OFFICE *of the* UNITED STATES TRADE REPRESENTATIVE
EXECUTIVE OFFICE OF THE PRESIDENT

ESTIMATED IMPACT OF THE UNITED STATES-MEXICO-CANADA AGREEMENT (USMCA) ON THE U.S. AUTOMOTIVE SECTOR

April 18, 2019

I. OVERVIEW

The automotive rules of origin (ROO) in the North American Free Trade Agreement (NAFTA) are outdated, contain significant loopholes, and have encouraged the outsourcing of U.S. jobs. The new automotive ROO in the United States-Mexico-Canada Agreement (USMCA), by contrast, are designed to incentivize investment, production, and employment in the U.S. automotive sector (see Annex 1 for a Summary of Key USMCA Auto Rules of Origin Provisions).

Using information provided by automakers with assembly operations in North America, the Office of the United States Trade Representative (USTR) has made an initial assessment of the short-term, quantitative impact of the USMCA's new automotive ROO. In order to obtain the maximum transition time to comply with the USMCA's rules, each North American vehicle producer must provide to USTR a credible compliance plan, outlining how the company will qualify its North American light vehicle fleet under the agreement's rules over the transition period. Nearly every automaker in North America has voluntarily provided USTR with information that could be used to develop such a plan, on a business confidential basis.

Using aggregated data from these submissions, as well as public announcements made by automakers or parts suppliers, USTR estimates that, over the course of five years, the USMCA should result in approximately:

NEW AUTOMOTIVE INVESTMENTS	NEW ANNUAL AUTO PARTS PURCHASES	NEW AUTOMOTIVE JOBS
$34 billion	$23 billion	76,000 jobs

The actual impact, of course, may vary, depending on macroeconomic and other factors unrelated to the USMCA. However, all automakers with a presence in North America have indicated to USTR that they will be able to meet the requirements of the new rules – and that they intend to do so (rather than forego preferential tariff treatment) – if they are able to benefit from the reasonable transition periods available in the agreement to make changes to their supply chains. In addition, assuming they qualify for full transition benefits, automakers and parts manufacturers have indicated to USTR that the USMCA's rules will not interfere with their plans to remain globally competitive while continuing to manufacture in the United States, nor will they significantly affect consumer vehicle prices.

USTR's analysis indicates that the USMCA will have a significant effect on automotive sector investment, parts purchases, and employment in the first five years after implementation. In the long-run, the impact could be even more profound, especially if judged against the baseline of the

NAFTA. Under the NAFTA, if an auto part is not specifically identified on a list created in the early 1990s, then it is effectively "deemed" to be originating, regardless of whether it is produced in North America. If left intact, these rules will enable automakers to source many of the high-value components for advanced vehicles (e.g., electric and autonomous vehicles) from outside of North America, assemble those vehicles in Mexico, and ship them to the United States duty-free with increasingly smaller amounts of U.S. content. The USMCA eliminates these "deemed" originating provisions, creates additional incentives to source core parts for advanced technology vehicles in the United States, and incentivizes additional long-term investment in U.S. automotive research and development.

II. IMPACT OF THE NEW AUTOMOTIVE RULES OF ORIGIN ON INVESTMENT, PRODUCTION, AND EMPLOYMENT IN THE UNITED STATES

A. Investment in the United States

USTR estimates that new capital investments attributable to the USMCA by automakers and battery suppliers will total approximately $34 billion over five years.

This figure is based on information about future investments provided by automakers, as well as publicly announced investments that were motivated, at least in part, by the USMCA's automotive ROO. This estimate includes approximately **$15.3 billion** in publicly announced investments by Fiat Chrysler Automobiles, Ford, General Motors (GM), Toyota, Volkswagen, and SK Innovation (see Annex 2). Investments of this magnitude are influenced by many factors, including trade rules. USTR is confident based on discussions with automakers and on their public statements that these decisions were partially influenced by vehicle producers' anticipated need to comply with the new automotive ROO in the USMCA (See Annex 3 for a map of automakers' assembly and major parts operations in the United States).

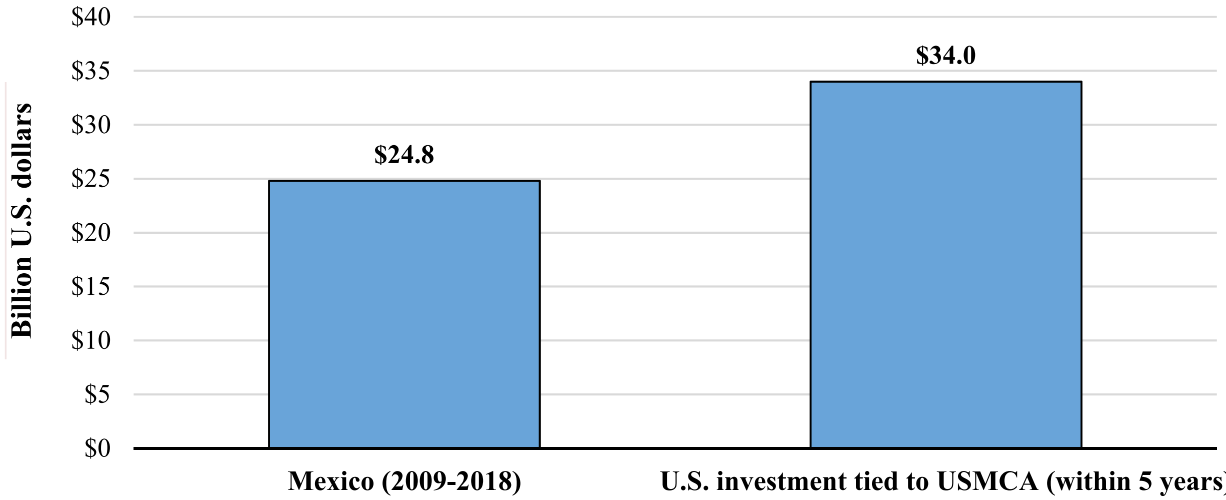
As a point of comparison, total capital investment in Mexico by all automakers from 2009 to 2018 totaled $24.8 billion.[1] This was a period of remarkable growth in the Mexican auto sector during which vehicle producers announced plans for the construction of eight new manufacturing facilities, compared to three in the United States. The $34 billion in USMCA-related investment that USTR projects over the next five years will surpass Mexico's ten-year total by $9.2 billion (see chart on following page).

As another point of comparison, the additional $34 billion of investments over five years attributable to the USMCA is equivalent to 50 percent of the value of all international automaker investments in the United States since the implementation of the NAFTA in 1994.[2]

[1] *See* Center for Automotive Research, *A Summary of the CAR Book of Deals Annual Report,* Historical Trends, 2009 to 2018 (2019), https://www.cargroup.org/automakers-announced-4-8-billion-in-north-american-investments-in-2018/.

[2] *See* Here for America, *International Automakers and Dealers in America* 11 (2018), http://www.hereforamerica.com/wp-content/uploads/2018/12/HereForAmerica2018.pdf.

AUTOMOTIVE INVESTMENT



It is important to note that USTR's estimate captures only incremental investment from automakers and from battery suppliers. The USMCA is likely to spur additional new capital investment by auto parts manufacturers as they respond to increased demand for U.S.-sourced automotive parts.

B. U.S. Automotive Parts Purchases

Based on information provided by producers, USTR estimates that the USMCA will incentivize at least $23 billion annually in new U.S. automotive parts purchases within five years.

The USMCA will require vehicle producers to source more automotive parts and content from North America – and from the United States in particular – in order to meet the agreement's higher regional value content (RVC) thresholds for vehicles and auto parts and the new labor value content (LVC) requirement.

USTR's estimates for new annual U.S. auto parts purchases attributable to the USMCA within five years are as follows:

(1) **$9.0 billion**: Automakers' own estimates for the additional U.S. auto parts purchases they will need to make in order for their existing models to qualify under the new USMCA ROO;
(2) **$8.3 billion**: Estimated incremental U.S. content automakers will need to source to meet the higher RVCs based on automakers' publicly announced new models or expanded production of existing models;
(3) **$5.2 billion**: Estimated value of incremental advanced battery purchases; and
(4) **$600 million**: Estimated incremental purchase value of U.S.-sourced steel and aluminum based on information from automakers.

USTR's estimate of $23 billion in new parts purchases accounts for only direct purchases by automakers. It does not include additional parts purchases by auto parts suppliers, which would likely increase the overall estimate of annual U.S. auto parts purchases.

C. Employment in the United States

USTR estimates that investments and additional U.S. automotive parts purchases attributable to the USMCA will support approximately <u>76,000 additional jobs</u> in the U.S. automotive sector over a five-year period.

This figure includes approximately **22,800 additional automotive assembly jobs** based on information provided by automakers as well as their public announcements, **8,000 additional advanced battery supplier jobs**, and an estimated **45,600 additional automotive supplier jobs**. The last figure is based on the assumption that each assembly job supports an additional two automotive supplier jobs. This jobs multiplier (1 to 2 ratio) is a conservative assumption; independent auto analysts often use higher multipliers in their research.[3] These estimates likewise do not include a so-called "community" or "spin-off multiplier" that would account for employment generated by the increased demand for goods and services outside of the automotive sector in communities where new auto investments will be made.

The estimated 76,000 additional jobs would represent an increase of 7.6 percent over the current level of employment of 999,000 automotive sector workers in the United States.[4]

III. INVESTMENT IN ADVANCED TECHNOLOGY VEHICLES AND AUTO PARTS

Over the long run, the USMCA's rules of origin will incentivize the production of advanced technology vehicles and high-technology auto parts in North America, and in particular the United States, by:

1. **<u>Eliminating "deemed" originating of parts imports</u>**. The USMCA's automotive ROO were designed to ensure the development of new North American supply chains for the high-technology electronic components and high-value parts that represent an increasingly large share of content in advanced technology vehicles. Under the current NAFTA rules, much of this content is "deemed" originating even if it is produced outside of North America. The USMCA rules require these parts to be produced in the region in order to be considered originating.

2. **<u>Requiring advanced batteries – including the battery cells – to be originating</u>**. This key change in the automotive ROO should incentivize new investments in advanced battery production facilities in high-wage North American facilities to enable auto producers to meet the higher RVC, core parts, and new LVC requirements. SK Innovation's recent $1.7

[3] *See* Center for Automotive Research, *Contribution of the Automotive Industry to the Economies of All Fifty States and the United States* 30 (2015), http://www.cargroup.org/wp-content/uploads/2017/02/Contribution-of-the-Automotive-Industry-to-the-Economies-of-All-Fifty-States-and-the-United-States2015.pdf.

[4] Preliminary estimate for seasonally adjusted national employment for March 2019 in motor vehicle and parts manufacturing. *See* U.S. Department of Labor, Bureau of Labor Statistics, *Automotive Industry: Employment, Earnings, and Hours*, https://www.bls.gov/iag/tgs/iagauto.htm.

billion investment in a new battery production facility in Georgia is an early indicator that parts suppliers already are anticipating new demand for U.S.-sourced advanced batteries, stimulated in part by the USMCA.

3. **Incentivizing local production of high-value autonomous vehicle sensing platforms and computing platforms**. These components represent a substantial share of the content value of autonomous vehicles and likely will need to be originating in order for such vehicles to meet the USMCA's RVC requirement. In addition, in order meet the new LVC requirement, automakers will likely find it necessary to source many of these components from high-wage facilities in the United States.

ANNEX 1

Summary of Key USMCA Auto Rules of Origin Provisions

Key requirements in the USMCA's automotive rules of origin, compared to their NAFTA equivalents – where applicable – are summarized below.

NAFTA	USMCA
Establishes a regional value content (RVC) threshold of 62.5 percent for passenger vehicles and light trucks.	Sets a **higher regional value content (RVC) threshold of 75 percent** for passenger vehicles and light trucks.
Often lower RVC requirements for "core parts" (e.g., engine, transmission, body and chasses, axles, etc.) and no requirement that such parts be originating.	**Requires that "core parts" be originating and meet a higher 75 percent RVC.**
Lower RVC requirements for "principal parts" (e.g., tires, glass, pumps and compressors, brakes, etc.).	**Establishes a higher 70 percent RVC for "principal parts."**
Lower RVC requirements for "complementary parts" (e.g., plastic interior panels, instrument panels, catalytic converters, etc.).	**Establishes a higher 65 percent RVC for "complementary parts."**
No requirements to use high-wage North American labor in vehicle or parts production.	Establishes – for the first time in a trade agreement – a **Labor Value Content (LVC) requirement** that at least 40 percent of the value of passenger cars and 45 percent of the value of light trucks must be produced in North American facilities where workers make an average of $16/hour.
Contains rules that "deem" non-U.S. and non-North American content as originating, reducing the actual percentage of a vehicle required to be produced in the region to below that required by the RVC threshold.	**Eliminates "deeming" rules** and **ensures that parts must be genuinely produced in the United States and North America** in order to qualify as originating.
Includes outdated and unwieldy origin and certification procedures, which can be burdensome for producers.	Includes updated and streamlined origin and certification procedures to **reduce the administrative burden on automotive producers** and ensure **enhanced compliance with the rules**.
Does not include provisions explicitly designed to encourage automotive manufacturing and investment in the United States.	Includes a number of specific provisions designed to incentivize **new automotive investments** in the United States, **promote production of both U.S. vehicles and core parts, increase purchases of U.S.-produced steel and aluminum**, and advance U.S. leadership in **automotive research and development**. These provisions will support additional **high-paying U.S. jobs** in the automotive sector and encourage automakers and suppliers to **locate future production of new energy and autonomous vehicles** in the United States.

ANNEX 2

Links to Publicly Available Information on USMCA-Related Automotive Investments[5]

Fiat Chrysler Automobiles:

February 26, 2019 – FCA to Expand Production Capacity in Michigan to Grow Core Brands, Electrify Jeep® Vehicles

December 11, 2018 – Fiat Chrysler's New Plant Shows Automakers' New Focus

Ford:

March 20, 2019 – Ford Adds 2nd North American Site to Build Battery Electrics

February 7, 2019 – Ford Invests $1 Billion in Chicago Plants

GM:

March 22, 2019 – GM to Invest $300 Million, Add 400 Jobs at Michigan Plant for New Chevrolet Electric Vehicle

Volkswagen:

January 14, 2019 – Volkswagen Chooses Chattanooga for U.S. Electric Vehicle Production

Toyota:

March 14, 2019 – Toyota Solidifies Its Substantial and Growing Investment in U.S.

November 16, 2018 – Mazda Toyota Manufacturing Kicks Off Construction on $1.6 Billion Alabama Plant

SK Innovation:

March 19, 2019 – $1.7 Billion Battery Plant to Bring Thousands of Jobs to Georgia

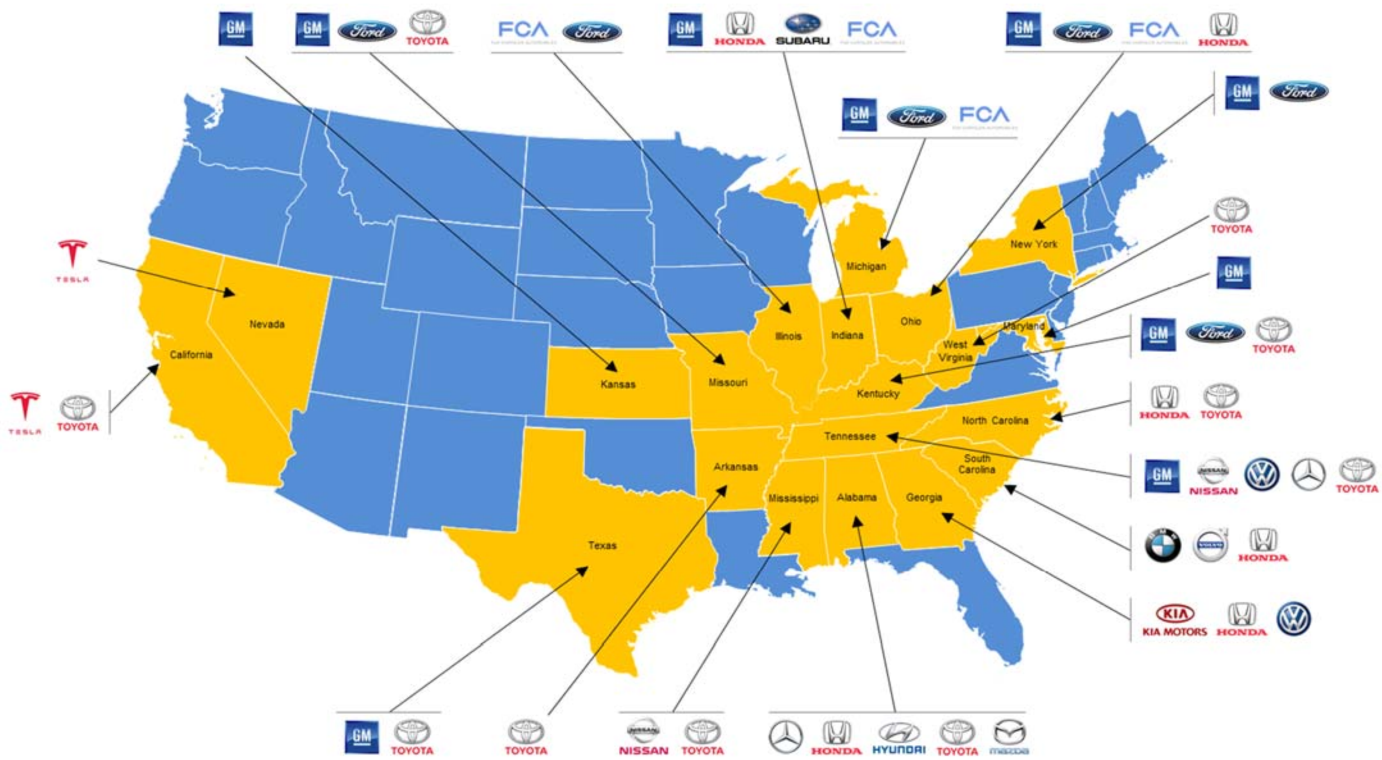
March 18, 2019 – Auto Supplier Sees Its EV Battery Business Breaking Even by 2021

December 3, 2018 – SK Innovation Announces New Battery Manufacturing Plant in Georgia

[5] While some of the linked press releases or articles specifically mention the USMCA as a reason for these investments, companies have indicated that all of these investments are related to the USMCA.

ANNEX 3

Automaker's Assembly Plants and Major Auto Parts Operations in the United States[1]



[1] Presentation is illustrative not exhaustive.

Source: Company information.