

United States – Mexico – Canada Agreement (USMCA)

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07.01.2020

The United States – Mexico – Canada Agreement (USMCA) goes into effect today, replacing the 25 year old NAFTA treaty. Updating NAFTA was one of the highest priorities of the Trump administration; USMCA eventually garnered bipartisan support in the US Congress. The new agreement modernizes, updates and enhances the NAFTA trading regime in a number of important ways, including: expanded trade opportunities in agriculture; enhanced intellectual property protections; provisions on digital trade, financial services and currencies; and important changes to labor and environmental provisions. The US Trade Representative summarizes some of these changes as follows (not an exhaustive list of USMCA changes to NAFTA):

Key Achievement: Expanded Market Access for American Food and Agricultural Products

America's dairy farmers will have new export opportunities to sell dairy products into Canada. Canada will provide new access for US products including fluid milk, cream, butter, skim milk powder, cheese, and other dairy products. It will also eliminate its tariffs on whey and margarine. For poultry, Canada will provide new access for US chicken and eggs and increase its access for turkey. Under a modernized agreement, all other tariffs on agricultural products traded between the US and Mexico will remain at zero.

Key Achievement: Canada's Milk Classes 6 and 7 to Be Eliminated

The top priority for America's dairy industry in this negotiation has been for Canada to eliminate its program allowing low priced dairy ingredients to undersell US dairy sales in Canada and in third country markets. As a result of the negotiation, Canada will eliminate what is known as its milk classes 6 and 7. In addition, Canada will apply export charges to its exports of skim milk powder, milk protein concentrates and infant formula at volumes over agreed threshold, which will allow US producers to expand sales overseas.

Key Achievement: Setting Unprecedented Standards for Agricultural Biotechnology

For the first time, the agreement specifically addresses agricultural biotechnology to support 21st century innovations in agriculture. The text covers all biotechnologies, including new technologies such as gene editing, whereas the Trans-Pacific Partnership text covered only traditional rDNA technology. Specifically, the US, Mexico, and Canada have agreed to provisions to enhance information exchange and cooperation on agricultural biotechnology trade-related matters.

Key Achievements: Significant Commitments to Reduce Trade Distorting Policies, Improve Transparency, and Ensure Non-Discriminatory Treatment for Agricultural Product Standards

Building on NAFTA, the US, Mexico, and Canada agreed to work together in other fora on agriculture matters, improve transparency and consultations on matters affecting trade among the countries. The countries agreed to several provisions to reduce the use of trade distorting policies, including:

- To not use export subsidies or World Trade Organization (WTO) special agricultural safeguards for products exported to each other's market.
- Improved commitments to increase transparency and consultation regarding the use of export restrictions for food security purposes.
- If supporting producers, to consider using domestic support measures that have minimal or no trade distorting or production effects and ensure transparency of domestic support programs.

Canada and the US also agreed to strong rules to ensure tariff-rate quotas are administered fairly and transparently to ensure the ability of traders to fully use them.

Key Achievement: Fair Treatment for Quality Requirements for Wheat and other Agricultural Products

Canada has agreed to grade imports of USwheat in a manner no less favorable than it accords Canadian wheat, and to not require a country of origin statement on its quality grade or inspection certificate. Canada and the US also agreed to discuss issues related to seed regulatory systems. To facilitate the marketing of food and agricultural products, Mexico and the US agreed that grading standards and services will be non-discriminatory for all agricultural goods and will establish a dialogue to discuss grading and quality trade related matters.

Key Achievement: Enhanced Rules for Science-Based Sanitary and Phytosanitary Measures

In the Sanitary and Phytosanitary (SPS) Measures chapter, the US, Mexico, and Canada have all agreed to strengthen disciplines for science-based SPS measures, while ensuring parties maintain their sovereign right to protect human, animal, and plant life or health. Provisions include increasing transparency on the development and implementation of SPS measures; advancing science-based decision making; improving processes for certification, regionalization and

equivalency determinations; conducting systems-based audits; improving transparency for import checks; and working together to enhance compatibility of measures. The new agreement would establish a new mechanism for technical consultations to resolve issues between the parties.

Key Achievement: New Disciplines on Geographic Indications

The parties agreed to provide important procedural safeguards for recognition of new geographical indications (GIs), including strong standards for protection against issuances of GIs that would prevent US producers from using common names, as well as establish a mechanism for consultation between the parties on future GIs pursuant to international agreements.

Key Achievement: Market Access for Certain Cheese Names

Mexico agreed to not restrict market access in Mexico for US cheeses labeled with certain names.

Key Achievement: Prohibiting Barriers for Alcohol Beverages

The parties agreed to non-discrimination and transparency commitments regarding sale and distribution, and labeling and certification provisions to avoid technical barriers to trade in wine and distilled spirits. They agreed to continue recognition of Bourbon Whiskey, Tennessee Whiskey, Tequila, Mezcal, and Canadian Whisky as distinctive products.

Key Achievement: New Protections for Proprietary Food Formulas

To meet technical regulations and standards related to prepackaged food and food additives, governments may require information from companies relating to the companies' proprietary formulas. The US, Mexico, and Canada agreed on the Annex on Proprietary Food Formulas, which requires each party to protect the confidentiality of such information in the same manner for domestic and imported products. It also limits such information requirements to what is necessary to achieve legitimate objectives.

INTELLECTUAL PROPERTY

The parties have reached an agreement on a modernized, high-standard Intellectual Property (IP) chapter that provides strong and effective protection and enforcement of IP rights critical to driving innovation, creating economic growth, and supporting American jobs.

Key Highlights: Protections for US Innovators and Creators

The new IP Chapter:

- Requires full national treatment for copyright and related rights so US creators are not deprived of the same protections that domestic creators receive in a foreign market.
- Continues to provide strong patent protection for innovators by enshrining patentability standards and patent office best practices to ensure that US innovators, including small- and medium-sized businesses, are able to

protect their inventions with patents.

- Includes strong protection for pharmaceutical and agricultural innovators.
- Requires a minimum copyright term of life of the author plus 70 years, and for those works with a copyright term that is not based on the life of a person, a minimum of 75 years after first authorized publication.
- Requires strong standards against the circumvention of technological protection measures that often protect works such as digital music, movies, and books.
- Establishes appropriate copyright safe harbors to provide protection for IP and predictability for legitimate enterprises that do not directly benefit from the infringement, consistent with US law.
- Provides important procedural safeguards for recognition of new geographical indications (GIs), including strong standards for protection against issuances of GIs that would prevent US producers from using common names, as well as establish a mechanism for consultation between the Parties on future GIs pursuant to international agreements.
- Enhances provisions for protecting trademarks, including well-known marks, to help companies that have invested effort and resources into establishing goodwill for their brands.

Key Achievement: Most Comprehensive Enforcement Provisions of Any Trade Agreement

For the first time, a trade agreement will require all of the following:

- Ex officio authority for law enforcement officials to stop suspected counterfeit or pirated goods at every phase of entering, exiting, and transiting through the territory of any Party.
- Express recognition that IP enforcement procedures must be available for the digital environment for trademark and copyright or related rights infringement.
- Meaningful criminal procedures and penalties for unauthorized camcording of movies, which is a significant source of pirated movies online.
- Civil and criminal penalties for satellite and cable signal theft.
- Broad protection against trade secret theft, including against state-owned enterprises.

Key Achievement: Strongest Standards of Protection for Trade Secrets of Any Prior FTA

In particular, the Chapter has the most robust protection for trade secrets of any prior US trade agreement. It includes all of the following protections against misappropriation of trade secrets, including by state-owned enterprises: civil procedures and remedies, criminal procedures and penalties, prohibitions against impeding licensing of trade secrets, judicial procedures to prevent disclosure of trade secrets during the litigation process, and penalties for government officials for the unauthorized disclosure of trade secrets.

DIGITAL TRADE

The new Digital Trade chapter contains the strongest disciplines on digital trade of any international agreement, providing a firm foundation for the expansion of trade and investment in the innovative products and services where the US has a competitive advantage.

Key Highlights of the Digital Trade Chapter

The new Digital Trade chapter:

- Prohibits customs duties and other discriminatory measures from being applied to digital products distributed electronically (e-books, videos, music, software, games, etc.).
- Ensures that data can be transferred cross-border, and that limits on where data can be stored and processed are minimized, thereby enhancing and protecting the global digital ecosystem.
- Ensures that suppliers are not restricted in their use of electronic authentication or electronic signatures, thereby facilitating digital transactions.
- Guarantees that enforceable consumer protections, including for privacy and unsolicited communications, apply to the digital marketplace.
- Limits governments' ability to require disclosure of proprietary computer source code and algorithms, to better protect the competitiveness of digital suppliers.
- Promotes collaboration in tackling cybersecurity challenges while seeking to promote industry best practices to keep networks and services secure.
- Promotes open access to government-generated public data, to enhance innovative use in commercial applications and services.
- Limits the civil liability of Internet platforms for third-party content that such platforms host or process, outside of the realm of intellectual property enforcement, thereby enhancing the economic viability of these engines of growth that depend on user interaction and user content.

DE MINIMIS

Key Achievement: Increased De Minimis Shipment Value Level

To facilitate greater cross-border trade, the US has reached an agreement with Mexico and Canada to raise their de minimis shipment value levels. Canada will raise its de minimis level for the first time in decades, from C\$20 to C\$40 for taxes. Canada will also provide for duty free shipments up to C\$150. Mexico will continue to provide USD \$50 tax free de minimis and also provide duty free shipments up to the equivalent level of USD \$117. Shipment values up to these levels would enter with minimal formal entry procedures, making it easier for more businesses, especially small- and medium-sized ones, to be a part of cross-border trade. Increasing the de minimis level with key trading partners like Mexico and Canada is a significant outcome for US small- and medium-sized enterprises (SMEs). These SMEs often lack resources to pay customs duties and taxes, and bear the increased compliance costs that low, trade-

restrictive de minimis levels place on lower-value shipments, which SMEs often have due to their smaller trade volumes. New traders, just entering Mexico's and Canada's markets, will also benefit from lower costs to reach consumers. US express delivery carriers, who carry many low-value shipments for these traders, also stand to benefit through lower costs and improved efficiency.

FINANCIAL SERVICES

U.S. financial services firms provide services critical to every sector of the economy, including small- and medium-sized businesses. The US exported about \$115 billion in financial services in 2016, generating around a \$41 billion surplus in trade in financial services.

The updated Financial Services chapter includes commitments to liberalize financial services markets and facilitate a level playing field for U.S. financial institutions, investors and investments in financial institutions, and cross-border trade in financial services. The chapter also preserves the discretion of financial regulators to ensure financial stability.

Key Achievement: Core Obligations to Prevent Discrimination Against U.S. Financial Services Suppliers

The chapter includes core obligations, such as:

- National treatment, to ensure that U.S. financial service suppliers receive the same treatment as local suppliers.
- Most-favored-nation treatment, to ensure that U.S. financial service suppliers receive the same treatment as those from other countries.
- Market access, which prohibits imposition of certain quantitative and numerical restrictions that would limit the business of U.S. financial services suppliers.

Key Achievement: First Provision Against Local Data Storage Requirements

For the first time in any U.S. trade agreement, USMCA includes a prohibition on local data storage requirements in circumstances where a financial regulator has the access to data that it needs to fulfill its regulatory and supervisory mandate.

Key Highlights Supporting Financial Services

The new Financial Services chapter includes:

- Updated provisions to allow for the cross-border transfer of data and an updated market access obligation.
- The most robust transparency obligations of any U.S. trade agreement, to ensure good regulatory practices in government licensing and other market access authorizations.
- A separate annex on commitments relating to cross-border trade, including application of the national treatment and market access obligation to an expanded list of cross-border services, such as portfolio management, investment advice, and electronic payment services.

- Specific procedures related to investor-State dispute settlement claims with Mexico, including provisions regarding expertise of arbitrators and a special procedural mechanism to facilitate the application of the prudential exception and other exceptions.

CURRENCY

Key Achievements: High-Standard Policy and Transparency Commitments, with Robust Accountability Mechanisms

The USMCA includes a chapter on Macroeconomic Policies and Exchange Rate Matters, with new policy and transparency commitments on currency issues. The chapter will address unfair currency practices by requiring high-standard commitments to refrain from competitive devaluations and targeting exchange rates, while significantly increasing transparency and providing mechanisms for accountability. This approach is unprecedented in the context of a trade agreement, and will help reinforce macroeconomic and exchange rate stability.

LABOR

One of President Trump's principal objectives in the renegotiation was to ensure the agreement benefits American workers. The US, Mexico, and Canada have agreed to a Labor chapter that brings labor obligations into the core of the agreement, makes them fully enforceable, and represents the strongest provisions of any trade agreement.

Key Achievement: Worker Representation in Collective Bargaining

The Labor chapter includes an Annex on Worker Representation in Collective Bargaining in Mexico, under which Mexico commits to specific legislative actions to provide for the effective recognition of the right to collective bargaining.

Key Achievement: Labor Rights Recognized by the International Labor Organization

The Labor chapter requires the Parties to adopt and maintain in law and practice labor rights as recognized by the International Labor Organization, to effectively enforce their labor laws, and not to waive or derogate from their labor laws. Additionally, the chapter includes new provisions to prohibit the importation of goods produced by forced labor, to address violence against workers exercising their labor rights, and to ensure that migrant workers are protected under labor laws.

Key Achievement: Enhanced Labor Enforceability

The Dispute Settlement chapter establishes a first-of-its-kind United States-Mexico Rapid Response Mechanism, providing for monitoring and expedited enforcement of labor rights to ensure effective implementation of Mexico's landmark labor reform at particular facilities while respecting sovereignty and due process.

Key Achievement: New Labor Value Content Rule

To support North American jobs, the deal contains new trade rules of origin to drive higher wages by requiring that 40-45 percent of auto content be made by workers earning at least USD \$16 per hour.

ENVIRONMENT

The US, Mexico, and Canada have agreed to the most advanced, most comprehensive, highest-standard chapter on the Environment of any trade agreement. Like the Labor chapter, the Environment chapter brings all environmental provisions into the core of the agreement and makes them enforceable.

Key Achievement: Most Comprehensive Set of Enforceable Environmental Obligations

The Environment chapter includes the most comprehensive set of enforceable environmental obligations of any previous US agreement, including obligations to combat trafficking in wildlife, timber, and fish; to strengthen law enforcement networks to stem such trafficking; and to address pressing environmental issues such as air quality and marine litter.

Environment obligations include:

- Prohibitions on some of the most harmful fisheries subsidies, such as those that benefit vessels or operators involved in illegal, unreported, and unregulated (IUU) fishing.
- New protections for marine species like whales and sea turtles, including a prohibition on shark-finning and commitment to work together to protect marine habitat.
- Obligations to enhance the effectiveness of customs inspections of shipments containing wild fauna and flora at ports of entry, and ensure strong enforcement to combat IUU fishing.
- First-ever articles to improve air quality, prevent and reduce marine litter, support sustainable forest management, and ensure appropriate procedures for environmental impact assessments.
- Requiring the Parties to adopt, maintain and implement our relevant obligations under seven multilateral environmental agreements (MEAs).
- Robust and modernized mechanisms for public participation and environmental cooperation.
- The US and Mexico have negotiated a separate Environment Cooperation and Customs Verification Agreement that will help bolster our efforts to combat trade in illegally taken wildlife, fish and timber.

RULES OF ORIGIN AND ORIGIN PROCEDURES

The USMCA includes new rules of origin and origin procedures, including product-specific rules for passenger vehicles, light trucks, and auto parts. This update to the rules of origin will provide greater incentives to source goods and materials in the US and North America.

Key Achievement: Increasing Regional Value Content Rule

This deal encourages US manufacturing and regional economic growth by requiring that 75 percent of auto content be made in North America. The rules will:

- Help to incentivize up to billions annually
- Help to preserve and re-shore vehicle and parts production in the US.
- Transform supply chains to use more US content, especially content that is key to future automobile production and high-paying jobs.
- Close gaps in the current NAFTA agreement that incentivized low wages in automobile and parts production.

Key Achievement: Creating New Labor Value Content Rule

This deal uses trade rules to drive higher wages by requiring that 40-45 percent of auto content be made by workers earning at least \$16 per hour.

The rules will:

- Support better jobs for US producers and workers by requiring that a significant portion of vehicle content be made with high-wage labor.
- Ensure that US producers and workers are able to compete on an even playing field, and incentivize new vehicle and parts investments in the US.
- Encourage more investment by auto companies in research and development in the region.

Key Achievement: Exceeding NAFTA 1.0 and TPP Standards with Stronger Rules of Origin and Enforcement

The US, Mexico, and Canada have agreed to stronger rules of origin that exceed those of both NAFTA 1.0 and the Trans-Pacific Partnership (TPP), including for autos and automobile parts and other industrial products such as chemicals, steel-intensive products, glass, and optical fiber. This deal exceeds NAFTA 1.0 and the TPP by establishing procedures that streamline certification and verification of rules of origin and that promote strong enforcement. This includes new cooperation and enforcement provisions that help to prevent duty evasion before it happens. The new rules will help ensure that only producers using sufficient and significant North American parts and materials receive preferential tariff benefits.

GOODS MARKET ACCESS

New commitments have been included in the Market Access chapter to reflect developments in US trade agreements that address non-tariff barriers related to trade in remanufactured goods, import licensing, and export licensing.

Key Achievement: Exceeding NAFTA 1.0 and TPP Standards to More Effectively Support Trade in Manufactured Goods

The new Market Access chapter will more effectively support trade in manufactured goods between the US, Mexico, and Canada by removing provisions that are no longer relevant, updating key references, and affirming commitments that have phased in from the original agreement. Specifically, the Market Access chapter:

- Maintains duty-free treatment for originating goods.
- Maintains the prohibition on export duties, taxes, and other charges and the waiver of specific customs processing fees.
- Adds new provisions for transparency in import licensing and export licensing procedures.
- Prohibits Parties from applying: (a) requirements to use local distributors for importation; (b) restrictions on the importation of commercial goods that contain cryptography; (c) import restrictions on used goods to remanufactured goods; and (d) requirements for consular transactions and their associated fees and charges.
- Updates provisions for duty-free temporary admission of goods to cover shipping containers or other substantial holders used in the shipment of goods.

TEXTILES

The new provisions on textiles incentivize greater North American production in textiles and apparel trade, strengthen customs enforcement, and facilitate broader consultation and cooperation among the Parties on issues related to textiles and apparel trade.

Key Achievement: Strengthening Supply Chains to Provide New Market Opportunities for the Textile and Apparel Sector

The provisions will:

- Promote greater use of Made-in-the-USA fibers, yarns, and fabrics by:
 - Limiting rules that allow for some use of non-NAFTA inputs in textile and apparel trade.
 - Requiring that sewing thread, pocketing fabric, narrow elastic bands, and coated fabric, when incorporated in most apparel and other finished products, be made in the region for those finished products to qualify for trade benefits.
- Establish a Textiles chapter for North American trade, including textile-specific verification and customs cooperation provisions that provide new tools for strengthening customs enforcement and preventing fraud and circumvention in this important sector.

The new Textiles chapter provisions are stronger than those in NAFTA 1.0 with respect to both enforcement and incentivizing North American production of textiles.

SECTORAL ANNEXES

The US, Mexico, and Canada have also reached agreement on new provisions covering trade in specific manufacturing sectors, including Information and Communication Technology, Pharmaceuticals, Medical Devices, Cosmetic Products, and Chemical Substances. Each of the annexes includes provisions that exceed NAFTA 1.0 and TPP that promote enhanced regulatory compatibility, best regulatory practices, and increased trade.

CHAPTER ON SMALL AND MEDIUM-SIZED ENTERPRISES

Key Achievement: First SME chapter in a U.S. Trade Agreement

The chapter promotes cooperation between the Parties to increase SME trade and investment opportunities. It establishes information-sharing tools that will help SMEs better understand the benefits of the agreement and provides other information useful for SMEs doing business in the region. The chapter also establishes a committee on SME issues comprised of government officials from each country.