HAYNES BOONE

ITC Projects Modest Benefits From USMCA

April 22, 2019 Edward Lebow

PRACTICES Mexico, Canada, Export Controls and Trade Compliance, Import Relief, USMCA, International

The U.S. International Trade Commission ("ITC") has released its report on the likely impact of the United States-Mexico-Canada Agreement ("USMCA"): United States-Mexico-Canada Agreement: Likely Impact on the U.S. Economy and Specific Industry Sectors. The ITC is required by Trade Promotion Authority ("TPA") legislation to produce this report before Congress considers whether to implement the USMCA.

Not surprisingly, the ITC found that because most significant tariff barriers to trade within North America had previously been eliminated by the North American Free Trade Agreement ("NAFTA"), the measurable macro-economic effects of the USMCA are likely to be modest. Much of the benefit of the USMCA will come from its focus on other issues that affect trade, such as an improvement in labor standards and workers' rights in Mexico, achieving regulatory harmonization, and eliminating barriers to investment. The USMCA is also anticipated to improve data flows and to strengthen protections for U.S. firms that rely on intellectual property rights.

The much-discussed changes in automotive rules of origin are estimated by the ITC to increase U.S. production of auto parts as well as employment in the automotive sector. The resulting higher prices (0.37% for pickup trucks and 1.61% for small cars) due to shifting from Mexico to the United States of some production of parts, however, are anticipated to lead to a small decrease in consumption of motor vehicles in the United States, with 140,000 fewer vehicles (1.25%) being purchased annually.

The ITC's model estimates that the USMCA would raise U.S. real GDP by $68.2 billion (0.35%) and U.S. employment by 176,000 jobs (0.12%). It could be asserted that these figures do not adequately account for the growth in digital trade and e-commerce that are likely to be stimulated by the USMCA.

The next step is for implementing legislation to be drafted and introduced. It must be approved by a simple majority in both houses of Congress. There is, however, no deadline for when the legislation must be introduced. Opposition to the agreement as drafted by labor and environmental groups may contribute to delays. Demands by Canada and Mexico for rescission of the Section 232 "national security" tariffs also serve to complicate the situation.

Only after introduction of the implementing legislation does the TPA clock once again begin moving. Although the times set out under TPA appear to be short (60 days for the House and then 30 days for the Senate), the deadlines are based on legislative days, and with Congress in session only three days per week and with numerous holiday breaks, the process could take as long as 60 weeks if the House and Senate do not act concurrently. Thus, even if the implementing legislation is introduced in the near future, congressional action on the USMCA may get caught up in the contentious U.S. political climate leading up to the November 2020 election. (Note, four years elapsed after the completion of negotiations before the U.S.- Columbia FTA was introduced in the House of Representatives.)

The possibility of the president's terminating NAFTA to induce the Congress to act, coupled with the difficulty many elected officials find in voting for a "free trade" agreement, further contribute to current uncertainty. The ITC report will in all likelihood be pointed to by both supporters and opponents of ratification of the USMCA, with the former noting the benefits to the U.S. economy, and the latter stressing that the modest gains are insufficient to justify enactment.