NEWS

CLEPA
European Association of Automotive Suppliers

Brussels, 29th August 2018

# US president announces revised trade deal between US and Mexico

Last 27th August, US President Donald Trump announced a common accord between the US and Mexico on key trade terms – a replacement of the existing 25-year-old North American Free Trade Agreement, which Mr Trump has blamed for a decline in US manufacturing jobs.

Negotiators have been rewriting the Nafta treaty over the past year, but in the past five weeks, Canada has not been part of the discussions.

Casting doubt on Canada's inclusion, Mr Trump said: "We will see whether or not we decide to put up Canada or just do a separate deal with Canada". He also stated that he wanted to get rid of the name NAFTA, as it has "bad connotations".

Canadian Prime Minister Justin Trudeau's office published a note saying that both leaders had a "had a constructive conversation" and "look forward to having their teams engage this week with a view to a successful conclusion of negotiations."

The next steps foreseen a deal to be taken before the newly elected Mexican President, Mr Lopez Obrador takes office in December 2018. In order to meet that deadline, the Trump Administration must present the U.S. Congress with a deal at least 90 days in advance, i.e. Friday, 31 August.

Mr Obrador has said that a two-way agreement with the US was just the first step in, expressing interest "in remaining a three-country deal". In which case, all three legislatures would have the final say over the trade pacts.

MEMA, the North American Motor & Equipment Manufacturers Association, has been a leading voice in Washington and around the country advocating for a positive renegotiation of the North American Free Trade Agreement. They highlight the importance of the progress made by the Trump Administration and the Mexican government, but they encourage a renewed focus on a three-party agreement that includes Canada.

They also warn that the potential cap of Mexican motor vehicle parts exports into the U.S. may serve to decrease American manufacturing jobs and exports and put U.S. businesses at a global disadvantage -- all while increasing costs to consumers.

The deal struck between the US and Mexico must be read in the global trading context and especially in light of the US import duties on steel (25%) and aluminum (10%), which the US has imposed on Canada, China, Turkey, (albeit EU is enjoying temporary tariff relief), given that large parts of the automotive supply industry (e.g. 100% of the brake pads in the US come from China), US tariffs will apply to them, this will have a knock-on effect on the price of a product, consequently, it will be the end consumer who will ultimately pay the price.

CLEPA is analysing the full impact of the EU-Mexico deal, (as it stands), taking into account US tariffs on metals, the revision of the EU-Mexico FTA and the provisions of the EU-Canada FTA.

The specific requirements lay down stringent conditions for the import of products, (vehicles and component parts, alike) from Mexico including:

- Automotive manufacturing: to receive tax-free treatment or almost tax-free (around 2.5%), the new deal would require that 75% of the parts in any car sold in North America would be produced in the United States or Mexico. Currently, about 62.5% of parts are required to be produced in the US, Mexico and Canada. However, it is not known, at this stage, what the tariffs may amount to if the required local content of 75% is not reached.

- Higher labour standards: the new deal would require that 40% to 45% of auto parts in cars sold are made by workers earning at least 16 USD per hour (aimed at discouraging firms from locating in lower-wage Mexico)
- Sunset clause: the agreement will last for 16 years and will be reviewed every six years.
- include provisions to govern intellectual property, digital trade and investor disputes.

The pact will expire in 16 years' time, it is to be reviewed every six years background:

- The North American Free Trade Agreement covers more than $1tr (£780bn) in annual trade.
- The US has threatened to place tariffs on vehicles and automotive parts on cars imported from Europe, Canada and Asia.
- The United States has imposed steep tariffs on steel and aluminium which has prompted global countermeasures, with retaliatory measures on US goods coming from Mexico, Canada, EU, China, India and Turkey.
- The US has also imposed tariffs on $50 billion worth of Chinese imports, as punishment for alleged Chinese technology transfer. China is levying retaliatory tariffs on 50billion USD worth of US imports to China.

Source: CLEPA, MEMA