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USMCA
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Guillermo Prieto

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The Automotive Sector in Mexico

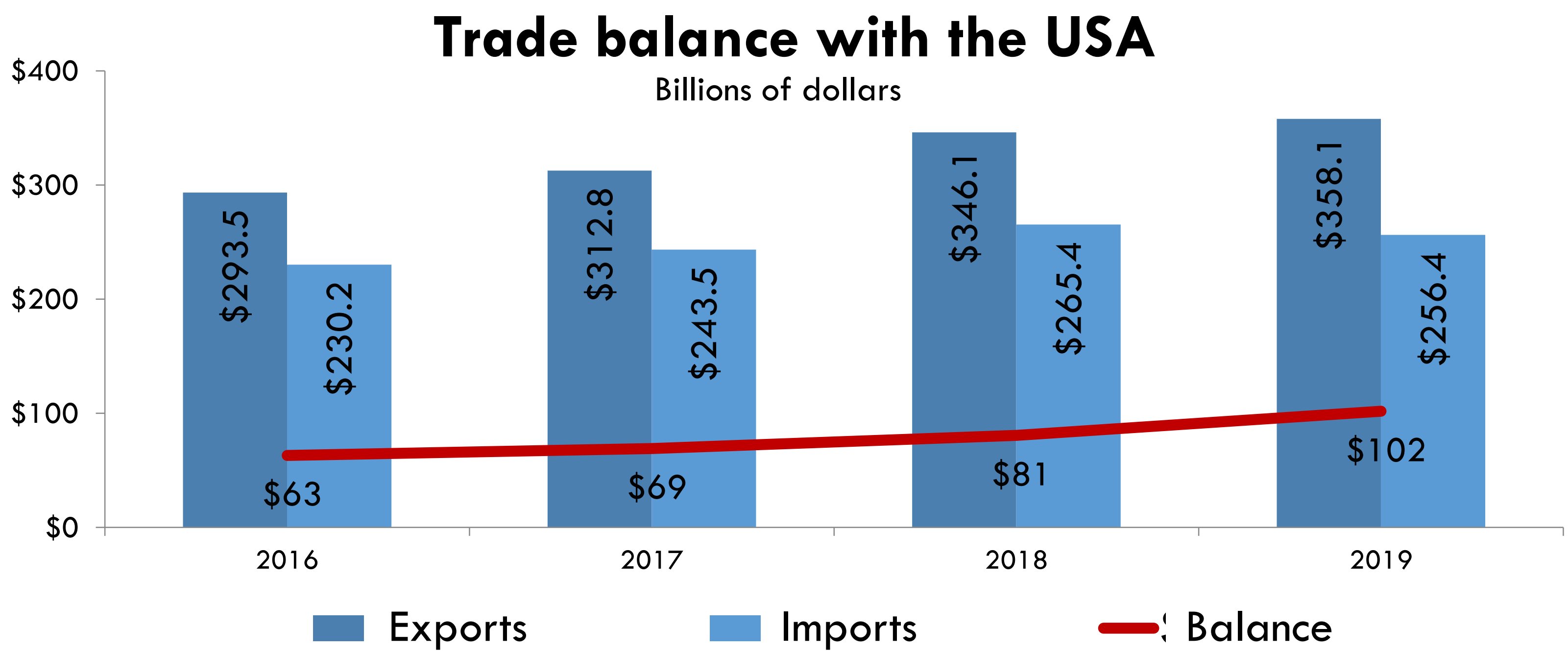
- Mexico is an open market with access to a potential of more than one billion consumers and 60% of world GDP, with 12 free trade agreements with 46 countries.
- In Mexico the automotive sector is the top generator of foreign reserves. With a surplus of 83 billion dollars in 2018.
- Contributes with 3.7% of total GDP and 21% of manufacturing industry GDP, more than 1/3 of manufacturing exports corresponds to automotive products.
- Mexico is the 6th largest manufacturer of vehicles in the world.
- 4th largest light vehicle exporter, 5th largest automotive parts exporter and main supplier for the United States in both.

Source: Mexican Ministry of Economy.

Commerce Mexico - USA

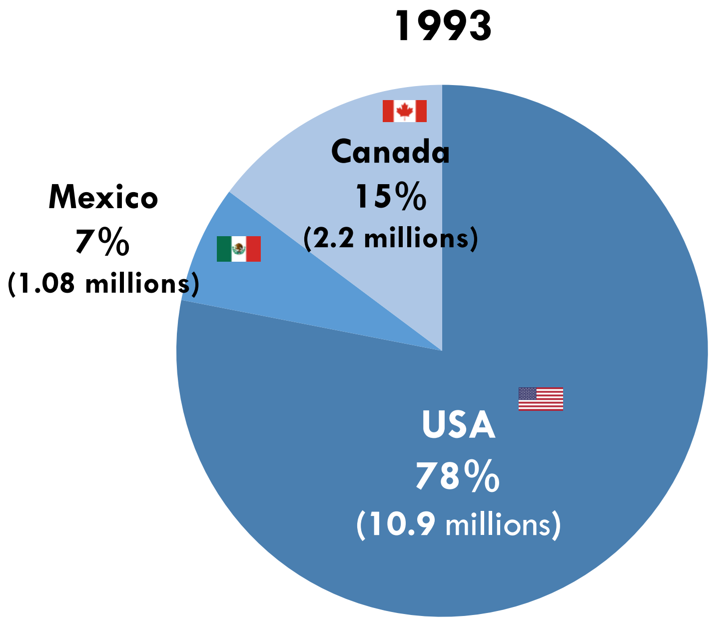
Mexico-US Commerce in 2019: **USD$ 614.5 billion**

Mexico is the main trading partner of the United States

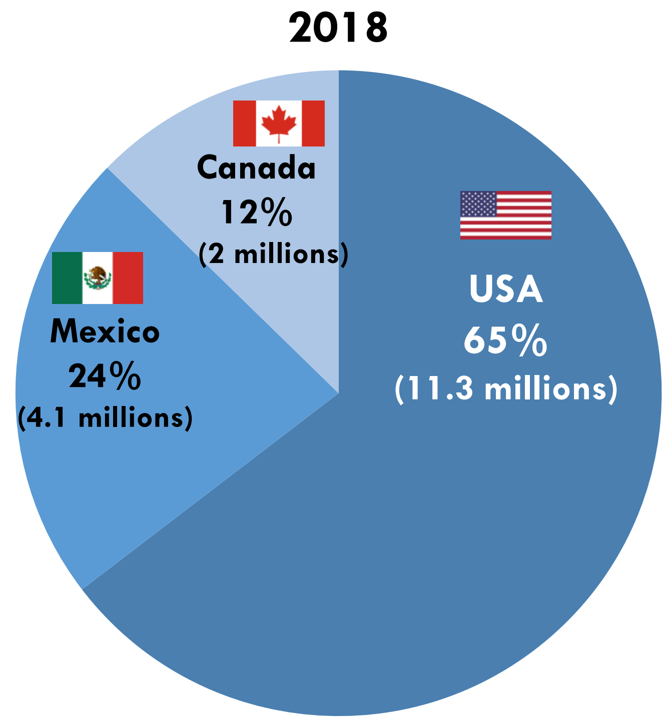


Source: US Department of Commerce.

Vehicle Production in the Region



NAFTA: 14.2 million vehicles



NAFTA: 17.4 million vehicles

Since NAFTA, vehicle production has grown by 23% generating 18% of world production

Mexico alone contributes with 4.2% of world production and exports 88% of it. 86% of exports goes to Canada and USA

Includes cars and commercial vehicles.

Source: AMDA with information from AMIA and OICA (International Organization of Motor Vehicle Manufacturers).

Integration in North America

An example of the integration in the region is the manufacturing of a piston:

1. Raw aluminum is shipped from **Michigan** to **Ontario**
2. In **Ontario** they produced a piston casting and it gets also pre-machined before it is sent back to **Michigan**
3. In **Michigan** it gets additional machining and the piston is sent to **Mexico**
4. The piston is finished in **Mexico** and is sent to **Wisconsin** where it gets assembled with rods and rings. The assembled piston is sent to an engine plant in **Michigan**
5. After final assembly into an engine in **Michigan** it travels to **Ontario** to a vehicle assembly plant
6. The vehicle travels to USA/Mexico as a **"Canadian" export?**

USA Trade in vehicles and Auto Parts

2018 USA **imports** of vehicles:	
Mexico and Canada	**49%**
Japan	21%
Germany	10%
South Korea	6%
United Kindom	5%

2018 USA **imports** of auto parts:	
Mexico and Canada	**54%**
China	13%
Japan	9%
South Korea	5%
Germany	4%

2018 USA **exports** of vehicles:	
Mexico and Canada	**52%**
China	10%
Germany	9%
Saudi Arabia	3%
Australia	3%
South Korea	3%

2018 USA **exports** of auto parts:	
Mexico and Canada	**71%**
China	5%
United Kindom	3%
Germany	2%
Japan	2%

Given the importance of trade in cars and auto parts, the level of integration in the region is quite clear

Source: United States International Trade Commission data

From NAFTA to USMCA

The USMCA has been approved by the Senate in Mexico and the Congress in the USA. It is expected to be approved by the Canadian Parliament over the next days or weeks.

What was the major change in the NAFTA under the new USMCA for the automotive sector?

- Answer: **The rule of origin**

From NAFTA to USMCA

The requirements for a vehicle to be considered originated under the USMCA:

- **Regional value content** of the vehicle of 75% (net cost) up from 62.5% in three years of transition.
- 75% for **core parts** (engines, transmissions, suspension and steering systems, body and chassis, axles, and advanced batteries for electric or hybrid vehicles).
- 70% **Main parts** (tires, shock absorbers, etc.).
- 65% in **complementary parts** (lights, switches, etc.).

From NAFTA to USMCA

- 70% of the corporate (OEM in North America) purchases of **steel and aluminum** must be from North America (no transition period). After 7 years the **slab of steel** must be from North America.
- **Labor value content** increasing form 25% to 40% for passenger vehicles and from 30% to 45% for pick ups (three years transition).

The agreement can be revised after 6 years of implementation.

The transition of 3 years may be extended 2 more years (3+2) with individual plans agreed by the OEM's with the importing authority (USTR* in the case of the USA).

*USTR: United States Trade Representative

From NAFTA to USMCA

The three countries are currently developing the **Uniform Regulations** that will govern the correct interpretation, administration and application of the rules of origin. Uniform Regulations, must be in place before the Agreement enters into force.

It is clear that the OEM's, tier 1's and tier 2's companies in the supply chain MUST work ahead of the application of this new requirements of the USMCA. In the case of Mexico, the industry has claimed the need for help from the federal government over the next years to meet these new requirements.

Implementation in Mexico

- Commitments assumed in the USMCA must be reflected in different national legislations.
- Dispute Resolution Operation.
- Transportation Infrastructure.
- Incorporation of SMEs, as well as the south of the country.
- Investment in talent and human resources.
- Competitive energy available throughout the country.

Final Remarks

- The USMCA approval eliminates 4-year uncertainty in the Mexican economy.
- Mexico could become an important magnet for the arrival of companies from European or Asian countries that intend to enter the North American market using the new trade agreement.
- Factors against investment: insecurity, lack of legal certainty and deficiencies in the current government operation and decisions.

It is not only a Commercial Agreement

We are certain that economic growth will be more favorable with the agreement rather than without it, we will face a lot of challenges to achieve more investments and growth in the three countries but, for that, commitment, respect and cooperation will have to prevail among everything else in order to be successful.

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Thanks very much

gprietot@amda.mx

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Great Place To Work.
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