

BPE Global Hot Topic – November 2017

Don't ignore the NAFTA renegotiation Considerations that impact us all



Here at BPE Global, our client profiles run the gamut from high tech to pharmaceutical, retail to government contractor and beyond, headquartered both here in the US and abroad. One of the many factors that makes our job so great is how many different questions, opinions and commentary we hear surrounding key trade topics in today's climate: Trade Agreements, Encryption Controls, Data Privacy, Licensing... to name a few. Understandably, these are some key common denominators that impact all of our clients. Surprisingly, we observe a subset of clients that wave away the NAFTA renegotiations with an "I don't claim NAFTA, it doesn't impact me" attitude.

What's important to understand is that even though your company may not leverage duty-free treatment per NAFTA, there are many other elements under consideration in the renegotiation which could impact your business; it's important you're not taken by surprise.

Background

NAFTA went into effect in 1994 and provides tariff free treatment to goods traded between Canada, Mexico and the United States. The renegotiation of NAFTA was a major hot-button during the 2016 Election and continues to be a high-profile topic today. On February 1, 2017, Mexico opened a 90-day period of internal consultations with its industrial chambers and productive sectors to determine the areas that are to be considered in the re-negotiation of NAFTA. May 18, 2018, President Trump notified Congress of his intent to renegotiate.

Three key areas of concern within the NAFTA renegotiation that impact businesses, regardless of whether they take advantage of duty free treatment, are:

- Procurement: possible limitation of U.S. companies' access to Mexico and Canada opportunity
- Content requirement: proposal to raise the mandated amount of US content within certain sectors
- De Minimis: Raise de minimis threshold in Canada and Mexico to match US (\$800USD)

Who is impacted?

- U.S. importers currently benefitting from NAFTA program
 - You can run a free ACE report to determine if you are claiming NAFTA today or you can ask your Customs Broker(s) if they are claiming NAFTA on your behalf.
- Any business with brick and mortar stores in Canada or Mexico
 - If the de minimis threshold is raised from CDN\$20 and MX\$50 to match U.S. level of USD\$800, this will drive the cost of goods sold in Canada and Mexico up and cause consumers to turn to e-commerce.
- Businesses driven by government procurement
 - Large U.S. multinationals might have government procurement markets in Canada or Mexico closed to them.

What is impacted?



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Not only are products eligible for duty free treatment at stake under NAFTA renegotiation, but also other “domino effect” factors which, when changed, could impact a business’ ability to stay nimble. Additionally, impacted areas are setting new rules around labor and environmental standards as well as changes which would impact the Canadian supply management programs within the agricultural sector.

Current Status of Renewal

The three parties agree that they intend to “modernize” the agreement. Mexico and Canada oppose the United States’ intention of increasing U.S. content percentage in the automotive sector. As of November 16, 2017 four of the seven negotiation rounds have taken place and will continue through 1Q 2018.

Call to Action

1. Develop your offensive strategy:
 - Understand the bigger picture of NAFTA’s impact. It’s not because your company does not take advantage of NAFTA duty free status that you will not be impacted by possible NAFTA change.
2. Prepare your defensive strategy:
 - If you foresee the domino-effect impacting your business, understand where alternative markets are located.
 - Understand the core of the proposed labor and environmental changes- share this with the key departments within your organization
3. Know your numbers
 - Use BPE Global’s [Fiscal Impact Calculator](#) to easily obtain the GSP savings currently received by your company

As always, BPE Global is in your corner and is happy to assist in any capacity. You can find us on Twitter (@bpeglobal) or follow us on [LinkedIn](#) where we publish topical opinions on the ever-changing rules and regulations governing the landscape of global trade.

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