



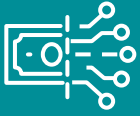
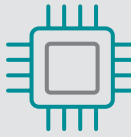








USMCA: Compliance Changes

The U.S.-Mexico-Canada Agreement (USMCA) entered into force on July 1, 2020, which completely replaced the North American Free Trade Agreement (NAFTA) that had been in place for 26 years. This isn't "NAFTA 2.0" – many of the change shave a significant impact on organizations operating in, or shipping to, North America. The following is a summary of the major changes that impact organizations and options to address the impacts.

| | NAFTA | USMCA |
|--|---|--|
|  Automotive | <p>Passenger vehicles must have 62.5% of their components manufactured in Mexico, Canada, or the United States to qualify for zero tariffs.</p> |  <p>Passenger vehicles must have 75% of their components manufactured in Mexico, Canada, or the United States to qualify for zero tariffs.</p> |
|  Labor provisions | <p>N/A</p> |  <p>40% of labor for passenger vehicles would be subject to a 16-dollar-per-hour plant-average requirement.</p> |
|  Digital trade | <p>N/A</p> |  <p>Prohibits custom duties on electronically distributed products (e.g. software, video games, movies, music, books) and supports the cross-border flow of data.</p> |
|  Copyrights | <p>Protects creative works (e.g. music, movies, books) for 50 years after a creator's death.</p> |  <p>Protects creative works (e.g. music, movies, books) for 70 years after a creator's death.</p> |
|  E-commerce | <p>Sets threshold at which U.S. shipments to Canada and Mexico incur duties at \$16 and \$50, respectively.</p> |  <p>Increases threshold at which U.S. shipments to Canada and Mexico incur duties at \$112 and \$117, respectively.</p> |



USMCA: Compliance Changes

Are you prepared?

Assess your readiness

⇒ Impact on your business

- 1 Do you sell or purchase products to/from USMCA member countries?

⇒ Treaty benefits for certain products that applied under NAFTA may no longer apply under USMCA. Companies must review these products and their compliance.
- 2 Do you have a customs compliance program in place to comply with NAFTA? Do you maintain documentation to support the origin of materials & finished goods?

⇒ Compliance enforcement is one of the most important initiatives under the USMCA. Companies will be responsible for properly documenting materials & finished goods origin & other elements. Non-compliance will carry steep fines and penalties.
- 3 Have you reviewed the minimum data elements that will need to be part of the certifying documents replacing the NAFTA certificates?

⇒ NAFTA certificates are no longer be valid. New documents must be designed & supplied to customers by companies to support product origin & compliance.
- 4 Are you confident that the Harmonized Tariff Schedule (HTS) code that you're using for your finished goods is correct?

⇒ Certain HTS codes have changed under USMCA. Correct HTS code selection is a critical first step as it affects multiple elements of compliance, including application of Rules of Origin.
- 5 Are you familiar with the specific changes to the Rules of Origin (ROO) from NAFTA to USMCA for the HTS codes of the products you manufacture or produce?

⇒ USMCA has new chapters covering various industries with many changes to ROO. Companies must review proper HTS code selection in conjunction with ROO changes to understand the impact on their products.
- 6 Are you ready to legally review the Terms & Conditions (T&C) your customers will be modifying? Have you analyzed the changes you'll need to make on your own T&C you'll share with your suppliers?

⇒ It's expected that companies will make changes to their T&C in their contracts to accommodate USMCA. Suppliers should review their customer's T&C to satisfy any requirements relative to USMCA.
- 7 Is your internal system or ERP software capable of digitally tracking the required information & documentation that your organization will need to provide to your customers or have ready in case of a U.S. Customs & Border Protection (CBP) audit?

⇒ Your ERP & internal systems may need to be updated to supply information in the necessary format requested by customers. Your systems also must be ready to quickly access information if the company is subject to an audit by the CBP.
- 8 If you're an automotive supplier, do you have a communication strategy on the information that you'll be providing your upper-tier customers for compliance with the new automotive ROO?

⇒ We expect that companies will request additional information from their suppliers. Companies should proactively communicate with their customers to understand expectations in order to make appropriate adjustments.
- 9 If you manufacture automotive parts, do you have a clear understanding of the new subclassification criteria?

⇒ The automotive industry is one of the sectors that will incur the most significant impacts & changes as a result of the USMCA. Companies pro-actively prepare to be in compliance.
- 10 Are you aware of the phase in periods for the new automotive industry ROO?

⇒ There are varying phase in periods for each. Planning must be done in advance in order to be prepared.



USMCA: Compliance Changes

Solutions to fit your business case

Our international team of professionals is ready to assist with all phases of your organization's response to the USMCA. This includes helping you understand the initial impact, assisting you in creating a strategy to ensure compliance, and helping you create an action plan to prepare for implementation. The following provides a summary of the process:

Determine your immediate compliance needs

- > Compliance documentation creation
- > Assessment of your organization's compliance management
- > Compliance program development, including documentation maintenance protocols

Review business case for strategic change

- > Alternative supplier identification
- > Activity relocation, near-shoring analysis
- > Product assembly, transformation, & value-add analysis

Execute strategic change

- > Near-shoring: Turnkey greenfield expansion management
- > Alternative supplier reviews & assessments
- > Execution of strategic supply chain modification



Understand the impact of USMCA

- > General consulting regarding USMCA & your business
- > HTS code review & validation for appropriateness
- > Supporting documentation review (in lieu of NAFTA certificates)
- > Analysis of ROO changes by part number/product family

Analyze the overall cost impact on your business

- > Modeling to compare cost of compliance vs. noncompliance, breakeven analysis
- > Labor impact analysis & product content modeling
- > In-depth compliance gap analysis

Determine long-term compliance needs

- > Compliance program management
- > ERP configuration
- > Preparation for multiyear phase-in changes

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