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# NAFTA

AND

THE SPORTING  
AND RECREATIONAL  
EQUIPMENT SECTOR



Canada

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QUEEN  
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# **NAFTA AND THE SPORTING AND RECREATIONAL SECTOR**



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## **NAFTA AND THE CANADIAN SPORTING AND RECREATIONAL 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 sporting and recreational equipment with continued preferential access to U.S. markets and new preferential access to Mexico. The Mexican market for sporting and recreational equipment is the seventh largest in the world and is expected to grow by up to 15 percent over the next few years.

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

## TARIFFS FOR SPORTING AND RECREATIONAL EQUIPMENT

Under NAFTA, the three countries agreed to an immediate or a five-year elimination of tariffs for most sporting and recreational equipment. Virtually all tariffs on sporting and recreational 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 sporting and recreational 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 sporting and recreational equipment. The applicable tariff phase-out stages for other products and inputs are listed in the country-specific NAFTA tariff schedules.

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

### Mexican Phase-Outs

Mexican import tariffs for most sporting and recreational goods were between 10 and 20 percent. Most were eliminated immediately on implementation of the Agreement on January 1, 1994. Included were the tariffs on such items as:

- ▶ fishing equipment;
- ▶ pools;
- ▶ sleeping bags;
- ▶ bowling alley equipment;
- ▶ golf clubs and golf balls; and
- ▶ inflatable balls.

Of particular interest to Canadian producers are the immediate tariff eliminations on the following:

- ▶ gymnastic and exercise equipment;
- ▶ ice and roller skates, including in-line skates;
- ▶ a variety of water-sports equipment;
- ▶ most bicycle parts; and
- ▶ safety helmets, including hockey helmets.

The tariffs on all other sporting and recreational equipment, except bicycles, will be eliminated by January 1, 1998. The tariffs on bicycles will be eliminated in 10 annual reductions ending on January 1, 2003.

### **Canadian Phase-Outs**

Canadian import tariffs for many Mexican-produced sporting and recreational goods were also eliminated immediately. These included tariffs on snow skis and fastenings, golf balls and equipment, rackets, and most fishing equipment.

Canadian tariffs will be eliminated over five years on goods such as most bicycle parts, billiard tables, automatic bowling equipment, golf clubs, table tennis equipment, some sports balls, gymnastic and exercise equipment, hockey sticks, power-operated equipment for skill development, protective equipment, and archery equipment.

Tariffs on bicycles will be eliminated over 10 years. Canada also negotiated a 10-year phase-out for tariffs on roller skates, including in-line skates. This will provide domestic manufacturers with the maximum time to adjust to the free trade environment.

### **Treatment of Jointly Produced Goods**

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

### **Accelerated Duty Elimination**

As with the FTA, there is an acceleration clause in NAFTA. Tariffs for sporting and recreational 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 SPORTING AND RECREATIONAL 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.”

### How NAFTA Rules Differ from the FTA Rules

The NAFTA rules of origin for sporting goods or recreational products set out the following requirements:

- ▶ Each non-North American input must undergo sufficient transformation during production in one or more of the NAFTA countries to result in a specified change of tariff classification.
- ▶ When certain parts of non-North American origin are used in the production of a good, the manufacturer may be required to meet a value-content test.

The specific rule of origin for each product sets out the required tariff classification change and indicates when a value-content test is required. The product-specific rules of origin applicable to most sporting and recreational equipment are found in Annex B.

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

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

However, NAFTA has introduced new provisions of general application that may assist some Canadian exporters. Notable changes include:

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



## How to Use the Rules of Origin

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

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

- ▶ **Step 1.** If your good is manufactured in Canada using inputs wholly sourced or manufactured in North America it qualifies as “originating” and is entitled to preferential tariff treatment when exported to the United States or Mexico.  
Exporters should be careful when determining whether their inputs are North American. Inputs purchased from North American suppliers are not necessarily North American, as they may have been produced or imported from non-North American sources.
- ▶ **Step 2.** If your good uses non-North American inputs, you must identify the tariff classification for the good and for any non-North American inputs. Should you have difficulties determining the tariff classification, contact the appropriate customs agencies identified in this booklet.
- ▶ **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 bicycles uses imported wheel rims from Japan, German bearings, and British tires and tubes.

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

The producer determines that bicycles are classified under tariff heading 8712. The non-North American parts fall under headings 8714, 8482, 4011 and 4013, respectively.

The rule of origin for heading 8712 (i.e. bicycles) requires “a change to heading 8712 from any other heading, except from heading 8714.” In this example, the bicycles in question would not qualify under this part of the rule because the wheel rims are classified under heading 8714.

The second part of the rule of origin for bicycles permits “a change to heading 8712 from heading 8714...provided there is a regional content of not less than 60 percent where the transaction-value method is used, or 50 percent where the net-cost method is used.” In this example, if the value of the North American content exceeds either of these figures, the bicycles would qualify.

Under the *de minimis* provision, however, if the value of the wheel rims is no more than 7 percent of the value of the finished bicycle, the good would automatically qualify and the value content requirement would not be triggered.

### Additional Information

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

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

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

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

## NAFTA CUSTOMS MATTERS

### Classification and Origin Determination

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

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

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

### Customs Administration

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

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

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

## COUNTRY OF ORIGIN MARKING REQUIREMENTS

### Method of Marking

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

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

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

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

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

### Country of Origin

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

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

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

## WHAT ELSE YOU SHOULD KNOW

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

### Temporary Entry for Business Purposes

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

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

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

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

### Duty Drawback

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

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

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

## **Safeguard Mechanism**

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

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

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

## **Dispute Settlement**

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

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

## Standards

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

To reduce exporter's 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 have 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 on intellectual property matters may be obtained by calling the Intellectual Property Directorate, Industry Canada at (819) 997-1936.

## Other NAFTA Provisions

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

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

## **THE CANADIAN INDUSTRY IN A NORTH AMERICAN CONTEXT**

### **Canadian Market**

The Canadian market for sporting and recreational equipment is estimated to be \$1.2 billion at wholesale cost. It is a large market and one that is heavily dependent on trade.

Imports account for almost \$700 million, or about 58 percent of the Canadian market. About 40 percent of the imports come from the United States, 42 percent from Asia and 12 percent from Western Europe.

Canadian firms export about \$250 million worth of sporting and recreational equipment, or about one third of their total shipments. The United States continues to be the industry's major export market, followed by Western Europe.

### **Canada- United States Trade**

In this sector, Canada and the United States have a very active and significant trading relationship. Since implementation of the Canada-U.S. FTA, bilateral trade has increased significantly. Exports from the United States to Canada rose from \$145 million in 1989 to \$275 million in 1992. This represented an increase in import market share from 32 percent to 40 percent.

In the same period, Canadian exports to the United States rose from \$112 million to \$204 million. This represents a significant increase from 1989, when exports to the United States made up only 69 percent of our total exports. Over 80 percent of Canadian exports of sporting and recreational equipment are now destined for the U.S. market.

Although adjustments were required, industries in both countries seem to have adapted fairly well to trade liberalization resulting from the Canada-U.S. FTA.

Trade between Canada and the United States is expected to continue to increase for the next several years. Canadian industry is in a good position to take advantage of current and emerging trends in recreational activities, such as in-line skating, hockey, marine and other outdoor sports.

Canadian producers should be able to maintain a dominant presence in ice skating and hockey equipment, and a lesser but still competitive position in cycling and exercise equipment. The United States will continue to dominate in the golf segment and will remain a major player in cycling, water sports, and exercise and fishing equipment.



## Canada-Mexico Trade

In contrast to the thriving Canada-United States trade, trade in sporting and recreational equipment between Canada and Mexico has been quite small.

In 1992, Canadian imports of sports equipment from Mexico increased from \$1.6 million to \$2.1 million. The imports were primarily golf club components (\$730 000), fishing tackle (\$460 000), sports balls (\$145 000) and swimming pool parts and accessories (\$640 000).

Canadians exported only \$47 000 worth of sports and recreational equipment to Mexico in 1992, consisting primarily of bicycles. This was less than the 1991 figure of \$138 000, which again comprised mostly bicycles.

## United States-Mexico Trade

United States-Mexico trade is more substantial. In 1992, Mexico exported \$140.2 million worth of sporting and recreational equipment to the United States. The United States exported \$106.4 worth to Mexico.

The United States imported \$80 million in golf club parts and components from Mexico, which represented some 56 percent of the sporting and recreational equipment imported from Mexico. The United States also imported \$15 million worth of fishing tackle from Mexico.

Major U.S. exports to Mexico were golf equipment (\$54.1 million), gym and exercise equipment (\$14.7 million), bicycles (\$9.2 million) and bicycle parts (\$7.2 million). It appears that for golf club equipment in particular, trade between Mexico and the United States is heavily dependent on joint production and further processing of parts and components.

## Competitive Implications

The direct impact of increased Mexican competition on the Canadian domestic sporting and recreational equipment market is expected to be minimal. Despite Mexico's abundance of labour at relatively low wages, production is hindered by low productivity, shortages 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 of change that could have more direct impact on the Canadian sporting industry will be joint venture projects targeted to service markets in Mexico, Latin America and the U.S. south west. As firms take advantage of Mexico's liberalized investment climate and reduced duties, there may be changes as Canadian-based firms examine the feasibility of relocating some sourcing activity from the Far East to Mexico.

## **New Mexican Market Opportunities**

New opportunities are now emerging for U.S. and Canadian manufacturers. Trade reforms and other economic policies have helped to transform Mexico from one of the world's most protected economies into one of the most open trading systems. Tariffs have been greatly reduced and import permits eliminated on a wide range of consumer and recreational products. With NAFTA, Canadian producers will benefit from further tariff reductions.

The market for sports and recreational equipment is expected to grow as sports and fitness programs continue to be popular in Mexico. There are 70 major sports federations in Mexico, with a total membership of some 6.5 million professionals and amateurs. It is estimated that another 20 million practise some sport. Soccer reigns supreme as the most popular sport in Mexico. Baseball, basketball, volleyball, tennis, track and field, aerobics, swimming and water sports are other popular activities.

In 1990-91, Mexico City alone offered over 600 public sports centres and three sports "cities." There are 25 or 30 private sports clubs offering tennis, golf and swimming facilities. Throughout Mexico every major town has some sports facility, and all school children have sports as part of their curriculum. There were 100 sports stadiums in Mexico in 1990-91 with an estimated annual attendance of 15 million people.

The current size of the Mexican sports and recreational market is estimated to be less than \$400 million. Although it is growing, the market is still small for a country of 85 million people. Imports are approximately \$275 million, of which the United States has about a 40 percent share.

Mexican bicycle production is significant and dominates the domestic market. There is also some production of racquets, sports balls, sports gloves, and equipment for gymnastics, camping, fishing and equestrian activities.

Mexican production is not expected to keep pace with the growing domestic demand for outdoor and recreational products. However, Mexican exports are expected to increase, particularly jointly produced parts and components for golf and exercise equipment and for some protective sports products.

The commercial and resort/hotel growth in Mexico should provide more opportunities for many of the North American manufacturers servicing this segment of the market. The rapidly developing Mexican consumer goods market may also provide some new opportunities for Canadian finished goods manufacturers.

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 you should contact the Industry Canada office 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) 954-3109

Fax: (613) 954-3107, 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

## 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
- ▶ 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*

These are available from:

InfoEx  
 Foreign Affairs and International Trade Canada  
 Tel.: 1-800-267-8376 (Ottawa area: 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 and 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 sporting and recreational equipment by their tariff classification number. It contains a brief description of the products in each tariff subheading as well as the specific phase-out category and base rate of duty for each tariff item.

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

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

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

- A – tariff elimination occurred on implementation of the Agreement on January 1, 1994;
- B – tariff to be eliminated in five equal annual stages beginning January 1, 1994 and ending January 1, 1998;
- B+ – tariff to be eliminated in seven stages ending January 1, 2001;
- C – tariff to be eliminated in 10 equal annual stages beginning January 1, 1994 and ending January 1, 2003;
- D – the tariff is already zero or free;
- ( ) – the bracketed tariff rate is to be applied when calculating the duty on goods that are "jointly produced" by Mexico and the United States, and are imported into Canada;
- nes – not elsewhere specified in the tariff schedule.

# SPORTING AND RECREATIONAL PRODUCTS CANADA-MEXICO TARIFF PHASE-OUT SCHEDULE

SUB- HEADING	DESCRIPTION	CANADIAN TARIFF			MEXICAN TARIFF		
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING
4202.91	Containers with outer surface of leather, including golf and sports bags	4202.91.10	11.5	C	4202.91.01	20	C
		4202.91.20	FREE	D			
		4202.91.90	7.5	C			
4202.92	Containers with outer surface of sheeting of plastics or of textiles, including golf and sports bags	4202.92.11	11.5	C	4202.92.01	20	C
		4202.92.12	FREE	D			
		4202.92.19	7.5	C			
		4202.92.91	11.5	C			
4203.21	Gloves, mittens and mitts for sports, of leather or of composition leather	4203.21.10	FREE	A	4203.21.01	20	A
		4203.21.90	16.5 (25)	C			
6306.21	Tents of cotton	6306.21.00	22.5	B+	6306.21.01	20	B+
6306.22	Tents of synthetic fibre	6306.22.00	25.0	B+	6306.22.01	20	B+
6306.29	Tents of other textile materials	6306.29.00	22.5	B+	6306.29.99	20	B+
6506.10	Safety headgear	6506.10.10	FREE	D	6506.10.01	15	A
		6506.10.90	9.0	A	6506.10.99	15	A
8512.10	Lighting or signalling equipment of a kind used on bicycles	8512.10.00	7.5	B	8512.10.01	15	C
					8512.10.02	15	B
					8512.10.03	15	A
					8512.10.99	15	A
8712.00	Bicycles and other cycles not motorized	8712.00.00	8.50	C	8712.00.01	20	C
					8712.00.02	20	C
					8712.00.03	20	C
					8712.00.99	20	A
8714.91	Bicycle frames and forks, and parts thereof	8714.91.00	6.5	B	8714.91.01	15	A
8714.92	Bicycle wheel rims and spokes	8714.92.00	6.5 (10.2)	B	8714.92.01	15	A
8714.93	Bicycle hubs and Free-wheel sprocket wheels	8714.93.00	6.5 (10.2)	B	8714.93.01	15	A
8714.94	Bicycle brakes, including coaster braking hubs, and parts thereof	8714.94.00	6.5	B	8714.94.01	15	A
					8714.94.99	15	A
8714.95	Bicycle saddles	8714.95.00	7.5 (11.3)	B	8714.95.01	15	A
8714.96	Bicycle pedals and crank-gear and parts thereof	8714.96.00	6.5 (10.2)	B	8714.96.01	15	A
8714.99	Bicycle parts, nes	8714.99.10	FREE	A	8714.99.01	15	A
		8714.99.20	6.5	B			
9303.10	Muzzle-loading firearms	9303.10.00	FREE	A	9303.10.01	10	A
					9303.10.99	20	A
9303.20	Shotguns including combination shotgun-rifles and sporting, hunting or target-shooting shotguns	9303.20.10	FREE	A	9303.20.01	20	A
		9303.20.90	FREE	A			
9303.30	Rifles sporting, hunting or target-shooting, nes	9303.30.10	FREE	A	9303.30.01	20	A
		9303.30.90	FREE	A			



SUB- HEADING	DESCRIPTION	CANADIAN TARIFF			MEXICAN TARIFF		
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING
9303.90	Firearms and similar devices operated by the firing of an explosive charge, nes	9303.90.10	FREE	D	9303.90.01	15	A
		9303.90.90	FREE	A	9303.90.99	20	A
9304.00	Arms, nes, excluding those of heading No. 93.07	9304.00.11	FREE	A	9304.00.01	20	A
		9304.00.19	FREE	A			
		9304.00.90	7.5	A			
9305.10	Parts and accessories of revolvers or pistols of heading Nos. 93.01 to 93.04	9305.10.00	FREE	A	9305.10.01	20	A
9305.21	Shotgun barrels of heading No. 93.03	9305.21.00	FREE	A	9305.21.01	20	A
9305.29	Parts and accessories of shotguns or rifles, nes of heading No. 93.03	9305.29.10	6.5	A	9305.29.01	20	A
		9305.29.81	FREE	D			
		9305.29.89	FREE	A			
		9305.29.90	7.5	A			
9306.10	Cartridges for riveting or similar tools or for captive-bolt humane killers, including parts	9306.10.00	FREE	A	9306.10.01	20	A
					9306.10.02	10	A
9306.21	Cartridges, shotgun	9306.21.00	FREE	A	9306.21.01	10	A
					9306.21.99	20	B
9306.29	Air gun pellets and parts of shotgun cartridges	9306.29.00	FREE	A	9306.29.01	20	A
9307.00	Swords, cutlasses, bayonets, lances and similar arms and parts, scabbards and sheaths	9307.00.00	FREE	A	9307.00.01	20	A
9404.30	Sleeping bags	9404.30.00	25.0	B	9404.30.01	20	A
9504.20	Articles and accessories for billiards	9504.20.10	6.5	A	9504.20.01	20	B
		9504.20.21	11.0	B	9504.20.02	20	B
		9504.20.22	8.0 (8.5)	B	9504.20.99	20	B
		9504.20.23	9.0	B			
		9504.20.24	6.0 (8.5)	B			
		9504.20.29	6.5 (8.5)	B			
		9504.20.90	10.0	B			
9504.30	Games, coin or disc-operated, other than bowling alley equipment	9504.30.00	FREE	D	9504.30.01	20	A
					9504.30.99	20	A
9504.90	Articles for funfair, table or parlour games, pintables, special tables for casino games, and automatic bowling alley equipment	9504.90.10	FREE	A	9504.90.01	20	A
		9504.90.20	2.5 (4.6)	B	9504.90.02	20	B
		9504.90.90	9.0	B	9504.90.03	20	A
					9504.90.04	20	A
					9504.90.05	20	A
					9504.90.06	20	A
					9504.90.07	20	A
					9504.90.08	15	A
					9504.90.09	20	A
					9504.90.10	15	A
					9504.90.99	15	A
9506.11	Snow-skis	9506.11.00	7.5	A	9506.11.01	15	A
9506.12	Snow-ski-fastenings (ski-bindings)	9506.12.00	7.5	A	9506.12.01	15	A
9506.19	Snow-ski equipment nes	9506.19.10	6.5	A	9506.19.99	15	A
		9506.19.90	8.0	A			
9506.21	Sailboards	9506.21.00	10.0	A	9506.21.01	20	A
		9506.21.99	20	A			

SUB-HEADING	DESCRIPTION	CANADIAN TARIFF			MEXICAN TARIFF		
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING
9506.29	Water-skis, surf-boards and other water sport equipment	9506.29.00	7.5 (11.4)	B	9506.29.01	15	A
					9506.29.99	20	A
9506.31	Golf clubs, complete	9506.31.00	8.0	B	9506.31.01	20	A
9506.32	Golf balls	9506.32.10	7.5	A	9506.32.01	15	A
		9506.32.90	8.0	A			
9506.39	Golf equipment nes	9506.39.10	FREE	D	9506.39.01	15	A
		9506.39.20	2.5	A	9506.39.99	20	A
		9506.39.30	4.5	A			
		9506.39.90	7.5	A			
9506.40	Articles and equipment for table-tennis	9506.40.00	7.5	B	9506.40.01	20	B
					9506.40.99	20	B
9506.51	Lawn-tennis rackets, whether or not strung	9506.51.00	7.5	A	9506.51.01	20	B
					9506.51.02	15	B
9506.59	Badminton or similar rackets, whether or not strung	9506.59.00	7.5	A	9506.59.01	15	B
					9506.59.02	15	B
					9506.59.99	15	B
9506.61	Lawn-tennis balls	9506.61.00	7.5	A	9506.61.01	15	B
9506.62	Inflatable balls	9506.62.10	7.5	A	9506.62.01	15	A
		9506.62.90	7.5	B			
9506.69	Balls nes	9506.69.10	FREE	A	9506.69.01	15	A
		9506.69.20	FREE	D	9506.69.99	15	A
		9506.69.90	7.5	B			
9506.70	Ice skates and roller skates, including skating boots with skates attached and including in-line roller skates	9506.70.11	22.5	A	9506.70.01	20	A
		9506.70.12	22.5	C			
		9506.70.20	5.5	A			
9506.91	Gymnasium or athletics articles and equipment	9506.91.10	8.0	B	9506.91.01	15	A
		9506.91.20	2.5 (9.2)	B	9506.91.02	15	A
		9506.91.90	6.5 (10.0)	B			
9506.99	Articles and equipment for sports and outdoor games, nes; swimming and paddling pools	9506.99.10	FREE	A	9506.99.01	15	B
		9506.99.20	FREE	D	9506.99.02	15	A
		9506.99.30	FREE	A	9506.99.03	15	B
		9506.99.41	FREE	A	9506.99.04	15	B
		9506.99.49	2.5	B	9506.99.05	15	B
		9506.99.50	FREE	D	9506.99.06	15	A
		9506.99.60	2.5 (9.2)	B	9506.99.07	15	A
		9506.99.70	25.0	B	9506.99.08	15	B
		9506.99.81	6.0	B	9506.99.09	15	A
		9506.99.89	7.0	B	9506.99.10	10	A
		9506.99.90	7.5 (11.8)	B	9506.99.11	15	A
			9506.99.12	15	A		
			9506.99.99	15	A		
9507.10	Fishing rods	9507.10.00	FREE	A	9507.10.01	15	A
					9507.10.99	15	A
9507.20	Fish-hooks, whether or not snelled	9507.20.10	FREE	D	9507.20.01	15	A
		9507.20.90	FREE	A			
9507.30	Fishing reels	9507.30.00	FREE	A	9507.30.01	15	A
9507.90	Line fishing tackle, nes, fish landing, butterfly and similar nets, decoy birds and similar hunting or shooting requisites	9507.90.10	FREE	A	9507.90.01	15	A
		9507.90.90	FREE (10.2)	A	9507.90.02	15	A

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

## ANNEX B

### *Rules of Origin for Sporting and Recreational Equipment*

- Chapter 42**      **Articles of Leather; Saddlery and Harness [including sports gloves, golf bags and similar articles]; Articles of Animal Gut (Other Than Silk-Worm Gut)**
- 4202.39-4202.91      A change to subheading 4202.39 through 4202.91 from any other chapter.
- 4202.92      A change to subheading 4202.92 from any other chapter, except from heading 54.07, 54.08 or 55.12 through 55.16, or Canadian tariff item 5903.10.20, 5903.20.20, 5903.90.20, 5906.99.20 or 5907.00.13, U.S. tariff item 5903.10.15, 5903.10.18, 5903.10.20, 5903.10.25, 5903.20.15, 5903.20.18, 5903.20.20, 5903.20.25, 5903.90.15, 5903.90.18, 5903.90.20, 5903.90.25, 5906.99.20, 5906.99.25, 5907.00.10A, 5907.00.90A, 5907.00.10B or 5907.00.90B or Mexican tariff item 5903.10.01, 5903.20.01, 5903.90.02, 5906.99.03 or 5907.00.06.
- 4202.99      A change to subheading 4202.99 from any other chapter.
- 42.03-42.06      A change to heading 42.03 through 42.06 from any other chapter.
- Chapter 63**      **Other Made Up Textile Articles; Sets; Worn Clothing and Worn Textile Articles; Rags**
- 63.04-63.10      A change to heading 63.04 through 63.10 from any other chapter, except from heading 51.06 through 51.13, 52.04 through 52.12, 53.07 through 53.08 or 53.10 through 53.11, Chapter 54 through 55, or heading 58.01 through 58.02 or 60.01 through 60.02, provided that the good is both cut (or knit to shape) and sewn or otherwise assembled in the territory of one or more of the Parties.
- Chapter 65**      **Headgear and Parts Thereof**
- 65.03-65.07      A change to heading 65.03 through 65.07 from any heading outside that group.
- Chapter 87**      **Vehicles Other Than Railway or Tramway Rolling-Stock, and Parts and Accessories Thereof**
- 87.12      A change to heading 87.12 from any other heading, except from heading 87.14; or
- A change to heading 87.12 from heading 87.14, whether or not there is also a change from any other heading, provided there is a regional value content of not less than:
- (a) 60 percent where the transaction-value method is used, or
- (b) 50 percent where the net-cost method is used.
- 87.14      A change to heading 87.14 from any other heading.

<b>Chapter 95</b>	<b>Toys, Games and Sports Requisites; Parts and Accessories Thereof</b>
95.03-95.05	A change to heading 95.03 through 95.05 from any other chapter.
9506.11-9506.29	A change to subheading 9506.11 through 9506.29 from any other chapter.
9506.31 <sup>1</sup>	A change to subheading 9506.31 from any other chapter; or A change to subheading 9506.31 from subheading 9506.39, whether or not there is also a change from any other chapter, provided there is a regional value content of not less than: <ul style="list-style-type: none"> <li>(a) 60 percent where the transaction-value method is used, or</li> <li>(b) 50 percent where the net-cost method is used.</li> </ul>
9506.32	A change to subheading 9506.32 from any other chapter.
9506.39	
9506.39.aa	A change to Mexican tariff item 9506.39.01 from any other chapter; or A change to Mexican tariff item 9506.39.01 from any other tariff item, whether or not there is also a change from any other chapter, provided there is a regional value content of not less than: <ul style="list-style-type: none"> <li>(a) 60 percent where the transaction-value method is used, or</li> <li>(b) 50 percent where the net-cost method is used.</li> </ul>
9506.39	A change to subheading 9506.39 from any other chapter.
9506.40-9506.99	A change to subheading 9506.40 through 9506.99 from any other chapter.
95.07-95.08	A change to heading 95.07 through 95.08 from any other chapter.

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<sup>1</sup>9506.31 U.S. and Canada classify golf clubs, whether or not in sets, in subheading 9506.31. Parts of golf clubs are classified in subheading 9506.39.

Mexico classifies in subheading 9506.31 only complete sets of golf clubs; individual golf clubs and parts of golf clubs are classified in subheading 9506.39 under tariff item 9506.39.01.

## 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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NAFTA and the sporting and  
recreational equipment sect  
or

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