

November 30, 2018

The Honorable Chrystia Freeland
Minister of Foreign Affairs
Canada

Dear Minister Freeland:

I have the honor to confirm the following agreement reached between the Government of Canada (Canada) and the Government of the United States (United States):

Recognizing that in the negotiations for the United – States-Mexico – Canada – Agreement (USMCA) the United States and Canada (the Parties) have made changes to the automotive rules of origin compared to NAFTA 1994, and in order to support and enhance the existing manufacturing capacity and mutually beneficial trade of the Parties, if the United States imposes a measure pursuant to section 232 of the Trade Expansion Act of 1962, as amended, with respect to passenger vehicles classified under subheadings 8703.21 through 8703.90, light trucks classified under subheadings 8704.21 and 8704.31, or any auto parts within the scope of any such measure, the United States shall exclude from the measure:

- (1) 2,600,000 passenger vehicles imported from Canada on an annual basis;
- (2) light trucks imported from Canada; and
- (3) such quantity of auto parts amounting to 32.4 billion U.S. dollars in declared customs value on an annual basis.

Goods covered by the exclusion described in (1), (2), and (3) above will be eligible for the preferential tariff treatment applicable pursuant to NAFTA 1994, or the preferential tariff treatment pursuant to the USMCA, as applicable, when they qualify as originating goods. If the goods do not qualify as originating, the customs duty applied by the United States shall not exceed the United States' MFN applied rate in effect on August 1, 2018.

Canada shall monitor and otherwise administer the quantities of passenger vehicles and auto parts eligible for exclusion under subparagraph (1) or (3), set out above. Canada shall develop methodologies to allocate the quantities of passenger vehicles and auto parts eligible for this treatment.

In determining the allocation of quantities of passenger vehicles under the passenger vehicles allocation methodology, Canada shall consult with each auto producer exporting passenger vehicles from Canada to the United States and take into consideration information on auto producers' existing production capacity as of the signature of the USMCA, as well as export volume to the United States and production plans current at the time of the consultation. Priority shall be provided to auto producers that are producing vehicles that qualify for preferential tariff treatment under the NAFTA 1994 or that have committed to produce or are producing vehicle models qualifying for preferential tariff treatment under the USMCA, as applicable. In determining the allocation procedures for auto parts under subparagraph (3), Canada shall consult with auto parts producers in Canada.

Canada shall notify the United States of its allocation methodologies and consult with the United States on the methodologies for goods under subparagraph (1) and (3) at least 30 days prior to publication or implementation of such allocations, whichever comes first.

Canada may have recourse to the dispute settlement procedures in Chapter Twenty (Institutional Arrangements and Dispute Settlement Procedures) of the NAFTA 1994 or Chapter 31 (Dispute Settlement) of the USMCA, whichever is in effect at the time a dispute arises, only with respect to whether the United States has excluded light trucks, the number of passenger vehicles, and the value of auto parts as set out in the above-mentioned agreement, from a measure taken pursuant to section 232 of the Trade Expansion Act of 1962, as amended. Those procedures are incorporated and made part of that agreement *mutatis mutandis*.

I have the honor to propose that this letter and your letter in reply shall constitute an agreement between the United States and Canada, to enter into force on the date of your letter in reply.

Sincerely,

Ambassador Robert E. Lighthizer
United States Trade Representative