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Trump Administration's NAFTA Rules for Cars that Run on Hot Air

By Joshua Trosch, J.D. Candidate 2020 | November 24, 2017

Recent negotiations to renew the North American Free Trade Agreement reached an impasse this past October, when the Trump administration put forward new rules of origin that Canada and Mexico have dismissed as unworkable and "insane," holding that the administration's position is inflexible. These concerns come at a time when many parties fear President Trump will follow through with his promise to pull the United States out of NAFTA.

Current NAFTA guidelines allow for tariff-free trade between Mexico, Canada, and the United States as long as 62.5% of all manufactured vehicle components are from the three members states. The administration's recommended changes include increasing that number to 85% for NAFTA member states, with an added caveat that 50% of all those components come from the U.S. Consistent with campaign promises to bring back manufacturing jobs, the administration's position looks to return jobs to the states by increasing the regulatory demands on NAFTA members.

The extent to which the administration's proposed regulations would achieve this end, however, is heavily contested. Should automakers in Mexico and Canada fail to meet the new regulations, they would be subject to a 2.5% tariff on completed cars, which they might perceive as cheaper than the increased production costs that follow from the administrations U.S. centric policies. If that is the case, automakers might shift production from Mexico or Canada to other countries that would likewise be subject to the 2.5% tariff, albeit where other production costs might be cheaper. This strategy was possibly employed by Ford Motor Co. in a recent decision to move Focus production to China instead of Mexico.

The administration's new regulations have also been met with considerable opposition from automotive industry groups, who contend that the current regulations are beneficial to the industry. One such group, Driving American Jobs, a coalition of major auto manufacturers, has decried the administration's proposals, attributing much of the recent resurgence in the American automotive manufacturing industry to the success of NAFTA. Not all interested parties oppose the new regulations, however, as labor unions and blue collar workers, notably in states in which the President won the popular vote, support President Trump in denouncing NAFTA.

The administration's approach is certainly no less frustrating for NAFTA Members than it is worrisome. It is not clear at present what the President's ultimate goal with respect to NAFTA is; whether he intends for the new regulations to catalyze dissolution or whether the administration poses them in earnest remains to be seen.