Dec. 14, 2017

U.S. Negotiators Pushing for Special Automotive Content Rule

NAFTA negotiators are gathering in Washington, D.C. during the week of Dec. 11 to hammer out smaller technical details in a round of intersessional talks that include rules of origin — regulations used to determine if a good is eligible for preferential treatment under NAFTA. Rules of origin include regional value content requirements, or the portion of a product's value that must originate from countries in the trade agreement.

One major change U.S. negotiators have pushed — and which Canadian and Mexican negotiators and a bipartisan group of U.S. lawmakers have opposed — is a U.S. content value requirement for automotives.

Rules of Origin Determine Which Imports Receive Preferential Treatment

Rules of origin broadly determine which goods may be deemed "originating goods," that are subject to preferential treatment in a trade agreement. Within NAFTA, originating goods face no (or a significantly reduced) tariff when exported to another NAFTA country.

These rules "prevent goods that aren't produced in the region from getting duty free treatment," said Caroline Freund, senior fellow at the Peterson Institute for International Economics.

Originating goods in NAFTA are those that are wholly produced or that have a certain value added from production in a NAFTA country.

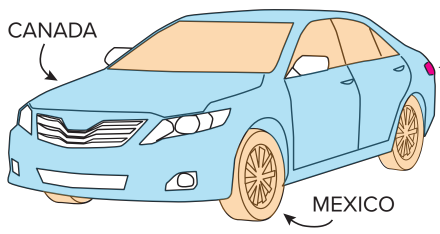
"The way global supply chains work these days, you're taking parts from all over the world," to make a product, Freund said. That's why there are regional value content requirements, which quantify the value added to a good by production in a NAFTA country.

"The higher the regional value content, the more you have to use inputs from within the region in order to qualify for preferential treatment when the product moves across borders," Freund said.

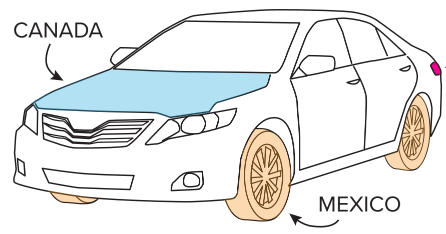
RVC is calculated using one of two methods that take the regional value of a good as a percent of the good's total value. The transaction value method is based on the value paid for the good. The net cost method is based on the cost of making the good.

Most manufactured goods are subject to either a 60 percent transaction value or 50 percent net cost value requirement. However, some goods, including automotives, are subject to higher content requirements. For example, passenger motor vehicles must meet a 62.5 percent net cost method requirement.

Goods that **qualify for preferential treatment** are "originating goods," and have a certain percent value added or created from production in a NAFTA country.



Goods that **do not qualify for preferential treatment** are those that have too little content originating from NAFTA members.

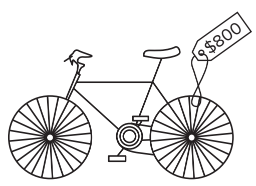


Illustrations are not representative of actual RVC requirements

Transaction value: 60 percent*

Uses the regional value as a percent of the **value paid for the good**

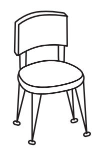
At least **$30** of the chair's value must come from a NAFTA country.



At least **$480** of the bike's value must come from a NAFTA country.

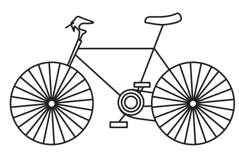
Net cost: 50 percent*

Uses the regional value as a percent of the **cost of making the good**



$20 to make

At least **$10** of the chair's value must have been added from production in a NAFTA country.



$300 to make

At least **$150** of the bike's value must be from production in a NAFTA country.

*These are the thresholds for most products under NAFTA rules, but certain goods have other thresholds for regional value content.

Proposed U.S. Content Requirement Meets Pushback From Many Fronts

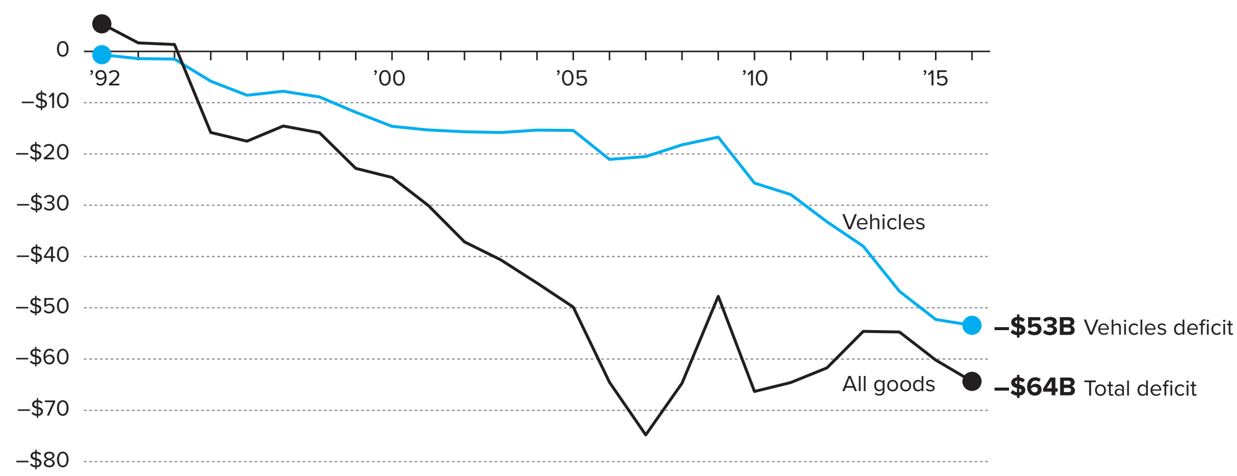
One major change U.S. negotiators have pushed is a U.S. content value requirement for automotives. Qualifying vehicles traded between NAFTA countries would be required to have 50 percent value added from U.S. production on a net cost basis.

"This is really about autos," Freund said of the debate over rules of origin. The U.S. trade deficit with Mexico is led by high automotive imports from Mexico.

Canadian and Mexican negotiators have opposed the content requirement, as have other U.S. stakeholders. U.S. auto manufacturers are opposed to the auto rule of origin. In November, a bipartisan group of 70 representatives urged U.S. negotiators to drop the proposal.

U.S. balance of trade with Mexico, all and selected goods

BILLIONS OF DOLLARS



Note: Includes both foreign and domestic exports. "Vehicles" excludes railway and tramway vehicles and parts.

Sources: World Trade Organization, USATrade.gov, Peterson Institute, POLITICO Pro staff reports

By Taylor Thomas and Cristina Rivero, POLITICO Pro DataPoint