

# 2022 Projections in the North American Auto Industry

## Top Ten Takeaways

### Ongoing Supply Chain Concerns, Including Port Delays and Trucker/Worker Shortages

1. The pandemic exposed longstanding weaknesses in the supply chain which governments in Canada, Mexico and the United States have all sought to address. However, in 2022 companies are still enduring port delays, shortage of drivers, warehouse space and semiconductors, among other factors. To minimize delays companies should look at conserving drivers' time spent at shipping and receiving docks by setting up appointment systems, considering implementation of a "greenlight" system to facilitate early release of drivers when bill-of lading exceptions occur (such as overages, shortages and damage), renegotiating long term contracts with carriers, considering other modes of transportation (e.g., rail) and working with the Federal Motor Carrier Safety Administration to resolve disputes with carriers in the areas of demurrage and detention charges.
2. The United States has signed into law the Infrastructure Investment and Jobs Act through which billions of dollars are expected to be disbursed to help unclog the current bottlenecks in the supply chain. The bill is expected to accelerate projects and modernize aging or obsolete infrastructure, including road, rail, ports/waterways and electric charging stations.

### Potential Trade War Around Electric Vehicle Incentives

3. Last year, the Biden Administration attempted to pass the "Build Back Better Act" ("BBB") a \$1.75 trillion package to fight climate change and expand affordable health care, among others. After Sen. Manchin quashed the bill last December, its fate remained uncertain at the beginning of 2022. However, President Biden recently shed light on his plans and expressed his preference to break the package up and save as much as possible.
4. A component in the BBB Act that has triggered a debate in the auto industry, and concerns amongst the US main trade partners (Mexico, Canada and the EU), is the tax credit proposed for Electric Vehicles (EV) assembled in a unionized US plant with substantial domestic content. Sen. Manchin position against the legislation provided an opportunity for auto companies and governments to continuing discussing what the fate of the EV tax credit should be.

### Workers' Rights and US Trade Policy

5. One of the new features in the United States-Mexico-Canada Agreement ("USMCA") is the Rapid Response Labor Mechanism. It was designed to address concerns about workers' ability to exercise their right of free association and collective bargaining in covered facilities. This was the case for two automotive companies in Mexico in 2021. However, the mechanism can ultimately result in the application of company-specific sanctions.
6. Another USMCA labor component is Annex 23-A, by which Mexico committed to adjusting its labor legal framework to ensure adequate recognition of the right of collective bargaining. The

Government of Mexico passed significant legislation in 2019 to, among other things, implement Annex 23-A. Failure to comply with Annex 23-A, as implemented in Mexico's legislation, can trigger the Rapid Response Labor Mechanism, resulting in trade sanctions for companies and ultimately affecting supply chains.

## **USMCA Rules of Origin**

7. In January 2022, Mexico requested a panel to the United States under the USMCA to resolve a dispute over the interpretation of the agreement's rules of origin for automotive vehicles. USMCA's rules of origin specify the "regional value content" ("RVC") that parts must contain to be considered "originating" in North America and avoid tariffs between the three countries. The dispute prolongs the uncertainty for the auto industry in North America as the USMCA approaches its second anniversary.
8. On January 13, 2022, Canada gave notice of its intention to join the dispute between Mexico and the United States as a Complaining Party. The modernized State to State dispute mechanism in the USMCA provides an effective procedure to establish panels, allowing the settlement of disputes among the USMCA Parties. According to the time frame set out in the USMCA, the panel could issue its final report in September 2022. The ruling by the panel could force suppliers into making a business decision whether it makes sense to relocate production to Europe or Asia if it becomes too difficult or expensive to comply and it is simply easier to pay the tariff.

## **Chip Shortage Developments**

9. The semiconductor shortage is hitting many industrial sectors hard, but the automotive industry may have been hit harder than others. This is because semiconductors are an indispensable component for auto manufacturers since they need them for a wide variety of in-vehicle systems such as security, navigation and entertainment. Also margins on chips used in vehicles are not as high as those in other technologies, making it more difficult for automakers to leverage supply of semiconductors. Chipmakers have been incentivized to produce more advanced semiconductors at the expense of their automotive customers.
10. Factories on both sides of the border are full of cars that are almost complete but missing only the semiconductor chips. Without the chips they cannot be finished and shipped out. Car sales in the United States have been dropping, and the average wait time for new cars is now between four to six months and up to 12 months for some models. Automakers should review what is the warranty coverage on the cars that have been idle and unsold. Congressional passage of the CHIPS Act should help bolster U.S. production and improve long-term availability. In the short-term, improved logistics, as well as investment and government support should also help ease the output of automotive-grade chips in the second half of 2022.

## **Panel Moderator**

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This webinar was hosted by Clark Hill on Wednesday, February 2, 2022. A recording of the full webinar can be [viewed here](#).

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