

## **US, Canada and Mexico conclude the USMCA trade agreement**

**Article by Daniel Wuhrmann and Jan Sune Krey**

After more than two years of negotiations, the US, Mexico and Canada have agreed on a successor to [NAFTA \(the North American Free Trade Agreement\)](#), the [USMCA \(United States Mexico Canada Agreement\)](#). This agreement is of immense importance, especially for companies operating in the automotive industry. The German automotive industry maintains various production sites in Mexico and elsewhere in the region. The treaty provides a more secure basis for planning, but many companies will also have to meet stricter requirements relating to the origin of raw materials and parts as well as minimum wages in order to ensure that their goods will be traded customs-free.

The treaty also poses stricter requirements for the protection of labor and the environment.

The renegotiated treaty essentially conforms to the basic structure of its predecessor NAFTA. However, the new treaty defines thresholds for the automotive industry specifying which percentage of a vehicle has to be made in one of the three member states in order to be exported customs-free: this value was raised from 62.5 to 75%. The US also hopes that the introduction of new rules specifying that at least 40% of the components needed for automotive production have to be manufactured by workers earning at least 16 dollars an hour will induce companies to shift work to the US.

Moreover, suppliers in particular should keep in mind that 70% of the steel and aluminum used in vehicles has to come from North America. Of course, there is hardly enough capacity in the region to fully meet this quota, but this clause found its way into the treaty anyway under pressure from the US. This clause will create difficulties above all for European suppliers of steel and aluminum components, suppliers of raw materials and local manufacturers, all of whom will have to reorganize their supply chains.

While the Democratic Party in the US has now withdrawn its opposition to the USMCA and given its consent, the treaty still requires final approval from the Canadian Parliament. Accordingly, there are still a few

bureaucratic hurdles to overcome before the treaty is ratified by all parties. However, the content of the treaty is not expected to change significantly.

It is not expected that the quotas will be fully implemented until 2023, but meeting them will create turmoil for every manufacturer and supplier in the automotive industry supply chain.



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