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TRADE REPORT & ANALYSIS

USMCA IMPACT & ANALYSIS

Analyzing 2020 Imports & the Changes in North American Trade

Reporting the latest available data from Mexico, Canada, and the U.S. Census Bureaus, with cumulative trade values over the preceding year. Top commodity rankings based on total FOB Value and trade policy impact measured by year-over-year comparisons in value.

KEEPING TRACK OF TRADE TRENDS & POLICY

In any other year, a major trade policy update in the North American trilateral trade bloc would be the top disruption facing the supply chain and logistics industries. Given the unprecedented coronavirus outbreak and its impact on trade and the global economy, however, industry analysts and supply chain managers have not yet been able to fully examine the United States-Mexico-Canada Agreement (USMCA) and its effect on trade between the United States, Mexico, and Canada.

Today, as industries recover and move beyond the pandemic, it is critical to stay informed. This is where accurate, current, and fully reviewed global trade data comes in.

Descartes Datamyne has created this report that will examine the available trade data and cover the key salient points that business leaders should know across a broad range of industries.

ABOUT THIS REPORT

In 2016, a four-year process to update the North American Free Trade Agreement (NAFTA) began. After multiple rounds of negotiations and revisions, the final trade deal was ratified by each nation's legislature in early 2020, weeks before COVID-19 would ravage the global economy and drop the monthly trade flows between the three countries for the first time in more than a decade.

Prior to the upheaval that was 2020, it was already a challenge for businesses to keep pace with shifts in import trends. From duty and tariff changes to economic fluctuations, changes in demand, among others, the volume and value of commodities can shift and impact a business's bottom line. In addition, over the last few decades, globalization prompted businesses to be more connected, meaning global imports and exports flow more quickly and any changes can have a rapid and far-reaching knock-on effect.

Designed as a reference on trade trends for port authorities, carriers, logistics providers, importers and shippers, this report analyzes the top commodities affected by the updates and changes in the USMCA against the same period in previous years. Examining these trends from past years enables us to gauge the full impact of the USMCA.

ABOUT THE DATA

The data source for this report is Descartes Datamyne™, provider of the world's largest searchable trade database covering the global commerce of 230 markets across 5 continents.

Import and export data from the three countries in this report has been gathered by Descartes Datamyne from each country's respective census bureau that document all imports and exports. Census data also provides accurate valuations on imported commodities. Countries of origin reported are the countries from which shipments departed bound for each North American country.

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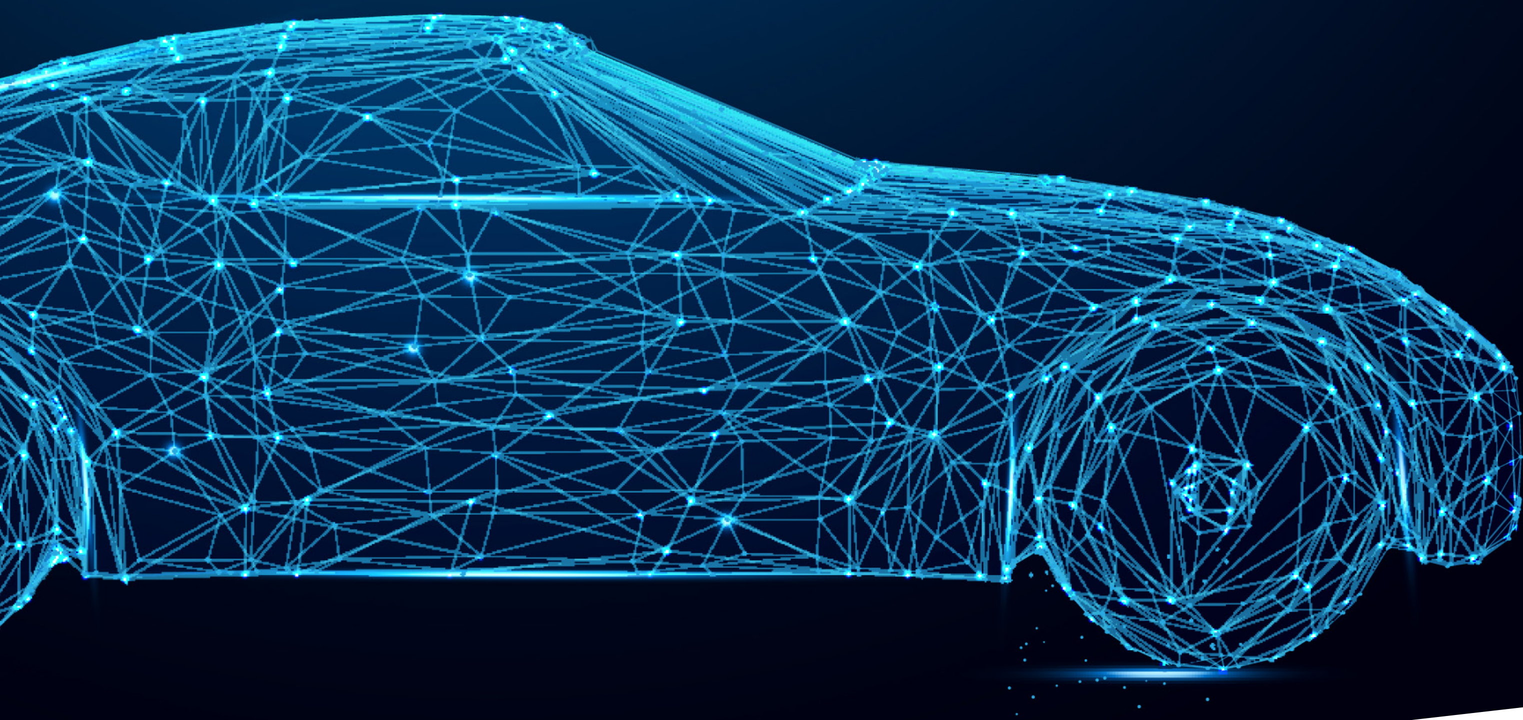


AUTOMOTIVE INDUSTRY

CHANGES:

While the majority of changes in the USMCA are largely updates addressing digital trade, labor, the environment, transparency, financial services, and currency policy, the most notable changes apply to the automotive industry. These changes include increased raw material and new labor standard requirements.

To qualify for tariff-free entry, automakers must use an increased minimum of North America-made parts, increasing the requirement from 62.5 percent from NAFTA to 75 percent.

Additionally, increased worker compensation is now required. Specifically impacting manufacturers in Mexico, which under NAFTA saw wages accounting for one-eighth of costs, companies are now required to produce 40-45 percent of their parts from factories paying an average wage of $16 USD per hour.

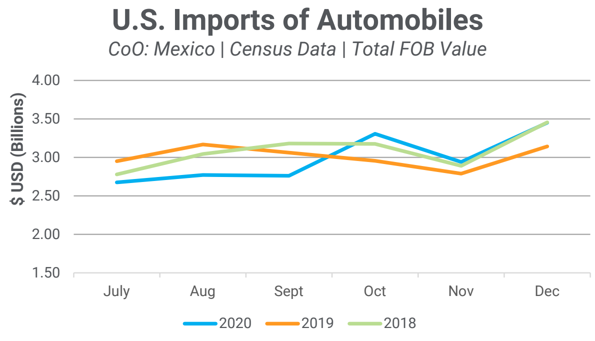
Automotive Industry Impact

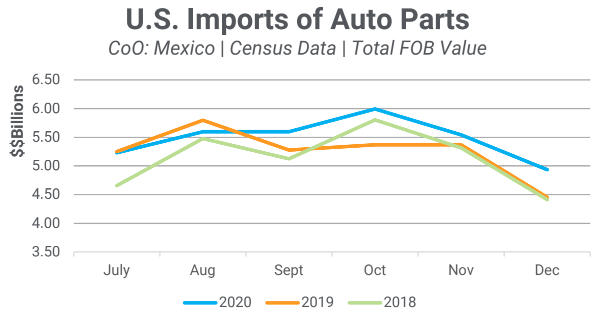
IMPORTS BY VALUE AFTER USMCA WENT INTO EFFECT

Primarily, the changes in the USMCA impacted the automotive industry in the United States and Mexico. Below, we highlight several key takeaways from the trade data in the second half of 2020.

United States

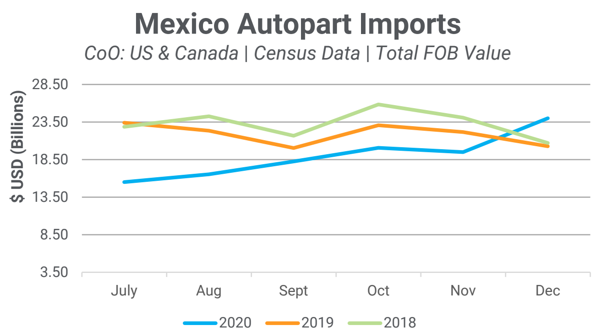
- During the peak of the pandemic, U.S. automotive imports were among the most dramatically impacted, falling more than 10 percent short of previous years in total FOB value. As U.S. imports recovered, automobile imports from Mexico followed the trend and also began to climb in value. October of 2020 saw a 11.8 percent increase in total FOB value over 2019.
- However, this increase comes from a similar number of shipment records for both years, indicating that the number of automobiles imported from Mexico has remained on par with previous years while the FOB of those shipments has increased. This is an indication of increased costs brought about, in part, from the changes in the USMCA.
- U.S. imports of automotive parts from Mexico increased in year-over-year value during the second half of 2020. In October and December specifically, the comparative FOB value rose 11.6 and 10.8 percent respectively. This is counter to the stated goal of the USMCA to increase domestic production. Whether this trend of increasing imports will continue in years to come is still in the air.

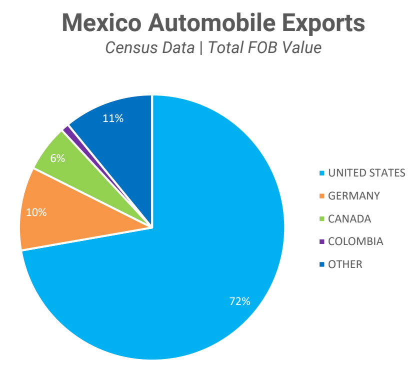


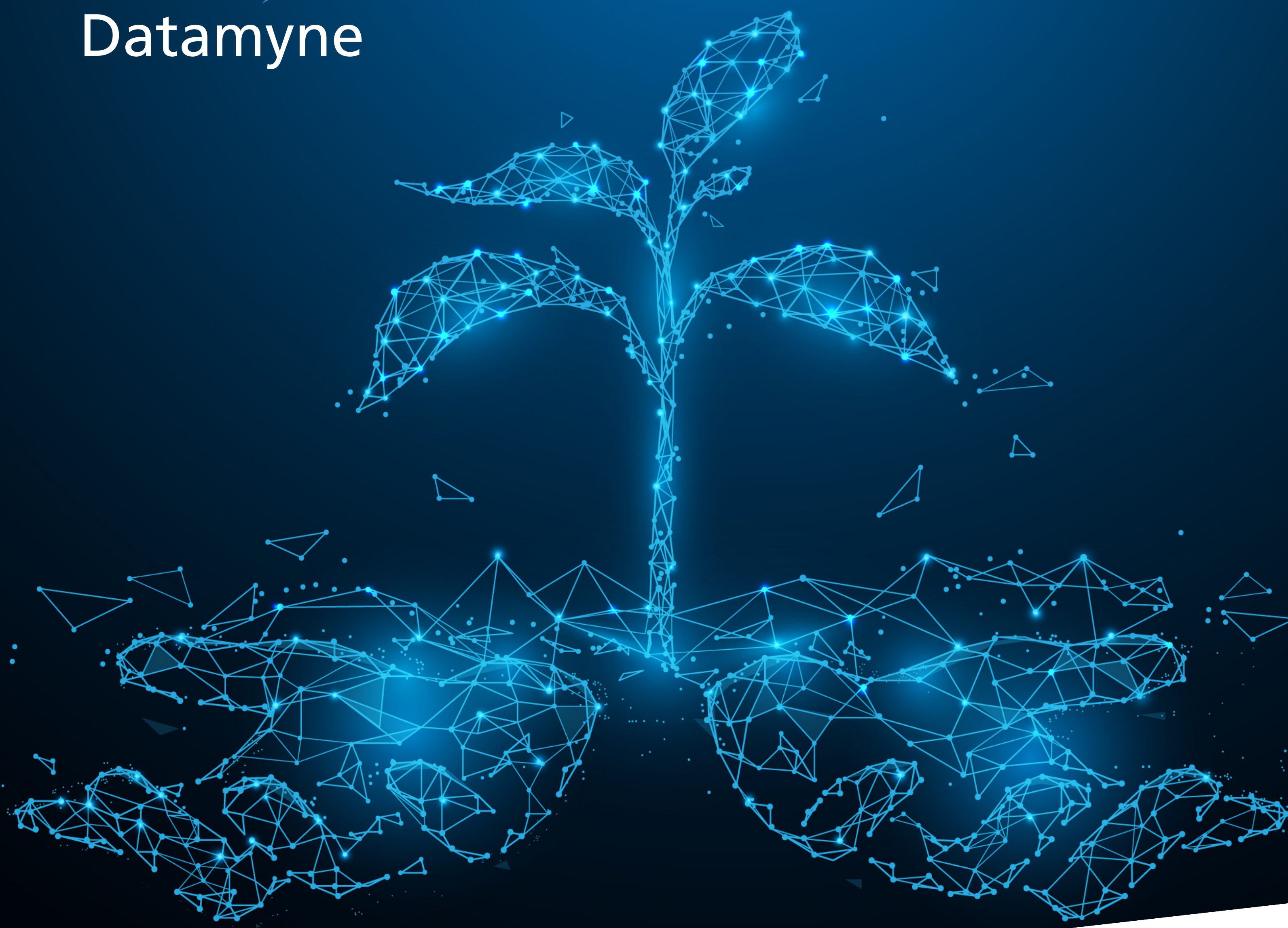


Mexico

- Despite the USMCA requirements for increased automotive parts from North American countries, there is no relative increase in the amount of imports into Mexico from the U.S. and Canada.
- This lack of increased imports indicates that, even with the increased requirements for North American auto parts, domestic manufacturing is still keeping up with demand.
- December is the outlier to this observation. In that month, the total FOB value for auto parts imported into Mexico from the U.S. and Canada increased 18.4 percent compared to the same period in 2019.







AGRICULTURAL INDUSTRY

CHANGES:

The agricultural industry also received several substantial changes with the updated USMCA. The most notable is a strong benefit to U.S. dairy farmers who will gain increased access to sell their products in Canada. Historically, Canada has been extremely protective of dairy products and strongly regulated the imports of any dairy.

The three countries also agreed to suspend the competitive grading of wheat, with Canada specifically agreeing to rate U.S. wheat equally to its own. A similar agreement was made between the U.S. and Mexico.

Finally, the USMCA updated measures addressing scientific advancement in the agricultural industry, adding stipulations around sanitary and phytosanitary processes as well as agreeing to share information for biotechnology and agricultural gene editing.

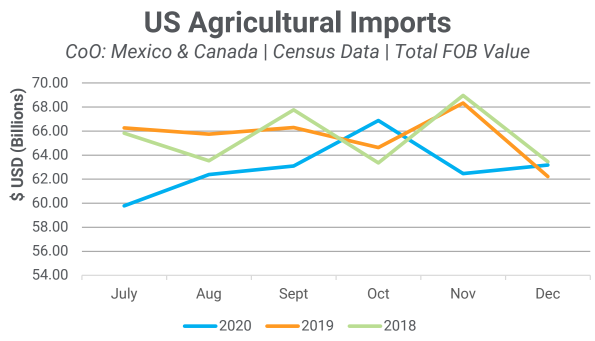
Agricultural Industry Impact

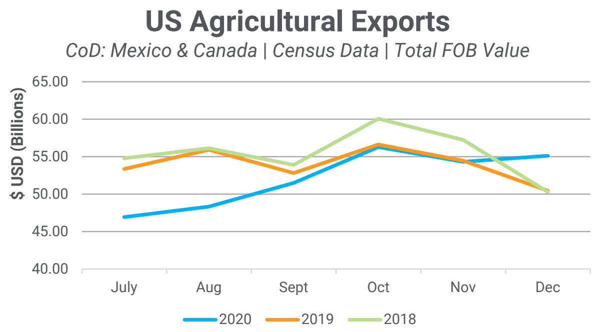
IMPORTS BY VALUE AFTER USMCA WENT INTO EFFECT

Much like above with the automotive industry, the changes in agriculture trade between the three countries primarily impacts the United States and Canada.

United States

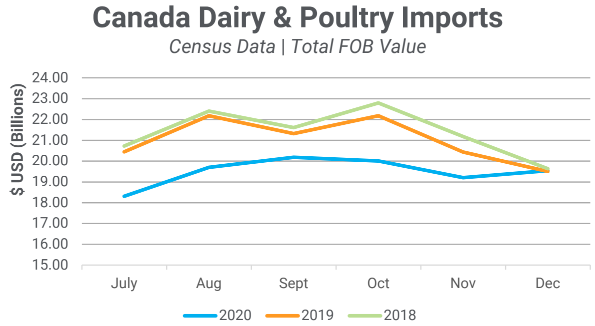
- Overall, U.S. agricultural imports from Mexico and Canada lagged behind 2018 and 2019. This drop-off was temporarily halted in October and December, which had a 3.5 and 1.5 percent increase in year-over-year value respectively. The second half of 2020 had a decline in year-over-year FOB value of 4 percent for a total value of just under $378 billion USD.
- The majority of changes in the USMCA impacted U.S. agricultural exports, specifically U.S. dairy and poultry exports. Overall, however, there has been little indication of a positive impact on the value of overall exports to Canada and Mexico. The only month with a year-over increase in value is December, which saw 9.3 percent growth compared to the same period in 2019.
- This lack of increase in export value for dairy does not seem to be a result of the coronavirus pandemic, as production has actually increased slightly during the year according to the National Agricultural Statistics Service (NASS).
- It was believed that the changes in the USMCA would yield a several billion dollar increase in US agricultural exports to Canada. While there has been some growth, as evident by the slight increase in December. So far, this has not yet been the case.

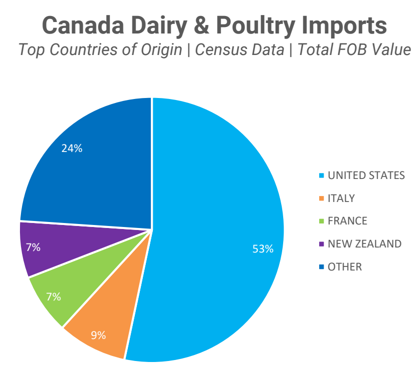




Canada

- Despite fears from Canadian dairy farmers, U.S. exporters only increased exports marginally and the U.S.'s total market share only slightly increased.
- U.S. poultry and dairy exports to Canada, thought to have the largest impact in export values by many, have only seen a mild increase compared to 2018 and 2019. In the second half of 2020, U.S. dairy farmers made up 3.6 percent of Canada's total dairy market, up from ~1 percent under NAFTA.





CHEMICAL INDUSTRY

CHANGES:

Changes affecting the chemical industry come in the form of updated rules of origin requirements. These requirements have been made clearer and more transparent. Many chemical manufacturers are no longer required to determine regional value content and provide the appropriate documentation.

These new rules also allow additional qualification options to increase the amount of originating products.

Additionally, the USMCA updates rules regarding digital trade and allows data from the chemical industry to cross borders freely while implementing increased intellectual property protections.

Chemical Industry Impact

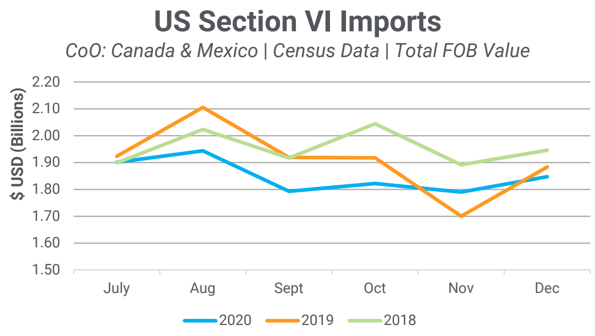
IMPORTS BY VALUE AFTER USMCA WENT INTO EFFECT

Covered under Section VI of the Harmonized Tariff Schedule, the changes in the USMCA impacting the chemical industry were primarily concerned with digital trade and intellectual property protections.

The changes affecting importers and exporters directly such the Rule of Origin updates, only serve to simplify cross border trade. These changes, theoretically, should not have a drastic impact on overall trade value between the three countries.

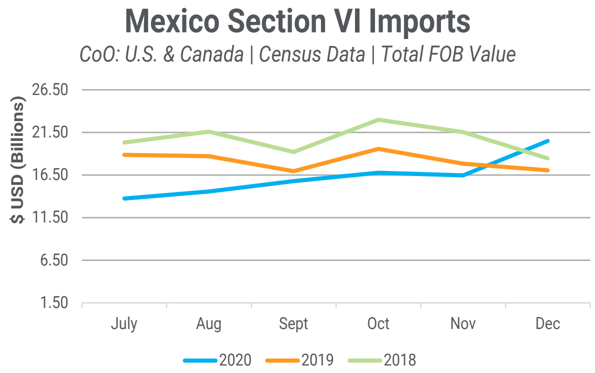
United States

- Overall, U.S. imports of Section VI commodities (chemicals) has declined in value by 3.1 percent compared to the same period in 2019. This is largely expected, as the changes to the chemical industry introduced in the USMCA likely would not directly impact U.S. imports, as the United States acquires the majority of its chemicals from outside the North America trade bloc.



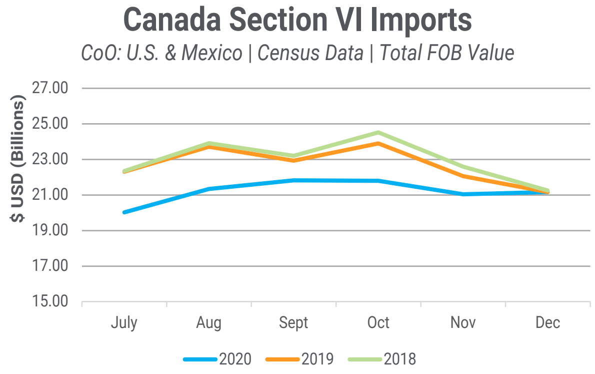
Mexico

- The total FOB value for chemical imports into Mexico from the United States and Canada for the second half of 2020 fell by 10.2 percent compared to the same period in 2019.
- This drop in value is more indicative of overall market health, as the United States is a major chemicals producer that Mexico relies upon for its goods.



Canada

- Like Mexico, Canada is also heavily reliant upon the United States for its chemical imports. Also, like Mexico, the total FOB value of Canada's imports declined in the second half of 2020 compared to 2019. The total loss in year-over-year value was just under $9 billion USD or 6.5 percent



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OTHER CHANGES

The majority of the USMCA is simply a modernized NAFTA and many companies and industries will remain unaffected by the updates.

Several of the important changes that companies should keep an eye on are:

Protections Against Section 232 Tariffs: the USMCA specifies that the United States will not impose any Section 232 tariffs on Mexican or Canadian exports for at least 60 days after the global application of such a measure.

Increased De Minimis Shipment Value: the three countries have all agreed to raise their de minimis shipment value levels, making it easier and cheaper for small- and medium- sized businesses to take part in cross-border trade.

Digital Trade: the USMCA establishes rules for digital trade and digital technologies. Absent from NAFTA, these new rules include protections against forced discloser of proprietary computer source codes and algorithms, consumer privacy protections, and promotion of open access to government-generated public data.

Environmental Standards: new requirements on the three countries include commitments to enforcing environmental law, increased protections of coastal and marine environments, and conservation efforts.

Intellectual Property Rights: mentioned above with the changes impacting the chemical industry, the increased IP protections under the USMCA also include more substantial protections of trade secrets.

About Descartes Datamyne

With a comprehensive database of accurate, up-to-date import-export information, Descartes Datamyne delivers business intelligence for market research, sales insight, supply chain management, enhanced security and competitive strategy. The solution is powered by the world's largest searchable trade database, covering the global commerce of 230 markets across 5 continents.

Manufacturers, shippers wholesalers, transport and logistics service providers, management consultants, legal practitioners, industry analysts and more use our exceptionally accurate and granular data to initiate growth strategies, explore new markets, benchmark performance, monitor commodity volumes and values, simplify trade data research, discover buyer seller relationships and refine sourcing strategies.

Discover more at **www.datamyne.com**.

About Descartes

Descartes (Nasdaq:DSGX) (TSX:DSG) is the global leader in providing on-demand, software-as-a-service solutions focused on improving the productivity, performance and security of logistics-intensive businesses.

Customers use our modular, software-as-a-service solutions to route, schedule, track and measure delivery resources; plan, allocate and execute shipments; rate, audit and pay transportation invoices; access global trade data; file customs and security documents for imports and exports; and complete numerous other logistics processes by participating in the world's largest, collaborative multimodal logistics community.

Our headquarters are in Waterloo, Ontario, Canada and we have offices and partners around the world.

Learn more at www.descartes.com, and connect with us on LinkedIn and Twitter.

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