

**PROPOSED TRANS-PACIFIC PARTNERSHIP RULE OF ORIGIN PROVISIONS  
FOR ASSEMBLED AUTOMOBILES AND LIGHT TRUCKS  
AND TRANSITIONAL MECHANISM FOR  
CERTAIN “GREEN” AND FUEL-EFFICIENT AUTOMOTIVE COMPONENTS**

**Joint Proposal of the  
United Steelworkers, United Auto Workers and International Association of Machinists**

The joint proposal’s goal for the Trans-Pacific Partnership Free Trade Agreement (TPP-FTA) is to maximize employment, at good compensation, for workers in the originating countries. Earlier FTAs have liberalized trade while maximizing corporate profits at the expense of employment and the standard of living of hard-working citizens. Trade should be a force for progress and the TPP-FTA, to be successful, must maintain, as well as reclaim, production and jobs that have transferred offshore as a result of the globalization of supply chains.

Advocates for the TPP-FTA maintain that the integration of the participants will create an enormous market with significant advantages. To share in the benefits of the projected market, it is vital that rules of origin ensure that, to gain the benefits of the agreement, content in the products eligible for favorable tariff treatment actually are the product of the hard efforts of workers in those countries. The model of recent agreements that have resulted in significant “leakage” (where a significant amount of the benefits of those FTAs accrue to non-signatory countries) must be altered.

Significant analysis of existing FTAs – both those between the U.S. and other parties, as well as those entered into by other countries not involving the U.S., have helped guide the development of this approach. The current trade patterns among various parties, existing tariff structures and various other data have been used to prepare this proposal. In addition, specific information about subassemblies and other auto parts and components have been reviewed to identify which products are of particular importance and may be at significant risk in terms of offshoring and outsourcing.

The proposal combines the approaches of existing FTA’s – ensuring that the included provisions have been tested and are “workable”. In business parlance, they are “stretch goals” designed to maximize the benefit to the workers in each of the TPP-FTA countries. Included in this new approach is a particular emphasis or focus on certain types of auto parts that are of critical interest in promoting a cleaner environment and more fuel efficient vehicles.

The North American Free Trade Agreement (NAFTA) included a phased-in, increasing regional value content rule in this critical area. Starting at 50% in 1994, the percentage increased to 56% in 1998 and rose to its current level of 62.5% in 2002. The original figure – 50% -- is the same percentage that is currently used in the US-Australia FTA and as a result of the participation of Mexico and Canada (as well as Japan) in the TPP talks, the baseline can be stepped up to the current NAFTA 62.5% provision with subsequent percentage increases, on a four-year basis, as provided for under the original NAFTA formula.

Thus, the scheduled commitment would be increased by the NAFTA formula, but the base would start with the existing NAFTA percentage (62.5%). Accordingly, base would increase to 62.5%, with an increase to 68.5% after four years and a final increase to 75% after an additional four years (eight years after the start). This approach combines the existing US-Australia and NAFTA approaches along a proven methodological trajectory.

The TPP-FTA provisions governing rules of origin for trade in finished autos and light trucks should contain the following features:

1. Minimum domestic content of 62.5%, rising to 68.5% after four years and 75% after eight years. Finished autos and light trucks will be obligated to use the Net Cost method of calculation of regional value content (RVC).
2. No drawback of import duties permitted upon export to TPP members.
3. Tracing of imported sub-assemblies, including validation provision. For example, when an engine assembled in TPP Country A from 35% non-TPP inputs and 65% TPP inputs is assembled into a finished car in TPP Country B, 35% of the cost of the engine will be counted as non-originating content for purposes of determining the assembled car's RVC. Exporters will be required to provide a full tracing report for exported auto components.
4. Bilateral cumulation between all TPP member countries. No cumulation between TPP members and non-member FTA partners for TPP purposes.
5. Anti-downstream dumping / transshipment provision. Inputs which are subject to an anti-dumping or countervailing duty tariff in a member country will be subject to those duties even if incorporated into a finished product or subject to a tariff classification change in another member country.
6. A TPP member country will be under no obligation to extend TPP benefits to goods produced in so-called "outward processing zones" or similar special economic zones administered by other TPP members but physically located in countries with which that member country imposes trade restrictions.
7. Any future modifications by the United States Government of the rules in this area, other than those scheduled and provided for in this proposal, must be jointly agreed to by:
  - a. appropriate representatives of domestic manufacturing interests in the assembly and parts sector, and;
  - b. Elected leaders of organized labor unions in the assembly and parts sector.

8. A new category of “green” auto components representing those critical to reducing emissions and enhancing fuel efficiency will be created. This product list will initially include:
  - a. Turbochargers
  - b. Advanced Transmissions
  - c. Electric Steering Systems
  - d. Advanced Battery Technologies, including Fuel Cells
  - e. High Efficiency Fuel Systems (Direct Gasoline Injection, Variable Valve Timing, Cylinder Deactivation, and Engine Start-Stop Systems)

This product category will be used to promote the domestic development of technologies and productive capacity in this sector, which is critical both to meeting CAFÉ standards and to achieving existing emissions reduction targets. The product list may be expanded to include those items which are viewed to significantly enhance domestic capabilities to address environmental and fuel economy concerns. To help achieve these goals, a safeguard measure will be implemented that limits the growth of imports into the U.S. in any of the five product areas to no more than 2%, by value, during each of those years to be calculated as a percentage of the base year.

Product-specific targets have been utilized in trade policy for a significant period of time. Indeed, U.S. trade relations with Japan have seen a number of specific market approaches. Japan adopted Voluntary Restraint Agreements on both steel and autos in the 1980s (the WTO subsequently limited the ability of countries to adopt VRAs). In addition, the U.S. and Japan engaged in Market Oriented Sector Specific (MOSS) talks to impose specific market access targets and approaches. As well, tariff-rate quotas, import surge provisions (such as Section 421 relating to imports from China) and a variety of other approaches have been used in the past.

The above proposal recognizes the national priority that has been adopted to ensure energy efficient and lower emission vehicles. It allows for continuing imports, at current levels, of the covered products plus an allowance for reasonable growth in the import of these products.