

Intelligence MEMOS



From: Jon Johnson

To: Global Affairs and the Canadian Automotive Industry

Date: January 8, 2020

Re: **CUSMA AUTO RULES OF ORIGIN, THE PROTOCOL AND US IMPLEMENTING LEGISLATION – PART ONE**

CUSMA took two major steps forward in December. First, Canadian, US and Mexican representatives signed a Protocol of Amendment to CUSMA incorporating changes negotiated to secure Democratic support. Second, the House of Representatives passed the *United States–Mexico–Canada Agreement Implementation Act* (the US legislation that will implement CUSMA), which includes the protocol's modifications.

This memorandum will discuss a change in the protocol to the requirement in the CUSMA automotive rules of origin (ROOs), specifically that 70 percent of the steel purchased by a vehicle producer must qualify as originating for the producer's vehicles to be eligible for CUSMA duty free treatment. Tomorrow, I will discuss administration of the CUSMA automotive ROOs contained in the US implementing legislation.

Each rule of origin applying to steel products requires that substantial processing take place in the CUSMA region for the product to qualify as originating here. Consider a steel slab processed into a hot-rolled coil. The slab is heated and processed through a complex rolling system operated by highly skilled labour. The result is a long flat strip of steel of a desired thickness. The strip is then further rolled into a coil so that it can be transported. The coil is ultimately reheated and unrolled, and the flat product used for sheets that are stamped into vehicle parts.

While the processing required to transform a slab into a coil and downstream steel products is considerable, the slab itself can be imported from a non-CUSMA country and the resulting coil and sheets will nonetheless be considered as originating.

Democrats and their union backers wanted a further level of processing for the steel product to qualify under the 70 percent requirement. As a result, the protocol requires that the steel must be melted within the CUSMA region, which means that the slab must be produced in the CUSMA region for the coil and sheets and subsequent steel products to qualify towards satisfying the 70 percent requirement.

Mexico strongly objected to this change because Mexican steel producers import slabs from non-CUSMA countries. As a compromise, the rule in the protocol will only come into effect after seven years.

Canada does not appear to have objected to this last-minute change in the CUSMA rules, possibly because the Canadian steel industry is more integrated than the Mexican, with steel producers able to produce their own slabs.

The CUSMA auto ROOs contain a similar 70 percent requirement for aluminum purchases by vehicle producers. While aluminum purchased must qualify as originating, the US aluminum industry wanted a tighter rule because, for example, aluminum sheets may be considered originating even if ingots from which they are produced are imported from a non-CUSMA country.

However, unlike with steel, the protocol did not change the CUSMA rule on aluminum purchases, other than providing that the "Parties shall consider appropriate requirements...for aluminum to be considered originating" 10 years after CUSMA enters into force.

The Bloc Québécois [denounced](#) the agreement as an abandonment of Quebec's aluminum industry and said it will vote against CUSMA ratification. The Bloc should consider that if CUSMA is not approved, NAFTA (which unlike CUSMA contains no special protection for aluminum producers) continues in effect, or worse, the US and Mexico may proceed with their own trade deal and leave Canada without a trade agreement.

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