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**THE
RESOURCE EQUIPMENT
SECTOR**



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NAFTA AND THE RESOURCE EQUIPMENT SECTOR

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NAFTA AND THE CANADIAN RESOURCE EQUIPMENT 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 resource equipment with continued preferential access to U.S. markets and new preferential access to Mexico. Mexico is undertaking major initiatives to modernize its transportation and electric power generation infrastructure. This will result in increased demand for resource equipment and potential new export opportunities for some Canadian firms.

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

This booklet highlights key aspects of the Agreement for the Canadian resource equipment firms including manufacturers of agriculture, mining, forestry, paper-making and construction equipment. 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 resource equipment market in North America and highlights potential new market opportunities in Mexico.

TARIFFS FOR RESOURCE EQUIPMENT

Under NAFTA, tariffs on most resource equipment traded between Canada, the United States and Mexico will be eliminated under the various tariff phase-out categories established by the Agreement. Some tariffs were eliminated on implementation of the Agreement on January 1, 1994, while others will be reduced over five and ten years, being eliminated completely 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 resource equipment were eliminated on January 1, 1993.

Schedule of Phase-Outs

Annex A contains a product-specific listing of the Mexican and Canadian tariff elimination schedules for most resource equipment. 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

Prior to NAFTA, Mexican import duties on resource equipment ranged from 10 to 20 percent. Under NAFTA, most of these tariffs will be eliminated by January 1, 1998.

The following Canadian-made products became free of Mexican duties on January 1, 1994:

- ▶ agricultural equipment;
- ▶ most construction equipment;
- ▶ paper making equipment; and
- ▶ most conveyors and elevators for materials handling.

A 10-year tariff phase-out schedule was negotiated for a few products, such as most excavating equipment, rock cutters, boring and sinking machinery, mobile concrete mixers, and some lifting, loading or unloading machinery.

**Canadian
Phase-Outs**

Prior to NAFTA, Canada already allowed duty-free entry for most resource equipment. Under NAFTA, the majority of Canadian tariffs on resource equipment were eliminated on January 1, 1994.

For the most part, the remaining tariffs will be phased out over five years, but for a few items, including mobile concrete mixers and some self-loading or unloading agricultural trailers, the tariffs will be eliminated over 10 years.

**Treatment
of Jointly
Produced Goods**

NAFTA protects Canadian manufacturers of resource equipment 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 on resource equipment 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 RESOURCE EQUIPMENT

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 resource equipment 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 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 resource equipment are found in Annex B.

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

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

***How NAFTA
Rules Differ from
the FTA Rules***

However, NAFTA has introduced new provisions of general application that may assist some Canadian exporters. 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. Producers should note that the rules of origin for certain resource equipment classified as vehicles in Chapter 87 provide for only the “net-cost” method of calculating regional value content.

An Example

A Canadian producer of front-end wheel loaders uses imported engines, transmissions and structural metal components from the United Kingdom.

Since some non-North American inputs are used, these front-end wheel loaders do not automatically qualify as “originating.” The product-specific rule must be used.

The producer determines that front-end wheel loaders are classified under tariff heading 8429. The non-North American parts fall under headings 8408, 8483 and 8431, respectively.

The rule of origin for heading 8429 (i.e. front-end wheel loaders) requires “a change to heading 8428 through 8430 from any other heading...except from heading 8731.” In this example, the front-end wheel loaders in question would not qualify under this part of the rule because the structural metal components are classified under heading 8431.

The second part of the rule of origin for front-end wheel loaders permits "a change to heading 8428 through 8430 from heading 8431...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 front-end wheel loader would qualify.

Under the *de minimis* provision, however, if the value of the structural metal components is no more than 7 percent of the value of the finished front-end wheel loader, 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 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

Method of Marking

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.

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

Canadian manufacturers of resource equipment 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" require 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.

After-sales service providers are also classified as business visitors under NAFTA. Therefore, Canadian firms can now provide service and training as part of a warranty or a service contract. Such service providers may obtain duty-free, temporary entry status for the equipment necessary to do the job.

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.

While most government departments and agencies may not be large-scale purchasers of resource processing machinery and equipment, there may be some opportunities in the newly opened U.S. departments of Energy and Transport, in the Army Corps of Engineers, and through the removal of the "Buy America" provisions of the *Rural Electrification Act*.

In Mexico, the giant state-owned oil and gas firm PEMEX will be subject to international tendering disciplines. This may be of particular interest to Canadian suppliers of oil and gas equipment. Other Mexican government departments as well as the state-owned telecommunications and power utilities are also covered. Access will initially be subject to certain restrictions, which will be phased out over 10 years.

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

Canadian manufacturers produce a broad range of equipment for the agriculture, mining, forestry, construction and ocean industries. The requirements of these resource industries are diverse and producers of equipment tend to be very specialized.

Most Canadian firms produce for the North American or world markets and export a large proportion of their production. Some confine themselves to serving smaller regional markets. Canadian shipments stand at approximately \$2.9 billion, of which \$1.7 billion or 60 percent are exported.

Imports of resource equipment are high because many types of specialized equipment are not manufactured in Canada. These imports are worth roughly \$3.4 billion, which represents nearly 75 percent of the Canadian market.

Canada- United States Trade

Trade between Canada and the United States in resource equipment is well established. Over 75 percent of Canadian exports are shipped to the United States (\$1.3 billion), while the United States accounts for 70 percent of Canadian imports.

Major resource equipment exports to the United States include mineral and energy extraction equipment such as rock drilling and earth boring tools, crushing and grinding machines, screening machines and smelting furnaces; pulp and paper equipment such as dryers, pulping machinery and paper finishing equipment; earth moving equipment such as front-end loaders, graders, excavators and rock cutters; and, agricultural equipment such as ploughs, harrows, cultivators, mowers, and combines.

Canada-Mexico Trade

In contrast to the substantial Canada-United States trade flows, Canada-Mexico trade has to date been minimal. In 1992, Canadian exports of resource equipment to Mexico totalled \$10 million. Imports from Mexico in that year were less than \$1 million.

United States- Mexico Trade

For many years, the Mexican market for resource equipment was largely closed to outside competition. This was due to a combination of high tariffs, import licences, non-tariff barriers and the discriminatory procurement practices by government controlled companies such as PEMEX. Recent market reforms have opened the Mexican market to foreign suppliers. Mexico's imports of resource equipment have increased significantly, with the United States, its largest supplier, accounting for around 70 percent of all Mexican imports.

**Competitive
Implications
of NAFTA**

The direct impact of increased Mexican competition on the Canadian market for resource equipment is expected to be minimal. Despite an apparent labour cost advantage, Mexico's equipment manufacturing industry is still relatively inefficient, hindered by low productivity and a lack of up-to-date product technology. Significant restructuring will have to occur before Mexico will be able to compete internationally.

**New
Mexican Market
Opportunities**

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

Mexico is undertaking major initiatives to modernize its infrastructure, particularly in the areas of transportation, water, environmental programs and electric power generation. This will result in an increased demand for resource equipment.

Potential export opportunities in Mexico include earth graders; front-end loaders; drilling equipment; agricultural equipment such as disc harrows, cultivators, spreaders, combines, balers and incubators; pulp and paper equipment; and screening machinery and ball crushers.

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:

Industrial Technologies Directorate

Tel.: (613) 954-3764

Fax: (613) 941-2463, 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 Information line:

(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
- ▶ Primary Metals
- ▶ Professional and Business Services
- ▶ 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 Agricultural Equipment, Seeds and Related Chemicals*
- ▶ *Mexican Market Study on Materials Handling Equipment*
- ▶ *Mexican Mining Industry Study*
- ▶ *Mexican Market Study on the Oil and Petroleum 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 tariff phase-out stages for most resource equipment by its 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.

RESOURCE EQUIPMENT CANADA-MEXICO TARIFF PHASE-OUT SCHEDULE

SUB- HEADING	DESCRIPTION	CANADA			MEXICO		
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING
8207.11	Rock drilling or earth boring tools with working part of sintered metal carbide or cermets	8207.11.10	Free	D	8207.11.01	15	C
		8207.11.90	2.5	A	8207.11.02	15	C
					8207.11.03	15	C
					8207.11.04	15	C
					8207.11.05	15	A
					8207.11.06	15	C
					8207.11.07	15	C
					8207.11.08	15	C
					8207.11.09	15	B
					8207.11.99	15	C
8207.12	Rock drilling or earth boring tools with working part of other material	8207.12.10	Free	D	8207.12.01	15	C
		8207.12.90	2.5	A	8207.12.02	15	C
					8207.12.03	15	C
					8207.12.04	15	C
					8207.12.05	15	A
					8207.12.06	15	C
					8207.12.07	15	C
					8207.12.08	15	C
					8207.12.09	15	B
					8207.12.99	15	C
8208.20	Knives and blades for machines or mechanical appliances for wood working	8208.20.00	2.5	A	8208.20.01	10	B
					8208.20.99	15	B
8208.40	Knives and blades for agricultural, horticultural or forestry machines	8208.40.10	Free	D	8208.40.01	10	A
		8208.40.20	4.5	A	8208.40.02	10	A
		8208.40.90	2.5	A	8208.40.99	15	A
8209.00	Plates, tips and the like for tools of sintered metal carbides or cermets	8209.00.10	3.5	A	8209.00.01	10	C
		8209.00.90	2.5	A			
8417.10	Furnaces and ovens non-electric for roasting, melting or heat treatment of ores, pyrites, or metals	8417.10.10	Free	D	8417.10.01	10	B
		8417.10.20	Free	D	8417.10.02	20	A
		8417.10.90	2.5	A	8417.10.03	20	B
					8417.10.04	15	B
					8417.10.99	20	A
8419.31	Dryers for agricultural products	8419.31.10	Free	D	8419.31.01	10	B
		8419.31.20	Free	A	8419.31.02	20	B
		8419.31.90	2.5	A	8419.31.03	20	B
					8419.31.04	20	B
					8419.31.99	15	B
8419.32	Dryers for wood, paper pulp, paper or paperboard	8419.32.10	Free	D	8419.32.01	10	A
		8419.32.90	2.5	A	8419.32.02	20	A
					8419.32.99	10	A
8419.39	Non-domestic, non-electric dryers, nes	8419.39.10	Free	D	8419.39.01	10	A
		8419.39.20	Free	D	8419.39.02	20	A
		8419.39.90	2.5	A	8419.39.03	10	A
					8419.39.04	10	A
					8419.39.05	20	A
					8419.39.06	15	A
					8419.39.99	15	A

SUB- HEADING	DESCRIPTION	CANADA			MEXICO					
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING			
8419.89	Machinery, plant or laboratory equipment for treatment of material by a change of temperature, nes	8419.89.10	Free	D	8419.89.01	10	A			
		8419.89.20	Free	D	8419.89.02	20	A			
		8419.89.30	Free	A	8419.89.03	20	C			
		8419.89.40	2.5	B	8419.89.04	15	C			
		8419.89.90	6.5	B	8419.89.05	15	A			
					8419.89.06	10	A			
					8419.89.07	10	B			
					8419.89.08	10	A			
					8419.89.09	20	B			
					8419.89.10	20	A			
					8419.89.11	15	C			
					8419.89.12	15	C			
					8419.89.13	10	A			
					8419.89.14	15	C			
					8419.89.15	20	C			
					8419.89.16	15	C			
					8419.89.17	20	C			
					8419.89.18	20	C			
					8419.89.19	20	C			
					8419.89.20	20	B			
			8419.89.21	15	B					
			8419.89.99	10	B					
8421.11	Cream separators	8421.11.00	Free	D	8421.11.01	10	A			
					8421.11.99	10	A			
8421.19	Centrifuges, nes	8421.19.10	Free	D	8421.19.01	15	A			
					8421.19.20	Free	D	8421.19.02	15	A
					8421.19.30	Free	D	8421.19.03	20	A
					8421.19.90	2.5	A	8421.19.04	10	A
								8421.19.05	20	A
								8421.19.06	10	A
			8421.19.99	15	A					
8421.39	Filtering or purifying machinery and apparatus for gases, nes	8421.39.10	Free	D	8421.39.01	20	B			
					8421.39.90	2.5 (9.2)	B	8421.39.02	15	B
								8421.39.03	10	B
								8421.39.04	20	B
								8421.39.05	15	B
								8421.39.06	15	B
								8421.39.07	15	B
								8421.39.08	10	B
								8421.39.99	10	B
8424.81	Mechanical appliances for dispersing, spraying liquids or powders for agricultural or horticultural purposes	8424.81.00	2.5	A	8424.81.01	20	A			
					8424.81.02	10	A			
					8424.81.03	10	A			
					8424.81.04	15	A			
					8424.81.05	15	A			
			8424.81.99	20	A					
8425.20	Pit-head winding gear winches specially designed for use underground	8425.20.10	2.5	A	8425.20.01	20	C			
					8425.20.20	Free	D	8425.20.02	10	C
								8425.20.03	15	C
								8425.20.04	15	C
								8425.20.99	20	A
8428.20	Pneumatic elevators and conveyors	8428.20.10	Free	D	8428.20.01	10	A			
					8428.20.90	2.5	A	8428.20.02	10	A
								8428.20.03	20	A
								8428.20.04	20	A
								8428.20.05	10	A
								8428.20.99	10	A
8428.32	Continuous-action elevators or conveyors for goods or materials, bucket types, nes	8428.32.10	Free	D	8428.32.01	10	A			
								8428.32.90	2.5	A

SUB- HEADING	DESCRIPTION	CANADA			MEXICO																																																																																																																																																																																																																																																																																	
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING																																																																																																																																																																																																																																																																															
8428.33	Continuous-action elevators or conveyors for goods or materials, belt type, nes	8428.33.10	Free	D	8428.33.01	10	A																																																																																																																																																																																																																																																																															
		8428.33.90	2.5	A				8428.39	Continuous-action elevators or conveyors for goods or materials, nes	8428.39.10	Free	D	8428.39.01	10	C	8428.39.90	2.5	A	8428.39.02	15	C				8428.39.99	10	A	8428.90	Lifting, handling, loading or unloading machinery, nes	8428.90.10	Free	D	8428.90.01	10	B	8428.90.20	Free	D	8428.90.02	10	B	8428.90.90	2.5	B	8428.90.03	10	B	8428.90.04	20	C	8428.90.99	20	C	8429.11	Bulldozers and angledozers, crawler type for track laying	8429.11.00	Free	D	8429.11.01	15	A	8429.19	Bulldozers and angledozers, wheeled	8429.19.00	2.5	A	8429.19.01	15	A	8429.20	Graders and levellers, self-propelled	8429.20.10	Free	D	8429.20.01	20	C	8429.20.90	6.5	B	8429.30	Scrapers, self-propelled	8429.30.10	Free	D	8429.30.01	15	C	8429.30.90	6.5	A	8429.40	Tamping machines and road rollers, self-propelled	8429.40.00	2.5	A	8429.40.01	20	A	8429.40.99	15	A	8429.51	Front-end shovel loaders	8429.51.10	Free	D	8429.51.01	20	A	8429.51.20	2.5	B	8429.51.02	20	C	8429.51.30	Free	D	8429.51.03	20	C	8429.51.99	15	A	8429.52	Shovels and excavators with a 360 degree revolving superstructure	8429.52.10	Free	D	8429.52.01	20	A	8429.52.91	Free	D	8429.52.02	20	A	8429.52.99	2.5	A	8429.52.99	15	A	8429.59	Self-propelled excavating machinery, nes	8429.59.10	Free	D	8429.59.01	20	C	8429.59.02	20	C	8429.59.03	20	C	8429.59.04	20	A	8429.59.05	10	C	8429.59.99	15	A	8430.10	Pile-drivers and pile-extractors	8430.10.00	2.5	A	8430.10.01	15	A	8430.31	Coal or rock cutters, self-propelled	8430.31.10	Free	D	8430.31.01	10	C	8430.31.20	2.5	B	8430.31.99	15	A	8430.39	Coal or rock cutters, not self-propelled	8430.39.10	Free	D	8430.39.01	15	C	8430.39.20	2.5	A	8430.41	Boring or sinking machinery, nes, self-propelled	8430.41.10	Free	D	8430.41.01	10	C	8430.41.20	Free	D	8430.41.02	15	C	8430.41.30	Free	D	8430.41.99	15	C	8430.41.40	Free	D				8430.41.50	Free	D				8430.41.90	2.5	B				8430.49	Boring or sinking machinery, nes, not self-propelled	8430.49.10	Free	D	8430.49.01	10	C	8430.49.20	Free	D	8430.49.02	10	C	8430.49.30	Free	D	8430.49.99	15	C	8430.49.40	Free	D				8430.49.50	Free	D				8430.49.60	5	C				8430.49.90
8428.39	Continuous-action elevators or conveyors for goods or materials, nes	8428.39.10	Free	D	8428.39.01	10	C																																																																																																																																																																																																																																																																															
		8428.39.90	2.5	A	8428.39.02	15	C																																																																																																																																																																																																																																																																															
					8428.39.99	10	A																																																																																																																																																																																																																																																																															
8428.90	Lifting, handling, loading or unloading machinery, nes	8428.90.10	Free	D	8428.90.01	10	B																																																																																																																																																																																																																																																																															
		8428.90.20	Free	D	8428.90.02	10	B																																																																																																																																																																																																																																																																															
		8428.90.90	2.5	B	8428.90.03	10	B																																																																																																																																																																																																																																																																															
					8428.90.04	20	C																																																																																																																																																																																																																																																																															
					8428.90.99	20	C																																																																																																																																																																																																																																																																															
8429.11	Bulldozers and angledozers, crawler type for track laying	8429.11.00	Free	D	8429.11.01	15	A																																																																																																																																																																																																																																																																															
8429.19	Bulldozers and angledozers, wheeled	8429.19.00	2.5	A	8429.19.01	15	A																																																																																																																																																																																																																																																																															
8429.20	Graders and levellers, self-propelled	8429.20.10	Free	D	8429.20.01	20	C																																																																																																																																																																																																																																																																															
		8429.20.90	6.5	B				8429.30	Scrapers, self-propelled	8429.30.10	Free	D	8429.30.01	15	C	8429.30.90	6.5	A	8429.40	Tamping machines and road rollers, self-propelled	8429.40.00	2.5	A	8429.40.01	20	A	8429.40.99	15	A	8429.51	Front-end shovel loaders	8429.51.10	Free	D	8429.51.01	20	A	8429.51.20	2.5	B	8429.51.02	20	C	8429.51.30	Free	D	8429.51.03	20	C	8429.51.99	15	A	8429.52	Shovels and excavators with a 360 degree revolving superstructure	8429.52.10	Free	D	8429.52.01	20	A	8429.52.91	Free	D	8429.52.02	20	A	8429.52.99	2.5	A	8429.52.99	15	A	8429.59	Self-propelled excavating machinery, nes	8429.59.10	Free	D	8429.59.01	20	C	8429.59.02	20	C	8429.59.03	20	C	8429.59.04	20	A	8429.59.05	10	C	8429.59.99	15	A	8430.10	Pile-drivers and pile-extractors	8430.10.00	2.5	A	8430.10.01	15	A	8430.31	Coal or rock cutters, self-propelled	8430.31.10	Free	D	8430.31.01	10	C	8430.31.20	2.5	B	8430.31.99	15	A	8430.39	Coal or rock cutters, not self-propelled	8430.39.10	Free	D	8430.39.01	15	C	8430.39.20	2.5	A	8430.41	Boring or sinking machinery, nes, self-propelled	8430.41.10	Free	D	8430.41.01	10	C	8430.41.20	Free	D	8430.41.02	15	C	8430.41.30	Free	D	8430.41.99	15	C	8430.41.40	Free	D				8430.41.50	Free	D				8430.41.90	2.5	B				8430.49	Boring or sinking machinery, nes, not self-propelled	8430.49.10	Free	D	8430.49.01	10	C	8430.49.20	Free	D	8430.49.02	10	C	8430.49.30	Free	D	8430.49.99	15	C	8430.49.40	Free	D				8430.49.50	Free	D				8430.49.60	5	C				8430.49.90	2.5	B																																																																							
8429.30	Scrapers, self-propelled	8429.30.10	Free	D	8429.30.01	15	C																																																																																																																																																																																																																																																																															
		8429.30.90	6.5	A				8429.40	Tamping machines and road rollers, self-propelled	8429.40.00	2.5	A	8429.40.01	20	A	8429.40.99	15	A	8429.51	Front-end shovel loaders	8429.51.10	Free	D	8429.51.01	20	A	8429.51.20	2.5	B			8429.51.02	20	C	8429.51.30	Free	D	8429.51.03	20	C	8429.51.99	15	A	8429.52	Shovels and excavators with a 360 degree revolving superstructure	8429.52.10	Free	D	8429.52.01	20	A	8429.52.91			Free	D	8429.52.02	20	A	8429.52.99	2.5	A	8429.52.99	15	A	8429.59	Self-propelled excavating machinery, nes	8429.59.10	Free	D	8429.59.01	20						C	8429.59.02	20	C	8429.59.03	20	C	8429.59.04	20	A	8429.59.05	10	C	8429.59.99	15	A	8430.10	Pile-drivers and pile-extractors	8430.10.00	2.5	A	8430.10.01	15	A	8430.31	Coal or rock cutters, self-propelled						8430.31.10	Free	D	8430.31.01	10	C	8430.31.20	2.5	B	8430.31.99	15	A	8430.39	Coal or rock cutters, not self-propelled	8430.39.10	Free	D	8430.39.01	15	C			8430.39.20	2.5	A	8430.41	Boring or sinking machinery, nes, self-propelled	8430.41.10	Free	D	8430.41.01	10	C	8430.41.20	Free	D	8430.41.02	15	C	8430.41.30	Free	D	8430.41.99	15	C	8430.41.40	Free	D				8430.41.50	Free	D				8430.41.90			2.5	B				8430.49	Boring or sinking machinery, nes, not self-propelled	8430.49.10	Free	D	8430.49.01	10	C	8430.49.20	Free	D	8430.49.02	10	C	8430.49.30	Free	D	8430.49.99	15	C	8430.49.40	Free	D				8430.49.50	Free	D				8430.49.60	5	C				8430.49.90	2.5	B																																																																
8429.40	Tamping machines and road rollers, self-propelled	8429.40.00	2.5	A	8429.40.01	20	A																																																																																																																																																																																																																																																																															
					8429.40.99	15	A																																																																																																																																																																																																																																																																															
8429.51	Front-end shovel loaders	8429.51.10	Free	D	8429.51.01	20	A																																																																																																																																																																																																																																																																															
		8429.51.20	2.5	B	8429.51.02	20	C																																																																																																																																																																																																																																																																															
		8429.51.30	Free	D	8429.51.03	20	C																																																																																																																																																																																																																																																																															
					8429.51.99	15	A																																																																																																																																																																																																																																																																															
8429.52	Shovels and excavators with a 360 degree revolving superstructure	8429.52.10	Free	D	8429.52.01	20	A																																																																																																																																																																																																																																																																															
		8429.52.91	Free	D	8429.52.02	20	A																																																																																																																																																																																																																																																																															
		8429.52.99	2.5	A	8429.52.99	15	A																																																																																																																																																																																																																																																																															
8429.59	Self-propelled excavating machinery, nes	8429.59.10	Free	D	8429.59.01	20	C																																																																																																																																																																																																																																																																															
					8429.59.02	20	C																																																																																																																																																																																																																																																																															
					8429.59.03	20	C																																																																																																																																																																																																																																																																															
					8429.59.04	20	A																																																																																																																																																																																																																																																																															
					8429.59.05	10	C																																																																																																																																																																																																																																																																															
					8429.59.99	15	A																																																																																																																																																																																																																																																																															
8430.10	Pile-drivers and pile-extractors	8430.10.00	2.5	A	8430.10.01	15	A																																																																																																																																																																																																																																																																															
8430.31	Coal or rock cutters, self-propelled	8430.31.10	Free	D	8430.31.01	10	C																																																																																																																																																																																																																																																																															
					8430.31.20	2.5	B																																																																																																																																																																																																																																																																															
					8430.31.99	15	A																																																																																																																																																																																																																																																																															
8430.39	Coal or rock cutters, not self-propelled	8430.39.10	Free	D	8430.39.01	15	C																																																																																																																																																																																																																																																																															
					8430.39.20	2.5	A																																																																																																																																																																																																																																																																															
8430.41	Boring or sinking machinery, nes, self-propelled	8430.41.10	Free	D	8430.41.01	10	C																																																																																																																																																																																																																																																																															
		8430.41.20	Free	D	8430.41.02	15	C																																																																																																																																																																																																																																																																															
		8430.41.30	Free	D	8430.41.99	15	C																																																																																																																																																																																																																																																																															
		8430.41.40	Free	D																																																																																																																																																																																																																																																																																		
		8430.41.50	Free	D																																																																																																																																																																																																																																																																																		
		8430.41.90	2.5	B																																																																																																																																																																																																																																																																																		
8430.49	Boring or sinking machinery, nes, not self-propelled	8430.49.10	Free	D	8430.49.01	10	C																																																																																																																																																																																																																																																																															
		8430.49.20	Free	D	8430.49.02	10	C																																																																																																																																																																																																																																																																															
		8430.49.30	Free	D	8430.49.99	15	C																																																																																																																																																																																																																																																																															
		8430.49.40	Free	D																																																																																																																																																																																																																																																																																		
		8430.49.50	Free	D																																																																																																																																																																																																																																																																																		
		8430.49.60	5	C																																																																																																																																																																																																																																																																																		
		8430.49.90	2.5	B																																																																																																																																																																																																																																																																																		

SUB-HEADING	DESCRIPTION	CANADA			MEXICO		
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING
8430.50	Construction equipment, self-propelled, nes	8430.50.10	Free	D	8430.50.01	20	A
		8430.50.90	2.5	A	8430.50.02	20	A
					8430.50.99	15	A
8430.61	Tamping or compacting machinery, not self-propelled	8430.61.00	2.5	A	8430.61.01	20	A
					8430.61.02	20	B
					8430.61.99	15	A
8430.62	Scrapers, not self-propelled	8430.62.10	Free	D	8430.62.01	20	A
		8430.62.90	6.5	A			
8430.69	Construction equipment, not self-propelled, nes	8430.69.10	Free	D	8430.69.01	20	A
		8430.69.90	2.5	A	8430.69.02	20	A
					8430.69.03	20	A
					8430.69.04	20	A
					8430.69.99	15	A
8432.10	Ploughs	8432.10.00	Free	D	8432.10.01	10	A
8432.21	Disc harrows	8432.21.00	Free	D	8432.21.01	10	A
8432.29	Scarifiers, cultivators, weeders and hoes	8432.29.10	Free	D	8432.29.01	10	A
		8432.29.90	2.5	A	8432.29.99	10	A
8432.30	Seeders, planters and transplanters	8432.30.10	2.5	A	8432.30.01	15	A
		8432.30.20	Free	D	8432.30.02	10	A
					8432.30.03	10	A
					8432.30.99	10	A
8432.40	Manure spreaders and fertilizer distributors	8432.40.10	2.5	A	8432.40.01	15	A
		8432.40.20	Free	D			
8432.80	Rollers, stone-removers and other soil preparation or cultivation machinery	8432.80.10	Free	D	8432.80.01	15	A
		8432.80.20	2.5	A	8432.80.02	10	A
					8432.80.03	10	A
					8432.80.04	15	A
					8432.80.99	10	A
8433.11	Mowers, powered, lawn, with horizontal cutting device	8433.11.00	6.5	B	8433.11.01	20	A
8433.19	Mowers, powered, lawn, nes	8433.19.00	6	B	8433.19.99	20	A
8433.20	Mowers for hay etc. including cutter bars for tractor mounting	8433.20.10	Free	D	8433.20.01	10	A
		8433.20.90	2.5	A	8433.20.02	10	C
					8433.20.99	10	A
8433.30	Other haymaking machinery including swathers, windrowers, rakes, etc.	8433.30.00	Free	D	8433.30.01	15	A
8433.40	Straw or fodder balers, including pick-up balers	8433.40.00	Free	D	8433.40.01	10	A
					8433.40.02	10	A
					8433.40.99	10	A
8433.51	Combine harvester-threshers	8433.51.00	Free	D	8433.51.01	10	A
8433.52	Threshing machinery, nes	8433.52.00	Free	D	8433.52.01	10	A
8433.53	Root or tuber harvesting machines	8433.53.00	Free	D	8433.53.01	10	A
					8433.53.99	10	A
8433.59	Harvesting machinery, nes	8433.59.00	Free	D	8433.59.01	10	A
					8433.59.02	15	A
					8433.59.03	10	A
					8433.59.04	10	A
					8433.59.05	10	A
					8433.59.06	10	A
			8433.59.99	10	A		

SUB- HEADING	DESCRIPTION	CANADA			MEXICO		
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING
8433.60	Machines for cleaning, sorting or grading eggs, fruit or other produce	8433.60.10	Free	D	8433.60.01	10	A
		8433.60.90	2.5	A	8433.60.02	15	A
					8433.60.03	10	A
					8433.60.99	10	A
8434.10	Milking machines	8434.10.00	Free	D	8434.10.01	15	A
8434.20	Dairy machinery	8434.20.10	Free	D	8434.20.01	10	A
		8434.20.90	2.5	A			
8436.10	Machinery for preparing animal feeding stuffs	8436.10.00	Free	D	8436.10.01	15	A
8436.21	Poultry incubators and brooders	8436.21.00	Free	D	8436.21.01	15	A
					8436.21.02	10	A
8436.29	Poultry-keeping machinery, nes	8436.29.00	Free	D	8436.29.01	10	A
					8436.29.99	10	A
8436.80	Agricultural, horticultural, forestry or bee-keeping type machinery, nes	8436.80.10	Free	D	8436.80.01	15	A
		8436.80.20	2.5	A	8436.80.02	10	A
					8436.80.03	10	A
					8436.80.04	15	A
					8436.80.99	10	A
8437.10	Machines for cleaning or sorting or grading seed, grain or dried leguminous vegetables, nes	8437.10.10	Free	D	8437.10.01	15	A
		8437.10.90	2.5	A	8437.10.02	15	A
					8437.10.03	10	A
					8437.10.99	15	A
8437.80	Machinery for milling or working of cereals or dried leguminous vegetables, nes	8437.80.00	2.5	A	8437.80.01	15	A
					8437.80.02	10	A
					8437.80.99	15	A
8439.10	Machinery for making pulp of fibrous cellulosic material	8439.10.00	2.5	A	8439.10.01	15	A
					8439.10.02	15	A
					8439.10.03	15	A
					8439.10.04	10	A
					8439.10.05	15	A
					8439.10.06	10	A
8439.20	Machinery for making paper or paperboard	8439.20.00	2.5	A	8439.20.01	10	A
8439.30	Machinery for finishing paper or paperboard	8439.30.00	2.5	A	8439.30.01	10	A
8467.11	Tools for working in the hand, pneumatic rotary type	8467.11.10	2.5	A	8467.11.01	10	A
		8467.11.90	Free	D	8467.11.02	20	A
					8467.11.99	10	A
8467.19	Tools for working in the hand, pneumatic type, nes, including rock drills, paving breakers and diggers	8467.19.10	2.5	A	8467.19.01	20	A
		8467.19.90	Free	D	8467.19.99	10	A
8467.81	Chain saws	8467.81.00	2.5	A	8467.81.01	10	A
8467.89	Tools for working in the hand with self-contained non-electric motor, nes	8467.89.10	Free	D	8467.89.01	10	A
		8467.89.90	2.5	A	8467.89.02	20	A
					8467.89.03	20	A
					8467.89.99	10	A
8474.10	Sorting, screening, separating or washing machines for stone, ores or other minerals etc.	8474.10.10	Free	D	8474.10.01	20	B
		8474.10.20	Free	D	8474.10.02	10	A
		8474.10.90	2.5	A	8474.10.03	20	A
					8474.10.04	20	B
					8474.10.05	20	A
			8474.10.99	20	A		

SUB-HEADING	DESCRIPTION	CANADA			MEXICO		
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING
8474.20	Crushing or grinding machines for earth, stone, ores or other mineral substances etc.	8474.20.10	Free	A	8474.20.01	20	A
		8474.20.90	2.5	A	8474.20.02	20	B
					8474.20.03	20	A
					8474.20.04	15	A
					8474.20.05	20	B
					8474.20.06	20	B
					8474.20.07	10	B
					8474.20.99	15	A
		8474.31	Concrete or mortar mixers	8474.31.00	2.5	A	8474.31.01
8474.32	Machines for mixing mineral substances with bitumen	8474.32.00	2.5	A	8474.32.01	10	A
8474.39	Mixing or kneading machines, nes, for earth or other mineral substances etc.	8474.39.10	Free	D	8474.39.01	15	B
		8474.39.20	Free	A	8474.39.02	10	A
		8474.39.90	2.5	A	8474.39.99	15	A
8474.80	Machines for agglomerating mineral fuels, machines for foundry moulds of sand etc., nes	8474.80.10	Free	D	8474.80.01	20	B
		8474.80.20	Free	A	8474.80.02	15	B
		8474.80.90	2.5	A	8474.80.03	10	B
					8474.80.04	20	B
					8474.80.05	10	B
					8474.80.06	10	B
					8474.80.07	10	B
					8474.80.08	10	B
					8474.80.99	15	A
8701.90	Wheeled tractors, nes	8701.90.11	5 (8)	B	8701.90.01	15	A
		8701.90.19	Free	D	8701.90.02	15	B
		8701.90.90	2.5 (9.2)	B	8701.90.99	15	B
8705.40	Mobile concrete mixers	8705.40.00	2.5	C	8705.40.01	20	C
8716.20	Trailers for agricultural purposes	8716.20.10	Free	D	8716.20.01	20	A
		8716.20.90	6.5 (10.4)	C	8716.20.02	20	A
					8716.20.03	20	A
					8716.20.99	20	A

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

ANNEX B

Rules of Origin for Resource Equipment

- Chapter 82** **Tools, Implements, Cutlery, Spoons and Forks, of Base Metal; Parts Thereof of Base Metal**
- 82.01-82.15 A change to heading 82.01 through 82.15 from any other chapter.
- Chapter 84** **Nuclear Reactors, Boilers, Machinery and Mechanical Appliances; Parts Thereof**
- 8417.10-8417.80 A change to subheading 8417.10 through 8417.80 from any other heading; or
- A change to subheading 8417.10 through 8417.80 from subheading 8417.90, 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.
- 8419.11-8419.89 A change to subheading 8419.11 through 8419.89 from any other heading; or
- A change to subheading 8419.11 through 8419.89 from subheading 8419.90, 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.
- 8420.10 A change to subheading 8420.10 from any other heading; or
- A change to subheading 8420.10 from subheading 8420.91 through 8420.99, 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.
- 8421.11 A change to subheading 8421.11 from any other heading; or
- A change to subheading 8421.11 from subheading 8421.91, 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.
- 8421.19-8421.39 A change to subheading 8421.19 through 8421.39 from any other heading; or

A change to subheading 8421.19 through 8421.39 from subheading 8421.91 through 8421.99, 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.

8424.10-8424.89

A change to subheading 8424.10 through 8424.89 from any other heading; or

A change to subheading 8424.10 through 8424.89 from subheading 8424.90, 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.

84.25-84.26

A change to heading 84.25 through 84.26 from any other heading, including another heading within that group, except from heading 84.31; or

A change to heading 84.25 through 84.26 from heading 84.31, whether or not there is also a change from any other heading, including another heading within that group, 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.

84.28-84.30

A change to heading 84.28 through 84.30 from any heading outside that group, except from heading 84.31; or

A change to heading 84.28 through 84.30 from heading 84.31, whether or not there is also a change from any heading outside that group, 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.

8432.10-8432.80

A change to subheading 8432.10 through 8432.80 from any other heading; or

A change to subheading 8432.10 through 8432.80 from subheading 8432.90, 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.

8433.11-8433.60

A change to subheading 8433.11 through 8433.60 from any other heading; or

A change to subheading 8433.11 through 8433.60 from subheading 8433.90, 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.

- 8434.10-8434.20 A change to subheading 8434.10 through 8434.20 from any other heading; or
- A change to subheading 8434.10 through 8434.20 from subheading 8434.90, 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.
- 8436.10-8436.80 A change to subheading 8436.10 through 8436.80 from any other heading; or
- A change to subheading 8436.10 through 8436.80 from subheading 8436.91 through 8436.99, 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.
- 8437.10-8437.80 A change to subheading 8437.10 through 8437.80 from any other heading; or
- A change to subheading 8437.10 through 8437.80 from subheading 8437.90, 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.
- 8439.10-8439.30 A change to subheading 8439.10 through 8439.30 from any other heading; or
- A change to subheading 8439.10 through 8439.30 from subheading 8439.91 through 8439.99, 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.
- 8467.11-8467.89 A change to subheading 8467.11 through 8467.89 from any other heading; or
- A change to subheading 8467.11 through 8467.89 from subheading 8467.91, 8467.92 or 8467.99, 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.
- 8474.10-8474.80 A change to subheading 8474.10 through 8474.80 from any other heading; or

A change to subheading 8474.10 through 8474.80 from subheading 8474.90, 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 87

Vehicles Other Than Railway or Tramway Rolling-Stock, and Parts and Accessories Thereof

87.01

A change to heading 87.01 from any other heading, provided there is a regional value content of not less than 50 percent under the net-cost method.

87.05

A change to heading 87.05 from any other heading, provided there is a regional value content of not less than 50 percent under the net-cost method.

8716.10-8716.80

A change to subheading 8716.10 through 8716.80 from any other heading; or

A change to subheading 8716.10 through 8716.80 from subheading 8716.90, 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.

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.

