



PIIE PETERSON INSTITUTE FOR
INTERNATIONAL ECONOMICS

Rules of Origin in NAFTA

Caroline Freund

A Positive NAFTA Renegotiation

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Ross on Rules of Origin

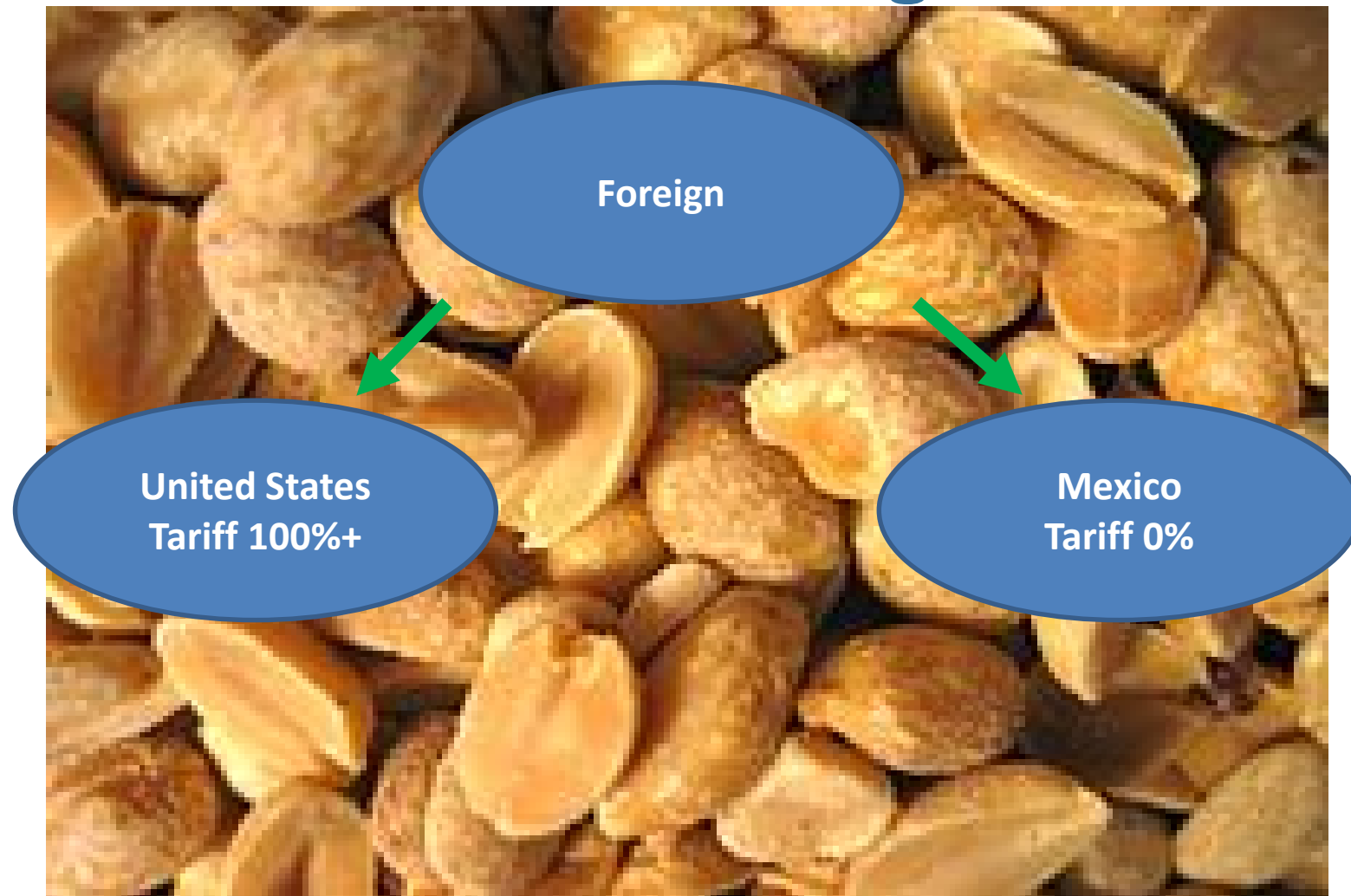
“Not a very sturdy one.”

“Needs some tightening”

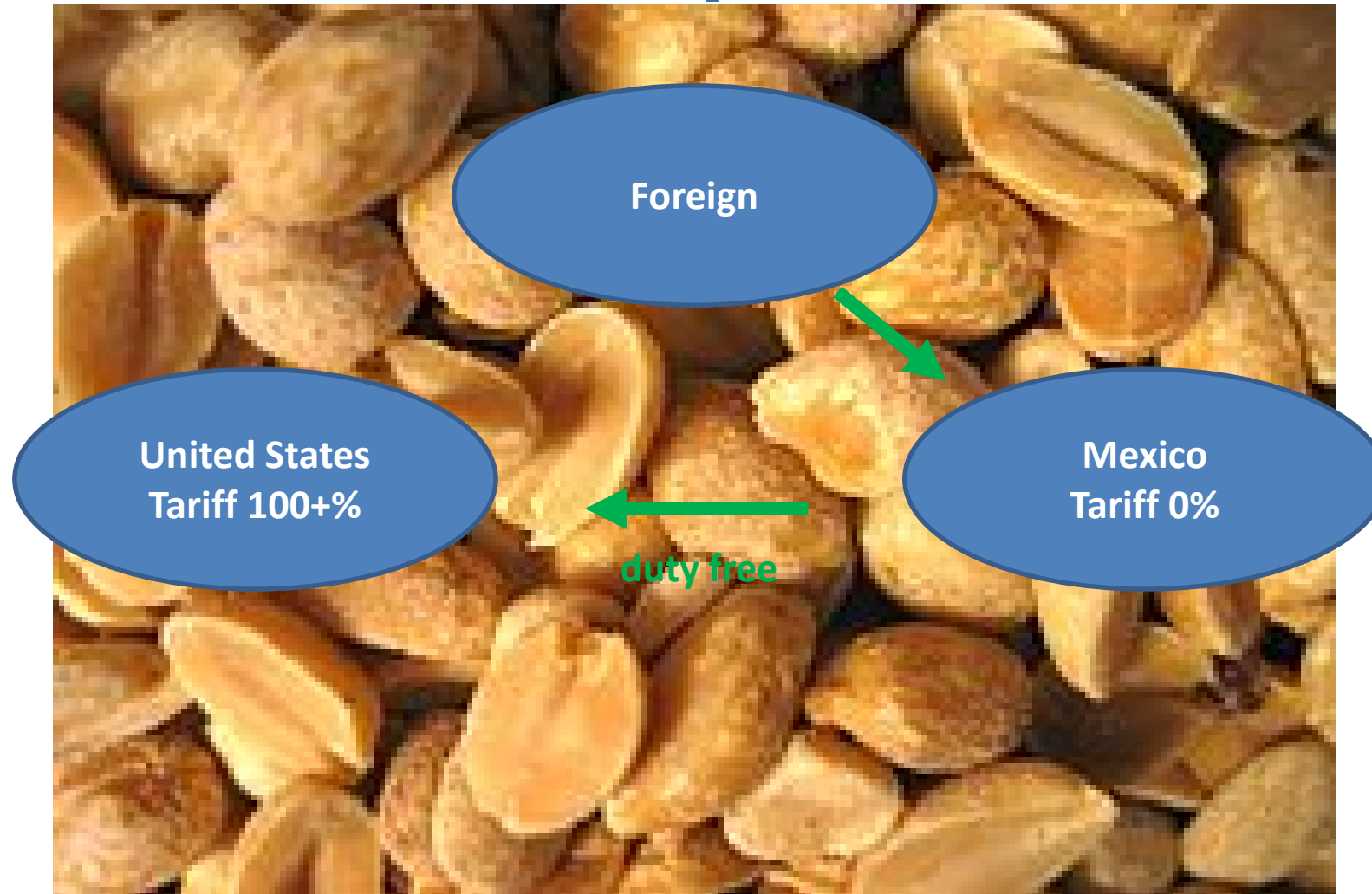
“..holes where people from outside can benefit”



Why do free trade agreements have rules of origin?



Rules of origin prevent against trans-shipment





Rules of Origin under NAFTA

- There are three types in NAFTA
 - Originate in NAFTA
 - Change in tariff heading
 - Regional value content (RVC)
- Trend is more flexibility over time. NAFTA(1994) more strict than US-Chile (2004), which is more strict than DR-CAFTA (2005), which are more strict than US-Peru or US Columbia (2006).
- TPP would have simplified NAFTA rules of origin
 - Mexico and Canada objected



Example Autos

A change to subheading 8703.21 through 8703.90 from any other heading, provided there is a regional value content of not less than 62.5 percent under the net cost method.

- Change in tariff subheading
- Regional value content
- Method of calculating regional value

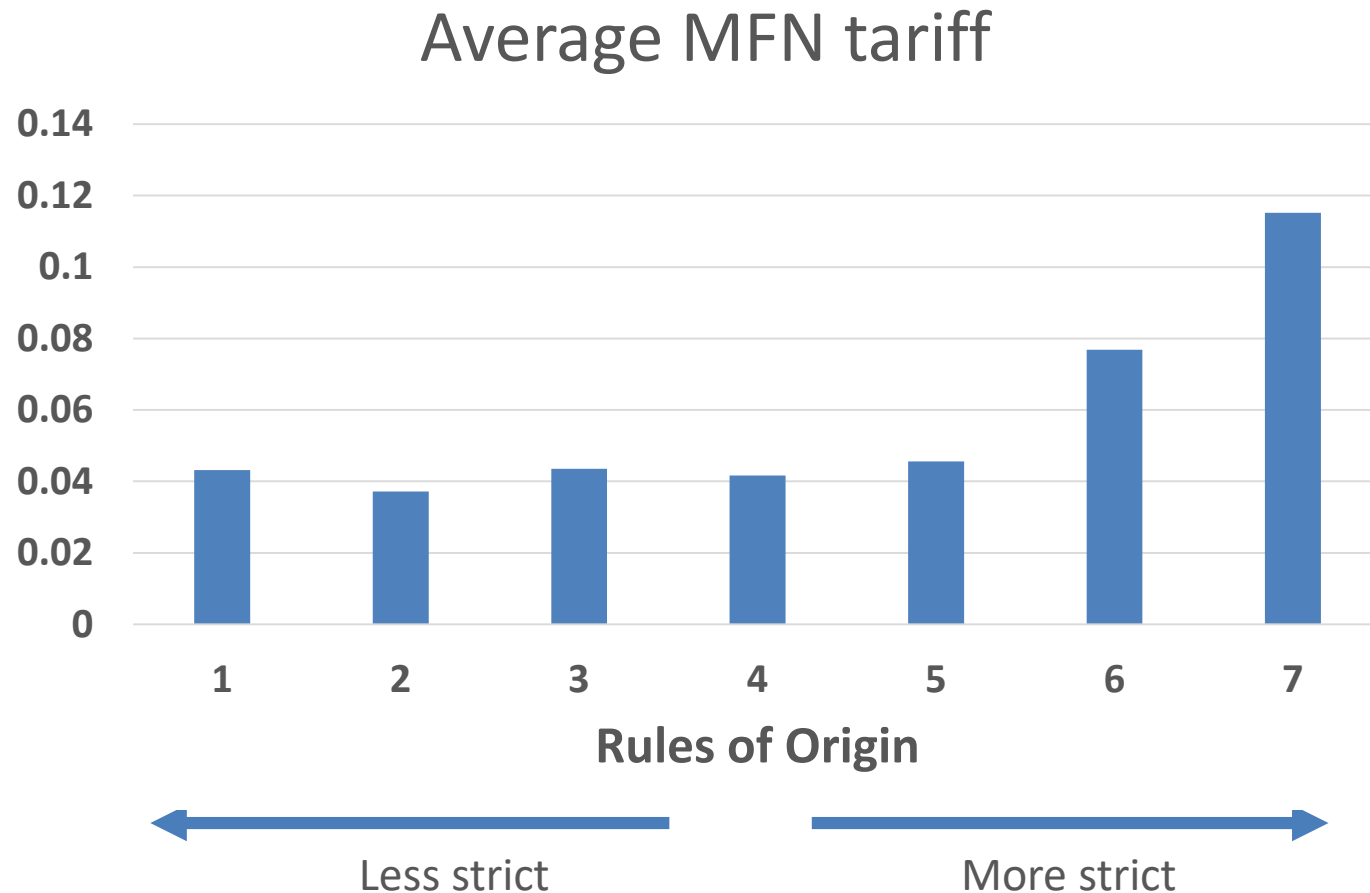
Rules of origin are on regional value—they do NOT guarantee more US content.



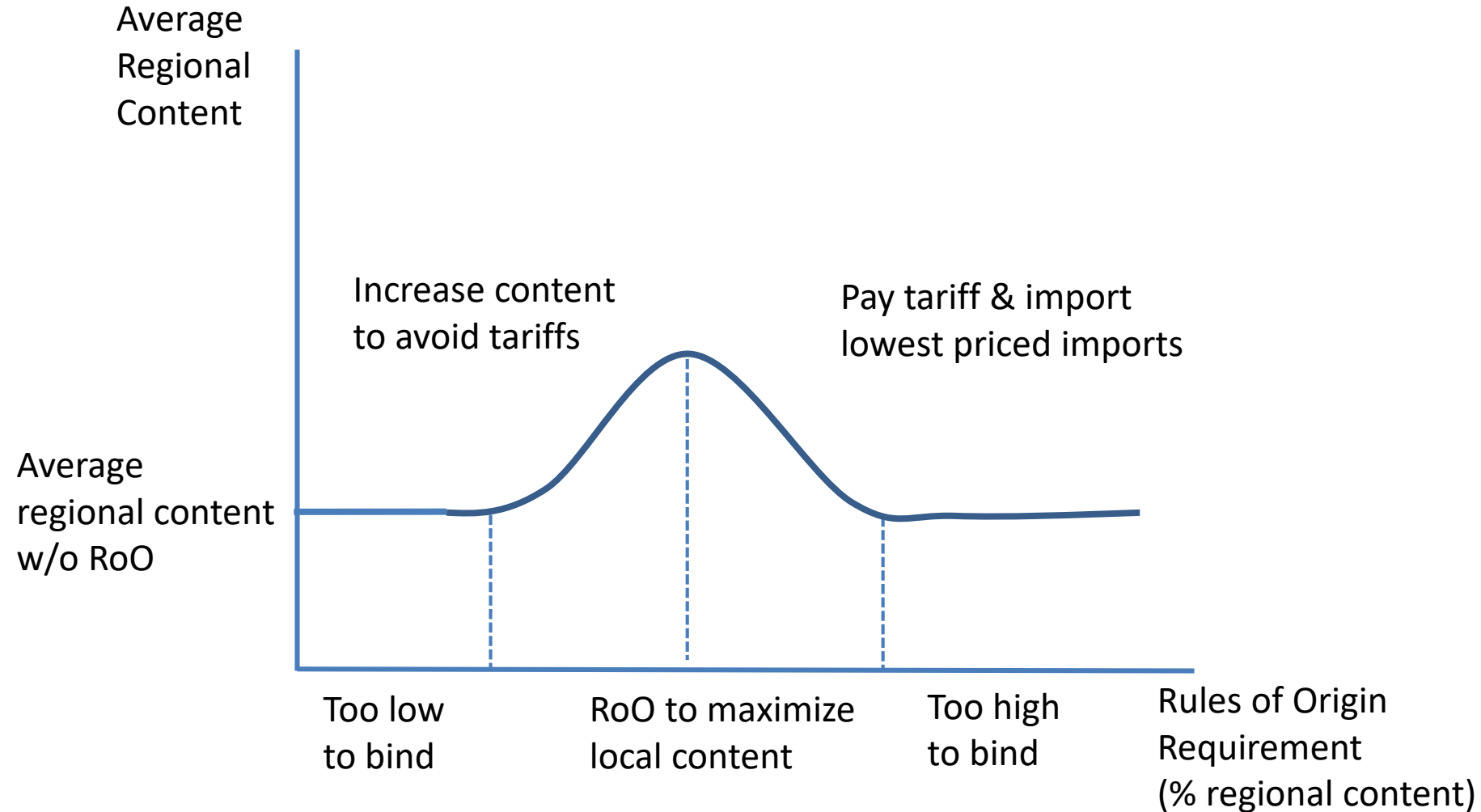
Rules of origin are also used as protection

- They transfer protection from final goods onto parts used to produce them.
- Two distortions
 - Forces firms to use higher priced regional parts
 - Administrative costs
- Administrative costs are especially burdensome for small businesses that spend a larger share of revenues on compliance.

Higher tariffs and strict rules protect sensitive products



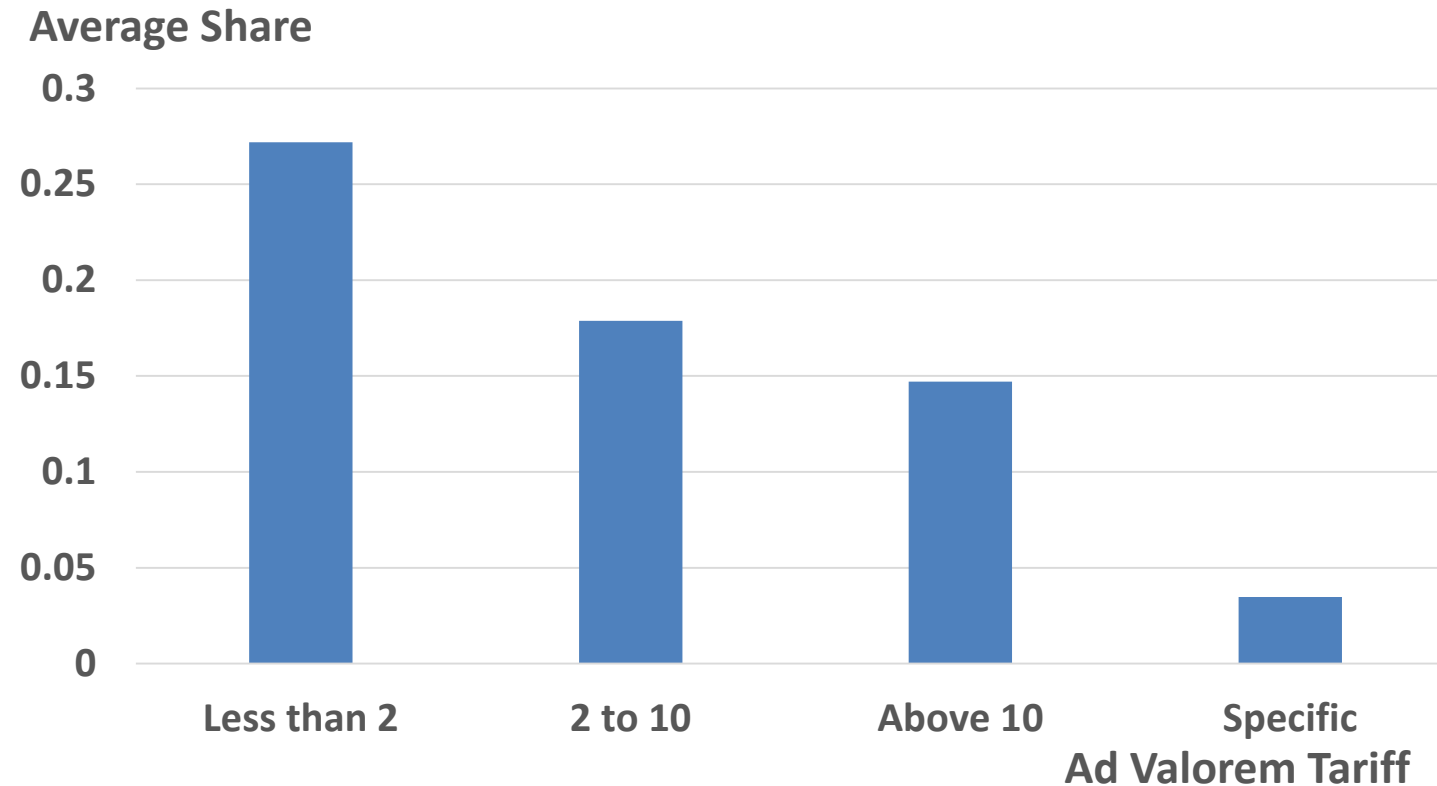
Stricter rules do not guarantee more local content



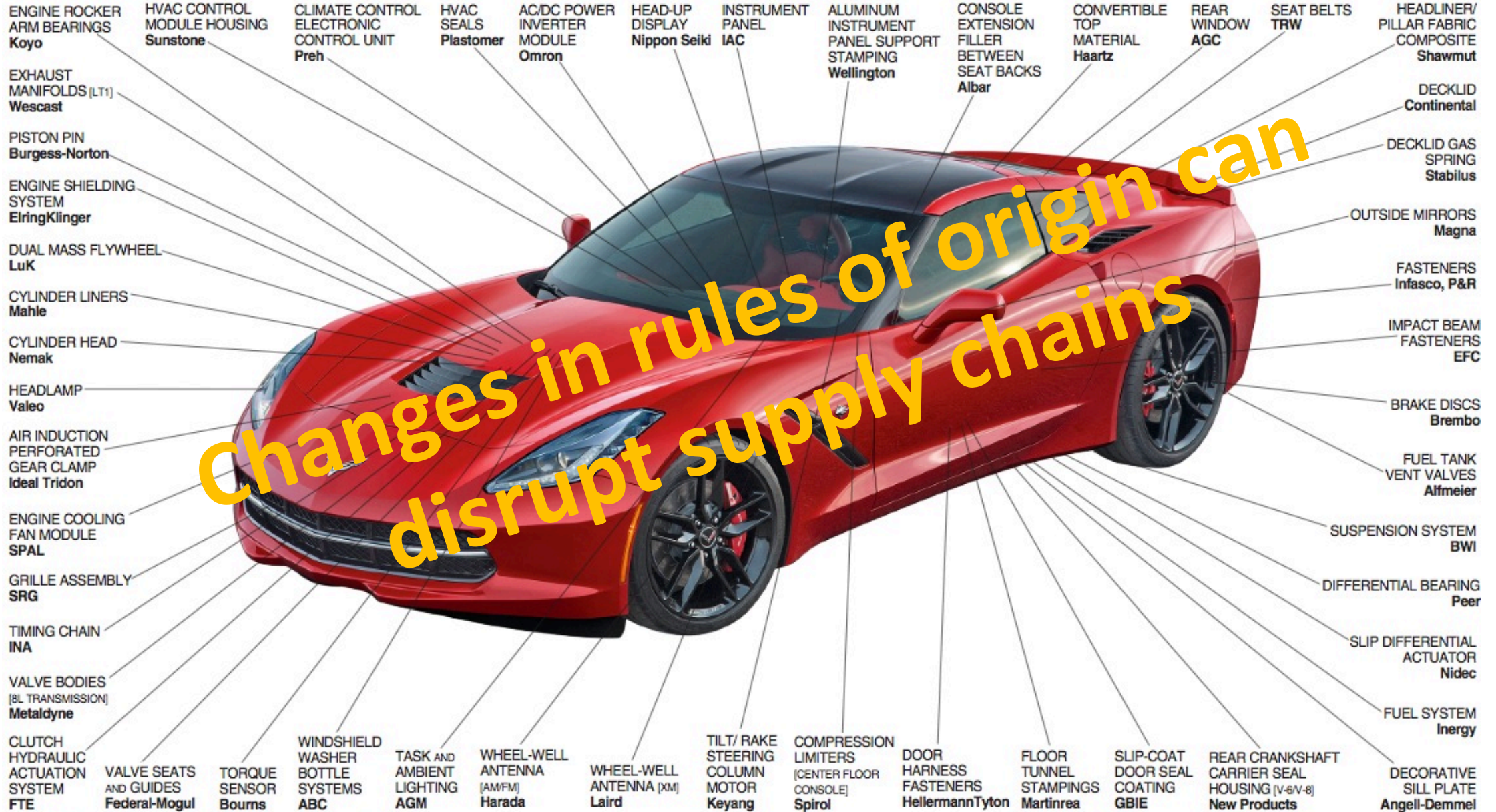


Some exporters prefer MFN to NAFTA

Average share of product entering through MFN instead of NAFTA, by tariff



Suppliers to the 2014 Chevrolet Corvette



changes in rules of origin can disrupt supply chains

SUPPLIERS WANTED: If you are a supplier and have questions or want your information considered for our car cutaways, contact Supplier Business at: automotivenews@supplierbusiness.com

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NAFTA Supply Chains are Important

	All Goods			
	US Imports from		US Exports to	
	Mexico	World	Mexico	World
Shares of U.S. Trade in Goods (%)				
<i>Intermediate input trade</i>	40	41	75	61
<i>Related-party trade</i>	67	51	40	29
<i>Majority-owned affiliate trade</i>	21	16	22	29

Source: US Census Bureau, Bureau of Economic Analysis

Note: Related party trade is defined as trade within firms with at least 10% ownership in the trading partner)

Supply chains are most important in transport



	All Goods				Transport			
	US Imports from		US Exports to		US Imports from		US Exports to	
	Mexico	World	Mexico	World	Mexico	World	Mexico	World
Shares of U.S. Trade in Goods (%)								
<i>Intermediate input trade</i>	40	41	75	61	46	38	76	45
<i>Related-party trade</i>	67	51	40	29	84	74	61	34
<i>Majority-owned affiliate trade</i>	21	16	22	29	43	26	<i>na</i>	34

Source: US Census Bureau, Bureau of Economic Analysis

Note: Related party trade is defined as trade within firms with at least 10% ownership in the trading partner)



Auto supply chains and rules of origin

- Supply chains designed around existing rules of origin.
- In autos, by volume of trade, most trade goes through NAFTA.
- But, not all. For example, more than 20% of drive axles and radiators enter through MFN tariff.
- Higher input prices make firms less globally competitive.



Fixing Rules of Origin

- A uniform rule applying to all products, with a simple regional content rule of 40-50 percent.
- Expanding the de minimis threshold to help small businesses.
- Move towards a global norm.