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THE ELECTRICAL EQUIPMENT SECTOR

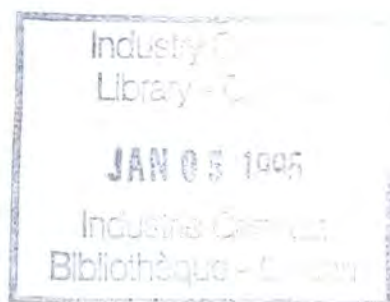


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NAFTA

AND THE ELECTRICAL EQUIPMENT SECTOR



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



*Printed on
recycled paper*



© Minister of Supply and Services Canada 1994
Cat. No. C2-227/6-1994 E
ISBN 0-662-22097-8
PO PU 0063-93-01

Également disponible en français sous le titre
L'ALENA et le secteur du matériel électrique

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NAFTA AND THE CANADIAN ELECTRICAL 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 electrical equipment with continued preferential access to U.S. markets and new preferential access to Mexico. Mexico's demand for power systems is increasing. At the present time, imports supply half of this demand. Canadian companies who aggressively market their products and work with industry affiliations in Mexico, such as the Federal Electricity commission, may benefit from the new opportunities.

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 Canadian electrical equipment sector including manufacturers of products that generate, distribute and utilize electricity. 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 electrical equipment market in North America and highlights potential new market opportunities in Mexico.

TARIFFS FOR ELECTRICAL EQUIPMENT

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

Canada- United States Tariffs

Trade between the United States and Canada will continue to be governed by the tariff phase-outs negotiated under the provisions of the Canada-United States Free Trade Agreement (FTA). These phase-out schedules are unaffected by NAFTA. Under the FTA, tariffs for all electrical 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 electrical 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 on electrical equipment and their parts ranged between 10 and 20 percent prior to NAFTA. Many of these were eliminated immediately on implementation of the Agreement on January 1, 1994. Included were the removal of tariffs on such items as:

- ▶ nuclear reactors and their parts;
- ▶ parts for auxiliary plant and condenser for steam or vapour generating units;
- ▶ parts for steam, vapour and hydraulic turbines;
- ▶ gas turbines and their parts;
- ▶ some electric motors with an output of less than 37.5 W;
- ▶ electric instantaneous or storage water heaters and immersion heaters;
- ▶ some commutators;
- ▶ some filament lamps, ultra-violet lamps, and arc lamps;
- ▶ most insulating fittings for electrical machines and equipment;
- ▶ optical fibre bundles and cables.

Mexico will eliminate tariffs over five years on a variety of items such as central heating boilers, steam and vapour turbines, diesel and semi-diesel engine parts, parts for power transmission equipment; some electric accumulators and their parts; electric space and soil heaters and their parts; carbon or graphite electrodes for furnaces; and most chandeliers, electric ceiling and wall lighting fittings.

For most steam and vapour generating boilers, Mexico was able to negotiate a seven-year tariff elimination schedule.

Many items in this sector are on a 10-year phase-out schedule, becoming duty free on January 1, 2003.

Canadian Phase-Outs

Under NAFTA, Canadian duties on virtually all finished electrical equipment and their parts of Mexican origin will be eliminated over a five-year phase-out period. However, a 10-year tariff elimination schedule was negotiated for transformers with an electric power handling capacity not exceeding 1 kVA, lead-acid electric accumulators for piston engines, fluorescent lamps, electric conductors fitted with connectors for a voltage not exceeding 80 V, and most parts for electric lamps and lighting fittings.

Canadian import tariffs for a variety of items such as parts for diesel engines, and hydraulic, steam, vapour and gas turbines; AC generators (alternators) not exceeding an output of 75 kVA; carbon or graphite electrodes for furnaces; and optical fibres, bundles and cables were eliminated immediately on implementation of the Agreement on January 1, 1994.

Treatment of Jointly Produced Goods

NAFTA protects Canadian electrical equipment 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 electrical equipment and their parts 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 ELECTRICAL EQUIPMENT

NAFTA provides preferential tariff treatment for all “originating” North American goods traded between Canada, the United States and Mexico. Rules of origin are used to determine whether a product qualifies as a good originating in North America. These rules ensure that NAFTA benefits are only available for goods substantively produced or transformed in North America.

Any goods produced in any or all of the three NAFTA countries, with components and materials that themselves are wholly sourced or manufactured in any of the three countries, qualify as originating goods entitled to preferential tariff treatment.

Goods using non-North American inputs must meet the requirements set out in the NAFTA rules of origin to be considered as “originating.”

The NAFTA rules of origin for electrical equipment set out the following requirements:

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

The specific rule of origin for each product sets out the required tariff classification change and indicates when a value-content test is required. The product-specific rules of origin applicable to most electrical 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.

NAFTA introduces numerous changes in the product-specific rules of origin for electrical equipment. Most of the changes involve the elimination of the value content requirement of the FTA that was applicable to most electrical equipment. In certain instances, the product-specific rules under NAFTA involve additional requirements than under the FTA.

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 electrical equipment. Notable changes include:

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

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 electric generator sets uses a British generator, control panel and miscellaneous generator set parts.

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

The producer determines that electric generator sets are classified under tariff heading 8502. The non-North American parts fall under headings 8501, 8537 and 8503, respectively.

The rule of origin for heading 8502 (i.e. electric generating sets) requires “a change to heading 8502 from any other heading, except from heading 8406, 8411, 8501 or 8503.” In this example, the electric generating sets in question would not qualify under this part of the rule because the generator and the miscellaneous generator set parts are classified under heading 8501 and 8503, respectively.

The second part of the rule of origin for electric generator sets permits “a change to heading 8502 from heading 8406, 8411, 8501 or 8503...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 electric generator sets would qualify.

**Additional
Information**

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

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

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

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

NAFTA CUSTOMS MATTERS

Classification and Origin Determination

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

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

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

Customs Administration

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

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

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

COUNTRY OF ORIGIN MARKING REQUIREMENTS

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

Method of Marking

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

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

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

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

Country of Origin

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

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

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

WHAT ELSE YOU SHOULD KNOW

Temporary Entry for Business Purposes

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

Canadian manufacturers of electrical 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 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

Under NAFTA there are greater opportunities for Canadian firms to sell to the Mexican and U.S. governments. Whereas the FTA procurement disciplines applied only to goods purchased by some government departments, NAFTA expands the scope of obligations to include services and construction, lowers the thresholds for competitive bidding, expands the coverage to include more U.S. departments and agencies, and includes Mexican government purchases.

While most U.S. government departments and agencies may not be large-scale purchasers of heavy electrical equipment, there may be some strong opportunities resulting from the inclusion of the departments of Energy and Transport, and the Army Corps of Engineers.

The “Buy America” provisions under the *Rural Electrification Act* have also been waived, providing market opportunities for suppliers of electrical equipment. Canada did not gain competitive access under NAFTA to purchases of electrical equipment on the part of the major federal power utilities in the United States (Bonneville Power, Tennessee Valley Authority, etc.).

In Mexico, the giant state-owned oil and gas, and power utilities, PEMEX and CFE, are also now subject to international tendering disciplines. Access will initially be subject to certain restrictions that will be phased out over 10 years.

NAFTA does not extend competitive tendering disciplines to state and local governments, nor does it eliminate the legislated preferences that the United States extends to its small and minority businesses. As a reflection of these continuing exceptions, Canada has similarly retained flexibility to apply domestic preferences for selected contracts in designated sectors.

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

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

Standards

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

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

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

Intellectual Property Rights

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

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

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

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

Other NAFTA Provisions

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

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

THE CANADIAN INDUSTRY IN A NORTH AMERICAN CONTEXT

Canadian Market

The Canadian electrical equipment industry consists of goods that generate, distribute and use electricity. The industry is comprised of subsectors producing a wide variety of products including equipment for hydro, thermal and nuclear generating stations; power transmission and distribution equipment; electrical wire and cable products; power and distribution transformers; control and protection equipment; power conversion equipment; electric motors; alternate energy equipment for power from solar, wind etc.; standard and advanced technology batteries; and fuel cells.

The electrical equipment manufacturing industry in Canada produces about \$9 billion a year. Canadian manufacturing represents almost 70 percent of the domestic market.

Growth in the domestic market has slowed in recent years due to the cancellation of large power projects, energy conservation trends and a generally sluggish economy. Exports are therefore increasingly important for the Canadian electrical manufacturing industry.

Canada- United States Trade

Bilateral trade between Canada and the United States in electrical equipment is quite substantial. Each country exports about \$1.5 billion to the other. About 70 percent of Canadian exports of electrical equipment go to the United States, and about 80 percent of Canada's imports in this sector come from the United States.

Canada-Mexico Trade

Trade in electrical equipment between Canada and Mexico is small. Canadian exports of power generation and power distribution equipment to Mexico have been minimal and inconsistent, due in part to transportation difficulties that limit the movement of some heavy electrical equipment.

Canadian companies have the potential to compete for a share of the Mexican market but in order to develop a sustained presence in Mexico they will have to be prepared to market aggressively and to work with the industry affiliations, particularly the Federal Electricity Commission.

United States- Mexico Trade

The United States is the largest foreign supplier of electric generation and distribution equipment to Mexico. In 1992, U.S. exports amounted to about \$1.5 billion. This represented a 55 percent increase over such exports in 1990. Japan and European countries also have a sizable share of the market.

Competitive Implications of NAFTA

NAFTA will provide new trade opportunities for exports of finished products, major components and technology. The Agreement guarantees preferential access for all goods of Canadian, U.S. or Mexican origin that are traded between the three countries. The reduction or elimination of tariffs allows for easier and more economical access to a single market that consists of more than 360 million consumers.

As the Mexican economy improves and the population grows, the demand for electricity will increase. Mexico has a limited capacity to supply electrical power therefore there will be a growing and urgent need for new supplies of electricity. The demand for electrical equipment will continue to be high in Mexico.

Imports already supply half of Mexico's demand for electric power systems. The Mexican Federal Electricity Commission, which governs Mexican electricity production, has supported market liberalization and the easing of restrictions on private investment. The Mexican Electricity Law, which has evolved in order to meet NAFTA obligations, further opens the door for private sector investment in electric power generation.

Despite Mexico's abundance of labour at relatively low wages, the electrical manufacturing industry is confined. Although this may change as the labour force becomes more skilled and foreign investment in Mexico increases, the impact of increased Mexican competition on the Canadian electrical products industry is expected to be insignificant. The high weight to value content of many electrical products, such as heavy switch gears, offers inherent protection against imports from Mexico due to high freight costs.

New Mexican Market Opportunities

Consumption of electricity is rising in Mexico. Continued growth in power generation capabilities is important to Mexico's industrial infrastructure and economy. In addition, the Mexican electrical manufacturing industry will be updating its technology and machinery. Imported modern technology and equipment will be required if the Mexican electric industry is to grow and develop.

Major imports include electrical apparatus for switching and protecting circuits. The Canadian industry is most competitive in products having a large design content, such as large motors and transformers. Canada also has a competitive advantage vis-à-vis Mexico for some capital intensive products, such as industrial controls. Canada has already successfully exported line reactors, gas turbines, boilers, specialty transformers, wire and cable, and metering equipment to Mexico.

As very little research and development is carried out in Mexico, the country will be seeking technological expertise. The new challenge will be to compete with U.S. and European investments in the area of high technology. Some Mexican opportunities, however, will be best pursued through joint ventures or acquisition of Mexican companies.

While the main market for electrical products will be the utilities and domestic equipment manufacturers, significant demands will also come from the residential, commercial, and industrial construction markets.

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:

Energy Technologies Directorate

Tel.: (613) 954-3262

Fax: (613) 941-2463, or

NAFTA Information Desk

International Business Branch

Tel.: (613) 952-5010

Fax: (613) 952-0540

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

Revenue Canada — Customs, NAFTA Infoline:

(613) 941-0965 Fax: (613) 941-8138

Mexico Customs Service, NAFTA Hotline:

(011-525) 211-3545 Fax: (011-525) 224-3000

U.S. Customs Service, NAFTA Hotline:

(202) 927-0066 Fax: (202) 927-0097

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

InfoEx

Foreign Affairs and International Trade Canada

Tel.: 1-800-267-8376 (Ottawa area: (613) 944-4000 or 993-6435)

Fax: (613) 996-9709

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

Market Intelligence and Technology Opportunities Service

Industry Canada

Tel.: (613) 954-4970 Fax: (613) 954-2340

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

Open Bidding Info Line

Public Works, Government Services Canada

Tel.: (819) 956-3440

Open Bidding Registration

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

OTHER PUBLICATIONS

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

- ▶ Apparel
- ▶ Chemicals
- ▶ Construction Materials
- ▶ Electronic Components
- ▶ Environmental Equipment and Services
- ▶ Fish and Fish Products
- ▶ Furniture
- ▶ Health Care Products
- ▶ Industrial Equipment
- ▶ Major Appliances
- ▶ Paper Products
- ▶ Plastics
- ▶ Primary Metals
- ▶ Professional and Business Services
- ▶ Resource Equipment
- ▶ Sporting and Recreational Equipment
- ▶ 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 electrical equipment by its tariff classification number. It contains a brief description of the products in each tariff subheading as well as the specific phase-out category and base rate of duty for each tariff item.

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

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

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

- A – tariff elimination occurred on implementation of the Agreement on January 1, 1994;
- B – tariff to be eliminated in five equal annual stages beginning January 1, 1994 and ending January 1, 1998;
- 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” between Mexico and the United States, and are imported into Canada;
- nes – not elsewhere specified in the tariff schedule.

ELECTRICAL EQUIPMENT CANADA-MEXICO TARIFF PHASE-OUT SCHEDULE

SUB- HEADING	DESCRIPTION	CANADA			MEXICO		
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING
8402.11	Watertube boilers with a steam production exceeding 45 tonnes per hour	8402.11.00	8	B	8402.11.01	20	B+
8402.12	Watertube boilers with a steam production not exceeding 45 tonnes per hour	8402.12.00	8	B	8402.12.01	20	B+
8402.19	Vapour generating boilers, nes, including hybrid boilers	8402.19.00	8	B	8402.19.01	20	B+
					8402.19.99	20	A
8402.20	Super-heated water boilers	8402.20.00	8	B	8402.20.01	20	B+
8402.90	Parts of steam or vapour generating boilers, nes	8402.90.00	8	C	8402.90.01	10	C
8403.10	Central heating boilers, nes	8403.10.10	7.5	B	8403.10.01	20	B
		8403.10.90	8	B			
8404.90	Parts for auxiliary plant and condensers for steam or vapour generating unit, nes	8404.90.10	2.5	A	8404.90.01	10	A
		8404.90.20	6.5	A	8404.90.99	10	A
8406.19	Steam and vapour turbines, nes	8406.19.00	10	A	8406.19.01	20	B
					8406.19.02	10	B
8406.90	Parts of steam and vapour turbines	8406.90.10	Free	D	8406.90.01	10	A
		8406.90.21	Free	D	8406.90.02	10	A
		8406.90.22	Free	D	8406.90.03	10	A
		8406.90.23	Free	D	8406.90.99	10	A
		8406.90.24	Free	D			
		8406.90.29	Free	D			
		8406.90.31	10	A			
		8406.90.32	10	A			
		8406.90.33	10	A			
		8406.90.34	10	A			
		8406.90.39	10	A			
8409.99	Parts for diesel and semi-diesel engines	8409.99.10	Free	D	8409.99.01	10	B
		8409.99.20	Free	A	8409.99.02	15	B
		8409.99.91	Free	D	8409.99.03	10	B
		8409.99.92	Free	D	8409.99.04	10	B
		8409.99.93	Free	A	8409.99.05	10	B
					8409.99.06	15	B
					8409.99.07	10	B
					8409.99.08	10	B
					8409.99.09	15	B
					8409.99.10	10	B
					8409.99.11	10	B
					8409.99.12	10	B
					8409.99.13	10	A
					8409.99.14	10	B
					8409.99.15	15	B
					8409.99.16	15	B
					8409.99.17	15	B
					8409.99.18	10	B
					8409.99.19	10	B
					8409.99.20	15	B
					8409.99.21	15	B
					8409.99.22	15	B
					8409.99.23	15	B
					8409.99.24	10	B
					8409.99.25	10	B
					8409.99.99	15	B

SUB-HEADING	DESCRIPTION	CANADA			MEXICO			
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING	
8410.12	Hydraulic turbines and water wheels of a power exceeding 1,000 kW but not exceeding 10,000kW	8410.12.10	2.5	B	8410.12.01	10	C	
		8410.12.20	2.5	B				
8410.90	Parts of hydraulic turbines and water wheels including regulators	8410.90.10	Free	D	8410.90.01	10	A	
		8410.90.20	2.5	A				
		8410.90.30	2.5	A				
8411.21	Turbo-propellers of a power not exceeding 1,100 kW	8411.21.00	Free	D	8411.21.01	10	A	
					8411.21.99	10	A	
8411.22	Turbo-propellers of a power exceeding 1,100 kW	8411.22.00	Free	D	8411.22.01	10	A	
					8411.22.99	10	A	
8411.81	Gas turbines, nes of a power not exceeding 5,000 kW	8411.81.10	Free	D	8411.81.01	10	A	
		8411.81.90	10	A	8411.81.99	10	A	
8411.82	Gas turbines nes of a power exceeding 5,000 kW	8411.82.10	Free	D	8411.82.01	10	A	
		8411.82.90	10	A	8411.82.99	10	A	
8411.91	Parts of turbo-jets or turbo-propellers	8411.91.00	Free	D	8411.91.01	10	A	
					8411.91.99	10	A	
8411.99	Parts of gas turbines, nes	8411.99.10	Free	D	8411.99.01	10	A	
		8411.99.20	10	A	8411.99.02	10	A	
					8411.99.99	10	A	
8415.81	Air conditioning machines, nes, incorporating a refrigeration unit and a valve for reversal of the cool/heat cycle	8415.81.00	2.5	(9.2)	B	8415.81.01	20	B
						8415.81.99	20	B
8483.90	Parts of power transmission equipment or other goods used to transmit power	8483.90.10	2.5	B	8483.90.99	10	B	
		8483.90.20	Free	D				
		8483.90.30	Free	D				
		8483.90.40	6	B				
		8483.90.50	6.5	B				
8501.10	Electric motors of an output not exceeding 37.5 W	8501.10.10	2.5	(9.2)	C	8501.10.01	10	A
		8501.10.90	6	(9.3)	B	8501.10.02	10	A
						8501.10.03	15	A
						8501.10.04	10	A
						8501.10.05	15	A
						8501.10.06	15	A
						8501.10.07	15	C
						8501.10.08	15	A
						8501.10.09	10	C
						8501.10.99	10	C
8501.20	Universal AC/DC motors of an output exceeding 37.5 W	8501.20.11	2.5	B	8501.20.01	15	A	
		8501.20.19	8	(12.5)	C	8501.20.02	15	C
		8501.20.21	2.5	C	8501.20.03	15	C	
		8501.20.29	6	(9.3)	B	8501.20.04	10	A
						8501.20.99	10	C
8501.31	DC motors, DC generators, of an output not exceeding 750 W	8501.31.11	2.5	(9.2)	C	8501.31.01	20	B
		8501.31.12	6	(9.2)	B	8501.31.02	10	A
		8501.31.19	6	(9.2)	B	8501.31.03	20	C
		8501.31.21	2.5	B	8501.31.04	15	A	
		8501.31.29	8	(12.5)	B	8501.31.05	15	B
		8501.31.30	6	B	8501.31.99	10	C	
8501.32	DC motors, DC generators, of an output exceeding 750 W but not exceeding 75 kW	8501.32.11	2.5	B	8501.32.01	20	C	
		8501.32.12	6	B	8501.32.02	10	A	
		8501.32.19	6	B	8501.32.03	10	A	
		8501.32.20	6	B	8501.32.04	15	A	
					8501.32.05	20	C	
					8501.32.06	15	C	
			8501.32.99	15	C			

SUB- HEADING	DESCRIPTION	CANADA			MEXICO		
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING
8501.34	DC motors, DC generators, of an output exceeding 375 kW	8501.34.11	2.5	B	8501.34.01	10	C
		8501.34.19	6	B	8501.34.02	10	A
		8501.34.20	10	B	8501.34.03	10	A
					8501.34.04	15	A
					8501.34.05	15	C
			8501.34.99	10	C		
8501.51	AC motors, multi-phase, of an output not exceeding 750 W	8501.51.10	2.5	B	8501.51.01	10	A
		8501.51.20	Free	D	8501.51.02	20	C
		8501.51.90	8	B	8501.51.03	10	C
					8501.51.04	15	C
					8501.51.99	10	C
8501.61	AC generators (alternators), of an output not exceeding 75 kVA	8501.61.10	2.5	A	8501.61.01	20	C
		8501.61.90	6	A			
8503.00	Parts of electric motors, generators, generating sets and rotary converters	8503.00.11	8	(12.5) B	8503.00.01	10	C
		8503.00.12	10	B	8503.00.02	10	B
		8503.00.13	6	B	8503.00.03	10	A
		8503.00.14	6	(9.3) B	8503.00.04	10	B
		8503.00.15	6	B	8503.00.05	10	B
		8503.00.16	2.5	(9.2) B	8503.00.99	10	B
		8503.00.17	2.5	B			
		8503.00.18	2.5	(9.2) B			
		8503.00.19	Free	D			
		8503.00.21	8	(12.5) B			
		8503.00.22	10	B			
		8503.00.23	6	B			
		8503.00.24	6	(9.3) B			
		8503.00.25	6	B			
		8503.00.26	2.5	(9.2) B			
		8503.00.27	2.5	B			
8503.00.28	2.5	(9.2) B					
8503.00.29	Free	D					
8503.00.30	2.5	B					
8504.21	Liquid dielectric transformers having a power handling capacity greater than 650 kVA	8504.21.10	6	B	8504.21.01	15	C
		8504.21.20	10	B	8504.21.02	15	C
					8504.21.03	15	C
					8504.21.04	15	C
					8504.21.99	15	C
8504.22	Liquid dielectric transformers having a power handling capacity >650 kVA but not exceeding 10,000 kVA	8504.22.00	10	B	8504.22.01	15	C
8504.23	Liquid dielectric transformers having a power handling capacity exceeding 10,000 kVA	8504.23.00	10	B	8504.23.01	15	C
8504.31	Transformers, electric, having power handling capacity not exceeding 1 kVA, nes	8504.31.00	6	(9.2) C	8504.31.01	15	C
					8504.31.02	5	C
					8504.31.03	15	C
					8504.31.04	15	C
					8504.31.05	10	C
					8504.31.99	15	C
8506.19	Primary cells and primary batteries of an external volume not exceeding 300 cm, nes	8506.19.00	7	B	8506.19.01	10	C
					8506.19.02	15	C
					8506.19.03	15	C
					8506.19.04	15	C
					8506.19.99	15	C
8507.10	Lead-acid electric accumulators of a kind used for starting piston engines	8507.10.00	7	C	8507.10.01	20	C
					8507.10.02	10	B
					8507.10.03	10	C

SUB- HEADING	DESCRIPTION	CANADA			MEXICO		
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING
8507.20	Lead-acid electric accumulators, nes	8507.20.10	7	B	8507.20.01	20	C
		8507.20.90	7	B	8507.20.02	10	B
					8507.20.03	10	B
					8507.20.04	10	B
					8507.20.05	20	C
8507.90	Parts of electric accumulators, including separators therefor	8507.90.11	Free	D	8507.90.01	15	B
		8507.90.12	5	B	8507.90.99	10	B
		8507.90.13	4.5	B			
		8507.90.90	7	B			
8509.90	Parts of electro-mechanical domestic appliances with self-contained electric motor	8509.90.11	5	A	8509.90.01	10	A
		8509.90.19	5	A	8509.90.02	15	C
		8509.90.21	Free	D	8509.90.99	15	C
		8509.90.29	Free	A			
		8509.90.31	2.5	A			
		8509.90.39	2.5	A			
		8509.90.41	2.5	A			
8509.90.49	2.5	A					
8516.10	Electric instantaneous or storage water heaters and immersion heaters	8516.10.10	6	A	8516.10.01	15	A
		8516.10.20	8	B			
		8516.10.30	Free	D			
		8516.10.90	6.5	B			
8516.29	Electric space heating apparatus and electric soil heating apparatus, nes	8516.29.11	8	B	8516.29.01	20	B
		8516.29.19	7.5	B	8516.29.99	20	B
		8516.29.20	6.5	B			
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
		8516.80.91	Free	D	8516.80.99	10	C
		8516.80.92	2.5 (5.1)	B			
		8516.80.99	6.5 (10.3)	B			
8516.90	Parts of electro-thermic apparatus of heading No.85.16	8516.90.10	2.5	A	8516.90.01	15	B
		8516.90.21	2.5 (4.6)	B	8516.90.02	15	B
		8516.90.29	2.5 (4.6)	B	8516.90.03	15	B
		8516.90.30	7	B	8516.90.04	15	B
		8516.90.41	Free	D	8516.90.05	15	B
		8516.90.42	Free	D	8516.90.06	15	B
		8516.90.49	Free	B	8516.90.07	15	B
		8516.90.51	8	B	8516.90.08	15	B
		8516.90.52	8	B	8516.90.09	15	B
		8516.90.53	8	B	8516.90.10	15	B
		8516.90.59	8	B	8516.90.11	15	B
		8516.90.61	8	B	8516.90.12	15	B
		8516.90.62	Free	D	8516.90.13	15	B
		8516.90.63	8	B	8516.90.99	15	B
		8516.90.69	8	B			
		8516.90.71	7	B			
		8516.90.79	7	B			
8516.90.80	2.5 (5.4)	B					
8516.90.90	7	B					
8535.90	Electrical apparatus for switching or protecting electrical circuits exceeding 1,000 volts, nes	8535.90.10	7 (10.9)	B	8535.90.01	15	C
		8535.90.20	7.5 (11.5)	B	8535.90.02	15	C
		8535.90.30	6.5 (10.3)	B	8535.90.03	10	A
		8535.90.90	6.5 (10.3)	B	8535.90.04	15	C
					8535.90.05	15	C
					8535.90.06	10	A
					8535.90.07	15	C
					8535.90.08	15	C
					8535.90.09	10	C
					8535.90.10	15	C
					8535.90.11	15	C
					8535.90.12	15	A

SUB- HEADING	DESCRIPTION	CANADA			MEXICO		
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING
					8535.90.13	15	A
					8535.90.14	10	A
					8535.90.15	15	C
					8535.90.16	15	C
					8535.90.17	15	C
					8535.90.18	15	C
					8535.90.19	10	A
					8535.90.20	10	C
					8535.90.21	15	A
					8535.90.22	10	A
					8535.90.23	15	C
					8535.90.24	10	C
					8535.90.99	10	C
8536.41	Electrical relays for a voltage not exceeding 60 V	8536.41.10	Free	D	8536.41.01	15	A
		8536.41.90	6.5	B	8536.41.02	15	C
					8536.41.03	15	C
					8536.41.04	10	A
					8536.41.05	10	A
					8536.41.06	15	C
					8536.41.07	10	A
					8536.41.08	15	C
					8536.41.09	15	C
					8536.41.10	15	C
					8536.41.11	15	C
					8536.41.99	10	C
8536.69	Electrical plugs and sockets, for a voltage not exceeding 1,000 V	8536.69.00	6.5 (10.3)	B	8536.69.01	10	A
					8536.69.02	15	C
					8536.69.03	10	C
8536.90	Electrical apparatus for switching or protecting electrical circuits, not exceeding 1,000 V, nes	8536.90.10	7 (10.9)	B	8536.90.01	15	A
		8536.90.20	7.5 (11.5)	B	8536.90.02	10	A
		8536.90.30	2.5 (9.2)	C	8536.90.03	15	A
		8536.90.90	6.5 (10.3)	B	8536.90.04	15	C
					8536.90.05	15	C
					8536.90.06	10	C
					8536.90.07	15	C
					8536.90.08	10	A
					8536.90.09	10	A
					8536.90.10	15	A
					8536.90.11	15	C
					8536.90.12	15	A
					8536.90.13	15	C
					8536.90.14	10	C
					8536.90.15	10	C
					8536.90.16	15	C
					8536.90.17	15	C
					8536.90.18	15	C
					8536.90.19	15	C
					8536.90.20	15	C
					8536.90.21	10	C
					8536.90.22	15	C
					8536.90.23	15	C
					8536.90.24	15	C
					8536.90.25	10	A
					8536.90.26	15	C
					8536.90.27	10	A
					8536.90.28	15	A
					8536.90.29	15	A
					8536.90.30	15	C
					8536.90.31	15	A
					8536.90.32	15	C
					8536.90.99	10	C

SUB- HEADING	DESCRIPTION	CANADA			MEXICO			
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING	
8538.90	Parts for use with the apparatus of headings no. 85.35, 85.36 or 85.37, nes	8538.90.10	11.5	(17.5)	B	8538.90.01	10	C
		8538.90.20	6.5	(10.1)	B	8538.90.02	10	C
		8538.90.30	6.5	(10.1)	C	8538.90.03	10	C
		8538.90.60	6.5	(10.1)	B	8538.90.04	10	A
		8538.90.70	7	(10.9)	B	8538.90.05	10	C
		8538.90.91	2.5	(9.2)	C	8538.90.06	10	C
		8538.90.99	6.5	(10.1)	B	8538.90.07	10	A
						8538.90.08	10	C
						8538.90.09	10	A
						8538.90.10	10	C
						8538.90.11	10	C
						8538.90.12	10	C
						8538.90.13	10	C
						8538.90.14	10	C
						8538.90.99	10	C
8539.22	Filament lamps, of a power not exceeding 200 W and for a voltage exceeding 100 V	8539.22.00	8	(12.6)	B	8539.22.01	15	C
						8539.22.02	15	A
						8539.22.03	15	A
						8539.22.04	10	A
						8539.22.05	15	C
						8539.22.06	10	A
						8539.22.99	15	C
8539.29	Filament lamps, excluding ultraviolet or infra-red lamps, nes	8539.29.10	8		A	8539.29.01	15	C
		8539.29.21	6	(9.2)	B	8539.29.02	15	A
		8539.29.29	7.5		A	8539.29.03	15	A
						8539.29.04	10	A
						8539.29.05	15	C
						8539.29.06	10	A
						8539.29.07	15	C
						8539.29.08	10	A
						8539.29.09	15	A
						8539.29.10	15	A
						8539.29.11	15	C
						8539.29.99	15	C
8539.31	Fluorescent lamps, hot cathode	8539.31.00	7.5	(11.3)	C	8539.31.01	15	C
						8539.31.99	15	C
8539.39	Discharge lamps, other than ultra-violet lamps, nes	8539.39.10	Free		D	8539.39.01	15	C
		8539.39.90	7.5	(11.4)	B	8539.39.02	15	C
						8539.39.03	15	C
						8539.39.04	10	A
						8539.39.05	15	A
						8539.39.06	15	C
						8539.39.07	15	A
						8539.39.08	15	C
						8539.39.09	10	A
						8539.39.99	15	C
8539.40	Ultra-violet or infra-red lamps; arc lamps	8539.40.10	Free		D	8539.40.01	10	A
		8539.40.20	7.5	(11.3)	B	8539.40.02	10	A
		8539.40.90	7.5		A	8539.40.03	15	C
8543.90	Parts of electrical machines & apparatus having individual functions, nes	8543.90.11	Free		D	8543.90.01	10	A
		8543.90.12	Free		A	8543.90.99	10	A
		8543.90.13	2.5		A			
		8543.90.14	6.5		A			
		8543.90.91	Free		D			
		8543.90.92	Free		A			
		8543.90.93	2.5		A			
8543.90.94	6.5		A					
8544.11	Insulated (including enamelled or anodized) winding wire of copper	8544.11.00	6.5	(10.2)	B	8544.11.01	15	C

SUB- HEADING	DESCRIPTION	CANADA			MEXICO				
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING		
8544.20	Co-axial cable and other co-axial electric conductors	8544.20.00	6.5	(10.2)	B	8544.20.01	15	C	
						8544.20.02	10	A	
						8544.20.03	10	A	
						8544.20.99	15	C	
8544.41	Electric conductors, for a voltage not exceeding 80 V, fitted with connectors	8544.41.00	6.5	(10.3)	C	8544.41.01	15	C	
						8544.41.02	15	C	
						8544.41.03	15	C	
						8544.41.04	15	C	
						8544.41.05	15	C	
						8544.41.06	10	A	
						8544.41.07	15	C	
						8544.41.99	15	C	
						8544.49	Electric conductors, for a voltage not exceeding 80 V, nes	8544.49.00	6.5
8544.49.02	15	C							
8544.49.03	15	C							
8544.49.04	15	C							
8544.49.05	15	C							
8544.49.06	10	A							
8544.49.07	15	C							
8544.49.99	15	C							
8545.11	Carbon or graphite electrodes, of a kind used for furnaces	8545.11.11	Free		D				
						8545.11.12	6.5	A	
						8545.11.21	Free	A	
						8545.11.22	6.5	A	
8545.20	Carbon or graphite brushes	8545.20.00	6.5		B	8545.20.01	15	C	
8545.90	Articles of carbon or graphite, of a kind used for electrical purposes, nes	8545.90.10	7.5		A	8545.90.01	15	B	
						8545.90.91	Free	D	
						8545.90.92	6.5	(10.2)	B
						8545.90.99	15	B	
8546.20	Electrical insulators of ceramics	8546.20.00	10	(15)	B	8546.20.01	15	C	
						8546.20.02	15	C	
						8546.20.03	10	A	
						8546.20.04	10	A	
						8546.20.99	15	B	
8546.90	Electrical insulators, nes	8546.90.00	6	(9.2)	B	8546.90.01	15	B	
						8546.90.02	10	A	
						8546.90.03	15	C	
						8546.90.04	10	B	
						8546.90.99	15	C	
8547.10	Insulating fittings of ceramics for electrical machines, appliances or equipment	8547.10.10	Free		D	8547.10.01	10	C	
						8547.10.90	9	(13.8)	B
		8547.10.02	10	C	8547.10.03	10	A		
					8547.10.04	10	A		
					8547.10.05	10	A		
					8547.10.06	10	A		
8547.90	Insulating fittings for electrical machines, appliances or equipment, nes	8547.90.10	12.2		B	8547.90.01	10	A	
		8547.90.90	6.5		B	8547.90.02	10	A	
						8547.90.03	10	A	
						8547.90.04	10	A	
						8547.90.05	10	A	
						8547.90.06	10	A	
						8547.90.07	10	A	
						8547.90.08	10	A	
						8547.90.09	10	A	
						8547.90.10	10	A	
						8547.90.11	10	A	
						8547.90.12	10	A	
				8547.90.99	10	B			

SUB- HEADING	DESCRIPTION	CANADA			MEXICO				
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING		
8548.00	Electrical parts of machinery or apparatus, not included elsewhere in this Chapter	8548.00.00	6.5	(10.3)	B	8548.00.01	15	C	
						8548.00.02	10	C	
						8548.00.03	15	C	
						8548.00.99	15	C	
9001.10	Optical fibres, optical fibre bundles and cables, other than those of heading 85.44	9001.10.00	6.5		A	9001.10.01	10	A	
						9001.10.02	10	A	
						9001.10.03	10	A	
9405.10	Chandeliers and other electric ceiling or wall lighting fittings	9405.10.00	7.5	(11.3)	B	9405.10.01	20	C	
						9405.10.02	20	B	
						9405.10.03	20	C	
						9405.10.04	20	B	
						9405.10.99	20	B	
9405.40	Electric lamps and lighting fittings, nes	9405.40.10 9405.40.90	Free 7.5		A (11.3)	C	9405.40.01	20	C
9405.92	Lamps and lighting fittings parts of plastics	9405.92.00	7.5		C	9405.92.01	15	C	
9405.99	Lamps and lighting fittings, parts, nes	9405.99.10 9405.99.90	10 7.5		C	C	9405.99.01	20	C
							9405.99.99	20	C

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

ANNEX B

Rules of Origin for Electrical Equipment

Chapter 70	Glass and Glassware
70.10-70.20	A change to heading 70.10 through 70.20 from any other heading, except from heading 70.07 through 70.20.
Chapter 84	Nuclear Reactors, Boilers, Machinery and Mechanical Appliances; Parts Thereof
8401.10-8401.30	A change to subheading 8401.10 through 8401.30 from any other heading; or A change to subheading 8401.10 through 8401.30 from subheading 8401.40, whether or not there is also a change from any other heading, provided there is a regional value content of not less than: <ul style="list-style-type: none"> (a) 60 percent where the transaction-value method is used, or (b) 50 percent where the net-cost method is used.
8401.40	A change to subheading 8401.40 from any other heading.
8402.11-8402.20	A change to subheading 8402.11 through 8402.20 from any other heading; or A change to subheading 8402.11 through 8402.20 from subheading 8402.90, whether or not there is also a change from any other heading, provided there is a regional value content of not less than: <ul style="list-style-type: none"> (a) 60 percent where the transaction-value method is used, or (b) 50 percent where the net-cost method is used.
8402.90	A change to subheading 8402.90 from any other heading; or No required change in tariff classification to subheading 8402.90, provided there is a regional value content of not less than: <ul style="list-style-type: none"> (a) 60 percent where the transaction-value method is used, or (b) 50 percent where the net-cost method is used.
8403.10	A change to subheading 8403.10 from any other heading; or A change to subheading 8403.10 from subheading 8403.90, whether or not there is also a change from any other heading, provided there is a regional value content of not less than: <ul style="list-style-type: none"> (a) 60 percent where the transaction-value method is used, or (b) 50 percent where the net-cost method is used.
8403.90	A change to subheading 8403.90 from any other heading.

- 8404.10-8404.20 A change to subheading 8404.10 through 8404.20 from any other heading; or
- A change to subheading 8404.10 through 8404.20 from subheading 8404.90, 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.
- 8404.90 A change to subheading 8404.90 from any other heading.
- 8405.10 A change to subheading 8405.10 from any other heading; or
- A change to subheading 8405.10 from subheading 8405.90, 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.
- 8405.90 A change to subheading 8405.90 from any other heading.
- 8406.11-8406.19 A change to subheading 8406.11 through 8406.19 from any subheading outside that group, except from Canadian tariff item 8406.90.22, 8406.90.24, 8406.90.32 or 8406.90.34, U.S. tariff item 8406.90.10A, 8406.90.10C, 8406.90.90A or 8406.90.90C or Mexican tariff item 8406.90.01 or 8406.90.02.
- 8406.90
- 8406.90.aa A change to Canadian tariff item 8406.90.22 or 8406.90.32, U.S. tariff item 8406.90.10A or 8406.90.90A or Mexican tariff item 8406.90.01 from Canadian tariff item 8406.90.21 or 8406.90.31, U.S. tariff item 8406.90.10B or 8406.90.90B or Mexican tariff item 8406.90.03, or any other heading.
- 8406.90.bb A change to Canadian tariff item 8406.90.24 or 8406.90.34, U.S. tariff item 8406.90.10C or 8406.90.90C or Mexican tariff item 8406.90.02 from any other tariff item.
- 8406.90 A change to subheading 8406.90 from any other heading.
- 84.07-84.08 A change to heading 84.07 through 84.08 from any other heading, including another heading within that group, provided there is a regional value content of not less than:
- (a) 60 percent where the transaction-value method is used, or
 - (b) 50 percent where the net-cost method is used.
- 8409.99 A change to subheading 8409.99 from any other heading; or
- No required change in tariff classification to subheading 8409.99, 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.

8410.11-8410.13	<p>A change to subheading 8410.11 through 8410.13 from any other heading; or</p> <p>A change to subheading 8410.11 through 8410.13 from subheading 8410.90, whether or not there is also a change from any other heading, provided there is a regional value content of not less than:</p> <ul style="list-style-type: none"> (a) 60 percent where the transaction-value method is used, or (b) 50 percent where the net-cost method is used.
8410.90	A change to subheading 8410.90 from any other heading.
8411.11-8411.82	<p>A change to subheading 8411.11 through 8411.82 from any other heading; or</p> <p>A change to subheading 8411.11 through 8411.82 from subheading 8411.91 through 8411.99, whether or not there is also a change from any other heading, provided there is a regional value content of not less than:</p> <ul style="list-style-type: none"> (a) 60 percent where the transaction-value method is used, or (b) 50 percent where the net-cost method is used.
8411.91-8411.99	A change to subheading 8411.91 through 8411.99 from any other heading.
8415.10	A change to subheading 8415.10 from any other subheading, except from Canadian tariff item 8415.90.11, 8415.90.21, 8415.90.31 or 8415.90.41, U.S. tariff item 8415.90.00A or 8415.90.00B or Mexican tariff item 8415.90.01 or from assemblies incorporating more than one of the following: compressor, condenser, evaporator, connecting tubing.
8415.81-8415.83	<p>A change to subheading 8415.81 through 8415.83 from any subheading outside that group, except from Canadian tariff item 8415.90.11, 8415.90.21, 8415.90.31 or 8415.90.41, U.S. tariff item 8415.90.00A or 8415.90.00B or Mexican tariff item 8415.90.01 or from assemblies incorporating more than one of the following: compressor, condenser, evaporator, connecting tubing; or</p> <p>A change to subheading 8415.81 through 8415.83 from Canadian tariff item 8415.90.11, 8415.90.21, 8415.90.31 or 8415.90.41, U.S. tariff item 8415.90.00A or 8415.90.00B or Mexican tariff item 8415.90.01 or from assemblies incorporating more than one of the following: compressor, condenser, evaporator, connecting tubing, whether or not there is also a change from any other subheading outside that group, provided there is a regional value content of not less than:</p> <ul style="list-style-type: none"> (a) 60 percent where the transaction-value method is used, or (b) 50 percent where the net-cost method is used.
8415.90	
8415.90.aa	A change to Canadian tariff item 8415.90.11, 8415.90.21, 8415.90.31 or 8415.90.41, U.S. tariff item 8415.90.00A or 8415.90.00B or Mexican tariff item 8415.90.01 from any other tariff item.
8415.90	A change to subheading 8415.90 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**
- 85.01** A change to heading 85.01 from any other heading, except from Canadian tariff item 8503.00.11 through 8503.00.19, U.S. tariff item 8503.00.40A, 8503.00.60A or 8503.00.60C or Mexican tariff item 8503.00.01 or 8503.00.05; or
- A change to heading 85.01 from Canadian tariff item 8503.00.11 through 8503.00.19, U.S. tariff item 8503.00.40A, 8503.00.60A or 8503.00.60C or Mexican tariff item 8503.00.01 or 8503.00.05, 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.
- 85.02** A change to heading 85.02 from any other heading, except from heading 84.06, 84.11, 85.01 or 85.03; or
- A change to heading 85.02 from heading 84.06, 84.11, 85.01 or 85.03, 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.
- 85.03** A change to heading 85.03 from any other heading.
- 8504.10-8504.34** A change to subheading 8504.10 through 8504.34 from any other heading; or
- A change to subheading 8504.10 through 8504.34 from subheading 8504.90, 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.
- 8504.40**
- 8504.40.aa A change to Canadian tariff item 8504.40.40 or Mexican tariff item 8504.40.12 from any other subheading.
- 8504.40.bb A change to Canadian tariff item 8504.40.50, U.S. tariff item 8504.40.00A or 8504.40.00B or Mexican tariff item 8504.40.13 from any other subheading, except from Canadian tariff item 8504.90.12, 8504.90.13, 8504.90.14, 8504.90.15, 8504.90.16 or 8504.90.17, U.S. tariff item 8504.90.00A or Mexican tariff item 8504.90.07 or 8504.90.09.
- 8504.40 A change to subheading 8504.40 from any other heading; or
- A change to subheading 8504.40 from subheading 8504.90, 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.

8504.90	
8504.90.bb	A change to Canadian tariff item 8504.90.80 or Mexican tariff item 8504.90.08 from any other tariff item.
8504.90	A change to subheading 8504.90 from any other heading.
8505.11-8505.30	A change to subheading 8505.11 through 8505.30 from any other heading; or A change to subheading 8505.11 through 8505.30 from subheading 8505.90, 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.
8505.90	A change to subheading 8505.90 from any other heading.
8506.11-8506.20	A change to subheading 8506.11 through 8506.20 from any other heading; or A change to subheading 8506.11 through 8506.20 from subheading 8506.90, 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.
8506.90	A change to subheading 8506.90 from any other heading.
8507.10-8507.80	A change to subheading 8507.10 through 8507.80 from any other heading; or A change to subheading 8507.10 through 8507.80 from subheading 8507.90, 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.
8507.90	A change to subheading 8507.90 from any other heading.
8508.90	A change to subheading 8508.90 from any other heading.
8509.90	A change to subheading 8509.90 from any other heading.
8510.90	A change to subheading 8510.90 from any other heading.
8516.10-8516.29	A change to subheading 8516.10 through 8516.29 from subheading 8516.80 or any other heading; or A change to subheading 8516.10 through 8516.29 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.
- 8530.10-8530.80 A change to subheading 8530.10 through 8530.80 from any other heading; or
 A change to subheading 8530.10 through 8530.80 from subheading 8530.90, 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.
- 8530.90 A change to subheading 8530.90 from any other heading.
- 8532.10 A change to subheading 8532.10 from any other heading; or
 A change to subheading 8532.10 from subheading 8532.90, 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.
- 8532.90 A change to subheading 8532.90 from any other heading.

85.35

- 8535.90.aa A change to Canadian tariff item 8535.90.30, U.S. tariff item 8535.90.00A or Mexican tariff item 8535.90.08, 8535.90.20 or 8535.90.24 from any other tariff item, except from Canadian tariff item 8538.90.20, U.S. tariff item 8538.90.00B or Mexican tariff item 8538.90.12; or
- A change to Canadian tariff item 8535.90.30, U.S. tariff item 8535.90.00A or Mexican tariff item 8535.90.08, 8535.90.20 or 8535.90.24 from Canadian tariff item 8538.90.20, U.S. tariff item 8538.90.00B or Mexican tariff item 8538.90.12, whether or not there is also a change from any other tariff item, 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.

85.35

- A change to heading 85.35 from any other heading, except from Canadian tariff item 8538.90.30 or 8538.90.60, U.S. tariff item 8538.90.00A or 8538.90.00C or Mexican tariff item 8538.90.13 or 8538.90.14; or
- A change to heading 85.35 from Canadian tariff item 8538.90.30 or 8538.90.60, U.S. tariff item 8538.90.00A or 8538.90.00C or Mexican tariff item 8538.90.13 or 8538.90.14, 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.

85.36

- 8536.30.aa A change to Canadian tariff item 8536.30.12, U.S. tariff item 8536.30.00A or Mexican tariff item 8536.30.05 from any other tariff item, except from Canadian tariff item 8538.90.20, U.S. tariff item 8538.90.00B or Mexican tariff item 8538.90.12; or
- A change to Canadian tariff item 8536.30.12, U.S. tariff item 8536.30.00A or Mexican tariff item 8536.30.05 from Canadian tariff item 8538.90.20, U.S. tariff item 8538.90.00B or Mexican tariff item 8538.90.12, whether or not there is also a change from any other tariff item, 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.

8536.50.aa

- A change to Canadian tariff item 8536.50.21 or 8536.50.29 or U.S. tariff item 8536.50.00A from any other tariff item, except from Canadian tariff item 8538.90.20, U.S. tariff item 8538.90.00B or Mexican tariff item 8538.90.12; or

A change to Canadian tariff item 8536.50.21 or 8536.50.29 or U.S. tariff item 8536.50.00A from Canadian tariff item 8538.90.20, U.S. tariff item 8538.90.00B or Mexican tariff item 8538.90.12, whether or not there is also a change from any other tariff item, 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.

8536.90.aa

A change to Mexican tariff item 8536.90.07 or 8536.90.27 from any other tariff item, except from Canadian tariff item 8538.90.20, U.S. tariff item 8538.90.00B or Mexican tariff item 8538.90.12; or

A change to Mexican tariff item 8536.90.07 or 8536.90.27 from Canadian tariff item 8538.90.20, U.S. tariff item 8538.90.00B or Mexican tariff item 8538.90.12, whether or not there is also a change from any other tariff item, 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.

85.36

A change to heading 85.36 from any other heading, except from Canadian tariff item 8538.90.30 or 8538.90.60, U.S. tariff item 8538.90.00A or 8538.90.00C or Mexican tariff item 8538.90.13 or 8538.90.14; or

A change to heading 85.36 from Canadian tariff item 8538.90.30 or 8538.90.60, U.S. tariff item 8538.90.00A or 8538.90.00C or Mexican tariff item 8538.90.13 or 8538.90.14, 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.

85.37

A change to heading 85.37 from any other heading, except from Canadian tariff item 8538.90.30 or 8538.90.60, U.S. tariff item 8538.90.00A or 8538.90.00C or Mexican tariff item 8538.90.13 or 8538.90.14; or

A change to heading 85.37 from Canadian tariff item 8538.90.30 or 8538.90.60, U.S. tariff item 8538.90.00A or 8538.90.00C or Mexican tariff item 8538.90.13 or 8538.90.14, 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.

85.38

A change to heading 85.38 from any other heading.

8539.10-8539.40

A change to subheading 8539.10 through 8539.40 from any other heading; or

	A change to subheading 8539.10 through 8539.40 from subheading 8539.90, whether or not there is also a change from any other heading, provided there is a regional value content of not less than: <ul style="list-style-type: none"> (a) 60 percent where the transaction-value method is used, or (b) 50 percent where the net-cost method is used.
8539.90	A change to subheading 8539.90 from any other heading.
8543.90	A change to subheading 8543.90 from any other heading.
8544.11-8544.60	A change to subheading 8544.11 through 8544.60 from any subheading outside that group, except from heading 74.08, 74.13, 76.05 or 76.14; or A change to subheading 8544.11 through 8544.60 from heading 74.08, 74.13, 76.05 or 76.14, whether or not there is also a change from any other subheading, including another subheading within subheading 8544.11 through 8544.60, provided there is also a regional value content of not less than: <ul style="list-style-type: none"> (a) 60 percent where the transaction-value method is used, or (b) 50 percent where the net-cost method is used.
8544.70	A change to subheading 8544.70 from any other subheading, except from heading 70.02 or 90.01; or A change to subheading 8544.70 from heading 70.02 or 90.01, whether or not there is also a change from any other subheading, provided there is a regional value content of not less than: <ul style="list-style-type: none"> (a) 60 percent where the transaction-value method is used, or (b) 50 percent where the net-cost method is used.
85.45-85.48	A change to heading 85.45 through 85.48 from any other heading, including another heading within that group.
Chapter 90	Optical, Photographic, Cinematographic, Measuring, Checking, Precision, Medical or Surgical Instruments and Apparatus; Parts and Accessories Thereof
9001.10	A change to subheading 9001.10 from any other chapter, except from heading 70.02; or A change to subheading 9001.10 from heading 70.02, whether or not there is also a change from any other chapter, provided there is a regional value content of not less than: <ul style="list-style-type: none"> (a) 60 percent where the transaction-value method is used, or (b) 50 percent where the net-cost method is used.
9001.20-9001.90	A change to subheading 9001.20 through 9001.90 from any other heading.

Chapter 94**Furniture; Bedding, Mattresses, Mattress Supports, Cushions and Similar Stuffed Furnishings; Lamps and Lighting Fittings, Not Elsewhere Specified or Included; Illuminated Signs, Illuminated Name-Plates and the Like; Prefabricated Buildings**

9405.10-9405.60

A change to subheading 9405.10 through 9405.60 from any other chapter; or

A change to subheading 9405.10 through 9405.60 from subheading 9405.91 through 9405.99, whether or not there is also a change from any other chapter, provided there is a regional value content of not less than:

- (a) 60 percent where the transaction-value method is used, or
- (b) 50 percent where the net-cost method is used.

9405.91-9405.99

A change to subheading 9405.91 through 9405.99 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.

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