



Global Trade Advisory Alert

USMCA update: Canada and Mexico confirm completion of entry into force procedures

On 2 and 3 April 2020, respectively, Mexico and Canada certified they have completed their local internal procedures required for the US-Mexico-Canada Agreement ("USMCA" or "Agreement") to take effect. As of 15 April 2020, US certification of the same remained pending. Under the terms of the Agreement, the USMCA will enter into force on the first day of the third month after all three countries have notified the others that its internal procedures required to execute the Agreement have been completed.

Key events

The US, Mexico, and Canada signed the USMCA on 30 November 2018 to modernize the terms of trade between the three nations. By 13 March 2020, the Agreement was ratified by all three countries.

In addition to requiring each country to confirm its completion of internal procedures, the three countries

must also work together to finalize the administrative aspects of the Agreement, such as the organization of committees and panels, the development of rosters for dispute panels, the implementation of specific required revisions to the Harmonized Tariff Schedule, the finalization of product-specific rules, and any other necessary administrative and regulatory changes.

As of now, based on the terms of the Agreement, the earliest possible entry into force date is 1 July 2020 if the US provides its notification of completion of internal procedures in April. However, there remains much discussion amongst industry, legislative, and government leaders of potentially delaying the entry into force deadline due to the global COVID-19 crisis as well as to allow heavily impacted importers to implement changes once the final requirements are issued.

About the Agreement

The USMCA builds upon the foundation of the North American Free Trade Agreement (“NAFTA”), incorporating 12 additional chapters that modify specific NAFTA provisions. The modifications affect a variety of industries, including automotive, energy, chemicals and pharmaceuticals, textiles, and electronics industries, among others.

Major changes include:

- Enhanced protection and enforcement measures for intellectual property rights;
- Prohibition of customs duties, fees, and taxes on digital products;
- Increased *de minimis* thresholds for low value shipments free of duty and tax;
- Increased *de minimis* threshold for non-originating content to 10%;
- Obligations to prevent discrimination against US financial service suppliers and facilitate a level playing field;
- Enforceable labor obligations that include common minimum standards for domestic laws;
- Environmental obligations to combat trafficking in wildlife, timber, and fish, to strengthen law enforcement networks to stem such trafficking, and to address pressing environmental issues such as air quality and marine litter; and
- Higher Regional Value Content requirements, with new minimum Labor Value Content and minimum requirements for US, Canada, and Mexico origin steel and aluminum content for automotive manufacturers.

Readiness considerations

Companies planning to benefit from the USMCA should consider assessing their operational readiness to manage their imports and exports within the region under the new requirements. Specifically, companies should consider undertaking the following activities:

- Assess systems and tools used to qualify imports under the NAFTA and incorporate the USMCA requirements;
- Conduct a thorough review of policies and procedures, and update documentation to reflect new requirements;
- Update training materials and provide training to relevant personnel;
- Establish how best to document origin certification and implement new protocols;
- Identify linkages and dependencies between global trade compliance, operations, and other business functional areas with respect to implementing the USMCA requirements; and
- Focus resources on qualifying goods and verifying supplier compliance under the new rules of origin.

How we can help

Deloitte's Global Trade Advisory specialists are part of a global network of professionals who can provide specialized assistance to companies that need to manage their transition to the new USMCA rules. Our professionals can help companies proactively manage the potential impacts of this change, by:

- Conducting a USMCA readiness assessment, which may include:
 - Analyzing trade data to assess the current NAFTA footprint and identifying products that are impacted by the new USMCA rules of origin;
 - Reviewing impacts of new product-specific rules to confirm that goods will meet the new rules and will continue to benefit from preferential duty treatment;
 - Identifying potential savings opportunities based on the new rules of origin;
 - Assessing potential changes to internal activities related to the solicitation of certificates of origin, and origin qualification and certification; and
 - Establishing a roadmap to define and implement a future state USMCA operating model (i.e., updates to process flows, work instructions, training materials, etc.);
- Supporting the upgrade, implementation and maintenance of technology tools used to qualify goods;
- Supporting customs duty, origin, and value planning;
- Supporting HTS classification and origin determination under the new rules of origin;
- Providing solicitation services for certificates of origin from suppliers; and
- Preparing certifications of origin.

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