USMCA Automotive Rules Of Origin

November 22, 2018

Introduction

In October we released our initial look at the US-Mexico-Canada Free Trade Agreement (**USMCA**). In this note we assess in more detail the automotive rules of origin and other automotive provisions in the USMCA.

A key issue in any trade agreement is determining which goods will qualify for common preferential tariff treatment among the agreement's parties. The concern is that differing tariff rates among parties will give rise to transshipment issues, in which goods are imported into a lower tariff party and then shipped to a higher-tariff party in order to avoid that higher tariff. Rules of origin address this issue by mandating the minimum transformation a good must undergo or local content it must contain to qualify as "originating" in the free-trade area and thereby benefit from preferential access. The determination of origin can be simple when all of the inputs in a finished good originates in the free trade area, but can be more difficult when a finished good, like a motor vehicle, uses inputs sourced from around the world. Until the USMCA, the NAFTA contained the most complex and rigorous rules of origin for vehicles and parts of any of Canada's free trade agreements.

The automotive rules of origin were at the heart of the negotiations and, unlike many parts of the Agreement, represent a significant departure from the equivalent provisions in the NAFTA. Overall, they are significantly more restrictive than those in the NAFTA, reflecting the objective of the Trump Administration – an objective largely shared by Canada – to encourage higher levels of production in North America while stemming the flow of that production to Mexico. For example, when the USMCA is fully phased in, a passenger vehicle and its producer will need to satisfy four different origin requirements in order for the vehicle to qualify for duty-free treatment: (i) the vehicle itself will need to satisfy a 75 per cent regional value content requirement; (ii) certain "core" parts in the vehicle will need to qualify as "originating" in the USMCA region; (iii) the producer will need to source 70 per cent of its steel and aluminum in North America; and (iv) the producer will need to achieve "high-wage" labour value content requirements totalling 40per cent of (yet to be clearly defined) expenditures.

The complexity of the USMCA's automotive rules of origin will make their understanding and application a challenge for businesses in the sector as will a lack of clarity around many of the key elements in the rules. The USMCA Parties will address some of these

compliance issues as they review and finalize the negotiated text for its signing and as they develop the Uniform Regulations that will govern the interpretation and application of the rules of origin. Uniform Regulations, which helped to resolve many rules of origin issues under the NAFTA, are contemplated in Article 5.17 of the USMCA and are to be in place before the Agreement enters into force. Nevertheless, it remains an open question whether North American producers will find it more beneficial in some cases to pay duties at the relatively low U.S. (and Canadian) most-favoured nation (MFN) rates on passenger vehicles and parts rather than complying with the USMCA rules of origin in order to benefit from tariff preferences. The answer to that question will depend in part on whether the Trump Administration proceeds with its plan to impose sec. 232 tariffs on automotive goods, ostensibly for national security reasons.

Increased North American Content Requirements for Vehicles: The USMCA has significantly altered the North American content requirements for passenger vehicles, light trucks, and heavy trucks to be certified as originating. Passenger vehicles and light trucks will now require 75 per cent North American content and heavy trucks will require 70 per cent North American content. North American content requirements under the NAFTA were 62.5 per cent for both cars and light trucks, and 60 per cent for heavy trucks. In addition, certain core parts, including engines, advanced batteries for electric or hybrid vehicles, transmissions, suspension and steering systems must be originating in order for the entire passenger vehicle or light truck to qualify for preferential treatment. Heavy trucks do not face the same requirement. The USMCA requires too that vehicle producers source 70 per cent of their steel and aluminum purchases from North America, a requirement that does not exist in the NAFTA.

Increased North American Content Requirements for Automotive Parts: The North American content requirements for parts have also been increased in the USMCA compared to the NAFTA. Depending on whether a part is defined as a core part, principal part, or complementary part, content requirements range from 65 per cent to 75 per cent for passenger vehicles and light truck parts, and 60 per cent to 70 per cent for heavy truck parts, using a net cost calculation. Equivalent content requirements under the NAFTA for parts were 60 per cent[1].

New Labour Value Content Requirements: A new requirement in the USMCA is for certain vehicle manufacturing expenditures to be “high-wage”, meaning expenditures at facilities that pay at least USD $16 an hour. For certain passenger vehicle expenditures, 40 per cent must be high-wage, while for light and heavy trucks 45 per cent of expenditures must be high-wage.

Transition Periods: Recognizing that supply chains can’t be altered overnight, the USMCA provides a transition period for North American producers. The USMCA provides a five year transition period for up to 10 per cent of a producer’s total North American passenger vehicle and light truck production and a seven year period for heavy trucks. However, even during the transition period certain content requirements, including steel and aluminum purchases, must be met.

Automotive Side Agreements on Sec. 232 Tariffs: The United States signed side agreements with both Canada and Mexico exempting each from the application of threatened “national security” tariffs on automotive goods by establishing annual export caps on Canadian and Mexican vehicles and parts, below which, no additional US tariffs will be applied.

Top Business Issues to Consider: In this section we highlight the top issues that businesses connected to the automotive sector should consider, including supply chain management, compliance, record keeping, and labour issues among others.

Increased North American Content Requirements for Vehicles

Over time, the North American content requirement has significantly increased. Existing NAFTA automotive rules of origin require 62.5 per cent North American content, in the case of passenger vehicles and light trucks, or 60 per cent, in the case of heavy trucks, in order to avoid paying duties at MFN rates.[2] The original US-Canada Free Trade Agreement contained a 50 per cent content requirement. In addition to the total vehicle content requirement, certain parts must meet content requirements in order for the passenger vehicle, light truck, or heavy truck to qualify for USMCA tariff preference. Additionally, the USMCA adds two additional requirements not found in the previous NAFTA:

1. steel and aluminium content requirements, and
2. labour value content requirements.

We detail the requirements for passenger vehicles, light trucks, and heavy trucks in the following tables. Labour value content and parts requirements are outlined in separate sections.

Figure 1: Passenger vehicles and light trucks

Phase-in period	**North American content requirement (net cost method)**
January 1, 2020, or the date of entry into force of the Agreement, whichever is later	66%
January 1, 2021, or **one year** after the date of entry into force of the Agreement, whichever is later	69%
January 1, 2022, or **two years** after the date of entry into force of the Agreement, whichever is later	72%
January 1, 2023, or **three years** after the date of entry into force of the Agreement, whichever is later	75%

Figure 2: Heavy trucks

Phase-in period	**North American content requirement (net cost method)**
January 1, 2020, or the date of entry into force of the Agreement, whichever is later	60%
January 1, 2024, or **four years** after the date of entry into force of the Agreement, whichever is later	64%

January 1, 2027, or **seven years** after the date of entry into force of the Agreement, whichever is later	70%

North American steel and aluminum requirement

In addition to the vehicle specific content requirements, producers must ensure that 70 per cent of the steel and aluminum (including aluminum alloy) they purchase originates in North America.

Increased North American Content Requirements for Automotive Parts

Passenger Vehicles and Light Trucks

The USMCA sets out detailed rules regarding the North American content requirements for passenger vehicle and light truck parts to be considered originating.

Parts are divided into three groupings contained in tables A to C in the Appendix to Annex 4-B of the USMCA, including **core parts**, **principal parts**, and **complementary parts**. The content requirement for each group of parts is different.

Figure 3: Passenger Vehicle/Light Truck parts content requirements

Table Reference	Part Grouping	North American Content Requirement (by end of phase in period)	
		net cost	transaction value
Table A (including A.1 and A.2)	Core parts	75%	85%
Table B	Principal parts	70%	80%
Table C	Complementary parts	65%	75%

The core parts requirements were negotiated to be flexible and to provide producers with different ways to calculate North American content thresholds. Core parts include the following: engine, transmission, body and chassis, axle, suspension system, steering system, and advanced battery. Each core part is made up of enumerated components. The 75 per cent threshold will be met if all of the core parts individually surpass the threshold or if the enumerated components of each core part surpass the threshold. Alternatively, the producer can consider all core parts together or all enumerated components of all the core parts together.

As under the NAFTA, producers will be allowed to “average” North American content across model lines and vehicle classes to avoid duties on limited volumes of vehicle exports that may not meet the appropriate North American content threshold.

Figures 4, 5, and 6 outline the parts phase-in periods for North American content.

Figure 4: Content requirement for Tables A.1 and A.2: Core Parts

Phase-in period	North American content requirement	
	net cost method	**transaction value**
January 1, 2020, or the date of entry into force of the Agreement, whichever is later	66%	76%
January 1, 2021, or **one year** after the date of entry into force of the Agreement, whichever is later	69%	79%
January 1, 2022, or **two years** after the date of entry into force of the Agreement, whichever is later	72%	82%
January 1, 2023, or **three years** after the date of entry into force of the Agreement, whichever is later	75%	85%

Figure 5: Content requirement for Table B: Principal Parts

Phase-in period	North American content requirement	
	net cost method	**transaction value**
January 1, 2020, or the date of entry into force of the Agreement, whichever is later	62.5%	72.5%
January 1, 2021, or **one year** after the date of entry into force of the Agreement, whichever is later	65%	75%
January 1, 2022, or **two years** after the date of entry into force of the Agreement, whichever is later	67.5%	77.5%
January 1, 2023, or **three years** after the date of entry into force of the Agreement, whichever is later	70%	80%

Figure 6: Content requirement for Table C: Complementary Parts

Phase-in period	North American content requirement	
	net cost method	**transaction value**

January 1, 2020, or the date of entry into force of the Agreement, whichever is later	62%	72%
January 1, 2021, or **one year** after the date of entry into force of the Agreement, whichever is later	63%	73%
January 1, 2022, or **two years** after the date of entry into force of the Agreement, whichever is later	64%	74%
January 1, 2023, or **three years** after the date of entry into force of the Agreement, whichever is later	65%	75%

Heavy Trucks

The USMCA also sets out detailed rules regarding the North American content requirement for heavy truck parts. Parts are divided into two groupings set out in tables D and E in the Appendix to Annex 4-B of the USMCA: **principal parts** and **complementary parts**. The content requirement for each grouping is different.

Figure 7: Heavy truck parts content requirements

Table Reference	Part Grouping	**North American Content Requirement (by end of phase in period)**	
		net cost	**transaction value**
Table D	Principal parts	70%	80%
Table E	Complementary parts	60%	70%

Figures 8 and 9 outline the parts phase in periods for North American content.

Figure 8: Content requirement for Table D: Principal Parts

Phase-in period	**North American content requirement**	
	net cost method	**transaction value**
January 1, 2020, or the date of entry into force of the Agreement, whichever is later	60%	70%

January 1, 2024, or **four years** after the date of entry into force of the Agreement, whichever is later	64%	74%
January 1, 2027, or **seven years** after the date of entry into force of the Agreement, whichever is later	70%	80%

Figure 9: Content requirement for Table E: Complementary Parts

Phase-in period	**North American content requirement**	
	net cost method	**transaction value**
January 1, 2020, or the date of entry into force of the Agreement, whichever is later	54%	64%
January 1, 2024, or **four years** after the date of entry into force of the Agreement, whichever is later	57%	67%
January 1, 2027, or **seven years** after the date of entry into force of the Agreement, whichever is later	60%	70%

New Labour Value Content Requirements

Labour Value Content (LVC) is one of the headline additions to automotive rules or origin in the USMCA. It reflects the US and Canadian objective to discourage the loss of manufacturing jobs to the lower wage Mexican economy. The LVC requires a certain percentage of expenditures made in the manufacture of passenger vehicles and light and heavy trucks to be made up of “high-wage” expenditures.
The agreement identifies three types of high-wage expenditures:

1. *High-wage material and manufacturing expenditures*: the annual purchase value of parts and material produced in a North American plant with production wages of at least USD $16 an hour.
2. *High-wage technology expenditures*: annual vehicle producer expenditures in North America on wages for research and development, which includes prototype development, design, engineering, testing, or certifying operations.
3. *High-wage assembly expenditures*: a credit is provided to the vehicle producer if it has an engine, transmission, or advanced battery assembly plant, or has long term contracts with such a plant, located in North America with an average production wage of at least USD $16 an hour.[3]

The USMCA does not provide for the USD $16 an hour wage rate to increase with inflation nor for the Parties to periodically update the rate threshold. If the wage rate is not updated or indexed, its influence on production sourcing decisions may diminish over time.

Figure 10 details the high-wage requirements for passenger vehicles and light and heavy trucks.

There is no phase-in period for light and heavy trucks, making it significantly more difficult to transition and creating a new, and tougher, barrier to entry into the North American market.

Figure 10: Labour Value Content Requirement

Phase-in period	**Total Labour Value Content**	
Passenger Vehicles		
January 1, 2020, or the date of entry into force of the Agreement, whichever is later	30%	at least 15% high-wage material and manufacture expenditures
		no more than 10% high-wage technology expenditures
		no more than 5% high-wage assembly expenditures
January 1, 2021, or **one year** after the date of entry into force of the Agreement, whichever is later	33%	at least 18% high-wage material and manufacture expenditures
		no more than 10% high-wage technology expenditures
		no more than 5% high-wage assembly expenditures
January 1, 2022, or **two years** after the date of entry into force of the Agreement, whichever is later	36%	at least 21% high-wage material and manufacture expenditures
		no more than 10% high-wage technology expenditures
		no more than 5% high-wage assembly expenditures
January 1, 2023, or **three years** after the date of entry into force of the Agreement, whichever is later	40%	at least 25% high-wage material and manufacture expenditures
		no more than 10% high-wage technology expenditures
		no more than 5% high-wage assembly expenditures
Light & Heavy Trucks		

Date of entry into force of the Agreement	45%	at least 30% high-wage material and manufacture expenditures
		no more than 10% high-wage technology expenditures
		no more than 5% high-wage assembly expenditures

Transition Periods

Because automotive supply chains are highly integrated, complex and often involve long term contractual commitments they cannot be changed overnight. The USMCA, therefore, provides for a transition period that allows a portion of a producer's passenger vehicles and light trucks to receive tariff preference without complying with the USCMA rules of origin. The transition period allows up to 10 per cent of a vehicle producer's total North American production of passenger vehicles or light trucks to be non-conforming with the USMCA's rules of origin up to January 1, 2025, or five years after entry into force of the agreement, whichever is later.
To take advantage of the transition regime the following requirements must be met:

1. North American content must not be lower than 62.5 per cent (net cost) and must be 75 per cent by the later of Jan 1, 2025 or five years after the entry into force of the agreement;
2. North American content for certain parts must not be lower than 62.5 per cent (net cost) or 72.5 per cent (transaction value) and for other parts must not be lower than 75 per cent (net cost) or 85 per cent (transaction value);
3. Steel and aluminum purchase requirements (70 per cent) must be met; and
4. Labour value content requirements for high wage material and manufacturing expenditures can be reduced by no more than five per cent.

Automotive Side Agreement on Sec. 232 Tariffs

In separate "side-letter agreements", the United States agreed that if it imposes additional tariffs on automotive imports, it will exempt from those tariffs all light trucks coming from Canada and Mexico, as well as 2.6 million passenger vehicles from each of Canada and Mexico.

The US will also exempt from additional tariffs USD $32.4 billion in parts from Canada and USD $108 billion in parts from Mexico.

It is unclear how these quotas will be allocated among automotive producers or even who will be responsible for determining the allocations. Further, whether the respective passenger vehicle quotas will be sufficient in the future remains to be seen. In 2017, Canada exported approximately 1.85 million passenger vehicles to the US. But in 2013 and 2014, exports climbed to over two million passenger vehicles. If the US imposes sec. 232 tariffs on other vehicle producing countries like the EU, or if the threat of tariffs remain for an extended period of time, Canadian exports could quickly rise towards the quota limits.

If the U.S. does imposes sec. 232 tariffs on Canadian and Mexican vehicle exports to the U.S. it is unclear how the U.S. will determine whether the subject vehicles and parts are “from” Canada and Mexico. It may be open to the U.S. to apply the USMCA rules of origin or another, as yet undefined, set of criteria. In any event, it is almost certain that the U.S. will prevent producers from using the quotas to circumvent the USMCA’s rules of origin.

Top Business Issues to Consider

Is it worth it: businesses must consider whether the increased content requirements and attendant supply chain management costs to qualify for USMCA tariff preferences outweigh the MFN duties (e.g. 2.5 per cent on passenger vehicles imported into the US) that will otherwise apply to non-originating vehicles and parts.

Origin certification: throughout the automotive provisions, both vehicle producers and those providing parts to vehicle producers are required to certify that vehicles and parts meet the requirements of the agreement. This will likely require updates and changes to supply chain agreements throughout the sector, especially to reflect the transition regime, the new LVC requirements, and the new North American steel and aluminum requirement.

Record keeping: new requirements related to steel and aluminum purchase as well as labour value content will create new accounting and record keeping requirements for business. There are also significant questions about how labour value content will be calculated.

Labour value content: the introduction of this requirement may mean updates to employment agreements with workers or collective agreements with unions. Producers and parts providers will have to carefully consider how to meet the labour value content requirements.

Transition period: depending on supply chains and production methods, producers may need to take advantage of the transitional provisions to provide sufficient time to fully satisfy USMCA requirements.

[1] 62.5 per cent in the case of engines and transmissions.

[2] This represents a historical compromise among the three countries. During the NAFTA negotiations, the United Auto Workers sought an 80 per cent content requirement, Ford and Chrysler a 70 per cent requirement, General Motors a 60 per cent requirement, while Canada and Mexico aimed to keep the 50 per cent content requirement from the US-Canada Free Trade Agreement. US negotiators were able to convince Mexico to accept 65 per cent while Canada remained firm. In the end, the parties agreed to split the difference and landed at the current content requirement of 62.5 per cent.

[3] The agreement permits producers to “average” the percentage across a vehicle model line in a vehicle class or vehicle class produced in the same plant. Producers can also

“average” the percentage across the same vehicle model line or vehicle class produced in the territory of one country.

By

Jesse Goldman, Matthew Kronby, Milos Barutciski, Jacob Mantle

Expertise

International Trade & Investment

BLG | Canada’s Law Firm

As the largest, truly full-service Canadian law firm, Borden Ladner Gervais LLP (BLG) delivers practical legal advice for domestic and international clients across more practices and industries than any Canadian firm. With over 800 lawyers, intellectual property agents and other professionals, BLG serves the legal needs of businesses and institutions across Canada and beyond – from M&A and capital markets, to disputes, financing, and trademark & patent registration.

blg.com

BLG Offices

Calgary

Centennial Place, East Tower
520 3rd Avenue S.W.
Calgary, AB, Canada
T2P 0R3

T 403.232.9500
F 403.266.1395

Ottawa

World Exchange Plaza
100 Queen Street
Ottawa, ON, Canada
K1P 1J9

T 613.237.5160
F 613.230.8842

Vancouver

1200 Waterfront Centre
200 Burrard Street
Vancouver, BC, Canada
V7X 1T2

T 604.687.5744
F 604.687.1415

Montréal

1000 De La Gauchetière Street West
Suite 900
Montréal, QC, Canada
H3B 5H4

T 514.954.2555
F 514.879.9015

Toronto

Bay Adelaide Centre, East Tower
22 Adelaide Street West
Toronto, ON, Canada
M5H 4E3

T 416.367.6000
F 416.367.6749

The information contained herein is of a general nature and is not intended to constitute legal advice, a complete statement of the law, or an opinion on any subject. No one should act upon it or refrain from acting without a thorough examination of the law after the facts of a specific situation are considered. You are urged to consult your legal adviser in cases of specific questions or concerns. BLG does not warrant or guarantee the accuracy, currency or completeness of this publication. No part of this publication may be reproduced without prior written permission of Borden Ladner Gervais LLP. If this publication was sent to you by BLG and you do not wish to receive further publications from BLG, you may ask to remove your contact information from our mailing lists by emailing unsubscribe@blg.com or manage your subscription preferences at blg.com/MyPreferences. If you feel you have received this message in error please contact communications@blg.com. BLG’s privacy policy for publications may be found at blg.com/en/privacy.

© 2026 Borden Ladner Gervais LLP. Borden Ladner Gervais LLP is an Ontario Limited Liability Partnership.