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AND

THE
APPAREL
SECTOR



Canada

NAFTA AND THE APPAREL SECTOR

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This booklet is part of a series of NAFTA sector publications prepared by Industry Canada and funded through the Access North America Program.

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NAFTA AND THE CANADIAN APPAREL SECTOR

The North American Free Trade Agreement (NAFTA) came into effect January 1, 1994. The overall objective of this Agreement is to promote employment and economic growth by expanding trade and investment opportunities in the North American free trade area and by enhancing the competitiveness of Canadian, Mexican and U.S. companies in global markets.

NAFTA has turned the whole North American continent into one economic zone that will eventually become the world's largest free trade area. The Agreement will be beneficial to Canada's apparel industry as it provides manufacturers with continued preferential access to the lucrative U.S. markets and new preferential access to Mexico. The Agreement offers an exceptional opportunity for apparel manufacturers to develop markets in the United States and Mexico with the preferential access NAFTA will provide over non-North American apparel suppliers.

This booklet highlights key aspects of the Agreement for the Canadian apparel sector. It provides product-specific information on tariff rates, tariff phase-outs and rules of origin, and it describes other provisions of the Agreement relevant to manufacturers and distributors of these products. It also provides an overview of the apparel market in North America and highlights potential new market opportunities in Mexico.



DEFINITIONS

For the purpose of this document, the following definitions apply:

NAFTA free trade area, domestic, North America(n)	from any or all member countries of NAFTA
Party	a NAFTA country
HS Customs Tariff	Customs Tariff based on the Harmonized System (HS) of tariff classification
input or material	component material(s) used in the manufacture of a good
imported	from a non-NAFTA country, non-North American
originating	refers to goods that meet the rules of origin of Chapter 4 and Annex 401 of the Agreement for tariff preference purposes

APPAREL TRADE IN NORTH AMERICA — THE CANADIAN CONTEXT

There is a close apparel trading relationship between Mexico and the United States, dominated by the 9802 U.S. regulations¹ (formerly 807). It was inevitable that some sort of liberalization or formalization of this linkage would occur. Good strategic planning dictated that it would be preferable for Canada to be a direct part of any discussions between Mexico and the United States (and possibly others in the future) to preserve and strengthen the gains Canada has made in the Canada-United States Free Trade Agreement (FTA).

Even before NAFTA, Mexico was an attractive production location because of low wages, the 9802 regulations and the maquiladora areas. Many large U.S. apparel firms have set up manufacturing facilities in the maquiladora areas to take advantage of these factors. Now, with NAFTA, Mexico's trade advantage will be enhanced with the phase-out of U.S. tariffs and quotas. This will likely encourage aggressive U.S. firms to set up production facilities in Mexico even outside the maquiladora areas.

What does this mean for Canadian apparel manufacturers? Most experts agree that low-cost goods from U.S.-operated Mexican plants could pose a threat to Canadian apparel manufacturers. There is also concern that goods from these plants sold in the United States will continue to assist U.S. manufacturers improve the prices of goods produced in their higher-cost U.S. plants. Some of these U.S. goods, along with other Mexican apparel, are being exported to Canada in competition with Canadian-made goods.

Apparel imports from the United States have increased consistently since the introduction of the FTA on January 1, 1989. Canada's apparel exports to the United States have shown even more dramatic increases and continue to exhibit a favourable balance of trade.

Apparel imports from the United States or Mexico should not develop into a serious competitive threat overnight given that improved access is being phased-in gradually. Experts generally believe that the phase-in period will be sufficient for most Canadian apparel firms to make the necessary adjustments. Right now, many Canadian apparel manufacturers are implementing North American strategies aimed largely at the lucrative U.S. market rather than focusing exclusively on a domestic perspective. These firms have enhanced their productivity and competitiveness in Canada and the United States and are setting the pace for the rest of the industry to follow.

¹ The regulations apply to finished goods assembled abroad from U.S. components and re-imported into the United States. A duty exemption is available for the cost of U.S. components provided that the offshore assembly complies with strict criteria.

Over the long term, Mexican apparel produced outside the maquiladora areas will become competitive in Canada. However, because of the weaknesses outlined below, Mexico may have difficulty over the short- to medium-term taking full advantage of its major strength — a low-cost labour force. To date, Mexico has had difficulty capitalizing on this advantage, for example, it has recently been compelled to impose anti-dumping duties on certain types of apparel from China.

Initially, apparel imports from Mexico will have a marginal competitive impact on Canadian firms. It is not likely that retailers will place orders for large quantities of apparel produced in Mexico from Mexican, U.S. or Canadian fabrics. Mexican apparel is not yet styled or of sufficiently high quality to meet the standards of Canadian consumers. The Mexican apparel industry is expected to service the fast-growing demand of its domestic population. The short- to medium-term impact of NAFTA on the apparel sector should not be as severe as some critics anticipate.

The Mexican apparel industry suffers from a number of **weaknesses** as reported in recent studies. These weaknesses will hinder Mexico's ability to become a substantial supplier of apparel to the Canadian market over the short- to medium-term. The weaknesses include the following:

- ▶ limited up-to-date technology;
- ▶ undeveloped design potential;
- ▶ unsophisticated marketing techniques;
- ▶ weak integration of production processes, particularly in the case of fabric finishing;
- ▶ difficulty competing against low-cost imports;
- ▶ inefficient transportation and communication infrastructure; and
- ▶ costly and limited investment capital.

On the other hand, Mexico has a number of **strengths** working in its favour:

- ▶ large domestic market with a strong growth potential;
- ▶ abundance of labour at relatively low wages;
- ▶ proximity to important U.S. markets;
- ▶ relatively low fixed asset requirements; and
- ▶ producer of high-volume commodity apparel.

The implementation of NAFTA does not pose an immediate competitive threat to the apparel industry with regard to either U.S. or Mexican goods. This does not mean that manufacturers can be complacent. For most firms, NAFTA will require important adjustments as it not only means adapting to the aggressive U.S. style of doing business but also to the characteristics of a developing country with lower costs, a growing population and a vastly different culture.



TARIFFS FOR APPAREL

Canada- United States Tariffs

Trade between Canada and the United States will continue to be governed by the tariff phase-outs negotiated under the provisions of the Canada-United States Free Trade Agreement (FTA). Most originating apparel tariffs are being reduced to zero through 10 equal annual instalments. Tariffs have already been reduced by at least 60 percent and will reach zero by January 1, 1998. For some goods, by mutual agreement, tariffs were eliminated immediately (for example, furs) or reduced more quickly.

Canada-Mexico Tariffs

All tariffs on "originating" apparel traded between Canada and Mexico will be phased out in 10 equal steps beginning January 1, 1994 and ending January 1, 2003. Mexico's import licensing arrangements will also be removed.

Schedule of NAFTA Phase-Outs

The full listing of tariff elimination schedules may be found in the country-specific NAFTA Tariff Schedules. A partial listing of tariff phase-outs for textiles is found in the *NAFTA and the Textiles Sector* booklet.

Accelerated Duty Elimination

As with the FTA, there is an acceleration clause in NAFTA. Tariffs for apparel may be phased out faster than originally negotiated if the apparel industries in the three countries request such action. If only two countries agree to such a phase-out, acceleration occurs only between those two. The Government, however, will negotiate only those requests that enjoy broad support in the apparel industry.



RULES OF ORIGIN FOR APPAREL

As of January 1, 1994, the new NAFTA rules of origin completely replaced the FTA rules. Each member country of NAFTA maintains its own external tariff for goods from non-NAFTA countries. The NAFTA preferential tariff is extended only to goods "originating" from a member country. NAFTA provides preferential tariff treatment for all "originating" North American goods traded between Canada, the United States and Mexico.

Rules of origin are used to determine whether or not a product qualifies as a good originating in North America. They are also used to ensure that the NAFTA benefits are available only for goods that meet specific rules of transformation.

For apparel, the rules of origin are generally more stringent under NAFTA than they were under the FTA. For example, they require that the yarn, fabric and garment be made in North America to qualify for the NAFTA preferential duties. Goods produced in any of the three NAFTA countries, with components and materials that are wholly sourced or manufactured in any of the three countries, qualify as originating goods entitled to preferential tariff treatment. The NAFTA rules of origin were designed to ensure that the considerable potential market access benefits of NAFTA would accrue to apparel manufacturers and textile suppliers within the NAFTA free trade area.

Goods using non-North American input materials must meet the requirements set out in the NAFTA "Rules of Origin" to determine whether they are originating. Where inputs are imported from outside North America, they must be processed in a NAFTA country to such an extent that they undergo a specified change in tariff classification for the resulting product to receive NAFTA tariff status. These required changes are prescribed on the basis of the chapters, headings and subheadings of the Harmonized System (HS) of tariff classification. The customs tariffs of the NAFTA partners are based on the HS.

For apparel, the rules indicate what changes in tariff classification must occur between each of the non-North American inputs and the finished good. In addition, the rules for apparel specify the tariff classification of the inputs that must be produced in North America.

As an example, a man's knitted shirt (HS Customs Tariff subheading 6105.20) made from non-North American polyester staple fibre (HS Customs Tariff subheading 5503.20) that is spun into yarn, knitted, cut and sewn in North America would qualify, as it meets the specified conditions and because the imported input is not classified in an excluded heading (i.e., falling within the range of HS Customs Tariff headings 55.08 through 55.16).

The following is an overview of the requirements set out by the rules for apparel:

A. General Rule

Most apparel must be manufactured within the NAFTA free trade area from fabrics woven or knitted from North American yarns for the finished product to qualify for full NAFTA tariff benefits. This is referred to as the “yarn forward” or “triple transformation” rule of origin.

The use of imported yarns or fabrics for apparel production would result in transformation from the yarn or fabric headings to the apparel heading. This would be “double transformation” and the finished garment would not generally qualify for full NAFTA tariff preference. Under the FTA, such transformations would have qualified finished apparel for full FTA benefits.

Exceptions to the General Rule are covered by the Specific Rules.

B. Specific Rules

Certain apparel products have specific rules as described in the tariff classification provisions set out in Annex 401 of NAFTA. Exporters are advised to identify the specific rule of origin for their product to determine if they can qualify for NAFTA tariff preference. The following are selected exceptions to the “triple transformation” rule of origin for apparel:

- ▶ Woven apparel such as men’s and boys’ shirts, (HS Customs Tariff Chapter 62), “cut and sewn” in one or more of the NAFTA countries from certain imported fabrics, such as dobby weave fabrics, which the Parties agree are in short supply in North America, can qualify for preferential tariff treatment. This is referred to as “single transformation.” Annex A gives more detail about Short Supply Fabrics.
- ▶ For most apparel, such as overcoats and suits, with **visible linings** in the main body of the garment, excluding the sleeves, the linings must be manufactured from fabrics made in North America, but the yarns may be imported without the loss of eligibility for full NAFTA benefits. Some exceptions to this rule on visible linings, including garments made with linings of imported silk, cuprammonium rayon fabrics or quilted linings, will continue to qualify for NAFTA benefits if the other portions of the garment meet the rules of origin. Non-visible linings such as insulation or removable linings are not taken into account in establishing whether or not the rules of origin have been met. Annex B details the garment categories to which this exception may be applied.

- ▶ To qualify for full NAFTA benefits, certain apparel, e.g., **knit to shape** apparel (HS Customs Tariff Chapter 61), must be made from fabric with cotton or man-made spun yarns manufactured from fibres (“**fibre forward**” rule of origin) made in North America. For other types of knit apparel (e.g., sewn from cut-to-size knitted fabrics or any knits made with filament yarns) the basic “yarn forward” rule of origin applies.
- ▶ For knitted or woven apparel made from **silk or linen fabrics**, or **brassieres** classified under the foundation garment HS Customs Tariff subheading 6212.10, the product-specific rules state that these garments can qualify for NAFTA benefits even though they may have been manufactured from non-North American fabric or findings provided that the goods are cut and sewn or otherwise assembled in North America. This is known as “single transformation.”
- ▶ Selected knitted apparel (HS Customs Tariff Chapter 61, subheadings 6107.21 and 6108.21) made in North America from specified “short supply” cotton fabrics described in tariff item 6002.92.10 can qualify for NAFTA preferential duty rates even if the fabrics are imported.

Apparel Textiles

Most apparel fabrics must have been woven or knitted in the NAFTA free trade area with yarn produced within the trade zone. The main exceptions include:

- ▶ Certain textiles are required to meet a stricter “**fibre forward**” rule of origin. This rule requires that for cotton and man-made fabrics, the fibres used to manufacture the thread, yarn and fabric must also be made in North America. Man-made filament yarns must be composed of filaments that are extruded in a NAFTA country.
- ▶ Silk and linen fabrics manufactured in North America from imported yarns will continue to qualify for NAFTA tariff preference.

The De Minimis Rule

The Agreement provides a *de minimis* rule. In general, apparel goods qualify as originating if the foreign content is 7 percent or less by weight of the component that determines the tariff classification.

More specifically, apparel and most textile goods containing non-originating fibres or yarns can qualify for full NAFTA benefits if the total weight of the non-North American fibres or yarns does not exceed 7 percent of the total weight of the component of the good that determines the tariff classification of the good being exported.

The *de minimis* rule, on a **weight** basis, applies only to textile goods of HS Customs Tariff chapters 50 to 63. Other textile goods outside these chapters have access to the **value**-based *de minimis* rule (see Chapter 4, Article 405 of NAFTA).

**Rules of Origin
Review**


A five-year general review of all the rules of origin for the apparel sector must occur before January 1, 1998.

**Additional
Information**

More detailed information on the NAFTA rules of origin is contained in the following brochures, which should be obtained by all apparel firms exporting to the United States or Mexico:

Guide to Rules of Origin and Customs Procedures for Canadian Exporters to the U.S. Market, available through InfoEx at 1-800-267-8376.

Trilateral Customs Guide to NAFTA, and NAFTA Rules of Origin — A Step by Step Guide, available from Revenue Canada, Customs Infoline (613) 941-0965 or Fax (613) 941-8138.



TARIFF PREFERENCE LEVELS

NAFTA provides preferential quotas for apparel and textiles that do not meet the Rules of Origin. These take the form of Tariff Preference Levels (TPLs), formerly known as Tariff Rate Quotas (TRQs) under the FTA. TPLs permit the import of a fixed quantity of certain "non-originating" goods into Canada, the United States and Mexico at the NAFTA rate of duty.

Apparel manufacturers who have determined that their exports to Mexico or the United States do not meet the rules of origin, because imported fabrics were used to make the garments, the fabrics were made with imported yarns, or imported yarns were used to make knit-to-shape goods, may be able to use the TPLs to qualify for the NAFTA preferential duty. This is provided that the apparel was cut (or knit to shape) and sewn or otherwise assembled in Canada.

Goods entering a NAFTA country in quantities above the TPLs will be subject to the higher Most Favoured Nation (MFN) rate of duty usually applied to non-NAFTA trading partners.

All Canadian finished apparel (goods of HS Customs Tariff chapters 61 and 62) are eligible for TPL consideration. Apparel traded between Mexico and the United States does not have the same access to TPL utilization.

The U.S. TPL for Canada on non-wool apparel has been doubled from 42 million square metre equivalents (SME) to 80 million SME, a level twice that of all non-wool garment exports to the United States in 1991. Also, the U.S. TPL for Canadian wool apparel will be increased by 6 percent overall over five years (from 5.1 million SME to 5.3 million SME in 1999). This is 60 percent higher than the total Canadian exports of wool apparel to the United States in 1991. The TPLs for non-originating apparel are shown in Tables 1 and 2.

Annex C provides the TPLs for non-originating textiles.

For cotton or man-made fibre apparel, the TPLs will be allocated in accordance with the historical performance under the TRQs of the FTA.

The allocation for the wool apparel TPL is more complex, with 79.2 percent allocated according to the historical TRQ performance, 7.9 percent for non-originating yarns for knits, 7.9 percent for non-originating yarns for wovens, and the remaining 5 percent will be allocated to new entrants on a "first come, first served" basis.

Allocation of TPLs to the United States

TABLE 1
(Refer to Schedule 6.B.1 of NAFTA)

Tariff Preference Level (TPL) for Non-Originating Cotton or Man-made Fibre Apparel Exports (in square metre equivalents¹)				
Exports from:	Canada	U.S.	Canada	Mexico
to:	U.S.	Canada	Mexico	Canada
	80 000 000 ²	9 000 000	6 000 000	6 000 000
	60 000 000 ³			

¹ Square metre equivalents (SME) means a unit of measurement resulting from the application of the negotiated conversion factors in Schedule 3.1.3 of Annex 300-B of NAFTA to a primary unit of measure such as a unit, dozen or kilogram. For example, one dozen cotton shirts would be converted to 20.10 SMEs according to the schedule.

² The tariff preference levels (except for the provisions of note 3 below) increase yearly by 2 percent in each of the first five years of the Agreement commencing on January 1, 1995. The Agreement does not have growth rates in the TPLs between the United States and Mexico.

³ This sub-limit applies to apparel cut and sewn in Canada from imported fabric, i.e., apparel that has undergone a single transformation in North America. This sub-limit increases at an annual rate of 1 percent for each of the first five years of NAFTA implementation. This means that the remaining TPL of 20 000 000 SMEs of apparel (or even the entire 80 000 000 SMEs) can be made with fabrics originating in Canada or other NAFTA countries but using imported yarns.

TABLE 2
(Refer to Schedule 6.B.1 of NAFTA)

Tariff Preference Level (TPL) for Non-Originating Wool¹ Apparel Exports (in square metre equivalents)				
Exports from:	Canada	U.S.	Canada	Mexico
to:	U.S.	Canada	Mexico	Canada
	5 066 948 ²	919 740	250 000	250 000

¹ Wool apparel means:

- ▶ apparel in chief weight of wool;
- ▶ woven apparel in chief weight of man-made fibres containing 36 percent or more by weight of wool; or
- ▶ knitted or crocheted apparel in chief weight of man-made fibres containing 23 percent or more by weight of wool.

² This tariff preference level will increase at an annual rate of 1 percent in each of the first five years of the Agreement. The Agreement does not have similar growth rates between the United States and Mexico. Also under this level, there is an annual sub-limit of 5 016 780 SMEs over which exports of wool suits cannot increase without incurring MFN duties. This sub-limit is equal to the full TPL (or TRQ) negotiated in the FTA and has been protected in NAFTA. For example, this means that wool suits made from imported fabrics have the same level of preferential access to the United States under NAFTA as under the FTA and that other types of wool apparel will see their level of access to the United States increase by 1 percent per year for at least the first five years of the Agreement.

Exporting Under a TPL

After 1994, the allocation for all TPLs will be based on the previous year's performance. The new entrants' pool will be equal to 1 percent of the previous year's TPL plus any unused TPL from the previous year up to 5 percent of the current year's TPL. The remainder (growth pool) will be allocated on a "first come, first served" basis, based on confirmed shipments.

As under the FTA, Foreign Affairs and International Trade Canada (FAITC) is responsible for the issuance of Certificates of Eligibility (COEs) for exports from Canada that seek access to TPLs for the United States or Mexico. The U.S. and Mexican authorities have agreed that only goods accompanied by such COEs should be granted TPL tariff treatment and deducted from the applicable levels. With the implementation of NAFTA, FAITC will monitor the demand for import TPLs through the issuance of import permits. Canadian exporters and importers are encouraged to get in touch with FAITC for further details.

TPL Review

Since there are automatic growth rates for the Canadian TPLs into the United States over the first five years of the Agreement, a review of the annual growth levels is required only after that period.

NAFTA CUSTOMS MATTERS

Classification and Origin Determination

The tariff classification and origin status of your products should be determined before you start exporting.

- ▶ Advisory classification and origin determinations may be obtained from your customs broker or from one of the three customs agencies listed at the end of this publication.
- ▶ Written, binding rulings on tariff classification, origin status and marking requirements may now be obtained in advance from Canadian, U.S. and Mexican customs headquarters.

Rulings must be obtained from the country into which you are shipping your goods. Contacts for these are listed at the end of this publication.

You are also cautioned, if exporting to the United States, that Certificates of Origin could be subject to an audit by U.S. Customs. One possible consequence of incorrect or incomplete information on the certificate is the penalization of your U.S. customers.

Importations under a TPL

When importing non-originating goods into Canada under a TPL, you must produce a declaration signed by the exporter certifying that the goods meet the TPL requirements. In addition, for goods imported into Canada from Mexico, the importer must have a Certificate of Eligibility issued to the exporter from the Mexican Government.

Customs Administration

One of the lessons learned from the FTA was that customs administration and the procedures for interpreting, administering and enforcing the rules of origin and dealing with other customs matters must be set out in precise detail.

NAFTA stresses uniformity in customs administration and enforcement in order to prevent the problems experienced by governments, exporters and importers under the FTA. NAFTA contains a number of provisions to facilitate customs procedures, including:

- ▶ uniform regulations to ensure consistent interpretation, application and administration of the rules of origin and other customs administration matters;
- ▶ common record-keeping requirements, a uniform Certificate of Origin (completed by the exporter, the certificate is not required for commercial goods valued at less than US\$1 000, although shippers may be obliged to produce an invoice certifying that the goods qualify as "originating"), and standardized certification requirements;
- ▶ broader rights of appeal of determinations of origin, for both tariff preference and country-of-origin marking purposes, and advance rulings to allow appeals by both the exporter and the importer within the NAFTA area;

Duty Drawback

- ▶ the creation and regular meetings of trilateral working groups to address future modification of the rules of origin, marking obligations and uniform customs regulations, and to review controversial customs issues; and
- ▶ the GATT Customs Valuation Code will apply to the determination of value for duty purposes.

Duty drawback is the refund of customs duties levied on materials and components imported from other countries when they are incorporated into goods that are subsequently exported.

For Canada-U.S. trade, the FTA prescribed that all duty drawback programs were to be eliminated by January 1, 1994. NAFTA extends this deadline by two years. These programs can now be used until January 1, 1996. For trade with Mexico, existing drawback programs can be used until January 1, 2001.

A "duty refund system" will replace the drawback regulations on January 1, 1996 for Canada-U.S. trade and on January 1, 2001 for Canada-Mexico trade. Under this system, each country will be able to adopt a partial duty refund procedure for those goods that do not benefit from the preferential NAFTA tariff. The refund system will apply to duties paid by manufacturers on non-NAFTA inputs used to make apparel for export to NAFTA countries under the TPLs. The refund will be equivalent to the lesser of

- (a) the duty paid on the fabric imported to make the garments; or
- (b) the duty paid on the finished garments when exported to the United States or Mexico.

This means that the "duty refund" system will be phased out at the same pace as the NAFTA tariff-free access is phased in. When the tariff is completely removed, the duty refund system will no longer exist.

Under NAFTA, full duty drawback will continue to apply indefinitely to Canadian apparel exports to the United States that are traded at full MFN rates of duty (after the TPLs have been fully utilized), as agreed in the FTA. Drawback will also continue to apply indefinitely to apparel exported outside the NAFTA area.

MARKING AND LABELLING REQUIREMENTS

Country of Origin Marking

NAFTA contains uniform standards on how traded goods should be marked. These standards specify that goods must bear clearly visible country of origin markings. The country of origin marking indicates to the purchaser the country of origin and can appear in English, French or Spanish. Annex 311 of the Agreement specifies how and under what circumstances products must be marked.

Specific marking rules regarding country of origin, not common among the three countries, are published in separate official documents (e.g., the *Canada Gazette*, the U.S. Federal Register). Canadian exporters whose goods do not meet the NAFTA rules of origin should carefully check the marking rules of the country into which they are exporting.

In some cases, it may be possible to mark the product as a product of Canada, in others, the product will have to be marked as a product of the country from which the inputs originated. This, of course, has implications for Canadian goods exported to the United States that may be affected by U.S. Multifibre Arrangement (MFA) quotas on imports from low-wage countries. Exporters can request an advance ruling from the importing country. A listing of customs agencies is included in the Contacts section of this publication.

Fibre Content and Care Labelling

A joint government and private sector Subcommittee on Labelling of Textiles and Apparel Goods, which includes technical experts, manufacturers, and retailers, was established under Article 913(5) of NAFTA. The Subcommittee is setting up a work program on the harmonization of labelling requirements. It will then recommend ways to harmonize the current rules for fibre content, dealer identity, care labelling requirements as well as domestic country of origin labelling, language requirements, and the use of national registration numbers.



SAFEGUARD MECHANISMS

Under NAFTA, member countries may take bilateral safeguard action to provide temporary relief to domestic manufacturers whose markets are being damaged or are under threat of serious damage due to increasing imports from another NAFTA country. Such safeguard measures can only be taken during the NAFTA transition period, that is, the 10-year period beginning on January 1, 1994.

The key difference between the NAFTA safeguard structure for textiles and apparel and that of other goods is that the "damage" criteria for textiles and apparel (versus "injury" for other goods) are less severe. As well, a decision to take such action does not have to be made by an arm's length authority such as the Canadian International Trade Tribunal (CITT). Under NAFTA, the Minister of Finance (for tariff measures) or the Minister of Foreign Affairs and International Trade (for quota measures) can be petitioned directly.

Tariff action may be taken if certain damage criteria apply to originating goods. A NAFTA country may suspend the further reduction of the preferential rate of duty for a specific good or even "snap back" the tariff to the full MFN rate of duty applicable to non-NAFTA goods for up to three years. Such action may be taken only once against a specific product during the transition period, but may be extended for one year by mutual consent.

Any safeguard action under this provision must be compensated for by the country invoking the safeguard clauses. The compensation offered by the invoking country should be equivalent to the value of the additional duties payable by the affected country, and wherever feasible, should be directed at other textile or apparel products. A failure to reach an agreement on compensation might lead to the withdrawal of equivalent concessions (not necessarily restricted to textiles and clothing) by the country considering itself to be adversely affected by the safeguard action.

The criteria for establishing "damage" include changes in productivity, capacity utilization, inventories, market share, exports, wages, employment, domestic prices and investment. Changes in technology or consumer preference shall not be considered valid support for injury cases.

NAFTA also provides for the imposition of temporary import quotas on non-originating textiles and apparel during the transition period. The quotas may only be applied against goods that do not meet the rules of origin, including TPL-eligible goods. Canada and the United States, however, are mutually exempted from imposing quotas on imports from each other. Compensation is not required under this provision.

Either during or after the transition period, NAFTA will not affect Canada's right to impose global safeguard measures against injurious imports from non-North American countries under the provisions of the GATT, provided that these countries are principal suppliers.



WHAT ELSE YOU SHOULD KNOW

Temporary Entry for Business Purposes

While the following provisions of the Agreement may not be specific to the apparel industry, they nonetheless affect the overall North American trading environment and are of interest to companies participating in it.

Canadian apparel manufacturers will be able to use NAFTA temporary entry provisions to facilitate travel necessary to promote the sale of goods in the United States and Mexico. Such "business visitors" are required to carry proof that they are citizens of one of the NAFTA countries, and a letter from their employer indicating the nature of their visit, their principal place of employment and the actual place of accrual of profits.

Sales representatives may bring commercial samples, advertising materials and equipment necessary to carry out the business activity without having to pay duty on those goods. However, an import permit for apparel goods is still required.

Temporary entry is also available for other business travellers such as traders and investors, intra-company transferees and professionals.

If you expect to use any of the temporary entry provisions, you should check with the relevant immigration or customs authorities for information on any documentation requirements.

Quotas

As Canada has no restraint agreement (quotas) with Mexico, there is no provision, specific to Canada-Mexico trade, in NAFTA concerning the phase-out of MFA quantitative restrictions.

The United States, however, has many product-specific MFA restraint agreements with Mexico, including restraints on textiles and clothing. Under NAFTA, these restraints will be eliminated, some immediately (originating imports from Mexico), and others gradually (non-originating goods from Mexico). Annex 300-B, Appendix 3.1 of NAFTA provides details on how these restraints will be eliminated.

Effective January 1, 1994, the United States will eliminate quotas on textile and apparel goods assembled in Mexico from fabrics wholly formed and cut in the United States and exported from and reimported into the United States under U.S. tariff item 9802.00.80.10 (formerly known as the 807 and 807A provisions).

Dispute Settlement

NAFTA strengthens the dispute settlement mechanism negotiated under the FTA. There are three steps in the NAFTA provisions.

- ▶ **A consultative process.** When a country believes that its NAFTA access rights have been impaired, it can ask for consultations with the allegedly offending country. The other NAFTA country can also participate if it wishes.
- ▶ **An arbitration process.** If agreement is not reached through consultations, a meeting of the NAFTA Trade Commission may be called to discuss how the disagreement may be settled amicably. The commission is composed of cabinet level representatives designated by each country.
- ▶ **A "panel process."** If agreement cannot be reached through arbitration by the NAFTA Trade Commission, a NAFTA panel can be convened. The panel process would determine whether any trade action taken by a NAFTA country is consistent with the NAFTA provisions. Dispute resolution must occur within strict time limits and countries must comply with panel recommendations or offer acceptable compensation.

Dumping and Subsidies

The three NAFTA countries have reserved the right to maintain their current laws against injurious dumping and subsidy practices. They can modify their laws, but such amendments would be subject to a panel review to determine if they are consistent with NAFTA or GATT. If the panel finds that the changes are inconsistent, the affected countries may consult to resolve the matter.

Any action taken by the NAFTA countries under these laws must be transparent. The invoking country(ies) must give prior notice and disclosure of the action to the other countries. If an affected country desires, it can ask for a bi-national panel review of the final anti-dumping or countervailing duty decisions.

Government Procurement

For government procurement, NAFTA broadens the FTA regulations concerning contract tendering. The Agreement covers purchases by specified government departments at the national level in each of the three countries. It specifies that NAFTA countries must provide national treatment to each other in the bidding process for contracts with value equal to or over

- ▶ US\$50 000 for goods and/or services; and
- ▶ US\$6.5 million for construction services.

For government enterprises, the thresholds are higher, that is, US\$250 000 for goods and/or services, and US\$8 million for construction services.

NAFTA does not extend competitive tendering disciplines to state and local governments nor does it eliminate the legislated preferences that the United States extends to its small and minority businesses.

The Agreement does include detailed tendering procedures, a requirement for governments to publish most procurement requests, and bid challenge procedures similar to those in place under the FTA. This results in a fairer, less discriminatory, and more transparent and predictable procurement process.

Additional information on how to access government procurement opportunities may be obtained from the Open Bidding Info Line as listed in the Contacts section of this publication.

Investment

Each NAFTA country has agreed to accord non-discriminatory treatment to NAFTA-area investors, with limited exceptions. Canada maintains the right to approve direct acquisitions of existing companies exceeding C\$150 million. Canada will also maintain all existing restrictions on sensitive sectors in the Canadian economy, such as transportation, telecommunications, social services and cultural industries.

New Accessions

NAFTA includes an accession clause specifying that the entire Agreement will not have to be renegotiated if new countries accede to the conditions in the current text. Any potential new member will be bound to accept the terms already negotiated by the original three members, unless all three agree to modify these terms.

Other NAFTA Provisions

The Agreement contains provisions on a variety of other issues, including intellectual property rights, environmental provisions, competition policy, cultural industries and cross-border trade. To obtain further information on these and other provisions of NAFTA, consult the publications listed at the end of this booklet.

THE CANADIAN INDUSTRY IN A NORTH AMERICAN CONTEXT

Industry Overview

The apparel industry is the eighth largest supplier of manufacturing jobs, employing an estimated 75 000 people in 1992. Shipments in 1992 were \$5.5 billion, of which \$577 million (10 percent) were exports. Imports of \$3 billion accounted for 37 percent of the Canadian market. The industry is mainly located in Quebec, Ontario and Manitoba. To remain competitive, the industry is focusing on developing innovative designs, improving market position and service, reducing costs, and investing in flexible, quick response production technology.

Canadian Trade with the United States

Canada and the United States have a very active trading relationship. In 1992, 90 percent of Canada's apparel exports were destined for the United States. Since the implementation of the Canada-U.S. FTA, bilateral trade has increased significantly. Between 1989 and 1992, Canada's apparel exports to the United States increased 85 percent, while imports from the United States increased 86 percent. Canada continues to maintain a positive balance of trade with the United States despite the fact that the United States supplied 8.7 percent of apparel imports from all countries into Canada in 1991 and Canada supplied only 1 percent of apparel imports from all countries into the United States.

Apparel imports into Canada from the United States increased from \$186 million in 1989 to \$347 million in 1992. Apparel exports to the United States increased from \$278 million in 1989 to \$516 million in 1992. These exports represented 3 percent of the industry's total shipments in 1989 and 9 percent of total shipments in 1992. Prior to 1989, when the FTA was implemented, Canada maintained a favourable balance of trade with the United States dating as far back as 1982. Over that period the percentage of exports to total Canadian shipments was fairly constant at around 3 percent.

The export trade is very important to the apparel industry, as consumer demand for apparel within Canada over the past few years has not been strong enough to allow manufacturers to benefit very much from economies of scale. Through the growth in export sales, Canadian apparel manufacturers have the opportunity to increase their profitability and their productivity.

Although some adjustments were required, Canadian manufacturers seem to have adapted fairly well to the trade liberalization resulting from the FTA.

Canadian Trade with Mexico

To date, the apparel trade between Canada and Mexico has been quite small. However, the large Mexican population base promises important opportunities particularly in the higher fashion segments and in specialty apparel. Canadian apparel exports to Mexico in 1992 were \$743 000, up 235 percent from 1989, while imports from that country over the same period increased 60 percent to \$14 million.

Competitive Implications of NAFTA

Initially, apparel imports from Mexico will have a marginal competitive impact on Canadian firms. It is not likely that retailers will place orders for large quantities of apparel produced in Mexico from Mexican, U.S. or Canadian fabrics. Mexican apparel is not yet styled or of sufficiently high quality to meet the standards of Canadian consumers. The Mexican apparel industry is expected to service the fast growing demand of its domestic population. The short- to medium-term impact of NAFTA on the apparel sector should not be as severe as some critics anticipate.

The implementation of NAFTA does not pose an immediate competitive threat to the apparel industry with regard to either U.S. or Mexican goods. This does not mean that manufacturers can be complacent. For most firms, NAFTA will require important adjustments, as it not only means adapting to the aggressive U.S. style of doing business but also to the characteristics of a developing country with lower costs, a growing population and a vastly different culture.

New Strategies

Many manufacturers have realized that if the Canadian apparel industry is to grow, it cannot rely exclusively on the domestic market but will have to develop markets abroad. They have concluded that they must reconsider their inward looking orientation and develop strategies for competing in foreign markets.

Successful apparel exporters have indicated that strategies for foreign markets should focus on product design, original fabrics, quality and timely response to differentiate Canadian goods from the competition.



TAKING ADVANTAGE OF NAFTA OPPORTUNITIES

Individual companies need to look at the facts to clearly determine how North American trade liberalization will affect their business. Prudent company directors will formulate a business plan to ensure that the business continues to grow while the opportunities provided by NAFTA are taken advantage of.

In assessing the impacts of the Agreement for your business, you should ask yourself the following questions:

- ▶ What effect will NAFTA tariff reductions have on my business?
- ▶ How might the changes to the rules of origin affect my products?
- ▶ Do the extended duty drawback provisions, and the improved standards, safeguards and investment provisions affect my business?
- ▶ How will NAFTA affect my customers, suppliers, and competitors?

You will want to assess how to adapt your business to the new environment under NAFTA. Some questions to be considered include:

- ▶ Which U.S. and Mexican markets have the best growth potential for my products?
- ▶ What are the best transportation, distribution and servicing arrangements for the new markets?
- ▶ Which of my products will face tougher competition domestically?
- ▶ Do I need to change my product line to take advantage of the NAFTA opportunities?
- ▶ Can new technologies or production processes reduce my costs?
- ▶ Can I take better advantage of NAFTA tariff preferences by using more North American inputs?
- ▶ What effect will expanding my market have on my cash flow, profit and loss account, and balance sheet?
- ▶ Are my human resource needs going to change?

Answering these questions will provide a good start on the type of information that you need to develop and implement a strategic plan of action in response to NAFTA's competitive environment. A full strategic plan is necessary for companies to compete successfully in today's open market system. If you need assistance in developing a strategic plan call your regional Industry Canada office or the sector contact listed at the end of this publication.



CONTACTS

For further information concerning the subject matter contained in this publication contact Industry Canada at:

Textiles, Apparel and Footwear

Tel.: (613) 954-2856

Fax: (613) 954-3107, or

NAFTA Information Desk

International Business Branch

Tel.: (613) 952-5010

Fax: (613) 952-0540

For information on NAFTA-related customs matters, advance rulings on origin status, country-of-origin marking, and tariff rates contact:

Revenue Canada — Customs, NAFTA Infoline:

(613) 941-0965 Fax: (613) 941-8138

Mexico Customs Service, NAFTA Hotline:

(011-525) 211-3545 Fax: (011-525) 224-3000

U.S. Customs Service, NAFTA Hotline:

(202) 927-0066 Fax: (202) 927-0097

For information on NAFTA-related export development programs and activities contact:

InfoEx

Foreign Affairs and International Trade Canada

Tel.: 1-800-267-8376 (Ottawa area: (613) 944-4000)

Fax: (613) 996-9709

To obtain product-specific reports on North American trade data contact:

Market Intelligence and Technology Opportunities Service

Industry Canada

Tel.: (613) 954-4970 Fax: (613) 954-2340

To obtain information on how to access government procurement opportunities in Canada, the United States and Mexico contact:

Open Bidding Info Line

Public Works, Government Services Canada

Tel.: (819) 956-3440

Open Bidding Registration

Tel.: 1-800-361-4637 (Ottawa area: (613) 737-3374)

OTHER PUBLICATIONS

The other sector-specific NAFTA publications in this series include:

- ▶ Chemicals
- ▶ Construction Materials
- ▶ Electrical Equipment
- ▶ Electronic Components
- ▶ Environmental Equipment and Services
- ▶ Fish and Fish Products
- ▶ Furniture
- ▶ Health Care Products
- ▶ Industrial Equipment
- ▶ Major Appliances
- ▶ Paper Products
- ▶ Plastics
- ▶ Primary Metals
- ▶ Resource Equipment
- ▶ Sporting and Recreational Equipment
- ▶ Telecommunications Equipment
- ▶ Textiles
- ▶ Urban Transit and Rail
- ▶ Wood and Wood Products

To order any of the above or additional copies of this publication contact:

NAFTA Information Desk
 Industry Canada
 Tel.: (613) 952-5010
 Fax: (613) 952-0540

The following publications provide additional information on the Agreement and guidance on exporting within the NAFTA trade area:

- ▶ *NAFTA: What's it all about?*
- ▶ *North American Free Trade Agreement*
- ▶ *Documents and Regulations for Exporting to Mexico*
- ▶ *Guide to Rules of Origin and Customs Procedures for Canadian Exporters to the U.S. Market*
- ▶ *Mexico: A Guide for Canadian Exporters*
- ▶ *Government Procurement in Mexico*

These are available from:

InfoEx
 Foreign Affairs and International Trade Canada
 Tel.: 1-800-267-8376 (Ottawa area: (613) 944-4000)
 Fax: (613) 996-9709

The Import Controls Division 1 (Textiles and Clothing), Export and Import Permits Bureau, Foreign Affairs and International Trade Canada has published the following:

- ▶ *Notice to Exporters — Administration of NAFTA Provisions Relating to Textiles and Apparel Goods*

Copies may be obtained by calling:

Tel.: (613) 996-3711 Fax: (613) 995-5137

For additional information on importing products to Canada and on other customs issues, the following publications are available:

- ▶ *Importing Goods Into Canada*
- ▶ *Trilateral Customs Guide to NAFTA*
- ▶ *NAFTA Rules of Origin — A Step by Step Guide*

These may be obtained from the regional offices of Revenue Canada — Customs or by contacting:

Revenue Canada — Customs

Tel.: (613) 941-0965 Fax: (613) 941-8138

The Canadian Apparel Federation has published the following booklet:

- ▶ *NAFTA Handbook — A Guide to the North American Free Trade Agreement for Canadian Clothing Manufacturers*

For a copy of this booklet contact the Canadian Apparel Federation at:

Tel.: (613) 231-3220 Fax: (613) 231-2305

The following publication provides reports on 36 manufacturing sectors and describes the new benefits and opportunities in Mexico and Canada for U.S. industries:

- ▶ *NAFTA Opportunities for U.S. Industries* (PB#94-100849)

The above publication or the individual sector reports may be ordered through:

U.S. Department of Commerce

Tel.: (703) 487-4650

ANNEX A

Short Supply Fabrics

For apparel not knitted or crocheted of the HS Customs Tariff Chapter 62:

- ▶ Velvetene weft pile fabrics, of HS Customs Tariff subheading 5801.23, containing 85 percent or more by weight of cotton;
- ▶ Cut corduroy fabrics, of HS Customs Tariff subheading 5801.22, containing 85 percent or more by weight of cotton and containing more than 7.5 wales per centimetre;
- ▶ Woven fabrics 85 percent or more by weight of carded wool or fine animal hair (of HS Customs Tariff subheading 5111.11 or 5111.19) if hand-woven, with a loom width of less than 76 cm, woven in the United Kingdom in accordance with the rules and regulations of the Harris Tweed Association, Ltd., and so certified by the Association;
- ▶ Woven fabrics of combed wool or fine animal hair (of HS Customs Tariff subheading 5112.30) weighing not more than 340 grams per square metre, containing wool, not less than 20 percent by weight of fine animal hair and not less than 15 percent by weight of man-made staple fibres;
- ▶ Woven batiste fabrics of polyester staple fibres, containing less than 85 percent by weight of such fibres mixed mainly or solely with cotton (of HS Customs Tariff subheading 5513.11 or 5513.21) of square construction, of single yarns exceeding 76 metric count, containing between 60 and 70 warp ends and filling picks per square centimetre, of a weight not exceeding 110 grams per square metre.

For men's or boys' shirts of cotton and man-made fibres (of HS Customs Tariff subheadings 6205.20 and 6205.30):

- ▶ Woven fabrics of cotton, 85 percent or more by weight of cotton, weighing not more than 200 grams per square metre (g/m^2), which may be bleached, piece dyed, yarn dyed or printed (of HS Customs Tariff subheading 5208.21, 5208.22, 5208.29, 5208.31, 5208.32, 5208.39, 5208.41, 5208.42, 5208.49, 5208.51, 5208.52 or 5208.59) of average yarn number exceeding 135 metric;
- ▶ Woven fabrics of polyester staple fibres, containing less than 85 percent by weight of such fibres, mixed mainly or solely with cotton (of HS Customs Tariff subheading 5513.11 or 5513.21) not of square construction, containing more than 70 warp ends and filling picks per square centimetre, of average yarn number exceeding 70 metric;
- ▶ Woven fabrics of cotton, containing less than 85 percent by weight of cotton, mixed mainly with man-made fibres, weighing not more than 200 g/m^2 , plain weave, bleached or dyed (of HS Customs Tariff subheading 5210.21 or 5210.31) not of square construction, containing more than 70 warp ends and filling picks per square centimetre, of average yarn number exceeding 70 metric;

- ▶ Woven fabrics of cotton, containing 85 percent or more by weight of cotton, plain weave, bleached or dyed, weighing more than 100 g/m² and not more than 200 g/m² (of tariff subheading 5208.22 or 5208.32) not of square construction, containing more than 75 warp ends and filling picks per square centimetre, of average yarn number exceeding 65 metric;
- ▶ Woven fabrics containing less than 85 percent by weight of synthetic filaments, mixed mainly or solely with cotton, which may be bleached or unbleached, piece dyed or yarn dyed (of HS Customs Tariff subheading 5407.81, 5407.82 or 5407.83) weighing less than 170 grams per square metre, having a dobby weave created by a dobby attachment;
- ▶ Woven fabrics of cotton, containing 85 percent or more by weight of cotton, yarn dyed, plain weave, weighing more than 100 g/m² and not more than 200 g/m² (of HS Customs Tariff subheading 5208.42 or 5208.49) other than plain weave or twill, not of square construction, containing more than 85 warp ends and filling picks per square centimetre, of average yarn number exceeding 85 metric;
- ▶ Woven fabrics, containing 85 percent or more by weight of cotton, weighing not more than 100 g/m², printed, plain weave (of HS Customs Tariff subheading 5208.51) of square construction, containing more than 75 warp ends and filling picks per square centimetre, made with single yarns, of average yarn number 95 or greater metric;
- ▶ Woven fabrics of cotton, containing 85 percent or more by weight of cotton, yarn dyed, plain weave, weighing not more than 100 g/m² (of HS Customs Tariff subheading 5208.41) of square construction, with a gingham pattern, containing more than 85 warp ends and filling picks per square centimetre, made with single yarns, of average yarn number 95 or greater metric, and characterized by a check effect produced by the variation in colour of the yarns in the warp and filling; or
- ▶ Woven fabrics of cotton, containing 85 percent or more by weight of cotton, yarn dyed, plain weave, weighing not more than 100 g/m² (of HS Customs Tariff subheading 5208.41) with the warp coloured with vegetable dyes, and the filling yarns white or coloured with vegetable dyes, of average yarn number greater than 65 metric.

For men's and boys' nightshirts and pyjamas (of HS Customs Tariff subheading 6107.21) and for women's and girls' briefs and panties (of HS Customs Tariff subheading 6108.21) or nightdresses and pyjamas (of HS Customs Tariff subheading 6108.31):

- ▶ Circular knitted fabric, solely of cotton yarns measuring less than 100 decitex per single yarn, i.e., exceeding 100 metric number per single yarn (of HS Customs Tariff item 6002.92.10).

ANNEX B***Apparel with Visible Linings***

1. For most apparel with visible linings in the main body of the garment (i.e., excluding sleeves), the linings must be manufactured from fabrics made in North America but the yarns may be imported without the loss of eligibility for full NAFTA access benefits. (Non-visible linings such as interlinings, insulation or detachable linings are not taken into account in establishing whether or not the rules of origin have been met.) This rule applies to the following garment categories:

Chapter 61— Knitted or Crocheted Apparel

- | | |
|---|--|
| 6101.10 – 6101.90
(excl. 6101.90) | Women's or girls', men's or boys' overcoats, car-coats, capes, cloaks, anoraks (incl. ski-jackets), wind-cheaters and similar articles, |
| 6102.10 – 6102.90
(excl. 6102.90) | knitted or crocheted, made of wool (or fine animal hair), cotton or man-made fibres. |
| 6103.11 – 6103.19
(excl. 6103.19.90) | Men's or boys' suits, knitted or crocheted, made of wool (or fine animal hair), cotton or man-made fibres. |
| 6103.21 – 6103.29
(certain components thereof) | Those components of men's or boys' ensembles described in heading 61.01 (coats, anoraks and wind-cheaters) or in subheadings 6103.31 – 6103.39 (jackets and blazers), knitted or crocheted, made of wool (or fine animal hair), cotton or man-made fibres. |
| 6103.31 – 6103.39
(excl. 6103.39.90) | Men's or boys' jackets and blazers, knitted or crocheted, made of wool (or fine animal hair), cotton or man-made fibres. |
| 6104.11 – 6104.19
(excl. 6104.19.90) | Women's or girls' suits, knitted or crocheted, made of wool (or fine animal hair), cotton or man-made fibres. |
| 6104.21 – 6104.27
(certain components thereof) | Those components of women's or girls' ensembles described in heading 61.02 (coats, anoraks and wind-cheaters), in subheadings 6104.31 – 6104.39 (jackets and blazers) or in subheadings 6104.51 – 6104.59 (skirts), knitted or crocheted, made of wool (or fine animal hair), cotton or man-made fibres. |
| 6104.31 – 6104.39
(excl. 6104.39.90) | Women's or girls' jackets and blazers, knitted or crocheted, made of wool (or fine animal hair), cotton or man-made fibres. |
| 6104.51 – 6104.59
(excl. 6104.59.90) | Women's or girls' skirts and divided skirts, knitted or crocheted, made of wool (or fine animal hair), cotton or man-made fibres. |

6112.20 Those components of ski-suits described in
(certain components heading 61.01, 61.02, 62.01 or 62.02 (ski-
thereof) jackets), made of wool (or fine animal hair),
cotton or man-made fibres.

Chapter 62 — Woven Apparel

6201.11 – 6201.99 Women's or girls', men's or boys' overcoats,
(excl. 6201.19 car-coats, capes, cloaks, anoraks (incl. ski-
and 6201.99) jackets), wind-cheaters, wind-jackets and
6202.11 – 6202.99 similar articles, woven, of wool (or fine
(excl. 6202.19 animal hair), cotton or man-made fibres.
and 6202.99)

6203.11 – 6203.19 Men's or boys' suits, woven, made of wool (or
(excl. 6203.11.90) fine animal hair), cotton or man-made fibres.

6203.21 – 6203.29 Those components of men's or boys' ensembles
(certain components described in heading 62.01 (coats, anoraks
thereof) and wind-cheaters) or in subheadings
6203.31 – 6203.39 (jackets and blazers),
woven, made of wool (or fine animal hair),
cotton or man-made fibres.

6203.31 – 6203.39 Men's or boys' jackets and blazers, woven,
(excl. 6203.39.90) made of wool (or fine animal hair), cotton
or man-made fibres.

6204.11 – 6204.19 Women's or girls' suits, woven, made of wool
(excl. 6204.19.90) (or fine animal hair), cotton or man-made fibres.

6204.21 – 6204.29 Those components of women's or girls'
(certain components ensembles described in heading 62.02 (coats,
thereof) anoraks and wind-cheaters) or in subheadings
6204.31 – 6204.39 (jackets and blazers) or
in subheadings 6204.51 – 6204.59 (skirts),
woven, made of wool (or fine animal hair),
cotton or man-made fibres.

6204.31 – 6204.39 Women's or girls' jackets and blazers, woven,
(excl. 6204.39.90) made of wool (or fine animal hair), cotton or
man-made fibres.

6204.51 – 6204.59 Women's or girls' skirts and divided skirts,
(excl. 6204.59.90) woven, made of wool (or fine animal hair),
cotton or man-made fibres.

6211.20 Those components of ski-suits described in
(certain components heading 61.01, 61.02, 62.01 or 62.02 (ski-
thereof) jackets), made of wool (or fine animal hair),
cotton or man-made fibres.

2. The following garment categories are not subject to the visible lining rule of origin:
 - ▶ Babies' garments (age 0 – 24 months) (or of a body height not exceeding 86 cm) of heading 61.11 or 62.09.
 - ▶ Raincoats and outer-jackets made of heavy coated fabrics of heading 59.03, 59.06 or 59.07 or of felt or nonwovens of heading 56.02 or 56.03.
 - ▶ Trousers, breeches, overalls, coveralls and shorts, including ski overalls and ski pants.
 - ▶ Suits, jackets, blazers, skirts and divided skirts, either presented separately or as a part of an ensemble, made of silk or of any vegetable fibre other than cotton (e.g., linen and ramie).
 - ▶ Coats, raincoats, anoraks, wind-cheaters, wind-jackets and similar articles, presented separately or as part of a ski-suit, made of silk or of any vegetable fibre other than cotton (e.g., linen and ramie).
 - ▶ Garments otherwise subjected to the visible lining requirement, if the lining material is an unbleached or bleached cotton or man-made fabric, which has received no further finishing.
 - ▶ Tailored waistcoats of heading 62.11
 - ▶ Women's and girls' dresses.

3. To supplement the rule of origin, eligible apparel categories with visible linings made from the following fabrics would qualify for full access benefits even if these fabrics are imported from non-NAFTA countries:
 - ▶ Woven silk fabric of heading 50.07.
 - ▶ Woven fabric of coarse animal hair or of horsehair (51.13).
 - ▶ Woven fabric of vegetable fibres other than cotton of headings 53.09 through 53.11 (incl. fabric of paper yarn).
 - ▶ Woven fabric of cuprammonium rayon ("Bemberg") of tariff item 5408.22.10, 5408.23.10 or 5408.24.10.
 - ▶ Knitted looped pile fabric of subheadings 6001.21 through 6001.29 and other pile knitted fabrics (e.g., terry fabric) other than "long pile fabrics," made of cotton of subheading 6001.91 or of other textile materials other than man-made fibres of subheading 6001.99.
 - ▶ Warp knitted fabrics of wool or fine animal hair of subheading 6002.41, of cotton of subheading 6002.42 or of other textile materials other than man-made fibres of subheading 6002.49.
 - ▶ Narrow knitted fabrics of subheadings 6002.10 through 6002.20.
 - ▶ Other knitted fabrics (other than long pile, warp or circular knits) of subheading 6002.30 (e.g., lace fabric).

ANNEX C

Tariff Preference Levels for Non-Originating Yarn and Fabric

TABLE 1
(Refer to Schedule 6.B.2 of NAFTA)

<i>Tariff Preference Level (TPL) for Non-Originating Cotton or Man-made Fibre, Woven or Knitted Fabrics and Made-Up Goods (in square metre equivalents)</i>						
Exports from:	Canada	U.S.	Canada	Mexico	U.S.	Mexico
to:	U.S.	Canada	Mexico	Canada	Mexico	U.S.
	65 000 000 ¹	2 000 000 ²	7 000 000	7 000 000	2 000 000	24 000 000 ³

¹ Includes annual sub-limit of 35 million SMEs for knitted fabrics and made-up articles, and annual sub-limit of 35 million SMEs for woven fabrics and made-up articles.

This TPL includes a 2 percent annual growth rate for five years, commencing January 1, 1995.

² This TPL is limited to goods of Chapter 60.

³ Includes annual sub-limit of 18 million SMEs for knitted fabrics and made-up articles and annual sub-limit of 6 million SMEs for woven fabrics and made-up articles.

Note: Wool woven fabrics (HS Customs Tariff Chapter 51) and other woven fabrics containing 36 percent or more by weight of wool are not covered by this TPL. Knitted fabrics containing wool fibres to any weight percentage DO have access.

This TPL applies to HS Customs Tariff chapters 52 through 55, 58, 60, 63 and subheading 9404.90 that meet the applicable conditions of the TPL and for preferred tariff treatment under the Agreement.

TABLE 2
(Refer to Schedule 6.B.3 of NAFTA)

<i>Tariff Preference Level (TPL) for Non-Originating Cotton or Man-made Fibre Spun Yarn (in kilograms)</i>						
Exports from:	Canada	U.S.	Canada	Mexico	U.S.	Mexico
to:	U.S.	Canada	Mexico	Canada	Mexico	U.S.
	10 700 000 ¹	1 000 000	1 000 000	1 000 000	1 000 000	1 000 000

¹ This TPL includes a 2 percent annual growth rate for five years, commencing January 1, 1995.

Note: This TPL applies to cotton or man-made fibre yarns provided for in HS Customs Tariff headings 52.05 through 52.07 and 55.09 through 55.11 that are spun in a Party from fibre of headings 52.01 through 52.03 or 55.01 through 55.07.

