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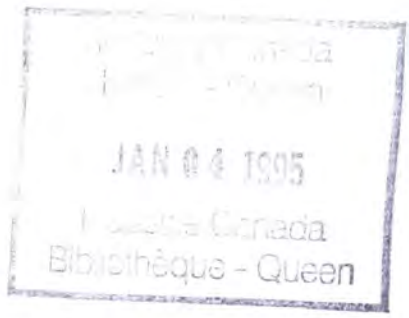
THE MAJOR APPLIANCES SECTOR



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NAFTA AND THE MAJOR APPLIANCES SECTOR



This booklet is part of a series of NAFTA sector publications prepared by Industry Canada.



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© Minister of Supply and Services Canada 1994
Cat. No. C2-227/2-1994 E
ISBN 0-662-22094-3
PO PU 0059-93-01

Également disponible en français sous le titre
L'ALENA et le secteur des appareils domestiques et commerciaux

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NAFTA AND THE CANADIAN MAJOR APPLIANCES 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 major appliances with continued preferential access to U.S. markets and new preferential access to Mexico. The Mexican market for major appliances has had an annual growth rate of 12 percent over the last few years. This trend is expected to continue with the increasing affluence of the Mexican people and growing needs of the Mexico's tourism industry.

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 major appliance 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 these products. It also provides an overview of the major appliance market in North America and highlights potential new market opportunities in Mexico.

TARIFFS FOR MAJOR APPLIANCES

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

Canada- United States Tariffs

Trade between the United States and Canada will continue to be governed by the tariff phase-outs negotiated under the provisions of the Canada-United States Free Trade Agreement (FTA). These phase-out schedules are unaffected by NAFTA. Under the FTA, tariffs for all appliances 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 household appliances. 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 household appliances ranged from 10 to 20 percent. Although a few Mexican tariffs were eliminated on January 1, 1994, including those on some spin-dry washers, furniture designed for refrigerators and freezers, garbage disposals and sewing machines and their parts, most tariffs will be eliminated over the five-year and ten-year phase-out periods.

The following are some of the items that will become duty free in 1998:

- ▶ air conditioners;
- ▶ refrigerators, other than compressor operated ones;
- ▶ some freezers;
- ▶ dehumidifiers;
- ▶ ranges and stoves;
- ▶ dishwashers; and
- ▶ many parts for appliances.

**Canadian
Phase-Outs**

Canadian import tariffs for most Mexican household appliances will also be eliminated over five and ten years matching, for the most part, the Mexican tariff eliminations.

Ten-year tariff phase-outs were negotiated on clothes dryers, most washing machines, compressor-type refrigerators and freezers. This provides Canadian manufacturers with more time to adapt to the new trading environment.

Imports of microwaves, sewing machines and waste disposals became duty-free on January 1, 1994.

**Treatment
of Jointly
Produced Goods**

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

**Accelerated
Duty Elimination**

As with the FTA, there is an acceleration clause in NAFTA. Tariffs for household appliances 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 MAJOR APPLIANCES

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 major appliances 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 a number of major appliances, there is an additional condition that relates to the number of certain non-North American components permitted to be incorporated into specified assemblies.
- ▶ For a few major appliances using specific non-North American parts, 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, any requirement relating to assemblies and indicates when a value-content test is required. The product-specific rules of origin applicable to major appliances are found in Annex B.

NAFTA introduces significant changes to the rules of origin for most major appliances, notably, the elimination of the value content requirement of the FTA, which was applicable to most major appliances and which 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.

How NAFTA Rules Differ from the FTA Rules

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 major appliances. 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 appliance producers to keep in mind that the *de minimis* rule cannot be used for certain major appliances.

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 household refrigerators uses compressors imported from Japan.

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

The producer determines that refrigerators are classified under tariff subheading 8418.10. The non-North American part (i.e. compressor) falls under tariff item 8414.30.10. Door assemblies fall under tariff subheading 8418.99.

The rule of origin for subheading 8418.21 (i.e. household refrigerators) requires “a change to subheading 8418.10 through 8418.21 from any other subheading outside that group, except from subheading 8418.91 or Canadian tariff item 8418.99.11, 8418.99.21, 8418.99.41 or 8418.99.51...or from assemblies incorporating more than one of the following: compressor, condenser, evaporator, connecting tubing.” In this example, the refrigerators in question would qualify as North American because the compressors are not classified under any of the excluded subheadings or tariff items.

If the producer made the same product but used a Japanese compressor assembly that included a condenser and connecting tubing, the refrigerator would not qualify because the imported assembly incorporates more than one of the specified components (i.e. compressor, condenser, evaporator, connecting tubing). Similarly, if a non-North American door assembly of tariff heading 8418.99 was used, the good would not qualify.

Additional Information

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

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

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

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

NAFTA CUSTOMS MATTERS

Classification and Origin Determination

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

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

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

Customs Administration

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

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

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

COUNTRY OF ORIGIN MARKING REQUIREMENTS

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

Method of Marking

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

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

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

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

Country of Origin

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

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

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

WHAT ELSE YOU SHOULD KNOW

Temporary Entry for Business Purposes

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

Canadian manufacturers of major appliances will be able to use NAFTA temporary entry provisions to facilitate travel necessary to promote the sales of goods in the United States and Mexico. Such "business visitors" are required to carry proof that they are citizens of one of the NAFTA countries, and a letter from their employer indicating the nature of their visit, their principal place of employment and the actual place of accrual of profits.

Sales representatives may bring commercial samples, advertising materials and equipment necessary to carry out the business activity without having to pay duty on those goods.

Temporary entry is also available for other business travellers such as traders and investors, intra-company transferees and professionals.

If you expect to use any of the temporary entry provisions, you should check with the relevant immigration or customs authorities for information on any documentation requirements.

Duty Drawback

Duty drawback is the refund of customs duties levied on materials and components imported from other countries when they are incorporated into goods that are subsequently exported.

For Canada-United States trade, the FTA prescribed that all duty drawback programs were to be eliminated by January 1, 1994. NAFTA extends this deadline by two years. These programs can now be used until January 1, 1996. For trade with Mexico, existing drawback programs can be used until January 1, 2001.

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

Safeguard Mechanism

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

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

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

Dispute Settlement

NAFTA strengthens the dispute settlement mechanism negotiated under the FTA. There are three steps in the NAFTA provisions:

- ▶ **A consultative process.** When a country believes that its NAFTA access rights have been impaired, it can ask for consultations with the allegedly offending country. The other NAFTA country can also participate if it wishes.
- ▶ **An arbitration process.** If agreement is not reached through consultations, a meeting of the NAFTA Trade Commission may be called to discuss how the disagreement may be settled amicably. The commission is composed of cabinet level representatives designated by each country.
- ▶ **A “panel process.”** If agreement cannot be reached through arbitration by the NAFTA Trade Commission, a NAFTA panel can be convened. The panel process would determine whether any trade action taken by a NAFTA country is consistent with the NAFTA provisions. Dispute resolution must occur within strict time limits and countries must comply with panel recommendations or offer acceptable compensation.

Procurement

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

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

Intellectual Property Rights

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

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

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

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

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

Other NAFTA Provisions

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

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

THE CANADIAN INDUSTRY IN A NORTH AMERICAN CONTEXT

Canadian Market

With imports accounting for over 40 percent of the Canadian major appliance market, this sector faces strong competitive pressures. Improved labour productivity and the declining value of the Canadian dollar have combined to significantly strengthen the competitiveness of the Canadian appliance industry. Maintaining this trend by adhering to strict quality standards and being environmentally responsive will bolster the industry's export potential and its domestic performance.

Canada- United States Trade

U.S. appliance exports to Canada are valued at over \$400 million, which is equivalent to about 50 percent of total shipments by Canadian manufacturers. In contrast, Canada's appliance exports to the United States represent less than 0.5 percent of the \$18 billion U.S. market.

Notwithstanding the domination of this industry by U.S. firms, Canadian products compete in quality and price in certain niche markets. This can be expected to increase with the enhanced trade opportunities made possible by NAFTA. Canadian industry's slim but recognized lead in environmental technology and planning is cited as a significant factor in future growth potential.

Canada-Mexico Trade

Two way trade in major appliances between Canada and Mexico is almost nonexistent. Competition from the dominant U.S. industry and the high cost of transportation are the principal causes. However, the increasing international competitiveness of the Canadian industry coupled with steady growth in demand in Mexico could justify Canadian joint ventures with Mexican firms in order to overcome the geographic impediments to increased bilateral trade.

United States- Mexico Trade

U.S. exports of major appliances to Mexico reached \$300 million in 1992, and accounted for about 66 percent of Mexico's household appliance imports. The Mexican market is accustomed to U.S. products and prices, a familiarity that is increasing because of growing market penetration, U.S.-Mexico joint ventures and branch plant operations.

The U.S. market is primarily served by domestic producers, with imports from Mexico accounting for only 2 percent of the total U.S. market. Mexican products are performing well in the United States, benefiting from close proximity to growing U.S. markets, low labour rates and duty free access. Mexico has made strong market gains in vacuum cleaners and refrigerators.

Competitive Implications of NAFTA

New Mexican Market Opportunities

Reductions in Mexican trade barriers are likely to be of a greater benefit to U.S. producers given their proximity and strong presence in that market. Similarly, increased Mexican production will primarily serve the Mexican or U.S. markets; it is not expected to have a major competitive impact on the Canadian market.

In recent years, the Mexican appliance market has been undergoing dynamic growth, with imports now accounting for about one third of the domestic market. NAFTA will make the consumer products market in Mexico much more accessible. Anticipated increases in disposable income and Mexico's large population base could result in an important export market for Canadian appliance manufacturers, particularly for those with exclusive rights to produce certain products under North American or world product mandates.

The best opportunities for export growth would be in the expanding Mexican retail demand for major appliances together with the tourism industry's requirements (hotels, restaurants, bars and resorts) and government procurement. It is essential that Canadian firms familiarize themselves with the market through participating in trade shows, periodically visiting or corresponding with Mexico's largest department and chain store buyers, and developing a good relationship with resident distributors and representatives.

Stoves, refrigerators, freezers, dishwashers, washers and dryers, and gas water heaters will be increasingly in demand.

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

TAKING ADVANTAGE OF NAFTA OPPORTUNITIES

Individual companies need to look at the facts to clearly determine how North American trade liberalization will affect their business. Prudent company directors will formulate a business plan to ensure that the business continues to grow while the opportunities provided by NAFTA are taken advantage of.

In assessing the impacts of the Agreement for your business, you should ask yourself the following questions:

- ▶ What effect will NAFTA tariff reductions have on my business?
- ▶ How might the changes to the rules of origin affect my products?
- ▶ Do the extended duty drawback provisions, and the improved standards, safeguards and investment provisions affect my business?
- ▶ How will NAFTA affect my customers, suppliers, and competitors?

You will want to assess how to adapt your business to the new environment under NAFTA. Some questions to be considered include:

- ▶ Which U.S. and Mexican markets have the best growth potential for my products?
- ▶ What are the best transportation, distribution and servicing arrangements for the new markets?
- ▶ Which of my products will face tougher competition domestically?
- ▶ Do I need to change my product line to take advantage of the NAFTA opportunities?
- ▶ Can new technologies or production processes reduce my costs?
- ▶ Can I take better advantage of NAFTA tariff preferences by using more North American inputs?
- ▶ What effect will expanding my market have on my cash flow, profit and loss account, and balance sheet?
- ▶ Are my human resource needs going to change?

Answering these questions will provide a good start on the type of information that you need to develop and implement a strategic plan of action in response to NAFTA's competitive environment. A full strategic plan is necessary for companies to compete successfully in today's open market system. If you need assistance in developing a strategic plan call your regional Industry Canada office or the sector contact listed at the end of this publication.



CONTACTS

For further information concerning the subject matter contained in this publication contact Industry Canada at:

Furniture, Household and Recreational Products

Tel.: (613) 954-2893

Fax: (613) 952-3104, 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
- ▶ Paper Products
- ▶ Plastics
- ▶ Primary Metals
- ▶ Professional and Business Services
- ▶ Resource Equipment
- ▶ Sporting and Recreational Equipment
- ▶ Telecommunications Equipment
- ▶ Textiles
- ▶ Urban Transit and Rail
- ▶ Wood and Wood Products

To order any of the above or additional copies of this publication contact:

NAFTA Information Desk
 Industry Canada
 Tel.: (613) 952-5010
 Fax: (613) 952-0540

The following publications provide additional information on the Agreement and guidance on exporting within the NAFTA trade area:

- ▶ *NAFTA: What's it all about?*
- ▶ *North American Free Trade Agreement*
- ▶ *Documents and Regulations for Exporting to Mexico*
- ▶ *Guide to Rules of Origin and Customs Procedures for Canadian Exporters to the U.S. Market*
- ▶ *Mexico: A Guide for Canadian Exporters*
- ▶ *Government Procurement in Mexico*

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

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

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

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

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

MAJOR APPLIANCES CANADA-MEXICO TARIFF PHASE-OUT SCHEDULE

SUB-HEADING	DESCRIPTION	CANADA			MEXICO		
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING
7321.11	Cooking appliances and plate warmers for gas fuel or both gas and other fuels	7321.11.11	8	C	7321.11.01	20	C
		7321.11.19	8	C	7321.11.02	20	C
		7321.11.90	8	C	7321.11.99	20	C
7321.12	Cooking appliances and plate warmers for liquid fuel, iron or steel	7321.12.00	8	B	7321.12.01	20	B
7321.13	Cooking appliances and plate warmers for solid fuel, iron or steel	7321.13.00	8	B	7321.13.01	20	A
7321.81	Household or cooking appliances for heating, nes, for gas fuel and other fuels or both	7321.81.00	7.5	B	7321.81.01	20	B
					7321.81.99	20	B
8415.10	Air conditioning machines window or wall types, self-contained	8415.10.10	2.5 (6.2)	B	8415.10.01	20	B
		8415.10.90	2.5 (9.2)	B			
8418.21	Refrigerators, household type, compression-type	8418.21.10	8 (12.6)	C	8418.21.01	20	C
		8418.21.90	8 (12.5)	C			
8418.22	Refrigerators, household type, absorption-type, electrical	8418.22.10	8	B	8418.22.01	20	B
		8418.22.90	8	B			
8418.29	Refrigerators, household type, nes	8418.29.00	8	B	8418.29.99	15	B
8418.30	Freezers of the chest type, not exceeding 800 litres capacity	8418.30.00	2.5 (6.2)	C	8418.30.01	20	B
					8418.30.02	20	B
					8418.30.03	20	C
					8418.30.04	20	B
					8418.30.05	20	B
					8418.30.99	15	B
8418.40	Freezers of the upright type, not exceeding 900 litres capacity	8418.40.00	2.5 (6.2)	C	8418.40.01	20	B
					8418.40.02	20	B
					8418.40.03	20	C
					8418.40.04	20	C
					8418.40.05	20	C
					8418.40.99	15	C
8418.91	Furniture designed to receive refrigerating or freezing equipment	8418.91.10	6.5	A	8418.91.01	15	A
		8418.91.20	2.5	A	8418.91.02	15	A
		8418.91.30	Free	D	8418.91.99	15	A
		8418.91.40	2.5	A			
8418.99	Parts of refrigerating or freezing equipment, nes	8418.99.11	6.5	B	8418.99.01	10	C
		8418.99.19	6.5	B	8418.99.02	15	C
		8418.99.21	6.5	B	8418.99.03	15	B
		8418.99.29	6.5	B	8418.99.04	15	C
		8418.99.31	2.5 (6.2)	C	8418.99.05	15	C
		8418.99.39	2.5 (6.2)	B	8418.99.06	15	C
		8418.99.41	Free	D	8418.99.07	15	C
		8418.99.49	Free	D	8418.99.08	15	C
		8418.99.51	2.5 (9.2)	C	8418.99.09	10	C
		8418.99.59	2.5 (9.2)	C	8418.99.10	15	C
					8418.99.11	15	C
					8418.99.12	15	C
			9418.99.99	15	C		
8422.11	Dish washing machines of the household type	8422.11.10	Free	D	8422.11.01	20	B
		8422.11.91	2.5 (6.2)	B			
		8422.11.99	4.1 (7)	B			

SUB- HEADING	DESCRIPTION	CANADA			MEXICO		
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING
8422.90	Parts of dish washing, cleaning or drying container, packing or wrapping machines	8422.90.11	Free	D	8422.90.01	10	B
		8422.90.12	Free	D	8422.90.02	10	B
		8422.90.19	Free	D	8422.90.03	10	A
		8422.90.21	Free	D	8422.90.04	10	B
		8422.90.22	2.5 (4.6)	B	8422.90.05	10	B
		8422.90.23	2.5 (4.6)	B	8422.90.06	10	B
		8422.90.29	2.5 (4.6)	B	8422.90.99	10	A
		8422.90.90	2.5	A			
8450.11	Automatic washing machines, of a dry linen capacity not exceeding 10 kg	8450.11.10	8	C	8450.11.01	20	C
		8450.11.20	2.5 (6.2)	B	8450.11.02	20	B
8450.12	Washing machines of a dry linen capacity not exceeding 10 kg with built-in dryer, nes	8450.12.00	8	C	8450.12.01	20	C
					8450.12.99	20	A
8450.19	Household or laundry-type washing machines of a dry linen capacity not exceeding 10 kg, nes	8450.19.00	8	C	8450.19.01	20	C
					8450.19.99	20	B
8450.90	Parts of household or laundry-type washing machines, including combination machinery	8450.90.11	8	C	8450.90.01	10	C
		8450.90.12	8	C	8450.90.02	10	C
		8450.90.19	8	C	8450.90.99	10	C
		8450.90.21	Free	D			
		8450.90.22	Free	D			
		8450.90.29	Free	D			
		8450.90.41	2.5 (6.3)	B			
		8450.90.42	2.5 (6.3)	B			
8450.90.49	2.5 (6.3)	B					
8451.21	Drying machines (other than Heading 84.50) of a dry linen capacity not exceeding 10 kg	8451.21.00	8	C	8451.21.01	20	C
					8451.21.99	20	B
8451.90	Parts of washing, cleaning, drying, ironing, dyeing machines (other than heading 84.50)	8451.90.11	Free	D	8451.90.01	10	A
		8451.90.12	Free	D	8451.90.02	10	A
		8451.90.19	Free	D	8451.90.99	10	A
		8451.90.21	8	A			
		8451.90.22	8	A			
		8451.90.29	8	A			
		8451.90.31	2.5	A			
		8451.90.32	2.5	A			
		8451.90.39	2.5	A			
		8451.90.40	8	A			
8452.10	Household type sewing machines	8452.10.00	5	A	8452.10.01	20	A
8452.30	Sewing machine needles	8452.30.00	Free	D	8452.30.01	10	A
8452.40	Furniture, bases and covers for sewing machines and parts thereof	8452.40.10	9	A	8452.40.01	15	A
		8452.40.20	Free	D			
		8452.40.90	2.5	A			
8452.90	Parts of sewing machines, nes	8452.90.10	Free	D	8452.90.01	15	A
		8452.90.91	5	A	8452.90.02	10	A
		8452.90.99	2.5	A	8452.90.99	10	A
8479.89	Machines and mechanical appliances, nes, having individual functions including dehumidifiers and carpet sweepers	8479.89.30	8 (12.5)	B	8479.89.02	10	A
		8479.89.40	5.1 (12.6)	C	8479.89.03	10	A
		8479.89.91	2.5	B	8479.89.05	15	B
		8479.89.99	2.5	B	8479.89.10	20	B
					8479.89.13	20	B
					8479.89.15	15	C
					8479.89.16	20	C
					8479.89.17	20	C
					8479.89.19	20	C
					8479.89.24	20	B
					8479.89.25	20	B
					8479.89.99	10	B

SUB- HEADING	DESCRIPTION	CANADA			MEXICO					
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING			
8479.90	Parts of machines and mechanical appliances, nes, having individual functions	8479.90.30	8	(12.5)	B	8479.90.01	10	B		
		8479.90.61	2.5		A	8479.90.02	10	B		
		8479.90.62	2.5		A	8479.90.06	10	B		
		8479.90.63	2.5		A	8479.90.09	10	B		
		8479.90.64	2.5		A	8479.90.10	10	B		
		8479.90.69	2.5		A	8479.90.12	10	A		
						8479.90.16	10	B		
						8479.90.17	10	A		
						8479.90.18	10	A		
						8479.90.19	10	A		
						8479.90.20	10	A		
						8479.90.99	10	A		
		8509.30	Domestic kitchen waste disposers	8509.30.00	2.5		A	8509.30.01	20	A
		8516.50	Microwave ovens	8516.50.00	8		A	8516.50.01	20	A
8516.60	Ovens; cookers, cooking plates, boiling rings, grillers and roasters, electric, nes	8516.60.20	8		B	8516.60.01	20	B		
		8516.60.90	8		B	8516.60.99	20	C		
8516.80	Electric heating resistors	8516.80.11	Free		D	8516.80.01	10	A		
		8516.80.12	8	(12.6)	B	8516.80.02	15	B		
		8516.80.19	7.5	(11.3)	B	8516.80.03	15	B		
		8516.80.99	6.5	(10.3)	B	8516.80.99	10	C		
8516.90	Parts of electro-thermic appliances of heading No. 85.16	8516.90.21	2.5	(4.6)	B	8516.90.01	15	B		
		8516.90.29	2.5	(4.6)	B	8516.90.02	15	B		
		8516.90.41	Free		D	8516.90.03	15	B		
		8516.90.42	Free		D	8516.90.04	15	B		
		8516.90.49	Free		D	8516.90.05	15	B		
		8516.90.51	8		B	8516.90.06	15	B		
		8516.90.52	8		B	8516.90.07	15	B		
		8516.90.53	8		B	8516.90.08	15	B		
		8516.90.59	8		B	8516.90.09	15	B		
		8516.90.61	8		B	8516.90.10	15	B		
		8516.90.62	Free		D	8516.90.11	15	B		
		8516.90.69	8		B	8516.90.12	15	B		
		8516.90.90	7		B	8516.90.13	15	B		
						8516.90.99	15	B		

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

ANNEX B**Rules of Origin for Major Appliances****Chapter 73****Articles of Iron or Steel**

7321.11

7321.11.aa

A change to Canadian tariff item 7321.11.19, U.S. tariff item 7321.11.30 or Mexican tariff item 7321.11.02 from any other subheading, except from Canadian tariff item 7321.90.51, 7321.90.52 or 7321.90.53, U.S. tariff item 7321.90.30A, 7321.90.30B or 7321.90.30C or Mexican tariff item 7321.90.05, 7321.90.06 or 7321.90.07.

7321.11

A change to subheading 7321.11 from any other heading; or

A change to subheading 7321.11 from subheading 7321.90, 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.

7321.12-7321.83

A change to subheading 7321.12 through 7321.83 from any other heading; or

A change to subheading 7321.12 through 7321.83 from subheading 7321.90, 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.

7321.90

7321.90.aa

A change to Canadian tariff item 7321.90.51, U.S. tariff item 7321.90.30A or Mexican tariff item 7321.90.05 from any other tariff item.

7321.90.bb

A change to Canadian tariff item 7321.90.52, U.S. tariff item 7321.90.30B or Mexican tariff item 7321.90.06 from any other tariff item.

7321.90.cc

A change to Canadian tariff item 7321.90.53, U.S. tariff item 7321.90.30C or Mexican tariff item 7321.90.07 from any other tariff item.

7321.90

A change to subheading 7321.90 from any other heading.

Chapter 84**Nuclear Reactors, Boilers, Machinery and Mechanical Appliances; Parts Thereof**

8418.10-8418.21

A change to subheading 8418.10 through 8418.21 from any subheading outside that group, except from subheading 8418.91 or Canadian tariff item 8418.99.11, 8418.99.21, 8418.99.31, 8418.99.41 or 8418.99.51, U.S. tariff item 8418.99.00A or Mexican tariff item 8418.99.12 or from assemblies incorporating more than one of the following: compressor, condenser, evaporator, connecting tubing.

- 8418.22 A change to subheading 8418.22 from any other heading; or
A change to subheading 8418.22 from subheading 8418.91 through 8418.99, 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.
- 8418.29-8418.40 A change to subheading 8418.29 through 8418.40 from any subheading outside that group, except from subheading 8418.91 or Canadian tariff item 8418.99.11, 8418.99.21, 8418.99.31, 8418.99.41 or 8418.99.51, U.S. tariff item 8418.99.00A or Mexican tariff item 8418.99.12 or from assemblies incorporating more than one of the following: compressor, condenser, evaporator, connecting tubing.
- 8418.91 A change to subheading 8418.91 from any other subheading.
- 8418.99
- 8418.99.aa A change to Canadian tariff item 8418.99.11, 8418.99.21, 8418.99.31, 8418.99.41 or 8418.99.51, U.S. tariff item 8418.99.00A or Mexican tariff item 8418.99.12 from any other tariff item.
 - 8418.99 A change to subheading 8418.99 from any other heading.
- 8421.12
- A change to subheading 8421.12 from any other subheading, except from Canadian tariff item 8421.91.11, 8421.91.12, 8537.10.11, 8537.10.19, 8537.10.41 or 8537.10.49, U.S. tariff item 8421.91.00A, 8421.91.00B or 8537.10.00A or Mexican tariff item 8421.91.02, 8421.91.03 or 8537.10.05.
- 8421.91
- 8421.91.aa A change to Canadian tariff item 8421.91.11, U.S. tariff item 8421.91.00A or Mexican tariff item 8421.91.02 from any other tariff item.
 - 8421.91.bb A change to Canadian tariff item 8421.91.12, U.S. tariff item 8421.91.00B or Mexican tariff item 8421.91.03 from any other tariff item.
 - 8421.91 A change to subheading 8421.91 from any other heading.
- 8422.11 A change to subheading 8422.11 from any other subheading, except from Canadian tariff item 8422.90.11, 8422.90.12, 8422.90.22, 8422.90.23, 8537.10.11, 8537.10.19, 8537.10.41 or 8537.10.49, U.S. tariff item 8422.90.05A, 8422.90.05B or 8537.10.00A or Mexican tariff item 8422.90.05, 8422.90.06 or 8537.10.05 or from water circulation systems incorporating a pump, whether or not motorized, and auxiliary apparatus for controlling, filtering, or dispersing a spray.
- 8422.90
- 8422.90.aa A change to Canadian tariff item 8422.90.11 or 8422.90.22, U.S. tariff item 8422.90.05A or Mexican tariff item 8422.90.05 from any other tariff item.

8422.90.bb	A change to Canadian tariff item 8422.90.12 or 8422.90.23, U.S. tariff item 8422.90.05B or Mexican tariff item 8422.90.06 from any other tariff item.
8422.90	A change to subheading 8422.90 from any other heading.
8450.11-8450.20	A change to subheading 8450.11 through 8450.20 from any subheading outside that group, except from Canadian tariff item 8450.90.11, 8450.90.12, 8450.90.21, 8450.90.22, 8450.90.31, 8450.90.32, 8450.90.41, 8450.90.42, 8537.10.11, 8537.10.19, 8537.10.41 or 8537.10.49, U.S. tariff item 8450.90.00A, 8450.90.00B or 8537.10.00A or Mexican tariff item 8450.90.01, 8450.90.02 or 8537.10.05 or from washer assemblies incorporating more than one of the following: agitator, motor, transmission, clutch.
8450.90	
8450.90.aa	A change to Canadian tariff item 8450.90.11, 8450.90.21, 8450.90.31 or 8450.90.41, U.S. tariff item 8450.90.00A or Mexican tariff item 8450.90.01 from any other tariff item.
8450.90.bb	A change to Canadian tariff item 8450.90.12, 8450.90.22, 8450.90.32 or 8450.90.42, U.S. tariff item 8450.90.00B or Mexican tariff item 8450.90.02 from any other tariff item.
8450.90	A change to subheading 8450.90 from any other heading.
8451.21-8451.29	A change to subheading 8451.21 through 8451.29 from any subheading outside that group, except from Canadian tariff item 8451.90.11, 8451.90.12, 8451.90.21, 8451.90.22, 8451.90.31 or 8451.90.32, U.S. tariff item 8451.90.00A or 8451.90.00B or Mexican tariff item 8451.90.01 or 8451.90.02, or subheading 8537.10.
8451.90	
8451.90.aa	A change to Canadian tariff item 8451.90.11, 8451.90.21 or 8451.90.31, U.S. tariff item 8451.90.00A or Mexican tariff item 8451.90.01 from any other tariff item.
8451.90.bb	A change to Canadian tariff item 8451.90.12, 8451.90.22 or 8451.90.32, U.S. tariff item 8451.90.00B or Mexican tariff item 8451.90.02 from any other tariff item.
8451.90	A change to subheading 8451.90 from any other heading.
8452.10-8452.30	A change to subheading 8452.10 through 8452.30 from any other heading; or A change to subheading 8452.10 through 8452.30 from subheading 8452.40 or 8452.90, 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.
8452.40-8452.90	A change to subheading 8452.40 through 8452.90 from any other heading.

8479.89

8479.89.aa A change to Canadian tariff item 8479.89.91 or U.S. tariff item 8479.89.60B from any other tariff item, except from Canadian tariff item 8479.90.61, 8479.90.62, 8479.90.63 or 8479.90.64, U.S. tariff item 8479.90.80B, 8479.90.80C, 8479.90.80D or 8479.90.80E or Mexican tariff item 8479.90.17, 8479.90.18, 8479.90.19 or 8479.90.20, or combinations thereof.

8479.89

A change to subheading 8479.89 from any other heading; or
 A change to subheading 8479.89 from subheading 8479.90, 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.

8479.90

8479.90.aa A change to Canadian tariff item 8479.90.61, U.S. tariff item 8479.90.80B or Mexican tariff item 8479.90.17 from any other tariff item.

8479.90.bb A change to Canadian tariff item 8479.90.62, U.S. tariff item 8479.90.80C or Mexican tariff item 8479.90.18 from any other tariff item.

8479.90.cc A change to Canadian tariff item 8479.90.63, U.S. tariff item 8479.90.80D or Mexican tariff item 8479.90.19 from any other tariff item.

8479.90.dd A change to Canadian tariff item 8479.90.64, U.S. tariff item 8479.90.80E or Mexican tariff item 8479.90.20 from any other tariff item.

8479.90 A change to subheading 8479.90 from any other heading.

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

8516.50 A change to subheading 8516.50 from any other subheading, except from Canadian tariff item 8516.90.41 or 8516.90.42, U.S. tariff item 8516.90.60C or 8516.90.60D or Mexican tariff item 8516.90.09 or 8516.90.10.

8516.60

8516.60.aa A change to Canadian tariff item 8516.60.20, U.S. tariff item 8516.60.40 or Mexican tariff item 8516.60.02 from any other tariff item, except from Canadian tariff item 8516.90.51, 8516.90.52, 8516.90.53, 8537.10.11, 8537.10.19, 8537.10.41 or 8537.10.49, U.S. tariff item 8516.90.20A, 8516.90.20B, 8516.90.20C or 8537.10.00A or Mexican tariff item 8516.90.11, 8516.90.12, 8516.90.13 or 8537.10.05.

- 8516.60 A change to subheading 8516.60 from subheading 8516.80 or any other heading; or
- A change to subheading 8516.60 from subheading 8516.90, whether or not there is also a change from subheading 8516.80 or 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.
- 8516.80 A change to subheading 8516.80 from any other heading; or
- A change to subheading 8516.80 from subheading 8516.90, 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.
- 8516.90
- 8516.90.cc A change to Canadian tariff item 8516.90.42, U.S. tariff item 8516.90.60C or Mexican tariff item 8516.90.09 from any other tariff item.
- 8516.90.dd A change to Canadian tariff item 8516.90.41, U.S. tariff item 8516.90.60D or Mexican tariff item 8516.90.10 from any other tariff item.
- 8516.90.ee A change to Canadian tariff item 8516.90.51, U.S. tariff item 8516.90.20A or Mexican tariff item 8516.90.11 from any other tariff item.
- 8516.90.ff A change to Canadian tariff item 8516.90.52, U.S. tariff item 8516.90.20B or Mexican tariff item 8516.90.12 from any other tariff item.
- 8516.90.gg A change to Canadian tariff item 8516.90.53, U.S. tariff item 8516.90.20C or Mexican tariff item 8516.90.13 from any other tariff item.
- 8516.90 A change to subheading 8516.90 from any other heading.

ANNEX C

Calculating Regional Value Content

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

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

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

In most cases, exporters can choose either method.

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

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

Transaction-Value Method

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

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

The formula is as follows:

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

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

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

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

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

Net-Cost Method

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

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

The net-cost formula is as follows:

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

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

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

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

