



USMCA: Automotive Rules of Origin

The United States-Mexico-Canada Agreement (USMCA) entered into force on July 1, 2020, replacing the 1994 North American Free Trade Agreement (NAFTA). NAFTA was instrumental in creating, among other things, a highly integrated North American supply chain for the motor vehicle industry. Automotive rules of origin (ROO) under USMCA, which determine whether an import is eligible for the agreement’s duty-free treatment, are the strictest among U.S. free trade agreements (FTAs). In 2025, the Trump Administration imposed a 25% global tariff on U.S. imports of certain automotive products, including vehicles, under Section 232 of the Trade Expansion Act of 1962. Goods that meet USMCA automotive ROO are largely, but not wholly, exempt from these tariffs.

The Trump Administration has raised changes to USMCA automotive ROO as a potential topic for the scheduled joint review of USMCA, when the three countries are to discuss whether to renew or modify the agreement. Congress has oversight of USMCA implementation and the joint review. Congress could also consider whether to codify U.S. tariffs on Canadian and Mexican products, including those complying with USMCA, or whether to expand, constrain, or otherwise modify the delegated authorities the President has used to implement such tariffs.

Automotive Rules of Origin

ROO provisions in U.S. FTAs are intended to ensure that preferential duty treatment is granted to goods produced by FTA parties rather than to goods made wholly or in large part in other countries. Most U.S. imports of goods that do not meet U.S. FTA ROO are subject to the U.S. most-favored nation (MFN) tariff—the rate applied to other U.S. trading partners with normal trade relations status, but without preferential treatment (e.g., an FTA). In general, Section 232 tariffs are imposed in addition to MFN tariffs.

Under NAFTA, automotive products that met the ROO were eligible for duty-free trade. During USMCA negotiations, the first Trump Administration sought to strengthen automotive ROO and incentivize auto manufacturing in the United States. USMCA raised the regional value content (RVC) requirements and added other requirements (see **Table 1**). When USMCA entered into force, some auto manufacturers were granted a transition period of up to five years for supply chain adjustments.

Economic Impact of USMCA Auto ROO

Congress, via USMCA-implementing legislation (P.L. 116-113), requires the U.S. International Trade Commission (USITC) and the Office of the U.S. Trade Representative (USTR) to publish biennial reports on the USMCA auto ROO. In its 2025 report, USITC found that the ROO’s impact on the U.S. automotive industry varied since USMCA entered into force, with U.S. parts production slightly increasing and U.S. vehicle production decreasing. USITC noted that its analysis was limited due to the

relatively short period since the full implementation of the ROO. The report pointed to external factors, such as tariffs (see below) and technological changes, that may also affect the U.S. auto industry.

In its July 2024 biennial report to Congress, USTR noted an increase in the share of U.S. automotive imports from Canada and Mexico for which duties were paid (i.e., not entering duty-free under USMCA). Most dutiable auto imports came from Mexico.

Table 1. NAFTA and USMCA Automotive ROO

NAFTA	USMCA
62.5% Regional Value Content (RVC) for passenger vehicles, light trucks, engines, and transmissions	75% RVC for passenger vehicles, light trucks, and core auto parts
60% RVC for other vehicles and auto parts	65%-70% RVC for other vehicles and auto parts
No labor value content (LVC) rule (no wage requirement)	LVC rule that requires 40%-45% of a vehicle’s production by value be made by workers earning at least \$16 per hour
No steel and aluminum requirement	70% of a vehicle manufacturer’s steel and aluminum purchases by value must originate in North America

Source: CRS based on USMCA and NAFTA text.

Note: Other vehicles include heavy trucks, which have a phase-in period until the RVC requirement reaches 70% in 2027.

Current Administration Tariff Actions

In 2025, President Trump cited national security concerns in imposing U.S. tariffs on passenger vehicles, medium- and heavy-duty trucks, and related parts under Section 232 of the Trade Expansion Act of 1962. The United States has also imposed Section 232 tariffs on U.S. imports of steel, aluminum, and other products that could affect the auto sector. Goods meeting USMCA ROO are partially exempt from Section 232 tariffs; for example, tariffs apply to non-U.S. content of vehicles that comply with USMCA ROO.

These tariffs have, in effect, increased the tariff rate for U.S. imports of automotive products that do not meet USMCA ROO—for example, the applicable tariff rate for non-USMCA-compliant passenger vehicles went from 2.5% (MFN) to 27.5% (Section 232 plus MFN rate). Data suggest that in 2025 around 84% of U.S. auto imports from Canada and Mexico met USMCA content rules but were subject to certain tariff actions. **Figure 1** compares the value (right) of U.S. auto imports that entered the United States under USMCA and MFN status and the calculated duties (left) under each status. Canada has imposed retaliatory measures in response to U.S. tariffs. Some U.S.

automotive groups have argued that current U.S. tariff policies could make USMCA-compliant vehicles made by U.S. manufacturers less price-competitive than those imported from non-FTA partners like Japan or the European Union, which face a 15% total tariff.

Automotive ROO Dispute

In January 2022, Mexico and Canada requested a USMCA dispute settlement (DS) panel to address a disagreement with the United States over the treatment of material in core motor vehicle parts and related methodologies (see Table A.2 in USMCA Chapter 4, Annex 4-B). In December 2022, the panel ruled against the United States. USTR disagreed with the panel ruling and stated in its July 2024 biennial report to Congress that the three countries were working toward a potential resolution. USMCA does not provide a mechanism to appeal dispute settlement panel decisions.

The Mexican and Canadian governments argued that if a core auto part qualifies for USMCA, 100% of its value should count toward the larger RVC calculation (referred to as “roll up”). USTR’s interpretation was that the overall RVC calculation should exclude the value of materials in core parts that are not sourced from a USMCA country. Mexico and Canada contended that all parties agreed to these flexibilities during the USMCA negotiations to help North American producers meet the RVC requirements. Some U.S. stakeholders, including some labor groups, expressed concerns that the ruling undermines efforts to boost the U.S. auto industry. Some analysts have argued that the United States would undermine the USMCA DS process if it were to continue to not comply with the ruling.

USMCA Joint Review

Trump Administration officials have expressed interest in strengthening the USMCA automotive ROO as part of the joint review scheduled for 2026. The Administration has not stated whether it will seek congressional approval for potential modifications to the agreement. Under NAFTA, the executive branch implemented modifications to the automotive ROO without congressional approval under

delegated authorities in 19 U.S.C. 2483 and presidential proclamation authority in NAFTA-implementing legislation; similar authority was included in P.L. 116-113.

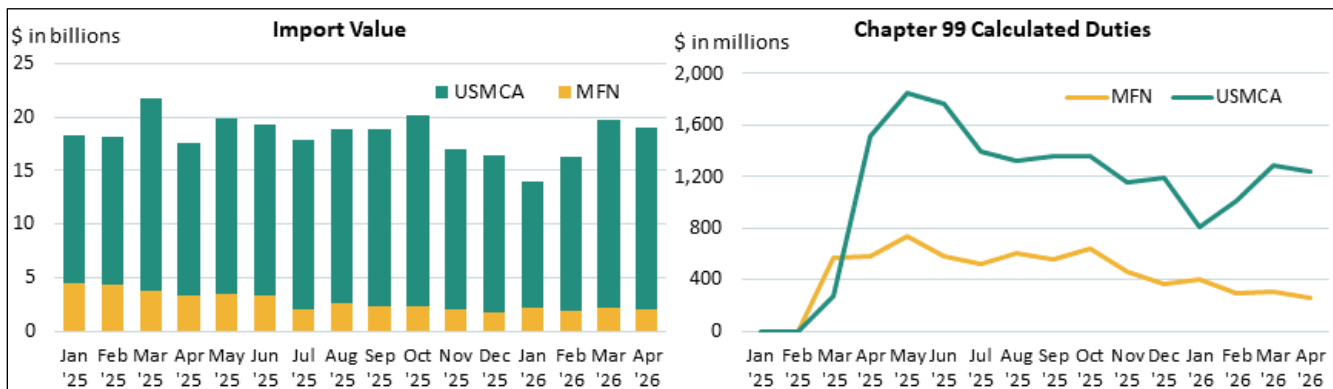
Some Members of Congress have argued that strong auto ROO support U.S. jobs. Some Members have also expressed interest in reducing U.S. manufacturers’ reliance on imports from the People’s Republic of China (PRC or China), particularly auto parts, due to concerns related to national security and the potential use of forced labor in China’s supply chains. Some Members have introduced legislation intended to ensure that PRC vehicles cannot enter the U.S. market, including via Canada and Mexico (H.R. 9162; S. 4429) and for harmonizing North American approaches to PRC investment, including in the auto sector (e.g., S. 2861). In December 2025, Mexico increased tariffs on certain products, including vehicles and auto parts, from non-FTA partners. In 2024, Canada imposed a 100% tariff on electric vehicles (EVs) from China, mirroring the 2024 U.S. tariff increase on PRC EVs; in February 2026, the Canadian government announced a deal with China under which up to 49,000 PRC EVs annually can be imported at Canada’s MFN rate of 6.1%.

Issues for Congress

Congress may consider issues including, for example,

- whether and, if so, how to address auto sector issues as part of the USMCA joint review (e.g., the auto ROO dispute, Section 232 and other tariff actions affecting the auto sector, approaches to foreign investment in the auto sector, and common North American tariffs on auto exports from other countries);
- whether and, if so, how to monitor or oversee ROO implementation and compliance, and potential effects on the U.S. and North American auto industry; and
- whether to codify higher auto tariffs currently imposed via executive actions, or to expand, constrain, or otherwise modify executive authorities to impose such tariffs, and to assess how such actions might affect compliance with the USMCA ROO.

Figure 1. U.S. Automotive Imports from Canada and Mexico, 2025-2026 YTD by Import Program



Source: CRS with data from U.S. Census Bureau via U.S. International Trade Commission Dataweb, accessed June 15, 2026; and Harmonized Tariff Schedule (HTS) automotive subheadings by the International Trade Administration at <https://www.trade.gov/automotive-trade-data>.

Note: Section 232 tariffs are reported under Chapter 99 of the HTS; calculated duties are estimates and do not reflect actual duties paid.

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