NAFTA

AND

THE HEALTH CARE PRODUCTS SECTOR

ACCESS NORTH AMERICA
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Canada

NAFTA
AND THE HEALTH CARE PRODUCTS SECTOR

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NAFTA AND THE CANADIAN HEALTH CARE PRODUCTS 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 health care products with continued preferential access to U.S. markets and new preferential access to Mexico. The rapidly growing Mexican health care products market has increased on average 27 percent annually in the past few years providing Canadian firms with an excellent potential for new exports.

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 the Canadian health care products sector including manufacturers of medical equipment, furniture and supplies. 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 this equipment. It also provides an overview of the North American health care products market and highlights potential new market opportunities in Mexico.

Tariffs for Health Care Products

Under NAFTA, tariffs on health care products being traded between Canada, Mexico and the United States 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 for all health care products have already been reduced by at least 60 percent and all tariffs will be eliminated by January 1, 1998. However, some of the tariff phase-outs negotiated under the FTA, such as those on dressings and bandages, first aid kits, and contraceptive preparations, 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).

Schedule of Phase-Outs

Annex A contains a product-specific listing of the Mexican and Canadian tariff elimination schedules for most health care products. 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 health care products ranged between 10 and 20 percent prior to NAFTA. Almost three quarters of these were eliminated immediately on implementation of the Agreement on January 1, 1994. Included was the removal of tariffs on such items as dental, medical and veterinary furniture; blood grouping reagents; dental cements, other dental fillings and fittings, and artificial teeth; catgut; plaster; wheelchairs; contact lenses; spectacle frames and their parts; electro-diagnostic equipment; dental and ophthalmic instruments; mechano-therapy and testing apparatus; oxygen therapy and breathing apparatus; orthopaedic appliances; artificial joints and other artificial body parts; and apparatus based on the use of alpha, beta or gamma radiations. Many of these items are of export interest to Canadian companies.

By January 1, 1998, Mexico will have eliminated tariffs on catheters and all other medical and veterinary appliances and instruments.

Tariffs on the remaining health care products, such as sterile suture materials, first-aid kits, certain diagnostics and laboratory reagents, most dressings and bandages, and rubber gloves, will be eliminated in 10 equal annual reductions ending January 1, 2003.

Canadian Phase-Outs

Many health care products entered Canada duty-free prior to NAFTA. As of January 1, 1994, the Canadian tariffs on qualifying Mexican products such as blood grouping reagents, dental fillings and fittings, condoms, wheelchairs and their parts, lenses for spectacles and parts for spectacle frames were eliminated.

Canada was able to negotiate five- and ten-year tariff phase-outs on a few import sensitive items such as spectacle frames, spectacles, orthopaedic appliances, surgical gloves, and some composite diagnostic and laboratory reagents. Some of the 10-year tariff phase-outs negotiated under the FTA, such as those on dressings and bandages, first aid kits, and contraceptive preparations, 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).

Treatment of Jointly Produced Goods

NAFTA protects Canadian health care 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 health care products 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 Health Care Products

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 health care products 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 health care products are found in Annex B.

How NAFTA Rules Differ from the FTA Rules

NAFTA introduces a number of changes to the rules of origin for health care products, notably, the elimination of the value content requirement of the FTA for a number of medical devices (e.g. patient monitoring systems, electrocardiographs, defibrillators).

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.

In addition to the changes in the product-specific rules, NAFTA has introduced new provisions of general application that may assist some Canadian exporters of health care 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. It is important for medical equipment producers to keep in mind that the *de minimis* rule does not apply to non-North American printed circuit assemblies.

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.

How to Use the Rules of Origin

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.

- **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, except heading (YYYY)." The first number refers to the good, the second number to excluded inputs. As long as all non-North American inputs come from permitted headings or subheadings, the good qualifies.
- **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 heading (XXXX) from heading (YYYY) 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 motorized wheelchairs uses wheel rims from Japan and electric motors from Germany.

Since some non-North American inputs are used, these wheelchairs do not automatically qualify as originating. The product-specific rule must be used.

The producer determines that wheelchairs are classified under tariff heading 8713. The non-North American parts fall under headings 8714 and 8501, respectively.

The rule of origin for 8713 (i.e. wheelchairs) requires "a change to heading 8713 from any other heading, except from heading 8714." In this example, the wheelchairs in question would not qualify under this part of the rule because the wheel rims are classified under heading 8714.

The second part of the rule of origin for wheelchairs permits "a change to heading 8712 from heading 8714...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 exceeds either of these figures, the wheelchairs would qualify.

Under the *de minimis* provision, however, if the value of the wheel rims is no more than 7 percent of the value of the finished wheelchair, 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

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

Temporary Entry for Business Purposes

Canadian manufacturers of health care products 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.

Manufacturers of Canadian health care products now have new procurement opportunities in the United States. They have gained access to the purchasing requirements of the previously closed departments of Energy and Transport as well as the Army Corps of Engineers.

The Mexican government accounts for more than 70 percent of Mexican consumption of health care products. NAFTA opens several new procurement opportunities with the Mexican Social Security Institute, the nation's largest health care agency; with the Social Security and Services Institute for government workers; with PEMEX, the government-owned oil company; and with the armed forces, each of which runs its own hospitals.

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.

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

Canada's universal medicare system has helped support the development of an active health care products sector with very strong capabilities in certain product areas. In 1992, Canada exported almost $900 million worth of health care goods and services. Firms in this sector are high value-added producers and many are major users of high technology inputs.

In conjunction with a rigorous domestic regulatory regime, this sector has developed a tradition of producing first-class products. This will prove to be indispensable in expanding exports to Mexico, which is accustomed to North American health care standards.

Canada-United States Trade

Canada exports more health care products to the United States than to all other countries combined. Geography, similarities in health care practices and the existing Canada-United States Free Trade Agreement (FTA) underpin this trading relationship, which has shown steady growth since 1990.

Over the last few years, exports to the United States have increased for a wide variety of medical devices. Among the most significant of these have been electrocardiographs, other electrodiagnostic apparatus, catheters, breathing appliances and x-ray generators.

The adoption of a proposed national health care system in the United States represents a potential increase in demand for health care products. This may provide a major export benefit to Canadian health care product firms. As well, Canadian firms could have a significant competitive advantage in the medium to long term, given their experience in dealing with quasi-government health care institutions.

Canada-Mexico Trade

Trade in health care products between Canada and Mexico has been very small to date, with the combined trade in health care products between the two countries totalling about $5 million in 1992. With increasing Mexican demand and Canadian capabilities for supplying high quality products, there is strong potential for expansion over the medium to long term.

United States-Mexico Trade

The Mexican health care market is dominated by U.S.-made health care products. Nevertheless, the U.S. import share has decreased from 71 percent in 1989 to 59 percent in 1992, as the aggressive marketing strategies of German and Japanese manufacturers have led to greater market penetration. NAFTA may help to offset this downward trend. Proximity to markets, Mexican health care practitioners' familiarity with U.S. products and an immediate tariff elimination on many health care products are all cited as factors that may help the United States maintain its strong market share.

Medical Equipment Opportunities in Mexico

The Mexican market for medical equipment and supplies has increased very rapidly in the past few years, at an average annual rate of 27 percent. This can be attributed to a commitment in the Mexican government's 1989-94 National Development Plan to provide health services to a wider population and to liberalize trade.

In spite of rapid market growth over several years, much of the medical equipment used in Mexico is technologically outdated and needs to be replaced. Imports of medical equipment are expected to continue to grow as end users increasingly buy technologically advanced and sophisticated equipment. There is little production of sophisticated medical equipment in Mexico.

Public sector hospitals and health care facilities provide over 80 percent of Mexican health care services. The largest purchasers of medical equipment are the Ministry of Health (Secretaria de Salud-SS), the Mexican Social Institute (Instituto Mexicano del Seguro Social-IMSS) and a number of other Mexican Government decentralized agencies. Canadian firms that are accustomed to dealing with state or provincially administered hospitals should have an advantage, provided they can transfer this experience to the Mexican market.

When selling in Mexico, it is crucial that companies become familiar with local procedures. Firms are encouraged to visit Mexico and select a local agent or distributor familiar with methods of doing business in Mexico. Invariably, a local resident is required when selling to Mexican government health agencies.

The following products, which Canada produces, are seen as having good market potential in Mexico: ultrasound equipment, respiratory therapy equipment, electrocardiographic and electrosurgical equipment, laser equipment, resuscitation equipment, intravenous catheters, sutures, ophthalmological instruments, x-ray equipment and vascular access sets. Other products seen as having good market potential include incubators, anaesthesia and surgical needles, otorhinolaryngology units, blood transfusion equipment and surgical blades.

The most important competitive factors affecting medical equipment sales in Mexico are leading edge technology, quality, price, financing, availability of spare parts, technical support and servicing. Canadian manufacturers should consider joint ventures with local companies or the establishment of assembly facilities in Mexico to produce technically advanced equipment and products.

Personal Health Care Opportunities in Mexico

A market also exists in Mexico for personal health care products, primarily medicines made of natural products or vitamins, health care creams, oils and soaps, anti-infection liquids, bandages and cotton. The Mexican market for personal health care products is expected to grow at an annual rate of 20 percent over the next few years.

Naturally derived ingredients are valuable features when marketing these products in Mexico. For example, anti-oxidants, such as vitamin E, are becoming popular in facial treatments. In all health care products, quality as well as price play important roles in the purchasing decision.

Market penetration might best be accomplished through joint ventures with Mexican firms or the establishment of local manufacturing or assembly facilities. Maintaining close commercial contact with U.S. firms will benefit Canadian companies, both in expanding export opportunities to the United States and in piggy-backing onto U.S. marketing efforts in Mexico.

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 booklet contact Industry Canada at:

Health Care Products Directorate
Tel.: (613) 954-3077 Fax: (613) 952-4209, 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
- Furniture
- 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 Medical Equipment and Supplies*

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#-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 health care products 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.

Health Care Products
Canada-Mexico Tariff Phase-Out Schedule

SUB-HEADING	DESCRIPTION	CANADA			MEXICO		
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING
3005.10	Dressings and other articles having an adhesive layer	3005.10.10	6	C	3005.10.01	20	C
		3005.10.91	10 (17.5)	C	3005.10.02	10	A
		3005.10.99	21.7	C	3005.10.99	20	C
3005.90	Dressings and similar articles, impregnated or coated or packaged for medical use, nes	3005.90.10	6.5	C	3005.90.01	20	C
		3005.90.20	6	C	3005.90.02	20	C
		3005.90.30	10	C	3005.90.03	20	A
		3005.90.91	25	C	3005.90.99	20	C
		3005.90.92	17.5	C			
		3005.90.93	6.5	C			
		3005.90.99	22.5	C			
3006.10	Suture materials, sterile; laminaria, sterile; haemostatics, sterile, surgical or dental	3006.10.00	Free	D	3006.10.01	10	C
					3006.10.02	10	C
					3006.10.99	20	C
3006.20	Blood-grouping reagents	3006.20.10	Free	D	3006.20.01	15	A
		3006.20.20	6.5	A	3006.20.99	20	A
		3006.20.90	8	A			
3006.30	Opacifying preparations, x-ray; diagnostic reagents, designed for administering to patients	3006.30.10	8	C	3006.30.01	15	C
		3006.30.91	Free	D	3006.30.02	10	A
		3006.30.99	8	C	3006.30.99	20	C
3006.40	Dental cements and other dental fillings; bone reconstruction cements	3006.40.10	Free	D	3006.40.01	15	A
		3006.40.20	Free	A	3006.40.02	20	A
		3006.40.90	8	A	3006.40.03	10	A
					3006.40.99	20	A
3006.50	First-aid boxes and kits	3006.50.00	6.5	C	3006.50.01	20	C
3006.60	Contraceptive preparations based on hormones or spermicides	3006.60.00	6	C	3006.60.01	20	C
3822.00	Composite diagnostic or laboratory reagents, nes	3822.00.00	8	C	3822.00.01	15	C
					3822.00.02	15	C
					3822.00.03	15	C
					3822.00.04	15	C
					3822.00.05	15	C
4014.10	Hygienic or pharmaceutical articles of rubber etc. sheath contraceptives	4014.10.00	6.5	A	4014.10.01	15	C
4014.90	Hygienic or pharmaceutical articles of rubber etc., nes	4014.90.00	6.5 (10.3)	B	4014.90.01	20	A
					4014.90.02	20	A
					4014.90.03	10	C
					4014.90.04	10	C
					4014.90.99	20	C
4015.11	Gloves surgical of rubber	4015.11.00	16.5 (25)	C	4015.11.01	20	A
4206.10	Catgut	4206.10.00	Free	D	4206.10.01	15	A
6809.90	Articles of plaster or compositions based on plaster, nes	6809.90.10	Free	D	6809.90.01	20	A
		6809.90.90	6.5	A			
7015.10	Glasses for corrective spectacles, not optically worked glass	7015.10.10	Free	D	7015.10.01	15	A
		7015.10.90	6.5	A	7015.10.99	15	A

SUB-HEADING	DESCRIPTION	CANADA ITEM	CANADA RATE (%)	CANADA PHASING	MEXICO ITEM	MEXICO RATE (%)	MEXICO PHASING
8713.10	Wheelchairs not mechanically propelled	8713.10.00	Free	A	8713.10.01	15	A
8713.90	Wheelchairs, mechanically propelled	8713.90.00	Free	A	8713.90.99	10	A
8714.20	Wheelchair parts, nes	8714.20.00	Free	A	8714.20.01	10	A
9001.30	Contact lenses	9001.30.00	Free	D	9001.30.01	15	A
					9001.30.02	10	A
					9001.30.99	15	A
9001.40	Spectacle lenses of glass	9001.40.10	Free	D	9001.40.01	15	A
		9001.40.90	6.5	A	9001.40.02	15	A
					9001.40.99	15	A
9001.50	Spectacle lenses of other materials	9001.50.10	Free	D	9001.50.01	10	A
		9001.50.90	6.5	A	9001.50.99	15	A
9003.11	Frames and mountings for spectacles, goggles or the like, of plastic	9003.11.10	Free	D	9003.11.01	15	A
		9003.11.20	6	B			
9003.19	Frames and mountings for spectacles, goggles or the like, of other materials	9003.19.10	Free	D	9003.19.01	15	A
		9003.19.20	6	B			
9003.90	Parts for frames and mountings for spectacles, goggles or the like	9003.90.10	Free	D	9003.90.01	10	A
		9003.90.21	Free	D	9003.90.02	15	A
		9003.90.22	6	A			
9004.10	Sunglasses	9004.10.00	6.5 (10.2)	B	9004.10.01	15	A
9004.90	Spectacles, goggles and the like, corrective, protective or other, nes	9004.90.10	Free	D	9004.90.99	15	A
		9004.90.90	6.5 (10.2)	B			
9018.11	Electro-cardiographs	9018.11.10	Free	D	9018.11.01	10	A
		9018.11.91	Free	D	9018.11.02	15	C
		9018.11.99	Free	D	9018.11.99	15	C
9018.19	Electro-diagnostic apparatus, nes	9018.19.10	Free	D	9018.19.01	10	A
		9018.19.20	Free	D	9018.19.02	10	A
		9018.19.91	Free	D	9018.19.03	10	A
		9018.19.99	Free	D	9018.19.04	10	A
					9018.19.05	15	A
					9018.19.06	10	A
					9018.19.07	10	A
					9018.19.08	10	A
					9018.19.09	15	A
					9018.19.10	10	A
					9018.19.11	10	A
					9018.19.12	10	A
					9018.19.13	10	A
					9018.19.14	10	A
					9018.19.15	10	A
					9018.19.16	10	A
					9018.19.17	10	A
					9018.19.99	10	A
9018.20	Ultra-violet or infra-red ray apparatus	9018.20.00	Free	D	9018.20.01	10	A
9018.31	Syringes, with or without needles	9018.31.00	Free	D	9018.31.01	15	B
					9018.31.02	10	B
					9018.31.99	10	B

SUB-HEADING	DESCRIPTION	CANADA ITEM	CANADA RATE (%)	CANADA PHASING	MEXICO ITEM	MEXICO RATE (%)	MEXICO PHASING
9018.32	Tubular metal needles and needles for sutures	9018.32.00	Free	D	9018.32.01	15	A
					9018.32.02	10	B
					9018.32.99	15	B
9018.39	Needles, catheters, cannulae and the like, nes	9018.39.00	Free	D	9018.39.01	15	B
					9018.39.02	15	A
					9018.39.03	20	B
					9018.39.04	20	A
					9018.39.05	15	B
					9018.39.99	10	B
9018.41	Dental drill engines, whether or not combined on a single base with other equipment	9018.41.00	Free	D	9018.41.01	15	A
					9018.41.99	10	A
9018.49	Instruments and appliances, used in dental sciences, nes	9018.49.00	Free	D	9018.49.01	15	A
					9018.49.02	10	A
					9018.49.03	15	A
					9018.49.04	10	A
					9018.49.05	10	A
					9018.49.06	10	A
					9018.49.07	15	A
9018.50	Ophthalmic instruments and appliances, nes	9018.50.00	Free	D	9018.50.01	10	A
9018.90	Instruments and appliances used in medical or veterinary sciences, nes	9018.90.10	Free	D	9018.90.01	10	A
		9018.90.80	Free	D	9018.90.02	15	A
		9018.90.91	Free	D	9018.90.03	15	B
		9018.90.99	Free	D	9018.90.04	15	A
					9018.90.05	15	B
					9018.90.06	15	A
					9018.90.07	15	B
					9018.90.08	10	A
					9018.90.09	15	B
					9018.90.10	15	A
					9018.90.11	10	A
					9018.90.12	15	B
					9018.90.13	10	A
					9018.90.14	20	A
					9018.90.15	10	B
					9018.90.16	15	A
					9018.90.17	15	A
					9018.90.18	10	B
					9018.90.19	20	B
					9018.90.20	10	A
					9018.90.21	10	A
					9018.90.22	10	A
					9018.90.23	10	A
					9018.90.24	10	B
					9018.90.25	10	B
					9018.90.26	10	B
					9018.90.99	10	B
9019.10	Mechano-therapy appliances; massage appliances; psychological aptitude-testing apparatus	9019.10.10	2.5	A	9019.10.01	10	A
		9019.10.20	9	A	9019.10.02	15	A
					9019.10.03	10	A
					9019.10.99	10	A
9019.20	Oxygen therapy, artificial respiration or other therapeutic respiration apparatus	9019.20.00	Free	D	9019.20.01	10	A

SUB-HEADING	DESCRIPTION	CANADA ITEM	CANADA RATE (%)	CANADA PHASING	MEXICO ITEM	MEXICO RATE (%)	MEXICO PHASING
9020.00	Breathing appliances and gas masks, excluding protective masks having no mechanical parts, nes	9020.00.00	Free	D	9020.00.01 9020.00.02 9020.00.03 9020.00.04 9020.00.05 9020.00.99	10 15 10 10 15 10	A A A A A A
9021.11	Artificial joints	9021.11.00	Free	D	9021.11.01	10	A
9021.19	Orthopaedic or fracture appliances, nes	9021.19.10 9021.19.20 9021.19.30	6.5 10 Free	B B D	9021.19.01 9021.19.02 9021.19.03 9021.19.04 9021.19.05 9021.19.99	10 10 10 10 10 10	A A A A A A
9021.21	Artificial teeth	9021.21.00	Free	D	9021.21.01 9021.21.99	10 10	A A
9021.29	Dental fittings, nes	9021.29.10 9021.29.20	Free 6.5	D A	9021.29.99	10	A
9021.30	Artificial parts of the body, nes	9021.30.00	Free	D	9021.30.01 9021.30.02 9021.30.03 9021.30.04 9021.30.99	10 10 10 10 10	A A A A A
9021.40	Hearing aids, excluding parts and accessories	9021.40.00	Free	D	9021.40.01	10	A
9021.50	Pacemakers for stimulating heart muscles, excluding parts and accessories	9021.50.00	Free	D	9021.50.01	10	A
9021.90	Orthopaedic and other appliances, worn, carried or implanted in the body, nes	9021.90.00	Free	D	9021.90.01 9021.90.99	10 10	A A
9022.11	Apparatus based on the use of X-rays for medical, surgical, dental or veterinary uses	9022.11.00	Free	D	9022.11.01	10	C
9022.21	Apparatus based on the use of alpha beta or gamma radiations, for medical uses	9022.21.00	Free	D	9022.21.01 9022.21.99	10 10	A A
9022.30	X-ray tubes	9022.30.00	Free	D	9022.30.01	10	A
9022.90	Parts and accessories for apparatus based on the use of X-rays or other radiations	9022.90.10 9022.90.20 9022.90.90	Free Free Free	D D D	9022.90.01 9022.90.02 9022.90.03 9022.90.04 9022.90.05 9022.90.99	10 10 10 10 10 10	A A A A A A
9025.11	Thermometers, not combined with other instruments, liquid-filled	9025.11.10 9025.11.90	Free 2.5	D A	9025.11.01 9025.11.99	10 20	A A
9402.10	Dentists', barbers' or similar chairs and parts thereof	9402.10.10 9402.10.90	Free 8	D A	9402.10.01 9402.10.02	20 20	A A
9402.90	Medical, surgical, dental or veterinary furniture and parts, nes	9402.90.10 9402.90.90	Free 6.5	D A	9402.90.01 9402.90.02 9402.90.03 9402.90.04 9402.90.99	15 15 20 20 20	A A A A A

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

Annex B
Rules of Origin for Health Care Products

Chapter 30	**Pharmaceutical Products [including bandages and dressings]**
30.05	A change to subheading 3005.10 through 3005.90 from any other heading; or A change to subheading 3005.10 through 3005.90 from any other subheading within heading 30.05, whether or not there is also a change from any other heading, 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.
30.06	A change to subheading 3006.10 through 3006.60 from any other heading; or A change to subheading 3006.10 through 3006.60 from any other subheading within heading 30.06, whether or not there is also a change from any other heading, 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.
Chapter 38	**Miscellaneous Chemical Products**
38.09-38.23	A change to subheading 3809.10 through 3823.90 from any other chapter, except from Chapter 28 through 38; or A change to subheading 3809.10 through 3823.90 from any other subheading within Chapter 28 through 38, including another subheading within that group, 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.
Chapter 40	**Rubber and Articles Thereof**
40.13-40.15	A change to heading 40.13 through 40.15 from any other heading, except from heading 40.09 through 40.17.
Chapter 42	**Articles of Leather; Saddlery and Harness; Travel Goods, Handbags and Similar Containers; Articles of Animal Gut (Other Than Silk-Worm Gut)**
42.03-42.06	A change to heading 42.03 through 42.06 from any other chapter.

Chapter 68	**Articles of Stone, Plaster, Cement, Asbestos, Mica or Similar Materials**
68.01-68.11	A change to heading 68.01 through 68.11 from any other chapter.
Chapter 70	**Glass and Glassware**
70.10-70.20	A change to heading 70.10 through 70.20 from any other heading, except from heading 70.07 through 70.20.
Chapter 87	**Vehicles Other Than Railway or Tramway Rolling-Stock [including wheelchairs], and Parts and Accessories Thereof**
87.13	A change to heading 87.13 from any other heading, except from heading 87.14; or
	A change to heading 87.13 from heading 87.14, whether or not there is also a change from any other heading, 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.
Chapter 90	**Optical, Photographic, Cinematographic, Measuring, Checking, Precision, Medical or Surgical Instruments and Apparatus; Parts and Accessories Thereof**
9001.20-9001.90	A change to subheading 9001.20 through 9001.90 from any other heading.
9003.11-9003.19	A change to subheading 9003.11 through 9003.19 from any other heading; or
	A change to subheading 9003.11 through 9003.19 from subheading 9003.90, whether or not there is also a change from any other heading, 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.
9003.90	A change to subheading 9003.90 from any other heading.
90.04	A change to heading 90.04 from any other chapter; or
	A change to heading 90.04 from any other heading within Chapter 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.
9018.11	
9018.11.aa	A change to Canadian tariff item 9018.11.10, U.S. tariff item 9018.11.00A or Mexican tariff item 9018.11.01 from any other tariff item, except from Canadian tariff item 9018.11.91, U.S tariff item 9018.11.00B or Mexican tariff item 9018.11.02.

9018.11	A change to subheading 9018.11 from any other heading.
9018.19	
9018.19.aa	A change to Canadian tariff item 9018.19.10, U.S. tariff item 9018.19.80A or Mexican tariff item 9018.19.16 from any other tariff item, except from Canadian tariff item 9018.19.91, U.S tariff item 9018.19.80B or Mexican tariff item 9018.19.17.
9018.19	A change to subheading 9018.19 from any other heading.
9018.20-9018.50	A change to subheading 9018.20 through 9018.50 from any other heading.
9018.90	
9018.90.aa	A change to Canadian tariff item 9018.90.10, U.S. tariff item 9018.90.70A or Mexican tariff item 9018.90.25 from any other tariff item, except from Canadian tariff item 9018.90.91, U.S tariff item 9018.90.70B or Mexican tariff item 9018.90.26.
9018.90	A change to subheading 9018.90 from any other heading.
90.19-90.21	A change to heading 90.19 through 90.21 from any heading outside that group.
9022.11	A change to subheading 9022.11 from any other subheading, except from Canadian tariff item 9022.90.10, U.S. tariff item 9022.90.90A or Mexican tariff item 9022.90.04.
9022.19	A change to subheading 9022.19 from any other subheading, except from subheading 9022.30 or Canadian tariff item 9022.90.10, U.S. tariff item 9022.90.90A or Mexican tariff item 9022.90.04.
9022.21	A change to subheading 9022.21 from any other subheading, except from Canadian tariff item 9022.90.20, U.S. tariff item 9022.90.90B or Mexican tariff item 9022.90.05.
9022.29-9022.30	A change to subheading 9022.29 through 9022.30 from any other heading; or A change to subheading 9022.29 through 9022.30 from subheading 9022.90, whether or not there is also a change from any other heading, 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.
9022.90	
9022.90.aa	A change to Canadian tariff item 9022.90.10, U.S. tariff item 9022.90.90A or Mexican tariff item 9022.90.04 from any other tariff item.

9022.90	A change to subheading 9022.90 from any other heading; or No required change in tariff classification to subheading 9022.90, 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.
9025.11-9025.80	A change to subheading 9025.11 through 9025.80 from any other heading; or A change to subheading 9025.11 through 9025.80 from subheading 9025.90, whether or not there is also a change from any other heading, 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.
Chapter 94	**Furniture**
94.02	A change to heading 94.02 from any other chapter.

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 packing; and
- non-allowable interest.

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