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AND

THE
FURNITURE
SECTOR



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NAFTA AND THE FURNITURE SECTOR



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NAFTA AND THE CANADIAN FURNITURE 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 provides Canadian manufacturers of furniture products with continued preferential access to U.S. markets and new preferential access to Mexico. The Mexican demand for imported furniture products is expected to grow as Mexico's economy strengthens. This may provide new export opportunities for some Canadian firms.

To make the most of these opportunities, you should first understand how the Agreement affects you and your business operations. Second, you should assess your strategic business plans and determine whether and how your production and marketing practices might need to be altered as a result of NAFTA.

This booklet highlights key aspects of the Agreement for Canadian furniture manufacturers. 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 furniture market in North America and highlights potential new market opportunities in Mexico.

TARIFFS FOR FURNITURE

Under NAFTA, tariffs on furniture being traded between Canada, the United States and Mexico will be eliminated under the various tariff reduction phase-out categories established under the Agreement. Some tariffs were eliminated immediately on implementation of the Agreement on January 1, 1994, while other tariffs will be reduced over five and ten years being completely eliminated by January 1, 1998 or by January 1, 2003.

Canada- United States Tariffs

Trade between the United States and Canada will continue to be governed by the tariff phase-outs negotiated under the provisions of the Canada-United States Free Trade Agreement (FTA). These phase-out schedules are unaffected by NAFTA. Under the FTA, tariffs on all finished furniture were eliminated as of January 1, 1993.

Schedule of Phase-Outs

Annex A contains a product-specific listing of the Mexican and Canadian tariff elimination schedules for furniture. The applicable tariff phase-out stages for other products and inputs are listed in the country-specific NAFTA tariff schedules.

A review of the Canadian and Mexican tariff phase-outs for your products will assist you in assessing the potential impact of NAFTA on your company.

Mexican Phase-Outs

Mexican import tariffs on furniture ranged between 10 and 20 percent prior to NAFTA. Many of these were eliminated immediately on implementation of the Agreement on January 1, 1994. Included was the removal of tariffs on such items as:

- ▶ dentist and barber chairs;
- ▶ dental, medical and veterinary furniture;
- ▶ wooden desks and drawing tables;
- ▶ most metal office furniture; and
- ▶ dedicated furniture parts.

Mexico will eliminate tariffs on wooden kitchen furniture, a possible export interest to Canadian firms, by January 1, 1998.

Tariffs on other wooden and metal furniture will be eliminated by January 1, 2003.

**Canadian
Phase-Outs**

Under NAFTA, Canadian duties on virtually all finished furniture products of Mexican origin will be eliminated over a 10-year phase-out period. However, the 10-year NAFTA tariff phase-outs on some wooden and metal office furniture and their parts may be superseded by the tariff eliminations that are part of Canada's commitments to the recently concluded Uruguay Round negotiations of the General Agreement on Tariffs and Trade (GATT).

Finished furniture products with a five-year phase-out of Canadian import duties include some wooden kitchen furniture, seats and furniture of cane and bamboo, and church pews.

Canadian import tariffs for dedicated parts of furniture and seats were eliminated immediately on implementation of the Agreement on January 1, 1994.

**Treatment
of Jointly
Produced Goods**

NAFTA protects Canadian furniture companies from inappropriate reductions in Canadian tariffs applied to goods jointly produced in the United States and Mexico. Such goods will generally face higher rates of duty when entering Canada than goods that are wholly produced in Mexico. The applicable base tariff rates for jointly produced goods are shown in brackets in Annex A.

**Accelerated
Duty Elimination**

As with the FTA, there is an acceleration clause in NAFTA. Tariffs for furniture may be phased out faster than originally negotiated if the three countries agree to such action. If only two countries agree, acceleration takes place only between those two.

RULES OF ORIGIN FOR FURNITURE

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 a product qualifies as a good originating in North America. These rules ensure that NAFTA benefits are only available for goods substantively produced or transformed in North America.

Any goods produced in any or all of the three NAFTA countries, with components and materials that themselves are wholly sourced or manufactured in any of the three countries, qualify as originating goods entitled to preferential tariff treatment.

Goods using non-North American inputs must meet the requirements set out in the NAFTA rules of origin to be considered as “originating.”

The NAFTA rules of origin for furniture set out the following requirements:

- ▶ Each non-North American input must undergo sufficient transformation during production in one or more of the NAFTA countries to result in a specified change of tariff classification.
- ▶ When certain materials or parts of non-North American origin are used in the production of a good, the manufacturer may be required to meet a value-content test.

The specific rule of origin for each product sets out the required tariff classification change and indicates when a value-content test is required. The product-specific rules of origin applicable to most furniture are found in Annex B.

The NAFTA rules of origin build on the rules that were developed for the FTA. Canadian exporters will find the NAFTA rules clearer, more predictable and more flexible. The format for these rules is more detailed and user-friendly.

All furniture products that qualified for FTA treatment by meeting the “tariff change” specified in the FTA rule of origin will continue to qualify under the NAFTA rules. None of the product-specific rules has changed.

How NAFTA Rules Differ from the FTA Rules

However, NAFTA has introduced new provisions of general application that may assist some Canadian exporters of furniture products. Notable changes include:

- ▶ **Easier, more flexible methods to calculate regional value content.** Regional value content for most goods may now be calculated by means of either a “net-cost” method or a new “transaction-value” method. In addition to providing producers with greater flexibility, this corrects the ambiguities experienced with the regional value content formula under the FTA. Producers who choose to use the “transaction-value” method will be able to avoid the need to maintain the cost-accounting systems required under the FTA and the “net-cost” method. The methods of calculating regional value content are described in Annex C.
- ▶ **The introduction of a *de minimis* rule.** Under NAFTA, a good is determined to originate in North America if the value of non-North American materials that fail to meet the specific rule of origin is no more than 7 percent of the transaction value or total cost of the good. This provision will be of particular interest to exporters whose products incorporate limited amounts of non-North American inputs. It can enable goods that otherwise might not qualify to qualify, or it can eliminate the imposition of the value content requirement for such goods.

Producers of goods subject to a regional value content requirement should carefully examine the new NAFTA methods of calculation. This is particularly important for firms that either barely met or that failed to meet the FTA requirements.

If you export to the United States or Mexico, you should verify that your products qualify for NAFTA tariff preference. The following steps should assist your review.

- ▶ **Step 1.** If your good is manufactured in Canada using inputs wholly sourced or manufactured in North America it qualifies as “originating” and is entitled to preferential tariff treatment when exported to the United States or Mexico.
Exporters should be careful when determining whether their inputs are North American. Inputs purchased from North American suppliers are not necessarily North American, as they may have been produced or imported from non-North American sources.
- ▶ **Step 2.** If your good uses non-North American inputs, you must identify the tariff classification for the good and for any non-North American inputs. Should you have difficulties determining the tariff classification, contact the appropriate customs agencies identified in this booklet.

How to Use the Rules of Origin

- ▶ **Step 3.** Look up the specific rule of origin for your product in Annex B or in the NAFTA text. As the rules will make mention of tariff chapters, headings, subheadings and items, some understanding of the classification system is necessary. A tariff item has eight digits. The first two digits identify its chapter, the first four digits the heading and the first six digits the subheading of the good.
- ▶ **Step 4.** In most cases, a rule will indicate what changes in tariff classification must occur between each of the non-North American inputs and the finished good. It will read something like “a change to heading (XXXX) from any other heading.” In other words, as long as any non-North American input falls under a heading that is different than the heading for the finished good, the good would qualify.
- ▶ **Step 5.** Usually, if the rule precludes the use of certain non-North American inputs, there will be an alternative rule permitting such changes if a value-content test is met. It will read something like “a change to subheading (XXXXXX) from subheading (YYYYYY), provided there is a regional value content of not less than...” In these cases a producer must calculate the regional value content in accordance with one of the two methods specified in NAFTA. Annex C describes the two methods of calculating regional value content.

An Example

A Canadian producer of wooden office furniture uses imported locks from Taiwan, wood veneers from Brazil and metal furniture legs from the United Kingdom.

Since some non-North American inputs are used, the furniture does not automatically qualify as originating. The product-specific rule must be used.

The producer determines that wooden office furniture is classified under tariff subheading 9403.30. The non-North American parts fall under subheadings 8301.30, 4408.20 and 9403.90, respectively.

The rule of origin for subheading 9403.30 (i.e. wooden office furniture) requires “a change to subheadings 9403.10 through 9403.80 from any other chapter.” In this example, the furniture in question would not qualify under this part of the rule as the metal furniture legs are classified under the same chapter as the furniture (i.e. chapter 94).

The second part of the rule of origin for wooden office furniture permits “a change to subheading 9403.10 through 9403.80 from subheading 9403.90...provided there is a regional content of not less than 60 percent where the transaction-value method is used, or 50 percent where the net-cost method is used.” In this example, if the value of the North American content exceeded either of these figures, the furniture would qualify.

Under the *de minimis* provision, however, if the value of the metal furniture legs was no more than 7 percent of the value of the finished furniture, the good would automatically qualify and the value content requirement would not be triggered.

Additional Information

More detailed information on the NAFTA rules of origin is contained in the following publications:

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 Fax: (613) 941-8138.

While all firms exporting to the United States or Mexico should obtain copies of these publications, they will be particularly useful for firms whose products are subject to a value content requirement.

NAFTA CUSTOMS MATTERS

Classification and Origin Determination

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

- ▶ Advisory classifications 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 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.

Customs Administration

From experience gained in the Canada-United States Free Trade Agreement, governments learned the importance of precisely describing and agreeing upon various customs administration procedures.

NAFTA contains a number of provisions that address some of the difficulties experienced by governments, importers and exporters. These include the following:

- ▶ 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, and standardized certification requirements;
- ▶ broader rights of appeal of determinations of origin and advance rulings to allow appeals by both the exporter and importer within the NAFTA area; and
- ▶ 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.

COUNTRY OF ORIGIN MARKING REQUIREMENTS

The United States and Mexico both require that imports be marked to indicate to the purchaser the country of origin. Goods incorrectly marked can be held at the border. To provide greater clarity and certainty to exporters, NAFTA provides for uniform standards on how goods are to be marked.

Method of Marking

The country of origin of a good must be marked legibly and conspicuously and must be placed where it can be easily seen during normal handling.

Marking must be sufficiently permanent to remain in place unless deliberately removed. Acceptable marking methods include stampings, mouldings, stickers, labels, tags and paint.

Imports do not have to be marked with their country of origin when:

- ▶ the cost of marking would discourage importation;
- ▶ marking would materially impair the function of the good;
- ▶ marking would substantially detract from its appearance;
- ▶ the good is a crude substance; or
- ▶ the importer will substantively transform the good.

Country of Origin

NAFTA provides for very precise and detailed rules on how the country of origin of a good is to be determined. However, almost all goods manufactured in Canada that qualify for NAFTA tariff preference can be marked as originating in Canada.

Firms that only do minor processing, simple assembly or blending of imported inputs or those whose goods do not meet the NAFTA rule of origin should carefully check the marking rules of the country into which they are exporting. Their product may be able to be marked as a product of Canada, but in some cases it must be marked as a product of the country from which the inputs originate.

If there is doubt as to how to correctly mark a product, exporters can request an advance ruling from the importing country. A listing of the customs agencies is included in the contacts section of this publication.

WHAT ELSE YOU SHOULD KNOW

Temporary Entry for Business Purposes

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

Canadian manufacturers of furniture will be able to use NAFTA temporary entry provisions to facilitate travel necessary to promote the sales 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.

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.

Duty Drawback

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-United States 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.

After these dates, each country will still be able to adopt a partial duty-refund procedure for those goods that do not benefit from the preferential NAFTA tariff. This will avoid the payment of duties in two countries. The amount of duties waived or refunded under such programs cannot exceed the duties charged for the imported inputs or the duties charged on the finished good, whichever is less.

Safeguard Mechanism

As under the FTA, NAFTA establishes rules and procedures under which a country may take special “safeguard” actions to provide temporary relief to industries adversely affected by surges in volumes of imports.

If increased imports injure or threaten to seriously injure Canadian industry, Canada can suspend further tariff concessions or even “snap-back” the tariff to the pre-NAFTA rates of duty.

To maintain liberalized trade and avoid abuse, any country choosing to take a safeguard action must pay compensation, usually in the form of reduced duties for other goods being imported. The cost of taking safeguard actions can be considerable, and this remedy must be pursued with caution.

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.

Procurement

Under NAFTA there are greater opportunities for Canadian firms to sell to the Mexican and U.S. governments. Whereas the FTA procurement disciplines applied only to goods purchased by some government departments, NAFTA expands the scope of obligations to include services and construction, lowers the thresholds for competitive bidding, expands the coverage to include more U.S. departments and agencies, and includes Mexican government purchases.

Canadian firms continue to be eligible to supply furniture to many government departments, now including the previously closed U.S. departments of Energy and Transport and the Army Corps of Engineers. In addition, the “Buy America” provisions of the *Rural Electrification Act* have been removed.

Canadian companies gain access to major furniture markets through many Mexican government departments and agencies, including the giant state-owned telecommunications, oil and gas, and power utilities. Access will initially be subject to certain restrictions, which will be phased out over 10 years.

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 gain access to government procurement opportunities may be obtained from the Open Bidding Info Line listed in the contacts section of this publication.

Standards

NAFTA includes provisions to help prevent standards from becoming trade barriers. NAFTA promotes the use of compatible standards, technical regulations and conformity-assessment procedures. In time, this provision will reduce the burden of compliance with different standards for different countries.

To reduce exporters' costs, NAFTA encourages mutual acceptance of test results and certification procedures. Approved facilities will eventually be able to certify that a product meets the standards of all three countries. The Canadian Standards Association is now able to certify that certain products meet the more than 360 U.S. health and safety standards. Underwriters' Laboratories of Illinois has been granted approval to certify that products comply with Canadian standards.

NAFTA requires that the three countries seek to ensure that provincial, state and local governments, as well as non-government standard-setting bodies, comply with the provisions described. This clause was negotiated to help Canadian manufacturers who presently face a myriad of U.S. state regulations.

Notwithstanding these improvements, Canadian firms exporting to Mexico or the United States must still ensure that products meet the safety regulations, labelling requirements and other technical standards of the country into which they are being exported.

Intellectual Property Rights

Canadian producers rely on patent and trademark protection to safeguard innovative products, special manufacturing processes and internationally known names. NAFTA provides extensive protection for patents, trademarks and trade secrets. It is the first trade agreement to offer protection for trade secrets, which can include formulas, customer lists and production processes.

The Agreement also contains extensive provisions on intellectual property enforcement, including civil and administrative procedures, provisional remedies, criminal penalties and border enforcement mechanisms.

Further information may be obtained on intellectual property matters by calling the Intellectual Property Directorate, Industry Canada at (819) 997-1936.

Other NAFTA Provisions

The Agreement contains provisions on a variety of other issues including investment, the environment, competition policy, cultural industries and cross-border trade.

To obtain additional 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

Canadian Market

The Canadian furniture industry has a strong domestic focus, with sales in Canada accounting for about 70 percent of total sales. The industry comprises firms that produce household, office and other furniture. Over 45 percent of the total Canadian market is in household furniture while office furniture accounts for approximately 17 percent.

Canada- United States Trade

The United States has been the main export market for the Canadian furniture industry. Since the signing of the Canada-United States Free Trade Agreement (FTA), Canada has significantly increased its exports of certain furniture products to the United States. Canada's exports to the United States were valued at \$1.1 billion in 1992 or about 2 percent of the total U.S. market. Canadian producers, however, must compete against a larger U.S. industry that has been able to take advantage of economies of scale.

Tariff elimination resulting from the FTA and aggressive marketing by U.S. producers has led to a significant increase in Canadian imports of U.S. manufactured furniture and parts. U.S. exports to Canada accounted for about 20 percent of the total Canadian furniture market in 1992 and were valued at \$827 million. The main growth area for U.S. exports to Canada has been in the household furniture sector.

Canada-Mexico Trade

Trade in furniture products between Canada and Mexico has been minimal. Canada has lagged behind the United States, Europe and Asia in aggressively marketing its furniture products in Mexico to supply the growing demand for imported furniture.

Mexican consumers and retailers perceive that European products are of high quality, and that Asian products are generally priced lower and offer better financing terms. However, they are not familiar with Canadian products, and Mexican retailers have received little attention from Canadian producers or suppliers.

All furniture products entering Mexico have faced import duties of 10 percent to 20 percent.

Mexican exports to Canada have also faced duties of 8 percent to 10 percent, and furniture jointly produced in the United States and Mexico has faced duties of 15 percent. Although imports of Mexican furniture may increase once tariffs have been eliminated, the volume is unlikely to have a significant impact given the distances and transportation costs.

United States- Mexico Trade

Since Mexico liberalized its trade and tariff barriers in 1986, the United States has increased its exports to Mexico at a compound annual rate of 70 percent. U.S. firms benefit from their close proximity to the Mexican market as U.S. products now account for 75 percent of Mexican furniture imports. U.S. exports to Mexico are valued at just under \$300 million. Under NAFTA, these exports will continue to grow as tariff rates and transport regulations are eliminated. Mexico is the second most important export market for the United States after Canada, and Mexican consumers and retailers are already quite familiar with U.S. furniture products.

Although many Mexican furniture products have had duty-free access into the United States for many years, they have not made a significant impact on the U.S. market. Mexico, with exports to the United States of around \$400 million in 1992, has had less success than Canada in penetrating the U.S. furniture market. The majority of Mexican exports tend to use components made in the United States that are then assembled in Mexico.

Competitive Implications

NAFTA will provide a trade environment that will offer opportunities for exports of finished products, components and, in some cases, technology. The agreement guarantees preferential tariff treatment for all goods of Canadian, U.S. or Mexican origin that are traded between the three countries. The reduction or elimination of tariffs allows for an easier and a more economical access to a single market containing more than 360 million consumers.

The Mexican furniture market is quite small but is growing rapidly as a result of increased imports and new government policies. The Mexican government has established a joint program with private interests to make their furniture industry more competitive. As labour becomes more skilled, marketing becomes more sophisticated and foreign investment increases, the Mexican furniture sector will become more competitive.

Despite Mexico's abundance of labour at relatively low wages, production tends to be oriented toward the domestic market. The impact of increased Mexican competition in the furniture industry is expected to be insignificant to Canada.

New Mexican Market Opportunities

The Mexican furniture market is estimated to be around \$1 billion. As the Mexican economy strengthens and the market grows, opportunities for foreign furniture manufacturers are anticipated in a number of areas. Imports are expected to grow at a faster pace than domestic production, especially for wood and metal furniture. Although Mexican manufacturers have been trying to improve productivity, a lack of qualified labour, automation, standards and quality control will maintain the demand for imports.

The preferential NAFTA tariff rates and the reduction of other Mexican trade barriers may provide new market opportunities for Canadian furniture manufacturers. Canadian products already account for more than 50 percent of the office and medical furniture imports into the United States, demonstrating Canada's export strength in these areas. As the Mexican economy grows, these products will be required to furnish new office space or to upgrade existing corporate and institutional offices.

Canadian firms may become successful in other areas of the Mexican furniture market by participating in existing trade shows, actively marketing their goods to chain stores and buyers, working with Mexico-based distributors or representatives, and offering competitively priced, high-quality products to the consumer.

You may obtain information on planned trade fairs or missions and on the Mexican market by contacting InfoEx or the Industry Canada contacts listed at the end of this publication.

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:

Furniture, Household and Recreational Products Directorate

Tel.: (613) 954-2882

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, advanced rulings on classification, 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 or 993-6435)

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:

- ▶ Apparel
- ▶ Chemicals
- ▶ Construction Materials
- ▶ Electrical Equipment
- ▶ Electronic Components
- ▶ Environmental Equipment and Services
- ▶ Fish and Fish Products
- ▶ Health Care Products
- ▶ Industrial Equipment
- ▶ Major Appliances
- ▶ Paper Products
- ▶ Plastics
- ▶ Primary Metals
- ▶ Professional and Business Services
- ▶ 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*
- ▶ *Mexican Market Study on Home and Office Furniture*

These are available from:

InfoEx
 Foreign Affairs and International Trade Canada
 Tel.: 1-800-267-8376 (Ottawa area: (613) 993-6435)
 Fax: (613) 996-9709

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 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

Canada-Mexico NAFTA Tariff Phase-Outs

This annex lists the tariff phase-out stages for most furniture by tariff classification number. It contains a brief description of the products in each tariff subheading as well as the specific phase-out category and base rate of duty for each tariff item.

The information contained in this annex is to be used as a guide only. In the event of any discrepancy in information between this schedule and the official country-specific tariff schedule, the latter will prevail.

Tariff classifications are identical for all countries up to the "subheading level," as indicated by the first six digits of the classification of a good. At the eight digit or "tariff item" level, however, classifications often differ between Canada, Mexico and the United States. Consequently, it may be necessary to refer to each country's tariff schedule to find the product descriptions at the more detailed tariff item level.

The following provides a key to the various phase-out categories and other abbreviations used:

- A – tariff elimination occurred on implementation of the Agreement on January 1, 1994;
- B – tariff to be eliminated in five equal annual stages beginning January 1, 1994 and ending January 1, 1998;
- C – tariff to be eliminated in 10 equal annual stages beginning January 1, 1994 and ending January 1, 2003;
- D – the tariff is already zero or free;
- () – the bracketed tariff rate is to be applied when calculating the duty on goods that are "jointly produced" by Mexico and the United States, and are imported into Canada;
- nes – not elsewhere specified in the tariff schedule.

FURNITURE: CANADA-MEXICO TARIFF PHASE-OUT SCHEDULE

SUB-HEADING	DESCRIPTION	CANADA			MEXICO		
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING
9401.30	Swivel seats with variable height adjustment other than those of heading 94.02	9401.30.10	8 (12.6)	C	9401.30.01	15	C
		9401.30.90	10 (15)	C			
9401.40	Seats excluding garden seats or camping equipment, convertible into beds	9401.40.00	10 (15)	C	9401.40.01	15	C
9401.50	Seats of cane, osier, bamboo or similar materials	9401.50.00	10 (15)	B	9401.50.01	15	B
9401.61	Seats with wooden frames, upholstered nes	9401.61.00	10 (15)	C	9401.61.01	15	C
9401.69	Seats with wooden frames, nes	9401.69.10	4 (6)	B	9401.69.99	15	B
		9401.69.90	10 (15)	C			
9401.71	Seats with metal frames, upholstered nes, other than those of heading No. 94.02	9401.71.10	2.5	A	9401.71.01	15	C
		9401.71.90	8 (12.6)	C			
9401.79	Seats with metal frames, nes, other than those of heading No. 94.02	9401.79.00	8 (12.6)	C	9401.79.99	15	A
9401.80	Seats nes, other than those of heading No. 94.02	9401.80.00	10 (15)	C	9401.80.99	15	A
9401.90	Parts of seats other than those of heading No 94.02	9401.90.10	8	A	9401.90.01	10	A
		9401.90.20	25	A	9401.90.02	10	A
		9401.90.90	10	A	9401.90.99	15	A
9402.10	Dentists', barbers' or similar chairs and parts thereof	9402.10.10	Free	D	9402.10.01	20	A
		9402.10.90	8	A	9402.10.02	20	A
9402.90	Medical, surgical, dental or veterinary furniture and parts, nes	9402.90.10	Free	D	9402.90.01	15	A
		9402.90.90	6.5	A	9402.90.02	15	A
					9402.90.03	20	A
					9402.90.04	20	A
					9402.90.99	20	A
9403.10	Office furniture, metal, nes	9403.10.10	8	C	9403.10.01	20	A
		9403.10.90	8	C	9403.10.99	20	C
9403.20	Furniture, metal, nes	9403.20.00	8	C	9403.20.01	20	A
					9403.20.02	20	A
					9403.20.03	15	A
					9403.20.99	20	C
9403.30	Office furniture, wooden, nes	9403.30.10	10 (15)	C	9403.30.01	15	C
		9403.30.90	10 (16.1)	C			
9403.40	Kitchen furniture, wooden, nes	9403.40.00	10 (15)	B	9403.40.01	15	B
9403.50	Bedroom furniture, wooden, nes	9403.50.10	10 (15)	C	9403.50.01	15	C
		9403.50.90	10 (15.3)	C			
9403.60	Furniture, wooden, nes	9403.60.00	10 (15)	C	9403.60.01	20	A
					9403.60.02	20	A
					9403.60.99	15	C
9403.70	Furniture, plastic, nes	9403.70.00	10	C	9403.70.01	20	A
					9403.70.99	20	A
9403.80	Furniture of other materials, including cane, osier, bamboo or similar materials	9403.80.00	10 (15)	B	9403.80.01	20	B
9403.90	Furniture parts, nes	9403.90.10	8	A	9403.90.01	10	A
		9403.90.90	10	A			

Note: You are reminded that this document is to be used as a guide only.



ANNEX B

Rules of Origin for Furniture

- Chapter 94 **Furniture; Bedding, Mattresses, Mattress Supports, Cushions and Similar Stuffed Furnishings.**
- 9401.10-9401.80 A change to subheading 9401.10 through 9401.80 from any other chapter; or
- A change to subheading 9401.10 through 9401.80 from subheading 9401.90, whether or not there is also a change from any other chapter, provided there is a regional value content of not less than:
- (a) 60 percent where the transaction-value method is used, or
 - (b) 50 percent where the net-cost method is used.
- 9401.90 A change to subheading 9401.90 from any other heading.
- 94.02 A change to heading 94.02 from any other chapter.
- 9403.10-9403.80 A change to subheading 9403.10 through 9403.80 from any other chapter; or
- A change to subheading 9403.10 through 9403.80 from subheading 9403.90, whether or not there is also a change from any other chapter, provided there is a regional value content of not less than:
- (a) 60 percent where the transaction-value method is used, or
 - (b) 50 percent where the net-cost method is used.
- 9403.90 A change to subheading 9403.90 from any other heading.

ANNEX C

Calculating Regional Value Content

The rules of origin specify that certain goods must meet a regional value content requirement.

NAFTA provides two alternative methods that exporters can use to calculate the regional value content of their goods:

- ▶ the transaction-value method; and
- ▶ the net-cost method.

In most cases, exporters can choose either method.

If exporters select the transaction-value method and they are advised by Customs that the transaction value of the good (or the value of any material used to produce the good) is unacceptable or needs to be adjusted, they can choose to use the net-cost method.

However, if they select the net-cost method initially and the results are unfavourable, they cannot switch to the transaction-value method.

Transaction-Value Method

Under the transaction-value method, exporters have to subtract the value of any non-originating material (i.e. non-North American) used to produce the good from the actual price paid or payable for the good. In most cases, the value of non-originating material is the total amount it costs producers to purchase the material and get it to the production site.

Then, exporters have to divide the difference by the price, and convert the result to a percentage to get the regional value content or the RVC.

The formula is as follows:

$$\frac{\text{Transaction value} - \text{Value of non-originating materials}}{\text{Transaction value}} \times 100 = \text{RVC}$$

In most cases, if exporters use the transaction-value method, the specific rule of origin will require that the RVC for an originating good must be at least 60 percent.

Exporters cannot use the transaction-value method in the following circumstances:

- ▶ the good has no transaction value (e.g. barter);
- ▶ the transaction value of the good is not acceptable under the Customs Valuation Code (refer to brochure entitled *Value For Duty*, available at any Customs regional office); and
- ▶ the majority of the producer's sales are to related parties.

Exporters who are not sure whether they can use the transaction-value method should call a Revenue Canada — Customs regional office.

Net-Cost Method

Under the net-cost method, exporters have to subtract the value of non-originating materials used to produce the finished good from the net cost of the good. In most cases, the value of a non-originating material is the total amount it costs producers to purchase the material and get it to the production site.

Then, exporters have to divide the difference by the net cost, and convert the result to a percentage to get the RVC.

The net-cost formula is as follows:

$$\frac{\text{Net cost} - \text{Value of non-originating materials}}{\text{Net cost}} \times 100 = \text{RVC}$$

In most cases, if exporters use the net-cost method, the specific rule of origin will require that the RVC for an originating good must be at least 50 percent.

To determine the net cost of a good, begin with all the costs of producing the good, and then subtract any costs that are specifically excluded. Specifically excluded costs are costs for:

- ▶ sales promotion and marketing;
- ▶ after-sales service;
- ▶ royalties;
- ▶ shipping and packaging; and
- ▶ non-allowable interest.

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