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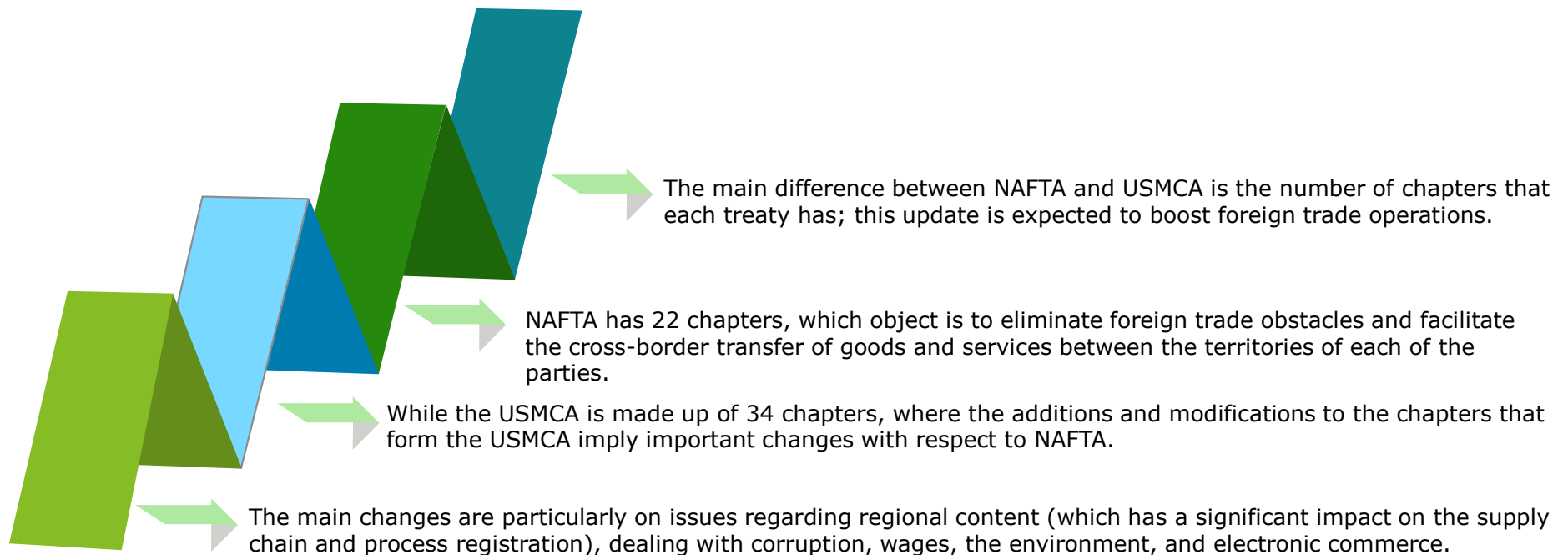


Adjusting Manufacturing to USMCA
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USMCA and NAFTA

Main differences between USMCA and NAFTA



Main differences between USMCA and NAFTA

USMCA	NAFTA
34 Chapters	22 Chapters

New Chapters:

Chapter 8	Recognition of the Mexican State's Direct, Inalienable, and Imprescriptible Ownership of Hydrocarbons
Chapter 12	Sectoral Annexes
Chapter 19	Digital Trade
Chapter 23	Labor
Chapter 24	Environment
Chapter 25	Small and Medium-Sized Enterprises
Chapter 26	Competitiveness
Chapter 27	Anticorruption
Chapter 28	Good Regulatory Practices
Chapter 33	Macroeconomic Policies and Exchange Rate Matters

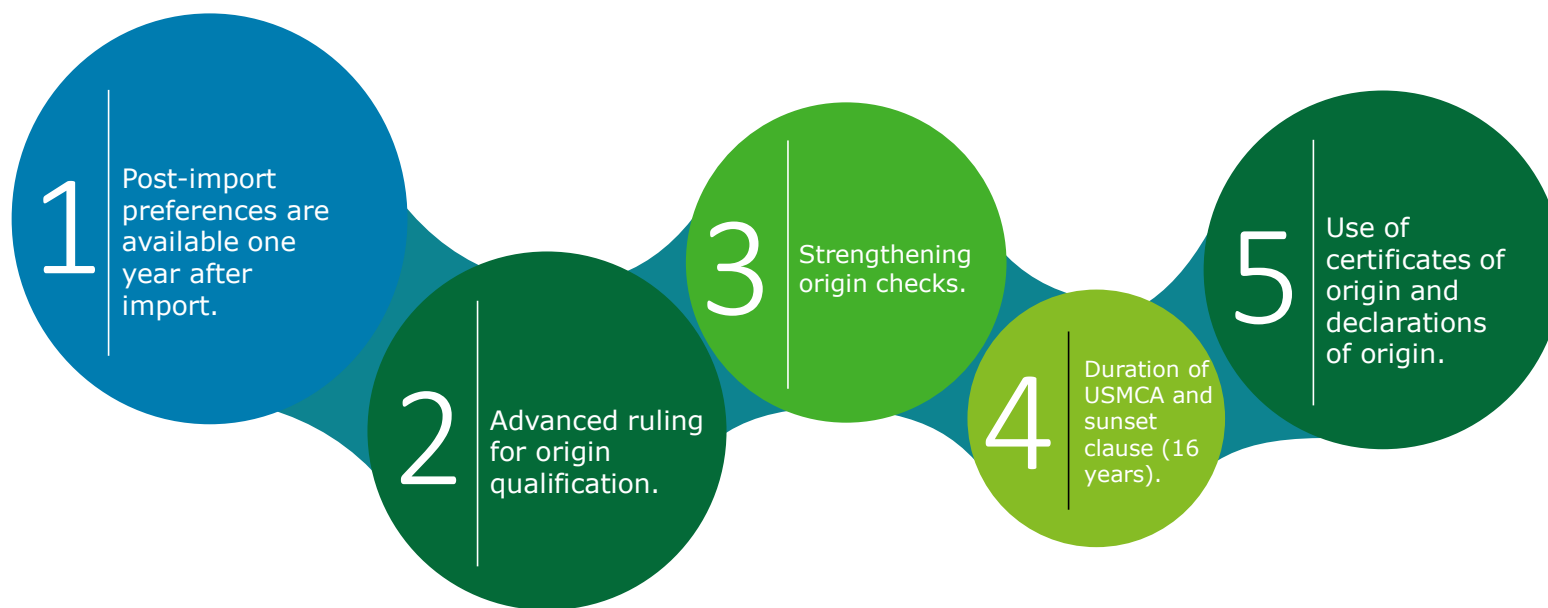


Removed chapters:

Chapter 6	Energy and Basic Petrochemicals
Chapter 8	Emergency Action
Chapter 9	Standards-Related Measures

Operational changes in USMCA and application of Certificates of Origin

Key operational considerations

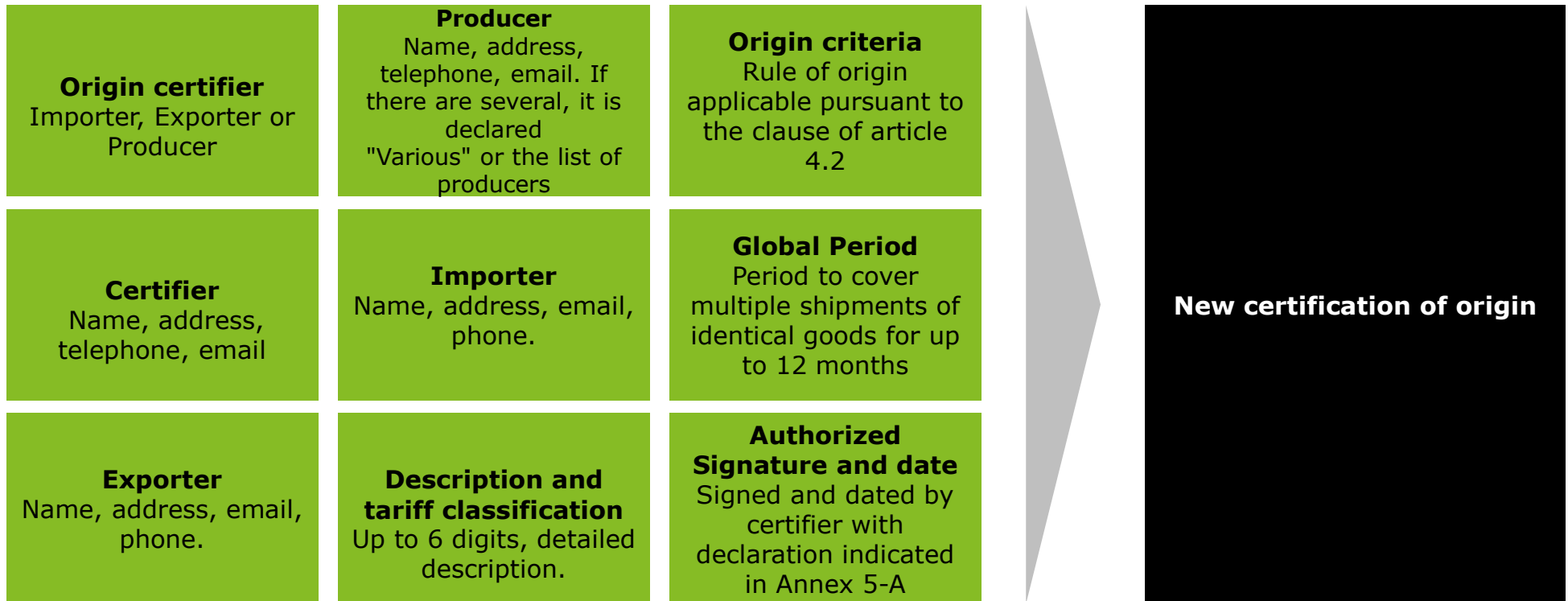


Certificates of origin

Certificate of origin requirements	Operational impact	Technological impact	Recommended business actions
There is no standard format, it must comply with a minimum of 9 fields indicated	More flexible, but less clear	The format generated by the system has changed	Compare required data and optional data for printing
It can be certified by commercial invoice or other documents with the minimum information data.	Certification becomes easier in the transaction	New option to print the certification legend on the documents generated by the system	Determine how and when the certification will be printed on other documents
Importers, exporters, or producers can issue certificates * Importers in Mexico within 3 years 6 months	Increase flexibility to issue certificates by the importer, but the risk of not complying is increased	The system must be adapted according to the transaction	Determine how and when the declaration should be issued and with what supporting documentation
It is accepted to electronically certify with a digital signature	Customs systems will have to be adapted for all three parts	Automate the issuance of electronically filled and signed certificates	Consider the form and changes in the system
Customers may request different data according to each product, (example, auto parts, etc.)	Determine the key fields that will be necessary and those optional fields for the qualification	Availability and accessibility of the information in the System	Identify process for obtaining key information and determine if additional information is required

Certificates of origin

Minimum elements of information



Certificates of origin

Points to consider

1

Certification by importer

Must have all the supporting documentation. It is subject to direct audits, in case of non-compliance, it can be prohibited from re-certifying and it cannot use another certificate of origin from the producer or exporter for the same import, nor use it to re-certify.

2

Invoice certificate of origin

The origin cannot be certified in an invoice or commercial document that is not issued from a country not part of the USMCA.

3

Autocorrect

If the importer, producer or exporter has a reason to believe that the certification of origin was based on incorrect information or data, they may correct the import request and pay the applicable tariffs without being subject to sanctions.

4

Origin checks

They are usually very extensive and a very large of information amount is requested, such as calculating BOMs, proof of purchase and payment of materials, declarations of origin, proof of production, cost distribution, among others.

5

Contractual protection

Due to the risks and tariff contingencies that noncompliance implies, it is recommended to have contractual protection with suppliers and customers with whom they carry out operations under the USMCA and any treat.

Certificates of origin

Points to consider

The certificate of origin can be issued with an autograph signature; however, it is also possible to issue it with an electronic or digital signature.

The USMCA establishes that Mexico will implement the auto declaration no later than 3 years and no earlier than 6 months after USMCA is set in place, which is why Mexico will announce later on when it will be implemented.

The certification of origin will not be rejected for containing additional data to that indicated in the Annex 1 of the mentioned Resolution.

The electronic or digital signature that will be used to sign the certification of origin will be the one that is issued in accordance with the legislation that corresponds to the place where the certifier is located.

When the document of origin is illegible, or has not been completed in accordance with the Agreement, the importer will be granted a period of 5 days to present a corrected copy of the document before customs authority.

Main changes in rules of origin

New provisions and updates

Modifications were made to some current articles and in other cases new provisions were incorporated, related to the following topics:

01

De Minimis

The "De Minimis" provision was updated, with the purpose of **increasing the current percentage but not exceeding 10% (previously 7%)**.

02

Aquaculture

The article on fully obtained assets was updated. The intention was **to recognize that fish obtained from aquaculture in the region are native**.

03

Sets of Goods, Kits or Composite Goods

New provisions were incorporated to ensure compliance with the origin.

04

Remanufactured Good

A specific provision for remanufactured goods is incorporated, in the sense of recognizing as original the materials, parts or components that **were recovered and subjected to disassembly for their subsequent remanufacturing**.

05

Accumulation

This principle allows to **recognize as original both the materials of the signatory countries and the process carried out in any of their territories**.

How do you know if a good is USMCA originating?



**Qualification criteria
for origin**

1. Goods produced and wholly obtained in a member country of the agreement.
2. Goods that include a material that was originated from outside the region, but comply with the product-specific rules of origin negotiated in the agreement.

Annex 4-B of Chapter 4 establishes product-specific rules of origin.

Sectors and Chapters with changes in rules of origin

Textiles and clothing

The treaty establishes specific disciplines regarding certain provisions regarding rules of origin, customs cooperation and procedures to verify the origin of textiles and clothing.



Main provisions:

The cutting and assembly process must be carried out with fabric woven with yarn produced in North America so that **a good from the sector is considered as originating.**

Sewing thread, pocket fabric, and coated elastics and fabrics are required to originate from some parts of the USMCA.

Expanded coverage of textile goods for folk and handmade products, in order to **promote production by indigenous artisans.**

The "De Minimis" percentage is increased from 7% to 10% for goods classified within Chapters 50 to 63 (except for elastomers).

Sectors and Chapters with changes in rules of origin

Automotive

The treaty includes new requirements that must be met to request preferential tariff treatment.



Main provisions:

- Higher percentages of Regional Value Content (RVC).
- Original essential auto parts (engine, transmission, body and chassis, axle, suspension system, steering system and advanced battery).
- **Purchase requirements for steel and aluminum originating in North America.**
- Labor Value Content Requirements (LVC).

Specific rules of origin in the automotive goods

Rules of origin in the automotive goods



- 1 Achieve a higher regional content of light trucks from **62.5% to 75%** (3 years) and from **60% to 70%** in heavy trucks (7 years).
- 2 The **70%** of the steel and aluminum, in value, incorporated into light and heavy vehicles, must be North America originating.
- 3 Comply with the Labor Value Content (LVC) of **\$16 USD** per hour, in the manufacturing of 40% of light vehicles and **45%** Pickups and heavy trucks.
- 4 **Auto parts:** Reach higher levels of regional content (3 years) as follows:
 - Essential parts: **75%** NC, or **85%** TV
 - Main parts: **70%** NC, or **80%** TV
 - Complementary parts: **65%** NC, or **75%** TV

Final comments

Immediate actions and main practices

Tariff preferences



- Update source qualification
- Define and implement new certification of origin
- Request certification of origin from suppliers

Business operation



- Training in compliance with origin
- Identify key personnel who should have greater capabilities
- Evaluate and analyze the impacts they may have on the business
- Reduce the risk of non-compliance and disruption of supply chains
- Increase productivity and improve operational execution
- Strategies for managing costs and taxes



External communication

- Communicate new changes with business providers, national and international
- Schedule a compliance audit plan or control processes with international suppliers on origin



Technological solutions

- Evaluate the current way in which the origin qualification is made.
- Identify if you have all the elements to certify the origin
- Count on a technological solution for the origin and compliance qualification of the USMCA
- Consolidate sources of information and compliance with foreign trade operations with multiple countries

Contact



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