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NAFTA

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THE
PRIMARY METALS
SECTOR

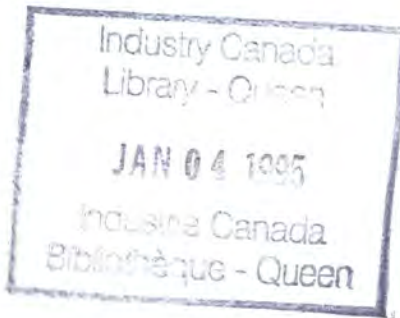


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NAFTA

AND THE PRIMARY METALS SECTOR



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NAFTA AND THE CANADIAN PRIMARY METALS 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 metal products with continued preferential access to U.S. markets and new preferential access to Mexico. The Mexican market for both primary and semi-fabricated metal products is expected to increase significantly. This may provide new opportunities for aggressive 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 the Canadian primary metals sector including manufacturers of some fabricated metal products. 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 metal products market in North America and highlights potential new market opportunities in Mexico.

TARIFFS FOR PRIMARY METAL PRODUCTS

Under NAFTA, tariffs on qualifying primary metal products being traded between Canada and Mexico will be eliminated under the various tariff phase-out categories established under the Agreement. Some tariffs were eliminated on January 1, 1994, on implementation of the Agreement, while others 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 most primary metal products have already been reduced by at least 60 percent and all tariffs will be eliminated by January 1, 1998.

Schedule of Phase-Outs

Annex A contains a product-specific listing of the Mexican and Canadian tariff elimination schedules for most primary metal products. The applicable tariff phase-out stages for other products 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

Most Mexican import tariffs on ferrous primary metal products will be eliminated over the 10-year phase-out period as Mexico considered this sector to be sensitive to competition from U.S. and Canadian suppliers. Mexico, however, did immediately eliminate tariffs on a few items that may be of export interest to Canadian firms such as the following:

- ▶ hollow drill bars and rods of alloy or non-alloy steel; and
- ▶ stainless steel, seamless, cold-drawn or cold-rolled tubes, pipes and hollow profiles.

For most non-ferrous primary metal products, Mexican import tariffs will be eliminated by January 1, 1998. On implementation of the Agreement, January 1, 1994, Mexico did eliminate tariffs on a number of items of potential interest to Canadian firms, including the following:

- ▶ unwrought or semi-manufactured silver, gold, platinum;
- ▶ unwrought copper billets;
- ▶ unwrought copper-zinc base alloys, copper-nickel base alloys and copper-nickel-zinc base alloys;
- ▶ master alloys of copper;
- ▶ cobalt mattes and other intermediate cobalt products; and
- ▶ cadmium and cadmium articles.

Of potential interest to Canadian firms are the following non-ferrous products that will be duty free into Mexico on January 1, 1998:

- ▶ unrefined copper, copper anodes for electrolytic refining;
- ▶ certain unwrought refined copper alloys;
- ▶ copper cathodes, wire bars and other unwrought refined copper products;
- ▶ unwrought lead; and
- ▶ unwrought zinc.

Canadian Phase-Outs

Canadian tariffs on most Mexican ferrous primary metal products will also be eliminated over a 10-year phase-out schedule, for the most part matching Mexican tariff elimination.

Canada provided duty-free entry for a considerable number of non-ferrous primary metal products prior to NAFTA. As of January 1, 1994, most remaining Canadian import duties on qualifying Mexican non-ferrous products were eliminated. Virtually all non-ferrous primary metal product tariffs will be eliminated by January 1, 1998.

Treatment of Jointly Produced Goods

NAFTA protects Canadian manufacturers of primary metals 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 primary metals 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 PRIMARY METAL 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 primary metal 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 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 primary metal products 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.

Most primary metal 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. However, a number of changes in some of the product-specific rules involve more restrictions on products such as copper tubes and pipes and fewer restrictions on products such as certain stainless steel tubing, certain refined copper products, and certain lead products.

How NAFTA Rules Differ from the FTA Rules

NAFTA has also introduced new provisions of general application that may assist some Canadian exporters. 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, 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 copper cathodes uses copper anodes imported from Chile.

Since non-North American inputs are used, the copper master alloys do not automatically qualify as “originating.” The product-specific rule must be used.

The producer determines that copper cathodes are classified under tariff heading 7403. The non-North American materials (i.e. copper anodes) fall under heading 7402.

The rule of origin for heading 7403 (i.e. copper cathodes) requires “a change to heading 7403 from any other chapter.” In this example, the copper cathodes in question would not qualify, as the non-North American input (i.e. copper anodes) is classified under heading 7402, which is the same chapter (i.e. chapter 74).

The second part of the rule of origin for copper cathodes permits “a change to heading 7403 from heading 7401 or 7402...provided there is a regional value 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 copper cathodes would qualify.

**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 to 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 metal products industry, they nonetheless affect the overall North American trading environment and are of interest to companies participating in it.

Canadian manufacturers of metal 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.

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.

Intellectual Property Rights

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.

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 metals producing industry comprises approximately 500 companies employing approximately 75,000 people. Canadian production stands at about \$21 billion dollars. Approximately 80 percent (\$17 billion) is exported, largely (69 percent) to the United States.

Canada is one of the world's leading metal producers, ranking among the top five in the world as a producer of such minerals as nickel, zinc, copper, lead, gold, and silver. Most metals are exported in their primary forms for further processing elsewhere. The semi-fabricated metal products component of the Canadian industry has historically focused on the domestic market. Exports in this area, however, are now increasing somewhat.

Canada- United States Trade

Trade between Canada and the United States is large and very significant. In 1992, Canadian exports to the United States totalled \$9.3 billion and imports from the United States stood at \$3.7 billion. In 1992, steel trade accounted for about one third of these exports and 60 percent of the imports. Trade in metals is highest in ores and concentrates and in refined metals in unwrought or cathode form.

NAFTA is unlikely to have a significant impact on Canada-United States trade, though it is possible that Canadian exports might increase to offset increased U.S. exports to Mexico.

United States- Mexico Trade

Mexico's metals industry has historically operated behind significant tariff and non-tariff barriers and has focused primarily on supplying the needs of its domestic market.

The Mexican government has sought to develop the sector through privatization, fiscal incentives and changes to its foreign investment regulations. This, coupled with other market reforms, has had a significant impact on the sector.

Mexico's imports of metals have increased significantly, with the United States being its largest supplier. Trade is expected to increase as a result of NAFTA.

Canada-Mexico Trade

Trade between Canada and Mexico is very small. In 1992, Canadian exports to Mexico totalled \$95 million and imports from Mexico stood at a mere \$23 million.

Competitive Implications of NAFTA

New Mexican Market Opportunities

The direct impact of increased Mexican competition on the Canadian domestic market is expected to be minimal. Mexico's metal industry is still relatively inefficient and will have to restructure significantly in order to compete internationally.

For many years, the Mexican market was highly regulated and largely closed to outside competition. Trade reforms and other economic policies have transformed that aspect of the Mexican market. NAFTA now eliminates most of the remaining impediments to Canadian exports.

Potential export opportunities in the Mexican market include such products as steel rails, tubular goods and line pipe for the oil industry, flat-rolled steel and galvanized flat-rolled steel.

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:

Metals and Minerals Directorate

Tel.: (613) 954-3135

Fax: (613) 954-3079, 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 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
- ▶ Health Care Products
- ▶ Industrial Equipment
- ▶ Major Appliances
- ▶ Paper Products
- ▶ Plastics
- ▶ 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 Iron and Steel Industry*

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 primary metal products and some fabricated metal products of interest to Canadian firms by their 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” between Mexico and the United States, and are imported into Canada;
- nes – not elsewhere specified in the tariff schedule.

PRIMARY METALS

CANADA-MEXICO TARIFF PHASE-OUT SCHEDULE

SUB- HEADING	DESCRIPTION	CANADA			MEXICO		
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING
7106.91	Silver in unwrought forms	7106.91.10	Free	D	7106.91.01	15	A
		7106.91.20	6.5	A			
7108.12	Gold in unwrought forms, non-monetary	7108.12.00	Free	D	7108.12.01	20	A
7110.11	Platinum, unwrought or in powder form	7110.11.00	Free	D	7110.11.01	10	A
7202.19	Ferro-manganese, nes	7202.19.10	Free	A	7202.19.01	10	C
		7202.19.20	Free	A	7202.19.02	10	C
					7202.19.99	10	C
7202.30	Ferro-silico-manganese	7202.30.00	Free	A	7202.30.01	10	C
7208.14	Flat-rolled products, iron/non-alloy steel coil, hot-rolled, 600 mm or more wide, <3 mm thick, minimum yield point 275 MPa	7208.14.00	6.8	C	7208.14.01	10	C
7208.23	Flat-rolled prod. iron/non-alloy steel coil, hot-rolled, 600 mm or more wide, thickness 3 mm or more <4.75 mm, nes	7208.23.00	6.8	C	7208.23.01	10	C
7208.24	Flat-rolled prod., iron/non-alloy steel in coil, hot-rolled, 600 mm or more wide, less than 3 mm thick, nes	7208.24.00	6.8	C	7208.24.01	10	C
7208.32	Flat-rolled prod., iron/non-alloy steel, not in coils, hot-rolled, 600 mm wide or more, >10 mm thick, minimum yield point 355 MPa	7208.32.00	6.8	C	7208.32.01	10	C
7208.42	Flat-rolled prod., iron/non-alloy steel, not in coils, hot-rolled, 600 mm or more wide, >10 mm thick, nes	7208.42.00	6.8	C	7208.42.01	10	C
7208.43	Flat-rolled prod., iron/non-alloy steel, not in coils, hot-rolled, 600 mm or more wide, 4.75 mm or more thick; less than 10 mm, nes	7208.43.00	6.8	C	7208.43.01	10	C
7208.90	Flat-rolled prod., iron/non-alloy steel not further worked than hot-rolled, nes	7208.90.00	9.8	C	7208.90.99	10	C
7209.12	Flat-rolled prod., iron/non-alloy steel, in coil, cold-rolled, 600 mm or more wide, >1 mm thick and <3 mm, minimum yield point 275 MPa	7209.12.00	8	C	7209.12.01	10	C
7209.22	Flat-rolled prod., iron/non-alloy steel, in coil, cold-rolled 600 mm wide or more, >1 mm thick and <3 mm, nes	7209.22.00	8	C	7209.22.01	10	C

SUB- HEADING	DESCRIPTION	CANADA			MEXICO		
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING
7209.23	Flat-rolled prod., iron/non-alloy steel, in coil, cold-rolled, 600 mm wide or more, 0.5 mm or more thick <1 mm, nes	7209.23.00	8	C	7209.23.01	10	C
7210.12	Flat-rolled prod., iron/non-alloy steel, plated or coated with tin, 600 mm wide or more, <0.5 mm thick	7210.12.00	8	C	7210.12.01	Free	D
7210.39	Flat-rolled prod., iron/non-alloy steel, electro plated or coated with zinc, 600 mm wide or more, nes	7210.39.00	8	C	7210.39.01	15	C
					7210.39.99	10	C
7210.49	Flat-rolled prod., iron/non-alloy steel, plated or coated with zinc, 600 mm or more wide, nes	7210.49.00	8	C	7210.49.01	15	C
					7210.49.99	10	C
7210.50	Flat-rolled prod., iron/non-alloy steel, plated or coated with chromium oxides or chromium and chromium oxides, 600 mm or more	7210.50.00	7.5	C	7210.50.01	Free	D
					7210.50.99	10	C
7210.70	Flat-rolled prod., iron/non-alloy steel, painted, varnished or plastic coated, 600 mm or more wide	7210.70.00	7.7	C	7210.70.01	15	C
					7210.70.99	10	C
7210.90	Flat-rolled prod., iron/non-alloy steel, clad, plated or coated, 600 mm or more wide, nes	7210.90.00	7.7	C	7210.90.01	10	C
					7210.90.99	10	C
7211.21	Flat-rolled prod., iron/non-alloy steel, hot-rolled, rolled on 4 faces, >150 mm wide <600 mm, >4 mm thick, nes	7211.21.00	6.8	C	7211.21.01	10	C
					7211.21.99	10	C
7211.29	Flat-rolled prod., iron/non-alloy steel, hot-rolled, <600 mm wide, nes	7211.29.00	6.8	C	7211.29.01	10	C
					7211.29.02	10	C
					7211.29.03	10	C
					7211.29.99	10	C
7211.41	Flat-rolled prod., iron/non-alloy steel, cold rolled, <600 mm wide containing by weight less than 0.25% carbon	7211.41.00	7.5	C	7211.41.01	10	C
					7211.41.02	10	C
					7211.41.03	10	C
					7211.41.99	10	C
7212.30	Flat-rolled prod., iron/non-alloy steel, <600 mm wide, otherwise plated or coated with zinc	7212.30.00	8	C	7212.30.01	10	C
					7212.30.02	15	C
					7212.30.99	10	C
7214.40	Bars and rods, iron/non-alloy steel, hot-rolled, drawn or extruded containing by weight <0.25% carbon, nes	7214.40.00	6.8	C	7214.40.01	10	C
7216.10	Sections, U, I or H, iron/non-alloy steel, not further worked than hot-rolled, hot-drawn or extruded, height <80 mm	7216.10.00	6.8	C	7216.10.01	10	C
7216.50	Angles, shapes and sections, iron/non-alloy steel, not further worked than hot-rolled, hot-drawn, or extruded, height 80 mm or more	7216.50.00	6.8	C	7216.50.01	10	C
					7216.50.99	10	C

SUB- HEADING	DESCRIPTION	CANADA			MEXICO		
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING
7217.11	Wire, iron/non-alloy steel, polished or not, but not plated or coated, containing by weight <0.25% carbon	7217.11.00	5.7	C	7217.11.01	10	C
					7217.11.02	10	C
7217.31	Wire, iron/non-alloy steel, polished or not, but not plated or coated, containing by weight 0.6% or more carbon	7217.31.00	5.7	C	7217.31.01	10	C
					7217.31.02	10	C
7224.90	Semi-finished products of alloy steel other than stainless	7224.90.10	4	C	7224.90.01	10	A
		7224.90.90	6.5	C	7224.90.02	10	C
					7224.90.03	10	C
					7224.90.04	10	C
					7224.90.99	10	C
7225.50	Flat-rolled prod., alloy steel, other than stainless, not further worked than cold rolled, 600 mm or more wide, nes	7225.50.10	12.5	C	7225.50.01	10	C
		7225.50.20	10	C			
7228.30	Bars and rods, alloy steel, other than stainless, not further worked than hot-rolled, hot-drawn, or extruded, nes	7228.30.00	10	C	7228.30.01	10	C
					7228.30.99	10	C
7228.80	Bars and rods, hollow drill, alloy or non-alloy steel	7228.80.10	10	B	7228.80.01	10	A
		7228.80.90	12.5	B	7228.80.02	10	A
					7228.80.99	10	A
7304.20	Casings, tubing and drill pipe, iron or steel, seamless, for use in drilling for oil or gas	7304.20.10	Free	D	7304.20.01	15	C
		7304.20.90	6.8	C	7304.20.02	10	C
					7304.20.03	15	C
					7304.20.04	10	C
					7304.20.05	10	C
					7304.20.99	15	C
7304.31	Tubes, pipe and hollow profiles, iron or non-alloy steel, seamless, cold-drawn or cold-rolled of circular cross-section, nes	7304.31.00	4	C	7304.31.01	15	C
					7304.31.02	10	C
					7304.31.03	10	C
					7304.31.04	15	A
					7304.31.05	15	A
					7304.31.06	10	C
					7304.31.07	10	A
					7304.31.08	10	C
					7304.31.09	10	C
					7304.31.99	15	C
7304.39	Tubes, pipe and hollow profiles, iron or non-alloy steel, seamless, of circular cross-section, nes	7304.39.00	10.2	C	7304.39.01	10	A
					7304.39.02	10	A
					7304.39.03	15	A
					7304.39.04	15	C
					7304.39.05	10	C
					7304.39.99	15	C
7304.41	Tubes, pipe and hollow profiles, stainless steel, seamless, cold-drawn or cold-rolled of circular cross-section, nes	7304.41.10	4.5	B	7304.41.01	15	A
		7304.41.90	4.5	B	7304.41.02	10	A
					7304.41.04	10	A
					7304.41.99	10	A
7304.59	Tubes, pipe and hollow profiles, alloy steel (other than stainless), seamless, circular cross-section, nes	7304.59.00	12.2	C	7304.59.01	15	C
					7304.59.02	10	C
					7304.59.99	15	C
7304.90	Tubes, pipe and hollow profiles, iron or steel, seamless, nes	7304.90.11	4	C	7304.90.99	15	C
		7304.90.12	4.5	C			
		7304.90.90	12.2	C			

SUB- HEADING	DESCRIPTION	CANADA			MEXICO		
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING
7305.31	Tubes and pipe, iron or steel longitudinally welded, external diameter >406.4 mm, nes	7305.31.10	10.2	C	7305.31.01	15	C
		7305.31.20	12.2	C	7305.31.02	10	A
					7305.31.03	15	C
					7305.31.04	15	C
					7305.31.05	10	A
					7305.31.06	10	C
					7305.31.99	15	C
7306.10	Pipe, line, iron or steel, welded, riveted or similarly closed, nes, for oil or gas pipeline	7306.10.10	9.2	C	7306.10.01	15	C
		7306.10.21	10.2	C			
		7306.10.22	12.2	C			
7306.30	Tubes, pipe and hollow profiles, iron or non-alloy steel, welded, of circular cross-section, nes	7306.30.00	10.2	C	7306.30.01	15	C
					7306.30.02	15	C
					7306.30.03	15	C
					7306.30.99	15	C
7306.40	Tubes, pipe and hollow profiles, stainless steel, welded, of circular cross-section, nes	7306.40.00	12.2	C	7306.40.01	15	C
7312.10	Stranded wire, ropes and cables of iron or steel, not electrically insulated	7312.10.10	Free	A	7312.10.01	15	C
		7312.10.20	8	C	7312.10.02	10	C
		7312.10.31	Free	D	7312.10.03	10	A
		7312.10.39	6 (9.2)	C	7312.10.04	Free	D
		7312.10.40	Free	D	7312.10.05	15	C
		7312.10.90	9.2	C	7312.10.99	10	C
7312.90	Plaited bands, slings and the like of iron or steel, not electrically insulated	7312.90.00	6.5	A	7312.90.01	10	C
7317.00	Nails, staples and similar articles, of iron or steel, excluding articles of heading No. 83.05 and articles with copper heads	7317.00.10	0.9c/kg	C	7317.00.01	15	C
		7317.00.20	1.76c/kg	C	7317.00.02	10	C
		7317.00.90	10.2	C	7317.00.03	10	C
					7317.00.04	10	C
					7317.00.99	15	C
7318.15	Bolts or screws, nes, with or without their nuts or washers, of iron or steel	7318.15.00	6.5	C	7318.15.01	10	A
					7318.15.02	10	C
					7318.15.99	15	C
7318.16	Nuts, iron or steel, nes	7318.16.00	6.5	C	7318.16.01	10	A
					7318.16.03	15	C
					7318.16.99	15	C
7318.19	Threaded articles of iron or steel, nes	7318.19.00	6.5 (10.2)	C	7318.19.01	10	A
					7318.19.02	10	C
					7318.19.99	15	C
7318.21	Washers, spring or lock, iron or steel	7318.21.00	6.5 (10.2)	C	7318.21.01	10	A
			7318.21.99	15	C		
7318.22	Washers, iron or steel, nes	7318.22.00	6.5	C	7318.22.01	10	A
					7318.22.99	15	C
7318.23	Rivets, iron or steel	7318.23.00	6.5	C	7318.23.01	10	A
					7318.23.99	15	C
7318.24	Cotters and cotter-pins, iron or steel	7318.24.00	6.5 (10)	C	7318.24.01	10	C
					7318.24.02	10	A
					7318.24.99	15	C
7318.29	Non-threaded articles of iron or steel, nes	7318.29.00	6.5 (10)	C	7318.29.01	10	A
					7318.29.99	15	C
7320.20	Springs, helical, of iron or steel	7320.20.10	2.5 (4.8)	B	7320.20.01	10	B
		7320.20.90	6	B	7320.20.02	10	A
					7320.20.03	10	B
					7320.20.04	10	B
					7320.20.99	15	B

SUB-HEADING	DESCRIPTION	CANADA			MEXICO		
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING
7401.10	Copper mattes	7401.10.00	Free	D	7401.10.01	10	A
7401.20	Cement copper (precipitated copper)	7401.20.00	Free	D	7401.20.01	10	B
7402.00	Copper unrefined, copper anodes for electrolytic refining	7402.00.00	Free	D	7402.00.01	10	B
					7402.00.99	10	B
7403.11	Copper cathodes and sections of cathodes unwrought	7403.11.00	Free	D	7403.11.01	10	B
					7403.11.99	10	B
7403.12	Wire bars, copper, unwrought	7403.12.00	Free	A	7403.12.01	10	B
					7403.12.99	10	B
7403.13	Billets, copper, unwrought	7403.13.00	Free	D	7403.13.01	10	A
					7403.13.99	10	A
7403.19	Refined copper products, unwrought, nes	7403.19.10	Free	D	7403.19.01	10	B
		7403.19.90	6.5	B	7403.19.99	10	B
7403.21	Copper-zinc base alloys, unwrought	7403.21.10	Free	A	7403.21.01	10	A
		7403.21.90	6.5	A	7403.21.99	10	A
7403.23	Copper-nickel base alloys or copper-nickel-zinc base alloys, unwrought	7403.23.10	Free	D	7403.23.01	10	A
		7403.23.90	6.5	A	7403.23.99	10	A
7403.29	Copper alloys, unwrought (other than master alloys of heading No. 74.05)	7403.29.10	Free	A	7403.29.99	10	B
		7403.29.90	6.5	B			
7405.00	Master alloys of copper	7405.00.00	6.5	A	7405.00.01	10	A
					7405.00.99	10	A
7501.10	Nickel mattes	7501.10.00	Free	D	7501.10.01	Free	D
7501.20	Nickel oxide sinters and other intermediate products of nickel metallurgy	7501.20.00	Free	D	7501.20.01	Free	D
7502.10	Nickel, unwrought, not alloyed	7502.10.00	Free	D	7502.10.01	Free	D
7502.20	Nickel alloys, unwrought	7502.20.00	Free	D	7502.20.01	Free	D
7601.10	Aluminium, unwrought, not alloyed	7601.10.10	Free	D	7601.10.01	10	C
		7601.10.91	Free	A	7601.10.02	10	A
		7601.10.99	6.5	C			
7601.20	Aluminium alloys, unwrought	7601.20.10	Free	D	7601.20.01	10	C
		7601.20.91	Free	A	7601.20.02	10	C
		7601.20.99	6.5	C			
7801.10	Lead refined, unwrought	7801.10.10	Free	D	7801.10.01	10	B
		7801.10.90	Free	A			
7801.91	Lead, unwrought, containing by weight antimony as the principal other element	7801.91.10	Free	A	7801.91.01	10	B
		7801.91.90	Free	A			
7801.99	Lead, unwrought, nes	7801.99.00	Free	A	7801.99.01	10	B
7901.11	Zinc, not alloyed, unwrought, containing by weight 99.99% or more of zinc	7901.11.00	Free	D	7901.11.01	10	B
7901.12	Zinc not alloyed unwrought containing by weight less than 99.99% of zinc	7901.12.00	Free	D	7901.12.01	10	B
7901.20	Zinc alloys, unwrought	7901.20.10	Free	D	7901.20.01	10	B
		7901.20.20	11.5	B			

<i>SUB- HEADING</i>	<i>DESCRIPTION</i>	<i>CANADA</i>			<i>MEXICO</i>		
		<i>ITEM</i>	<i>RATE (%)</i>	<i>PHASING</i>	<i>ITEM</i>	<i>RATE (%)</i>	<i>PHASING</i>
8105.10	Cobalt, unwrought, mattes and other intermediate products; waste and scrap; powders	8105.10.10	6.5	A	8105.10.01	10	A
		8105.10.20	Free	D			
8107.10	Cadmium, unwrought; waste and scrap; powders	8107.10.10	Free	D	8107.10.01	10	A
		8107.10.20	6.5	A			

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

ANNEX B

Rules of Origin for Primary Metal Products

Chapter 71	Natural or Cultured Pearls, Precious or Semi-Precious Stones, Precious Metals, Metals Clad with Precious Metal, and Articles Thereof; Imitation Jewellery; Coin (Chapter 71)
71.01-71.12	A change to heading 71.01 through 71.12 from any other chapter.
Chapter 72	Iron and Steel
72.01	A change to heading 72.01 from any other chapter.
7202.11-7202.60	A change to subheading 7202.11 through 7202.60 from any other chapter.
7202.70	A change to subheading 7202.70 from any other chapter, except from subheading 2613.10.
7202.80-7202.99	A change to subheading 7202.80 through 7202.99 from any other chapter.
72.03-72.05	A change to heading 72.03 through 72.05 from any other chapter.
72.06-72.07	A change to heading 72.06 through 72.07 from any heading outside that group.
72.08-72.16	A change to heading 72.08 through 72.16 from any heading outside that group.
72.17	A change to heading 72.17 from any other heading, except from heading 72.13 through 72.15.
72.18-72.22	A change to heading 72.18 through 72.22 from any heading outside that group.
72.23	A change to heading 72.23 from any other heading, except from heading 72.21 through 72.22.
72.24-72.28	A change to heading 72.24 through 72.28 from any heading outside that group.
72.29	A change to heading 72.29 from any other heading, except from heading 72.27 through 72.28.
Chapter 73	Articles of Iron or Steel
73.01-73.03	A change to heading 73.01 through 73.03 from any other chapter.
7304.10-7304.39	A change to subheading 7304.10 through 7304.39 from any other chapter.
7304.41	
7304.41.aa	A change to Canadian tariff item 7304.41.10, U.S. tariff item 7304.41.00A or 7304.41.00B or Mexican tariff item 7304.41.02 from subheading 7304.49 or any other chapter.
7304.41	A change to subheading 7304.41 from any other chapter.

- 7304.49-7304.90 A change to subheading 7304.49 through 7304.90 from any other chapter.
- 73.05-73.07 A change to heading 73.05 through 73.07 from any other chapter.
- 73.12-73.14 A change to heading 73.12 through 73.14 from any other heading, including another heading within that group.
- 73.17-73.18 A change to heading 73.17 through 73.18 from any heading outside that group.
- Chapter 74** **Copper and Articles Thereof**
- 74.01-74.02 A change to heading 74.01 through 74.02 from any other chapter.
- 74.03 A change to heading 74.03 from any other chapter; or
A change to heading 74.03 from heading 74.01 or 74.02 or Canadian tariff item 7404.00.11, 7404.00.21 or 7404.00.91, U.S. tariff item 7404.00.00A or Mexican tariff item 7404.00.03, 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.
- 74.04 No required change in tariff classification to heading 74.04, provided the waste and scrap are wholly obtained or produced entirely in the territory of one or more of the Parties as defined in Article 415 of this Chapter.
- 74.05-74.07 A change to heading 74.05 through 74.07 from any other chapter; or
A change to heading 74.05 through 74.07 from heading 74.01 or 74.02 or Canadian tariff item 7404.00.11, 7404.00.21 or 7404.00.91, U.S. tariff item 7404.00.00A or Mexican tariff item 7404.00.03, 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.
- 7408.11
- 7408.11.aa A change to Canadian tariff item 7408.11.11 or 7408.11.12, U.S. tariff item 7408.11.60 or Mexican tariff item 7408.11.01 from any other chapter; or
A change to Canadian tariff item 7408.11.11 or 7408.11.12, U.S. tariff item 7408.11.60 or Mexican tariff item 7408.11.01 from heading 74.01 or 74.02 or Canadian tariff item 7404.00.11, 7404.00.21 or 7404.00.91, U.S. tariff item 7404.00.00A or Mexican tariff item 7404.00.03, 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.

7408.11	A change to subheading 7408.11 from any other heading, except from heading 74.07.
7408.19-7408.29	A change to subheading 7408.19 through 7408.29 from any other heading, except from heading 74.07.
74.09	A change to heading 74.09 from any other heading.
74.10	A change to heading 74.10 from any other heading, except from heading 74.09.
74.11	A change to heading 74.11 from any other heading, except from Canadian tariff item 7407.10.13, 7407.10.22, 7407.21.13, 7407.21.22, 7407.22.14, 7407.22.22, 7407.29.13 or 7407.29.22, U.S. tariff item 7407.10.10A, 7407.21.10A, 7407.22.10A or 7407.29.10A or Mexican tariff item 7407.10.03, 7407.21.03, 7407.22.03 or 7407.29.03, or heading 74.09.
74.12	A change to heading 74.12 from any other heading, except from heading 74.11.
74.13	A change to heading 74.13 from any other heading, except from heading 74.07 through 74.08; or A change to heading 74.13 from heading 74.07 through 74.08, whether or not there is also a change from any other heading, provided there is a regional value content of not less than: <ul style="list-style-type: none"> (a) 60 percent where the transaction-value method is used, or (b) 50 percent where the net-cost method is used.
Chapter 75	Nickel and Articles Thereof
75.01-75.04	A change to heading 75.01 through 75.04 from any other chapter.
75.05	A change to heading 75.05 from any other heading.
75.06	
7506.10.aa	A change to Canadian tariff item 7506.10.22, U.S. tariff item 7506.10.50A or Mexican tariff item 7506.10.01 from any other tariff item.
7506.20.aa	A change to Canadian tariff item 7506.20.92, U.S. tariff item 7506.20.50A or Mexican tariff item 7506.20.01 from any other tariff item.
75.06	A change to heading 75.06 from any other heading.
75.07-75.08	A change to heading 75.07 through 75.08 from any heading outside that group.
Chapter 76	Aluminum and Articles Thereof
76.01-76.03	A change to heading 76.01 through 76.03 from any other chapter.
76.04-76.06	A change to heading 76.04 through 76.06 from any heading outside that group.
76.07	A change to heading 76.07 from any other heading.

76.08-76.09	A change to heading 76.08 through 76.09 from any heading outside that group.
76.10-76.13	A change to heading 76.10 through 76.13 from any other heading, including another heading within that group.
76.14	A change to heading 76.14 from any other heading, except from heading 76.04 through 76.05.
Chapter 78	Lead and Articles Thereof
78.01-78.02	A change to heading 78.01 through 78.02 from any other chapter.
78.03-78.06	A change to heading 78.03 through 78.06 from any other chapter; or A change to heading 78.03 through 78.06 from any other heading within Chapter 78, including another heading 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: <ul style="list-style-type: none"> (a) 60 percent where the transaction-value method is used, or (b) 50 percent where the net-cost method is used.
Chapter 79	Zinc and Articles Thereof
79.01-79.03	A change to heading 79.01 through 79.03 from any other chapter.
79.04-79.07	A change to heading 79.04 through 79.07 from any other chapter; or A change to heading 79.04 through 79.07 from any other heading within Chapter 79, including another heading 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: <ul style="list-style-type: none"> (a) 60 percent where the transaction-value method is used, or (b) 50 percent where the net-cost method is used.
Chapter 80	Tin and Articles Thereof
80.01-80.02	A change to heading 80.01 through 80.02 from any other chapter.
80.03-80.04	A change to heading 80.03 through 80.04 from any heading outside that group.
80.05-80.07	A change to heading 80.05 through 80.07 from any heading outside that group.
Chapter 81	Other Base Metals; Cermets; Articles Thereof
8101.10-8101.91	A change to subheading 8101.10 through 8101.91 from any other chapter.
8101.92	A change to subheading 8101.92 from any other subheading.
8101.93	A change to subheading 8101.93 from any other chapter.
8101.99	A change to subheading 8101.99 from any other subheading.
8102.10-8102.91	A change to subheading 8102.10 through 8102.91 from any other chapter.

8102.92	A change to subheading 8102.92 from any other subheading.
8102.93	A change to subheading 8102.93 from any other subheading, except from Canadian tariff item 8102.92.10, U.S. tariff item 8102.92.00A or Mexican tariff item 8102.92.01.
8102.99	A change to subheading 8102.99 from any other subheading.
8103.10	A change to subheading 8103.10 from any other chapter.
8103.90	A change to subheading 8103.90 from any other subheading.
8104.11-8104.30	A change to subheading 8104.11 through 8104.30 from any other chapter.
8104.90	A change to subheading 8104.90 from any other subheading.
8105.10	A change to subheading 8105.10 from any other chapter.
8105.90	A change to subheading 8105.90 from any other subheading.
81.06	A change to heading 81.06 from any other chapter.
8107.10	A change to subheading 8107.10 from any other chapter.
8107.90	A change to subheading 8107.90 from any other subheading.
8108.10	A change to subheading 8108.10 from any other chapter.
8108.90	A change to subheading 8108.90 from any other subheading.
8109.10	A change to subheading 8109.10 from any other chapter.
8109.90	A change to subheading 8109.90 from any other subheading.
81.10	A change to heading 81.10 from any other chapter.
81.11	
8111.00.aa	A change to Canadian tariff item 8111.00.21, 8111.00.22, 8111.00.40, U.S. tariff item 8111.00.60 or Mexican tariff item 8111.00.01 from any other tariff item.
81.11	A change to heading 81.11 from any other chapter.
81.12-81.13	A change to heading 81.12 through 81.13 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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