NAFTA

AND

THE TELECOMMUNICATIONS EQUIPMENT SECTOR

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NAFTA
AND THE TELECOMMUNICATIONS EQUIPMENT SECTOR

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NAFTA AND THE CANADIAN TELECOMMUNICATIONS 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 telecommunications equipment with continued preferential access to U.S. markets and new preferential access to Mexico. It is estimated that, over the next decade, private and foreign investors will invest over $30 billion in Mexico to upgrade the telecommunications infrastructure.

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 telecommunications equipment sector. It provides product-specific information on tariff rates, tariff phase-outs and rules of origin, and it describes other provisions of the Agreement relevant to manufacturers and distributors of this equipment. It also provides an overview of the telecommunications equipment market in North America and highlights potential new market opportunities in Mexico.

Tariffs for Telecommunications Equipment

Under NAFTA, the three countries agreed to an immediate or a five-year elimination of tariffs for most telecommunications equipment. Virtually all tariffs on telecommunications products being traded between Canada, the United States and Mexico will be eliminated by January 1, 1998.

Canada-United States Tariffs

Trade between the United States and Canada will continue to be governed by the tariff phase-outs negotiated under the provisions of the Canada-United States Free Trade Agreement (FTA). These phase-out schedules are unaffected by NAFTA. Under the FTA, tariffs for all telecommunications equipment 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 telecommunications equipment and parts. The applicable tariff phase-out stages for other products and inputs are listed in the country-specific NAFTA tariff schedules.

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

Mexican Phase-Outs

Mexican import tariffs for most telecommunications equipment and parts were between 10 and 20 percent. Most were eliminated immediately on implementation of the Agreement on January 1, 1994. Included were the tariffs on the following items:

- telecommunications line equipment;
- private branch exchanges;
- modems;
- cellular phones; and
- most telecommunications equipment parts.

The tariffs on virtually all other telecommunications equipment will be eliminated by January 1, 1998.

Canadian Phase-Outs

Canadian import tariffs for virtually all Mexican-produced telecommunications products were also eliminated immediately.

Treatment of Jointly Produced Goods

NAFTA protects Canadian companies from inappropriate reductions in Canadian tariffs applied to goods jointly produced in the United States and Mexico. Such goods will generally face higher rates of duty when entering Canada than goods that are wholly produced in Mexico.

Accelerated Duty Elimination

As with the FTA, there is an acceleration clause in NAFTA. Tariffs for telecommunications 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 Telecommunications 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 telecommunications 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.
- For most telecommunications goods, there is an additional condition relating to the number of non-North American "printed circuit assemblies" (PCAs) permitted to be used.
- For a few telecommunications goods using specific non-North American parts, the manufacturer is 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 telecommunications equipment are found in Annex B.

How NAFTA Rules Differ from the FTA Rules

NAFTA introduces significant changes to the rules of origin for telecommunications equipment, notably, the elimination of the value content requirement of the FTA, which was applicable to most telecommunications equipment and was costly and burdensome to the industry.

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

In addition to the changes in the product-specific rules, NAFTA has introduced new provisions of general application that may assist some Canadian exporters of telecommunications equipment. Notable changes include:

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

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

How to Use the Rules of Origin

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

- **Step 1.** If your good is manufactured in Canada using inputs wholly sourced or manufactured in North America it qualifies as "originating" and is entitled to preferential tariff treatment when exported to the United States or Mexico.

  Exporters should be careful when determining whether their inputs are North American. Inputs purchased from North American suppliers are not necessarily North American, as they may have been produced or imported from non-North American sources.

- **Step 2.** If your good uses non-North American inputs, you must identify the tariff classification for the good and for any non-North American inputs. Should you have difficulties determining the tariff classification, contact the appropriate customs agencies identified in this booklet.

- **Step 3.** Look up the specific rule of origin for your product in Annex B or in the NAFTA text. As the rules will make mention of tariff chapters, headings, subheadings and items, some understanding of the classification system is necessary. A tariff item has eight digits. The first two digits identify its chapter, the first four digits the heading and the first six digits the subheading of the good.

- **Step 4.** In most cases, a rule will indicate what changes in tariff classification must occur between each of the non-North American inputs and the finished good. It will read something like "a change to heading (XXXX) from any other heading, except heading (YYYY)." The first number refers to the good, the second number to excluded inputs. As long as all non-North American inputs come from permitted headings or subheadings, the good qualifies.

- **Step 5.** Usually, if the rule precludes the use of certain non-North American inputs, there will be an alternative rule permitting such changes if a value-content test is met. It will read something like "a change to heading (XXXX) from heading (YYYY) provided there is a regional value content of not less than..." In these cases a producer must calculate the regional value content in accordance with one of the two methods specified in NAFTA. Annex C describes the two methods of calculating regional value content.

An Example

A Canadian producer of central office telephone switching apparatus uses imported Malaysian insulated wire, Japanese resistors and British PCAs. Each switching apparatus contains a total of four PCAs of which one is a British PCA.

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

The producer determines that telephone switching apparatus are classified under tariff subheading 8517.30. The non-North American parts fall under subheadings 8544.41, 8533.10 and 8517.90 (tariff item 8517.90.13), respectively.

The rule for 8517.30 (i.e. telephone switching apparatus) begins with the requirement that there must be "a change to subheading 8517.30 from any other subheading...". In this example, the use of Malaysian wire or Japanese resistors of tariff subheadings 8544.41 and 8533.10, respectively, would not cause the switching apparatus to be disqualified as being North American as they are under different subheadings.

The rule for 8517.30 has an additional condition, however, relating to the use of non-North American PCAs. For goods containing less than three PCAs, only North American PCAs can be used; for goods containing three or more PCAs, one non-North American PCA may be used for every nine North American PCAs incorporated in the good. In this example, since the telephone switching apparatus contains a total of four PCAs, the equipment would qualify since it contains only one non-North American PCA.

If the producer made the same product (i.e. containing four PCAs), but used two non-North American PCAs, the switching apparatus would not qualify. If the product contained 10 PCAs, the producer would be able to use two non-North American PCAs.

Additional Information

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

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

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

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

NAFTA Customs Matters

Classification and Origin Determination

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

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

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

Customs Administration

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

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

- uniform regulations to ensure consistent interpretation, application and administration of the rules of origin, and other customs administration matters;
- common record keeping requirements, a uniform Certificate of Origin, and standardized certification requirements;
- broader rights of appeal of determinations of origin and advance rulings to allow appeals by both the exporter and importer within the NAFTA area; and
- the creation and regular meetings of trilateral working groups to address future modification of the rules of origin, marking obligations and uniform customs regulations, and to review controversial customs issues.

COUNTRY OF ORIGIN MARKING REQUIREMENTS

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

Method of Marking

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

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

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

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

Country of Origin

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

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

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

What Else You Should Know

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

Temporary Entry for Business Purposes

The Canadian telecommunications industry 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 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.

In the United States, Canadian companies have gained access to the purchasing requirements of the previously closed departments of Energy and Transport as well as the Army Corps of Engineers. In total, these markets are valued at over $12 billion. Canadian firms are now also eligible to bid on tenders for telephone equipment purchases under the U.S. *Rural Electrification Act*.

In Mexico, Canadian companies are now eligible to bid on major purchases by many government departments and agencies, including the state-owned Telecomunicaciones de Mexico, which provides satellite and packet-switched services in Mexico. The giant state-owned utilities for oil and gas (PEMEX) and power utilities (CFE) are also now subject to international tendering disciplines, which includes the purchase of telecommunications equipment. Access will initially be subject to certain restrictions, which will be phased out over 10 years.

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

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

Additional information on government procurement opportunities may be obtained from the Open Bidding Info Line listed in the contacts section of this publication.

Standards

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

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

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

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

Intellectual Property Rights

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

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

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

Other NAFTA Provisions

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

To obtain additional information on these and other provisions of NAFTA, consult the publications listed at the end of this booklet.

THE CANADIAN INDUSTRY IN A NORTH AMERICAN CONTEXT

Industry Trends

Several major trends are influencing the telecommunications industry in North America:

- the convergence of telecommunications and computing, with the continued incorporation of digital technologies into communications products, is leading to a world of multi-media with integrated delivery of voice, video and data;
- the liberalization of telecommunications services markets has opened up possibilities for expanded trade in equipment;
- the rapid reform of Mexico's economy has paved the way for extensive upgrading and modernization of its information technology infrastructure; and
- the telecommunications industry is being consolidated through mergers, acquisitions, joint ventures, strategic alliances and research consortia.

The telecommunications industry continues to face significant technology and market changes. Higher speed communications will spark growth in fibre optic and new network equipment. Cellular service providers will move aggressively to convert their networks from analogue to digital equipment. Personal communications services are expected to undergo tremendous growth, fuelling demand for low orbit satellite systems and new wireless equipment for customer premises. In the business telecommunications market, computer-telephone integration is becoming very important.

Canadian Market

The Canadian telecommunications equipment industry is world competitive, with a 4.3 percent share of the global market and shipments of $6.7 billion. One of the fastest expanding sectors in Canada, its growth is mostly due to increased exports.

Canada-United States Trade

The United States market for telecommunications is the largest in the world and, since the AT&T divestiture, one of the most open. There is intense competition from domestic and foreign suppliers.

In recent years, imports have made up over 20 percent of the telecommunications equipment market in the United States. Canadian exports to the United States continue to grow, currently totalling over $1.3 billion.

Canadian imports from the United States are currently valued at over $1.4 billion. It is anticipated that trade between Canada and the United States will remain strong, and that competition between Canadian and American manufactures will continue to be fierce.

Canada-Mexico Trade

Mexican trade barriers have been significantly reduced in recent years. Tariffs that were originally at 100 percent were lowered to 20 percent. Import licences are no longer required. This has enabled foreign companies to enter the Mexican market.

Canadian exports of telecommunications equipment to Mexico have increased from $3 million in 1988 to over $60 million in 1993. This represents about 2 percent of the Mexican import market. Imports from Mexico have increased from $10 million to $22 million over the same time period.

Under NAFTA, most tariffs on telecommunications products have been eliminated entirely. This provides a significant advantage to Canadian and American firms selling to Mexico. Canadian firms will need to pursue this market aggressively to overcome the established U.S. competition.

United States-Mexico Trade

The United States currently retains over 60 percent share of the Mexican import market for telecommunications-related equipment. It is the second largest export market for the U.S. industry. The Canadian and Mexican markets take up more than a quarter of all U.S. telecommunications exports.

NAFTA and the North American Industry

NAFTA will contribute to a more competitive North American business environment, thereby stimulating greater investment in sophisticated telecommunications infrastructure and advanced software. Moreover, the creation of an integrated, tariff-free North American market for telecommunications, and the competitive approach adopted for enhanced telecommunications and computer services should stimulate commerce. These factors will help to reinforce North America's lead in the development and manufacture of advanced telecommunications services and technology.

Increased competition from Mexico is not expected to have a significant impact on the Canadian telecommunications industry. Despite Mexico's abundance of lower-cost labour, production is hindered by lower productivity, shortage of up-to-date technology, and a concentration on less complex goods. This may change as the labour force becomes more skilled, marketing techniques become more sophisticated, and foreign investment in Mexico increases.

An area that could have a more direct impact on the Canadian telecommunications industry will be joint venture projects targeted to service markets in Mexico, Latin America and the U.S. southwest. Some Canadian and U.S. firms may also find it advantageous to relocate production from the Far East to Mexico.

New Mexican Market Opportunities

Mexico's economic policies aim to reaffirm sustained recovery by establishing the necessary conditions to encourage national and foreign investment. Stressing the importance of telecommunications for growth and development, the government has been stimulating investment directed toward infrastructure in satellite communications, data communications and a federal microwave and fibre optic network.

Over the next decade, it is estimated that private and foreign investors will invest over $30 billion in Mexico to install private networks for data transmission, paging systems, FAX systems and cellular telephone services and transmission apparatus.

Pricing and financing are the most important factors affecting demand for telecommunications equipment in Mexico. While product quality and efficiency are essential, competitors have been able to penetrate the market and increase their market share by offering attractive financing packages, both in terms of interest rates and payment periods.

Imports will continue to play an important role in the Mexican market, particularly in high technology areas such as satellite communications, fibre optics, data communications, cellular telephones and broadcasting equipment.

Canadian manufacturers may be well placed to benefit from new Mexican market opportunities in the following product areas:

- telephone switching equipment;
- PBX equipment;
- data transmission equipment;
- digital systems;
- television and broadcasting equipment;
- satellite equipment and support services; and
- testing and maintenance products.

You may obtain information on planned participation at trade fairs or missions, and additional market information 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:

Telecommunications and Microelectronics
Tel.: (613) 954-3315 Fax: (613) 952-8419, or

International Telecommunications Relations
Tel.: (613) 993-5444 Fax: (613) 990-4215, or

NAFTA Information Desk
International Business Branch
Tel.: (613) 952-5010 Fax: (613) 952-0540

For information on NAFTA-related customs matters, advanced rulings on classification, and tariff rates contact:

Revenue Canada — Customs
NAFTA Infoline: (613) 941-0965 Fax: (613) 941-8138

Mexico Customs Service
NAFTA Hotline: (011-525) 211-3545 Fax: (011-525) 224-3000

U.S. Customs Service
NAFTA Hotline: (202) 927-0066 Fax: (202) 927-0097

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

InfoEx
Foreign Affairs and International Trade Canada
Tel.: 1-800-267-8376 (Ottawa area: (613) 944-4000 or 993-6435)
Fax: (613) 996-9709

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

Market Intelligence and Technology Opportunities Service
Industry Canada
Tel.: (613) 954-4970 Fax: (613) 954-2340

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

Open Bidding Info Line
Public Works, Government Services Canada
Tel.: (819) 956-3440

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

OTHER PUBLICATIONS

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

- Apparel
- Chemicals
- Construction Materials
- Electrical Equipment
- Electronic Components
- Environmental Equipment and Services
- Fish and Fish Products
- Furniture
- Health Care Products
- Industrial Equipment
- Major Appliances
- Paper Products
- Plastics
- Primary Metals
- Professional and Business Services
- Resource Equipment
- Sporting and Recreational 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 Telecommunication Equipment and Systems*

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 telecommunications equipment by tariff classification number. It contains a brief description of the products in each tariff subheading as well as the specific phase-out category and base rate of duty for each tariff item.

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

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

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

A – tariff elimination occurred on implementation of the Agreement on January 1, 1994;

B – tariff to be eliminated in five equal annual stages beginning January 1, 1994 and ending January 1, 1998;

C – tariff to be eliminated in 10 equal annual stages beginning January 1, 1994 and ending January 1, 2003;

D – the tariff is already zero or free;

nes – not elsewhere specified in the tariff schedule.

Telecommunications Equipment Canada-Mexico Tariff Phase-Out Schedule

SUB-HEADING	DESCRIPTION	CANADA ITEM	CANADA RATE (%)	CANADA PHASING	MEXICO ITEM	MEXICO RATE (%)	MEXICO PHASING
8517.10	Telephone sets	8517.10.00	10	A	8517.10.01	20	B
					8517.10.02	20	B
					8517.10.03	20	B
					8517.10.04	20	A
8517.20	Teleprinters	8517.20.00	Free	A	8517.20.01	20	A
					8517.20.99	15	A
8517.30	Telephonic or telegraphic switching apparatus	8517.30.11	10	A	8517.30.01	20	B
		8517.30.12	10	A	8517.30.99	20	A
		8517.30.13	10	A			
		8517.30.19	10	A			
		8517.30.20	Free	A			
8517.40	Apparatus, for carrier-current line systems, nes	8517.40.10	Free	A	8517.40.01	20	A
		8517.40.91	10	A	8517.40.02	15	A
		8517.40.92	10	A	8517.40.03	15	A
					8517.40.04	15	A
					8517.40.99	15	A
8517.81	Telephonic apparatus, nes	8517.81.00	10.3	A	8517.81.01	10	A
					8517.81.02	20	B
					8517.81.03	20	A
					8517.81.04	10	A
					8517.81.05	15	A
					8517.81.99	15	A
8517.82	Telegraphic apparatus, nes	8517.82.10	Free	D	8517.82.01	10	A
		8517.82.20	Free	A			
		8517.82.90	Free	A			
8517.90	Parts of electrical apparatus for line telephone or line telegraph	8517.90.11	Free	A	8517.90.01	10	A
		8517.90.12	Free	D	8517.90.02	10	A
		8517.90.13	10.1	A	8517.90.03	10	A
		8517.90.14	Free	A	8517.90.04	10	A
		8517.90.21	Free	A	8517.90.05	10	A
		8517.90.22	Free	D	8517.90.06	10	A
		8517.90.23	10.1	A	8517.90.07	10	A
		8517.90.24	Free	A	8517.90.08	10	A
		8517.90.31	Free	D	8517.90.09	10	A
		8517.90.39	Free	D	8517.90.10	15	A
		8517.90.41	10.1	A	8517.90.11	15	A
		8517.90.42	Free	A	8517.90.12	15	A
		8517.90.43	10.1	A	8517.90.13	15	A
		8517.90.44	Free	A	8517.90.14	15	A
		8517.90.45	10.1	A	8517.90.15	15	A
		8517.90.46	Free	A	8517.90.16	15	A
		8517.90.91	Free	A	8517.90.99	15	A
		8517.90.92	10.1	A			
		8517.90.93	Free	A			
8518.30	Headphones, earphones and combined microphone/ speaker sets	8518.30.10	6.5	A	8518.30.01	10	A
		8518.30.90	6.5	A	8518.30.02	15	A
					8518.30.03	20	A
					8518.30.99	20	A
8520.20	Telephone answering machines	8520.20.00	5	A	8520.20.01	15	A

SUB-HEADING	DESCRIPTION	CANADA ITEM	CANADA RATE (%)	CANADA PHASING	MEXICO ITEM	MEXICO RATE (%)	MEXICO PHASING
8525.10	Transmission apparatus for radio-telephony, radio-telegraphy, radio-broadcasting or television	8525.10.10	Free	D	8525.10.01	10	A
		8525.10.90	Free	A	8525.10.02	10	A
					8525.10.03	15	B
					8525.10.04	20	A
					8525.10.05	20	B
					8525.10.06	15	B
					8525.10.07	15	A
					8525.10.08	20	B
					8525.10.09	20	A
					8525.10.10	10	A
					8525.10.11	10	A
					8525.10.99	15	B
8525.20	Transmission apparatus, for radio-telephony incorporating reception apparatus	8525.20.10	Free	D	8525.20.01	15	B
		8525.20.90	Free	A	8525.20.02	20	A
					8525.20.03	10	A
					8525.20.04	20	B
					8525.20.05	15	B
					8525.20.06	15	A
					8525.20.07	20	B
					8525.20.08	20	B
					8525.20.09	20	A
					8525.20.10	10	A
					8525.20.99	15	B
8526.92	Radio remote control apparatus	8526.92.10	Free	A	8526.92.01	10	A
		8526.90.90	Free	A	8526.92.99	15	A
8527.90	Radio reception apparatus, nes	8527.90.10	Free	D	8527.90.01	15	A
		8527.90.91	Free	A	8527.90.02	20	A
		8527.90.99	Free	A	8527.90.03	20	B
					8527.90.04	15	B
					8527.90.05	15	A
					8527.90.06	10	A
					8527.90.07	10	B
					8527.90.08	20	B
					8527.90.09	20	A
					8527.90.10	20	A
					8527.90.11	20	A
					8527.90.12	10	A
					8527.90.13	15	B
					8527.90.99	15	B
8529.10	Aerials and aerial reflectors of all kinds; parts suitable for use therewith	8529.10.10	Free	A	8529.10.01	10	A
		8529.10.20	Free	A	8529.10.02	10	A
		8529.10.90	Free	A	8529.10.03	15	A
					8529.10.04	10	A
					8529.10.05	15	C
					8529.10.06	10	A
					8529.10.07	20	A
					8529.10.99	15	A

SUB-HEADING	DESCRIPTION	CANADA ITEM	CANADA RATE (%)	CANADA PHASING	MEXICO ITEM	MEXICO RATE (%)	MEXICO PHASING
8529.90	Parts suitable for use solely or principally with the apparatus of heading Nos. 85.25 to 85.28	8529.90.11	Free	D	8529.90.01	10	A
		8529.90.12	Free	A	8529.90.02	10	A
		8529.90.51	Free	D	8529.90.03	10	A
		8529.90.52	Free	A	8529.90.04	10	A
		8529.90.60	7.5	A	8529.90.05	15	A
		8529.90.90	7.5	A	8529.90.06	10	A
					8529.90.07	15	A
					8529.90.08	10	A
					8529.90.09	10	A
					8529.90.10	10	A
					8529.90.11	10	A
					8529.90.12	10	A
					8529.90.13	10	A
					8529.90.14	10	A
					8529.90.15	10	A
					8529.90.16	10	A
					8529.90.17	10	A
					8529.90.18	10	A
					8529.90.19	10	A
					8529.90.20	10	A
					8529.90.21	10	A
					8529.90.22	10	A
					8529.90.99	10	A
8805.50	Satellites	8802.50.10	6.5	A	8802.50.01	10	A

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

ANNEX B

Rules of Origin for Telecommunications Equipment

Chapter 85	**Electrical Machinery and Equipment and Parts Thereof; Sound Recorders and Reproducers, Television Image and Sound Recorders and Reproducers, and Parts and Accessories of Such Articles**
8517.10	A change to subheading 8517.10 from any other subheading, except from Canadian tariff item 8517.90.11, 8517.90.12, 8517.90.13, 8517.90.14 or 8517.90.41, U.S. tariff item 8517.90.05B, 8517.90.10B, 8517.90.15B, 8517.90.30A, 8517.90.30B, 8517.90.35B, 8517.90.40B, 8517.90.55B, 8517.90.60B, 8517.90.70D or 8517.90.80B or Mexican tariff item 8517.90.12 or 8517.90.15.
8517.20-8517.30	A change to subheading 8517.20 through 8517.30 from any other subheading, including another subheading within that group, provided that, with respect to printed circuit assemblies (PCAs) of Canadian tariff item 8473.30.21, 8473.30.22, 8517.90.11, 8517.90.12, 8517.90.13, 8517.90.14, 8517.90.43 or 8517.90.44, U.S. tariff item 8473.30.40A, 8517.90.05A, 8517.90.05B, 8517.90.10A, 8517.90.10B, 8517.90.15A, 8517.90.15B, 8517.90.30B, 8517.90.35A, 8517.90.35B, 8517.90.40A, 8517.90.40B, 8517.90.55B, 8517.90.60A, 8517.90.60B, 8517.90.70D or 8517.90.80B or Mexican tariff item 8473.30.03, 8517.90.13 or 8517.90.15: (a) except as provided in subparagraph (b), for each multiple of nine PCAs, or any portion thereof, that is contained in the good, only one PCA may be a non-originating PCA, and (b) if the good contains less than three PCAs, all of the PCAs must be originating PCAs.
8517.40	
8517.40.bb	A change to Canadian tariff item 8517.40.91, U.S. tariff item 8517.40.50 or Mexican tariff item 8517.40.03 from any other subheading, provided that, with respect to printed circuit assemblies (PCAs) of Canadian tariff item 8473.30.21, 8473.30.22, 8517.90.11, 8517.90.12, 8517.90.13, 8517.90.14, 8517.90.43 or 8517.90.44, U.S. tariff item 8473.30.40A, 8517.90.05A, 8517.90.05B, 8517.90.10A, 8517.90.10B, 8517.90.15A, 8517.90.15B, 8517.90.30B, 8517.90.35A, 8517.90.35B, 8517.90.40A, 8517.90.40B, 8517.90.55B, 8517.90.60A, 8517.90.60B, 8517.90.70D or 8517.90.80B or Mexican tariff item 8473.30.03, 8517.90.13 or 8517.90.15: (a) except as provided in subparagraph (b), for each multiple of nine PCAs, or any portion thereof, that is contained in the good, only one PCA may be a non-originating PCA, and (b) if the good contains less than three PCAs, all of the PCAs must be originating PCAs.
8517.40	A change to subheading 8517.40 from any other subheading.

8517.81	
8517.81.aa	A change to Mexican tariff item 8517.81.05 from any other tariff item, except from Canadian tariff item 8517.90.31, U.S. tariff item 8517.90.70A or Mexican tariff item 8517.90.10.
8517.81	A change to subheading 8517.81 from any other subheading, provided that, with respect to printed circuit assemblies (PCAs) of Canadian tariff item 8473.30.21, 8473.30.22, 8517.90.11, 8517.90.12, 8517.90.13, 8517.90.14, 8517.90.43 or 8517.90.44, U.S. tariff item 8473.30.40A, 8517.90.05A, 8517.90.05B, 8517.90.10A, 8517.90.10B, 8517.90.15A, 8517.90.15B, 8517.90.30B, 8517.90.35A, 8517.90.35B, 8517.90.40A, 8517.90.40B, 8517.90.55B, 8517.90.60A, 8517.90.60B, 8517.90.70D or 8517.90.80B or Mexican tariff item 8473.30.03, 8517.90.13 or 8517.90.15: (a) except as provided in subparagraph (b), for each multiple of nine PCAs, or any portion thereof, that is contained in the good, only one PCA may be a non-originating PCA, and (b) if the good contains less than three PCAs, all of the PCAs must be originating PCAs.
8517.82	
8517.82.aa	A change to Canadian tariff item 8517.82.10 or U.S. tariff item 8517.82.00A from any other tariff item, except from Canadian tariff item 8517.90.31, U.S. tariff item 8517.90.70A or Mexican tariff item 8517.90.10.
8517.82	A change to subheading 8517.82 from any other subheading.
8517.90	
8517.90.aa	A change to Canadian tariff item 8517.90.41, U.S. tariff item 8517.90.30A or Mexican tariff item 8517.90.12 from any other tariff item, except from Canadian tariff item 8517.90.11, 8517.90.12, 8517.90.13 or 8517.90.14, U.S. tariff item 8517.90.05B, 8517.90.10B, 8517.90.15B, 8517.90.30B, 8517.90.35B, 8517.90.40B, 8517.90.55B, 8517.90.60B, 8517.90.70D or 8517.90.80B or Mexican tariff item 8517.90.15.
8517.90.bb	A change to Canadian tariff item 8517.90.43 or 8517.90.44, U.S. tariff item 8517.90.05A, 8517.90.10A, 8517.90.15A, 8517.90.35A, 8517.90.40A or 8517.90.60A or Mexican tariff item 8517.90.13 from any other tariff item, provided that, with respect to printed circuit assemblies (PCAs) of Canadian tariff item 8473.30.21, 8473.30.22, 8517.90.11, 8517.90.12, 8517.90.13, 8517.90.14, 8517.90.42, 8517.90.45 or 8517.90.46, U.S. tariff item 8473.30.40A, 8517.90.05B, 8517.90.10B, 8517.90.15B, 8517.90.30B, 8517.90.35B, 8517.90.40B, 8517.90.55A, 8517.90.55B, 8517.90.60B, 8517.90.70C, 8517.90.70D, 8517.90.80A or 8517.90.80B or Mexican tariff item 8473.30.03, 8517.90.14 or 8517.90.15: (a) except as provided in subparagraph (b), for each multiple of nine PCAs, or any portion thereof, that is contained in the good, only one PCA may be a non-originating PCA, and (b) if the good contains less than three PCAs, all of the PCAs must be originating PCAs.

8517.90.cc	A change to Canadian tariff item 8517.90.31, U.S. tariff item 8517.90.70A or Mexican tariff item 8517.90.10 from any other tariff item.
8517.90.dd	A change to Canadian tariff item 8517.90.42, 8517.90.45 or 8517.90.46, U.S. tariff item 8517.90.55A, 8517.90.70C or 8517.90.80A or Mexican tariff item 8517.90.14 from any other tariff item.
8517.90.ee	A change to Canadian tariff item 8517.90.11, 8517.90.12, 8517.90.13 or 8517.90.14, U.S. tariff item 8517.90.05B, 8517.90.10B, 8517.90.15B, 8517.90.30B, 8517.90.35B, 8517.90.40B, 8517.90.55B, 8517.90.60B, 8517.90.70D or 8517.90.80B or Mexican tariff item 8517.90.15 from any other tariff item.
8517.90.ff	A change to Canadian tariff item 8517.90.21, 8517.90.22, 8517.90.23 or 8517.90.24, U.S. tariff item 8517.90.05C, 8517.90.10C, 8517.90.15C, 8517.90.30C, 8517.90.35C, 8517.90.40C, 8517.90.55C, 8517.90.60C, 8517.90.70E or 8517.90.80C or Mexican tariff item 8517.90.16 from any other heading.
8517.90.gg	A change to Canadian tariff item 8517.90.91, 8517.90.92 or 8517.90.93, U.S. tariff item 8517.90.05D, 8517.90.10D, 8517.90.15D, 8517.90.30D, 8517.90.35D, 8517.90.40D, 8517.90.55D, 8517.90.60D, 8517.90.70F or 8517.90.80D or Mexican tariff item 8517.90.99 from Canadian tariff item 8517.90.21, 8517.90.22, 8517.90.23 or 8517.90.24, U.S. tariff item 8517.90.05C, 8517.90.10C, 8517.90.15C, 8517.90.30C, 8517.90.35C, 8517.90.40C, 8517.90.55C, 8517.90.60C, 8517.90.70E or 8517.90.80C or Mexican tariff item 8517.90.16, or any other heading.
8517.90	A change to subheading 8517.90 from any other heading.
8518.10-8518.21	A change to subheading 8518.10 through 8518.21 from any other heading; or A change to subheading 8518.10 through 8518.21 from subheading 8518.90, 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.
8518.30.10	
8518.30.aa	A change to Canadian tariff item 8518.30.10, U.S. tariff item 8518.30.10 or Mexican tariff item 8518.30.03 from any other tariff item.
8518.40-8518.50	A change to subheading 8518.40 through 8518.50 from any other heading; or A change to subheading 8518.40 through 8518.50 from subheading 8518.90, 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.

8520.10-8520.90	A change to subheading 8520.10 through 8520.90 from any other subheading, including another subheading within that group, except from Canadian tariff item 8522.90.31, 8522.90.32, 8522.90.33, 8522.90.34 or 8522.90.39, U.S. tariff item 8522.90.40A, 8522.90.40B, 8522.90.60A or 8522.90.90A or Mexican tariff item 8522.90.14.
85.22	A change to heading 85.22 from any other heading.
8525.10-8525.20	A change to subheading 8525.10 through 8525.20 from any subheading outside that group, provided that, with respect to printed circuit assemblies (PCAs) of Canadian tariff item 8529.90.11, 8529.90.12, 8529.90.13 or 8529.90.14, U.S. tariff item 8529.90.15A, 8529.90.20A, 8529.90.30A, 8529.90.35A, 8529.90.40A, 8529.90.40B, 8529.90.45A or 8529.90.50A or Mexican tariff item 8529.90.16: (a) except as provided in subparagraph (b), for each multiple of nine PCAs, or any portion thereof, that is contained in the good, only one PCA may be a non-originating PCA, and (b) if the good contains less than three PCAs, all of the PCAs must be originating PCAs.
8526.91-8526.92	A change to subheading 8526.91 through 8526.92 from any other heading, except from heading 85.29; or A change to subheading 8526.91 through 8526.92 from heading 85.29, 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.
8527.90	A change to subheading 8527.90 from any other subheading, provided that, with respect to printed circuit assemblies (PCAs) of Canadian tariff item 8529.90.11, 8529.90.12, 8529.90.13 or 8529.90.14, U.S. tariff item 8529.90.15A, 8529.90.20A, 8529.90.30A, 8529.90.35A, 8529.90.40A, 8529.90.40B, 8529.90.45A or 8529.90.50A or Mexican tariff item 8529.90.16: (a) except as provided in subparagraph (b), for each multiple of nine PCAs, or any portion thereof, that is contained in the good, only one PCA may be a non-originating PCA, and (b) if the good contains less than three PCAs, all of the PCAs must be originating PCAs.
8529.10	A change to subheading 8529.10 from any other heading.
8529.90	
8529.90.aa	A change to Canadian tariff item 8529.90.11, 8529.90.12, 8529.90.13 or 8529.90.14, U.S. tariff item 8529.90.15A, 8529.90.20A, 8529.90.30A, 8529.90.35A, 8529.90.40A, 8529.90.40B, 8529.90.45A or 8529.90.50A or Mexican tariff item 8529.90.16 from any other tariff item.

8529.90.ff	A change to Canadian tariff item 8529.90.51, 8529.90.52, 8529.90.53 or 8529.90.54, U.S. tariff item 8529.90.15B, 8529.90.20B, 8529.90.30B, 8529.90.35B, 8529.90.45C or 8529.90.50B or Mexican tariff item 8529.90.21 from any other tariff item.
8529.90.gg	A change to Canadian tariff item 8529.90.60, U.S. tariff item 8529.90.30C or 8529.90.50C or Mexican tariff item 8529.90.22 from any other heading; or No required change in tariff classification to Canadian tariff item 8529.90.60, U.S. tariff item 8529.90.30C or 8529.90.50C or Mexican tariff item 8529.90.22, 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.
8529.90	A change to subheading 8529.90 from any other heading.
Chapter 88	**Aircraft, Spacecraft, and Parts Thereof**
8801.10-8803.90	A change to subheading 8801.10 through 8803.90 from any other subheading, including another subheading within that group.

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
- related party transactions where 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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