93,003	5.7%
5	Papua New Guinea	88,132	102,372	111,155	100,553	6.2%
6	Indonesia	47,236	51,280	66,785	55,100	3.4%
7	United Kingdom	48,167	54,884	58,400	53,817	3.3%
8	China	113,388	38,942	42,897	65,076	4.0%
9	South Africa	32,775	33,158	42,058	35,997	2.2%
10	Thailand	60,908	48,536	41,732	50,392	3.1%
All partners	World	1,638,668	1,575,309	1,671,099	1,628,359	

Source: ABS trade data on DFAT STARS database (ABS catalogue 5368.0, July 2018).