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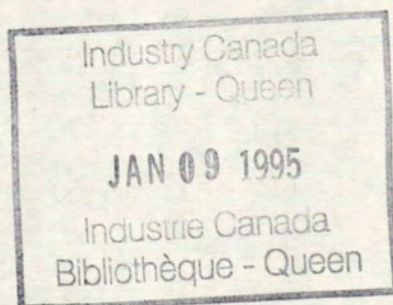
## THE ENVIRONMENTAL EQUIPMENT AND SERVICES SECTOR



Canada

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no. 18  
QUEEN  
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# **NAFTA AND THE ENVIRONMENTAL INDUSTRIES SECTOR**



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## **NAFTA AND THE CANADIAN ENVIRONMENTAL INDUSTRIES 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 environmental products and service providers with continued preferential access to U.S. markets and new preferential access to Mexico. Mexico's market for environmental goods and services is expected to grow to \$1.5 billion by 1997. The Mexican environmental infrastructure is just beginning to be developed thus providing excellent opportunities for Canadian service providers and manufacturers of technologically advanced pollution abatement equipment.

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 environmental industries sector including manufacturers of air pollution control equipment, and of systems for treating water and waste-water, hazardous wastes, and solid and liquid wastes; as well as firms providing engineering, economic, scientific, management and technical services. 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 North American environmental industries sector and highlights potential new market opportunities in Mexico.



## TARIFFS FOR ENVIRONMENTAL INDUSTRIES

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

### Canada- United States Tariffs

Trade between the United States and Canada will continue to be governed by the tariff phase-outs negotiated under the provisions of the Canada-United States Free Trade Agreement (FTA). These phase-out schedules are unaffected by NAFTA. Under the FTA, tariffs for most environmental industries products have already been eliminated. The remaining duties have been reduced by at least 60 percent and 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 environmental products. 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 environmental products ranged between 10 and 20 percent prior to NAFTA. Under NAFTA, most of these tariffs will be eliminated by January 1, 1998.

Mexico immediately eliminated tariffs on a number of items, notably:

- ▶ certain drying machinery;
- ▶ distillation equipment;
- ▶ centrifuges; and
- ▶ various instrumentation (e.g. gas or smoke analyzers).

By January 1, 1998, Mexico will have eliminated tariffs on various equipment of potential interest to Canadian firms, notably incinerators and filtering and purifying machinery for water, other liquids and gases.



**Canadian  
Phase-Outs**

Under NAFTA, Canadian duties on most environmental products will be eliminated by January 1, 1998. This includes the immediate elimination, on January 1, 1994, of tariffs for a variety of items such as incinerators, dryers, distillation equipment, centrifuges and various instruments.

**Treatment  
of Jointly  
Produced Goods**

NAFTA protects Canadian environmental industries 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 environmental 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 ENVIRONMENTAL PRODUCTS**

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 environmental 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 environmental products 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 a limited number of changes in the product-specific rules of origin for environmental products (e.g. textile articles, trash compactors). For most environmental products, the NAFTA product-specific rules are the same as the FTA rules. For a more detailed explanation of rules of origin for textile articles refer to NAFTA and the Textiles Sector booklet published as part of this series.

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



NAFTA has introduced new provisions of general application that may assist some Canadian exporters of environmental products. 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 the 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 incinerators for burning waste incorporates German handling equipment (for charging and discharging) and control panels.

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

The producer determines that incinerators for burning waste are classified under tariff subheading 8417.80. The non-North American parts fall under subheadings 8417.90 and 8537.10, respectively.

The rule of origin for subheading 8417.80 (i.e. incinerators) requires “a change to subheading 8417.10 through 8417.80 from any other heading.” In this example, the incinerators in question would not qualify under this part of the rule because the handling equipment is classified under subheading 8417.90 which is the same heading (i.e. 8417) as the incinerators.

The second part of the rule of origin for incinerators permits “a change to subheading 8417.10 through 8417.80 from subheading 8417.90...provided there is a regional value 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 incinerators 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**

### **Method of Marking**

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

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

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

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

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

### **Country of Origin**

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

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

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



## WHAT ELSE YOU SHOULD KNOW

### Temporary Entry for Business Purposes

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

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

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

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

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

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

### Duty Drawback

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

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

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



## Safeguard Mechanism

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

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

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

## Dispute Settlement

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

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

## Procurement

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

Providers of environmental services will now be eligible to compete on many U.S. government service contracts, including those for the newly opened departments of Energy and Transport. Substantial market opportunities will be available for suppliers of environmental equipment and services through contracts tendered on the part of the Army Corps of Engineers. In addition, the "Buy America" provisions under the *Rural Electrification Act* have also been waived.



In Mexico, Canadian companies are now eligible to bid on major purchases by many government departments and agencies, including the giant state-owned utilities for oil and gas (PEMEX) and power (CFE). 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.

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

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

## **Standards**

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

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

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

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



## ***Intellectual Property Rights***

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

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

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

## ***Other NAFTA Provisions***

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

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



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

### **Environmental Industries in Canada**

The Canadian environmental industry is made up of about 4 500 companies, employing about 150 000 people. The majority of these companies are small and medium-sized enterprises and about two thirds are service firms with annual revenues of \$5 billion. The remaining third are involved in manufacturing, with annual revenues of approximately \$6 billion.

Canadian manufacturers offer equipment and systems for water and waste water treatment, hazardous waste treatment, and air pollution controls. Canada also does well in the handling of solid and liquid wastes with its specialty incinerators, shredders, compactors, recycling systems and equipment. Canada's capabilities extend from the construction of large pollution prevention and control systems down to the production of component parts such as pumps, filters, valves and chemicals.

The environmental services subsector includes consulting engineering firms, solid waste management and recycling operations, private laboratories and research establishments. These firms provide engineering, economic, scientific, management and technical services. Environmental services are offered in areas such as resource conservation and protection, water supply, sewage collection and treatment, solid waste disposal, industrial waste water treatment, air pollution controls and energy conservation.

The roughly \$11 billion Canadian environmental market is expected to double by the year 2000. Presently, it is estimated that 15 to 20 percent of Canadian environmental product companies either export or are export-ready. Export revenues are close to \$1 billion per year, with 80 percent of these sales to the United States. Although some 23 percent of production is exported, there remains an estimated trade deficit of \$900 million. Approximately 37 percent of the Canadian market for environmental equipment is supplied by imports, 80 percent of which come from the United States.

### **The U.S. Market**

The U.S. market for environmental goods and services is expected to grow from \$165 billion in 1992 to \$225 billion by 1997. This market represents one third of the world market. The U.S. environment industry comprises about 70 000 businesses, and employs some two million Americans. The U.S. Environmental Protection Agency expects strong growth to continue in this sector as existing laws are implemented.



Growth has been consistent in solid waste management, resource recovery and recycling. The emphasis, however, is expected to shift to integrated waste management, the management of hazardous waste, and the control of air pollution.

The environmental engineering and consulting segment is one of the market's key sectors, worth some U.S.\$12 billion and having a growth rate about 16 percent.

The hazardous waste management segment of the U.S. market, about \$13 billion in size, is still essentially a low-technology market. There is, however, good long-term potential for high-technology products for bio-remediation, fixation/stabilization, and thermal destruction. The nuclear waste management segment was worth about \$1 billion in 1990. This market includes clean-ups as well as management at power utility sites.

The site remediation market is estimated to be worth some \$3 billion annually with growth of 15 percent. Thousands of sites are on the national priority list for clean-up under Superfund, and thousands more have been identified as requiring clean-up. The need to undertake clean-ups more efficiently and less expensively is fostering the development of sophisticated new remediation technologies.

The analytical services market is largely driven by regulations that require constant analyses of soil, water and air for a growing range of toxic substances. Long-term growth, however, is likely to be quite flat compared with other market segments.

Although Canadian access to the American market is strong, problem areas remain. For example, the federally mandated toxic site remediation program has "Buy America" preferences, set-asides, audits, inspections, guarantees, and liability insurance requirements that favour U.S. suppliers.

Mexico's rapid urbanization and industrialization along with a traditionally weak framework for environmental protection have contributed to the poor state of its environment. There is virtually no industrial or hazardous waste handling infrastructure in Mexico. Mexico City is notorious for having the highest levels of atmospheric pollution in the world.

Increasingly, Mexican industry and government are under pressure to adopt more stringent environmental practices. Stricter standards and regulations are being put into place. Enforcement has been strengthened since the establishment of the Attorney's Office for the Protection of the Environment.

## **Mexico and the Environment**



## **The Mexican Market**

Mexico's market for environmental goods and services is expected to grow from \$1 billion in 1992 to \$1.5 billion in 1997. With NAFTA, there will be major market opportunities for Canadian environmental industries.

Mexico lacks a developed environmental service industry and technologically advanced pollution abatement equipment manufacturers. Its environmental infrastructure, including water treatment plants and waste disposal facilities, requires major development.

Before pollution abatement equipment is purchased, the public and the private sector must identify major environmental requirements. Consequently, there is a strong demand for specialized consulting services, environmental assessment capabilities and laboratory testing services.

The locations and sectors targeted for enforcement are priority markets, since many companies delay purchases until their premises are inspected by government agencies. These areas include Mexico City and the United States-Mexico border as well as the highly visible polluting industries such as chemicals and cement.

The state-owned oil and gas and electricity companies, PEMEX and CFE, are two of Mexico's largest polluters. They have recently established environmental divisions and their purchases of pollution abatement equipment and services have dramatically increased. The power sector is also shifting to cleaner fuels and efficiency improvements.

In Mexico City, over 75 percent of air pollution is a result of vehicle emissions, while 8 percent is a result of industrial activity. The transportation sector pollution problems are being addressed by the production and use of cleaner fuels, fuel substitution and the use of catalytic converters.

The water pollution control equipment market in Mexico is already well-established. Major customers are municipalities, consortia, tourist developments and large companies. Municipal drinking water and waste water treatment facilities also offer potential since budgets have been allocated by the National Water Commission. These projects are financed through a number of national programs and international financial institutions.

In general, Mexico does not manufacture instrumentation or equipment used in the management of hazardous wastes. Local manufacturers produce basic equipment such as dust collectors and filters.

While solid waste management is not a high priority, some municipalities are in the process of contracting out disposal services to private companies. The absence of industrial waste disposal infrastructure also suggests that new opportunities will arise.

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:**

Environmental Industries Directorate

Tel.: (613) 952-1122

Fax: (613) 954-3430, 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
- ▶ Electrical Equipment
- ▶ Electronic Components
- ▶ 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*
- ▶ *Mexican Market Study on Pollution and Environment Control*

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 environmental 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: 20 percent reduction on January 1, 1994, zero reduction on January 1, 1995, 10 percent reduction per year for years January 1, 1996 to January 1, 2000 and 30 percent reduction on 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.



## ENVIRONMENTAL INDUSTRIES CANADA-MEXICO TARIFF PHASE-OUT SCHEDULE

SUB- HEADING	DESCRIPTION	CANADA			MEXICO		
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING
2701.11	Anthracite, whether or not pulverized but not agglomerated [activated charcoal]	2701.11.00	Free	D	2701.11.01	10	A
3402.90	Surface-active preparations, washing and cleaning preparations, nes [surfactants]	3402.90.00	8	B	3402.90.99	15	B
5911.90	Textile products and articles for technical uses, nes [industrial filter cartridges]	5911.90.90	12.5	B+	5911.90.03	15	B+
					5911.90.04	10	B+
					5911.90.99	15	B+
6810.99	Articles of cement, of concrete or of artificial stone, nes [septic tanks]	6810.99.00	Free	A	6810.99.99	20	B
7308.90	Structures and parts of structures, iron or steel [metal dampers, chimney stacks]	7308.90.90	6.5	(10.2) C	7308.90.01	20	C
					7308.90.02	15	C
					7308.90.99	15	C
7309.00	Reservoirs, tanks, vats and similar containers, capacity >300 L, of iron or steel, excluding liquid/compressed gas type [storage tanks, septic tanks, holding tanks]	7309.00.90	5	(7.8) C	7309.00.04	15	C
					7309.00.05	15	C
					7309.00.06	15	C
					7309.00.99	15	C
7310.10	Tanks, casks, drums, cans, boxes and similar containers, of iron or steel, capacity >50 L but <300 L [water treatment tanks]	7310.10.10	5	(8) C	7310.10.01	15	C
		7310.10.90	6.5	(10.2) C	7310.10.02	15	C
					7310.10.99	15	C
8207.50	Tools for drilling, other than for rock drilling	8207.50.00	2.5	B	8207.50.01	15	C
					8207.50.02	15	C
					8207.50.03	15	C
					8207.50.04	15	A
					8207.50.05	10	A
					8207.50.06	15	B
					8207.50.99	15	C
8412.80	Engines and motors, nes	8412.80.10	Free	D	8412.80.01	10	A
		8412.80.20	Free	D	8412.80.02	10	A
		8412.80.30	15	A	8412.80.03	10	A
		8412.80.90	6	A	8412.80.04	10	A
					8412.80.99	10	A
8413.81	Pumps, nes [sewage type]	8413.81.00	2.5	B	8413.81.01	20	C
					8413.81.02	20	A
					8413.81.99	10	C
8413.91	Parts of pumps for liquid whether or not fitted with a measuring device	8413.91.99	2.5	A	8413.91.01	10	A
					8413.91.08	10	A
					8413.91.10	10	A
					8413.91.99	10	B
8414.59	Fans, nes	8414.59.00	2.5	B	8414.59.01	20	C
					8414.59.99	15	B
8414.60	Hoods with a maximum side <120 cm	8414.60.00	2.5	(4.6) B	8414.60.99	15	B
8414.90	Parts of fans, blowers, hoods	8414.90.51	2.5	B	8414.90.01	15	C
		8414.90.59	2.5	B	8414.90.02	10	C
					8414.90.13	20	C
					8414.90.99	10	C



SUB- HEADING	DESCRIPTION	CANADA			MEXICO		
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING
8417.80	Industrial incinerators, non-electric, nes	8417.80.90	2.5	A	8417.80.01	20	B
					8417.80.02	20	B
					8417.80.03	10	B
					8417.80.04	20	B
					8417.80.99	20	B
8419.39	Non-domestic, non-electric dryers, nes	8419.39.90	2.5	A	8419.39.01	10	A
					8419.39.02	20	A
					8419.39.04	10	A
					8419.39.05	20	A
					8419.39.06	15	A
					8419.39.99	15	A
8419.40	Distilling or rectifying plant	8419.40.00	2.5	A	8419.40.01	15	A
					8419.40.02	20	A
					8419.40.03	10	C
					8419.40.04	15	C
					8419.40.99	10	A
8419.89	Machinery, plant or laboratory equipment for treatment of materials by a change of temperature, nes	8419.89.40	2.5	B	8419.89.03	20	C
		8419.89.90	6.5	B	8419.89.04	15	C
					8419.89.05	15	A
					8419.89.11	15	C
					8419.89.12	15	C
					8419.89.13	10	A
					8419.89.14	15	C
					8419.89.17	20	C
					8419.89.21	15	B
					8419.89.99	10	B
8421.19	Centrifuges, nes	8421.19.30	Free	D	8421.19.01	15	A
		8421.19.90	2.5	A	8421.19.02	15	A
					8421.19.04	10	A
					8421.19.05	20	A
					8421.19.06	10	A
					8421.19.99	15	A
8421.21	Filtering or purifying machinery and apparatus for water	8421.21.00	2.5	B	8421.21.01	10	A
					8421.21.02	10	B
					8421.21.03	10	B
					8421.21.04	10	B
					8421.21.99	15	B
8421.29	Filtering or purifying machinery and apparatus* for liquids, nes	8421.29.10	Free	D	8421.29.01	15	B
		8421.29.90	2.5	B	8421.29.02	15	C
					8421.29.03	20	B
					8421.29.04	15	B
					8421.29.05	10	A
					8421.29.99	10	B
8421.39	Filtering or purifying machinery and apparatus for gases, nes [dust collection equipment]	8421.39.10	Free	D	8421.39.01	20	B
		8421.39.20	2.5 (9.2)	B	8421.39.02	15	B
		8421.39.90	2.5 (9.2)	B	8421.39.03	10	B
					8421.39.04	20	B
					8421.39.05	15	B
					8421.39.06	15	B
					8421.39.07	15	B
					8421.39.08	10	B
					8421.39.99	10	B
8421.99	Parts for filtering or purifying machinery and apparatus for liquids or gases, nes	8421.99.10	Free	D	8421.99.01	15	B
		8421.99.20	6	B	8421.99.02	10	A
		8421.99.30	2.5	B	8421.99.03	15	B
					8421.99.99	10	B
8479.82	Machinery for mixing, kneading crushing, grinding, etc., nes having individual function	8479.82.00	2.5	A	8479.82.03	20	A
					8479.82.05	20	A
					8479.82.99	10	A



SUB-HEADING	DESCRIPTION	CANADA			MEXICO		
		ITEM	RATE (%)	PHASING	ITEM	RATE (%)	PHASING
8537.10	Boards, panels, including numerical control panels, for a voltage <1,000 V	8537.10.11	Free	A	8537.10.01	15	C
		8537.10.19	Free	A	8537.10.02	10	C
		8537.10.21	Free	A	8537.10.03	20	C
		8537.10.29	Free	A	8537.10.04	15	C
		8537.10.31	2.5	B	8537.10.05	10	C
		8537.10.39	6	B	8537.10.06	10	C
		8537.10.41	2.5	B	8537.10.99	10	C
		8537.10.49	6	B			
		8537.10.50	11.5 (17.5)	B			
		8537.10.91	2.5	B			
		8537.10.92	Free	D			
		8537.10.99	6	B			
		8705.90	Special purpose motor vehicles, nes [garbage trucks]	8705.90.90	2.5	C	8705.90.01
					8705.90.99	20	C
8708.92	Mufflers and exhaust pipes for motor vehicles [silencers]	8708.92.10	Free	D	8708.92.01	10	A
		8708.92.90	6	B	8708.92.02	15	A
					8708.92.99	15	B
9025.19	Thermometers, not combined with other instruments, nes	9025.19.19	6.5 (10.3)	B	9025.19.03	10	B
		9025.19.90	2.5 (3.7)	B	9025.19.99	20	C
9025.80	Hydrometers, psychrometers, recording or not, nes [electrolytic conductivity measuring]	9025.80.10	6.5	A	9025.80.01	20	C
		9025.80.91	Free	D	9025.80.02	10	A
		9025.80.99	2.5 (3.7)	B	9025.80.03	10	A
					9025.80.04	15	A
			9025.80.99	10	A		
9025.90	Parts and accessories for use with the apparatus of heading No. 90.25	9025.90.10	6.5	B	9025.90.01	10	B
		9025.90.91	Free	D	9025.90.02	10	B
		9025.90.92	6.5	A	9025.90.99	10	B
		9025.90.93	5	B			
9026.10	Instruments and apparatus for measuring or checking the flow or level of liquids	9026.10.10	6.5	B	9026.10.01	10	C
		9026.10.91	Free	D	9026.10.02	15	B
		9026.10.99	Free	A	9026.10.03	15	B
					9026.10.04	10	C
					9026.10.05	10	C
					9026.10.06	10	C
			9026.10.99	15	B		
9026.20	Instruments and apparatus for measuring or checking pressure	9026.20.10	Free	D	9026.20.01	15	C
		9026.20.90	5	B	9026.20.02	20	A
					9026.20.03	20	A
					9026.20.04	20	C
					9026.20.05	10	A
					9026.20.06	10	A
					9026.20.99	15	A
9027.10	Gas or smoke analysis apparatus	9027.10.10	Free	D	9027.10.01	10	A
		9027.10.90	2.5	A			
9027.20	Chromatographs and electrophoresis instruments	9027.20.10	Free	D	9027.20.01	10	A
		9027.20.90	2.5	A	9027.20.02	10	A
					9027.20.99	10	A
9027.90	Microtomes, including parts and access of instruments and apparatus for physical or chemical analysis, nes	9027.90.19	2.5	A	9027.90.01	10	A
		9027.90.91	Free	D	9027.90.02	10	A
		9027.90.93	5	A	9027.90.99	10	A

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



## ANNEX B

### *Rules of Origin for Environmental Products*

- Chapter 34** Soap, Organic Surface-active Agents, Washing Preparations, Lubricating Preparations, Polishing or Scouring Preparations.
- 3402.20-3402.90 A change to subheading 3402.20 through 3402.90 from any subheading outside that group; or
- A change to subheading 3402.20 through 3402.90 from any other subheading within that group, whether or not there is also a change from any subheading outside that group, provided there is a regional value content of not less than:
- (a) 65 percent where the transaction-value method is used, or
  - (b) 50 percent where the net-cost method is used.
- Chapter 59** Impregnated, Coated, Covered or Laminated Textile Fabrics; Textile Articles of a Kind Suitable For Industrial Use
- 59.11 A change to heading 59.11 from any other chapter, except from heading 51.11 through 51.13, 52.08 through 52.12, 53.10 through 53.11, 54.07 through 54.08 or 55.12 through 55.16.
- Chapter 68** Articles of Stone, Plaster, Cement, Asbestos, Mica or Similar Materials
- 68.01-68.11 A change to heading 68.01 through 68.11 from any other chapter.
- Chapter 73** Articles of Iron or Steel
- 73.08 A change to heading 73.08 from any other heading, except for changes resulting from the following processes performed on angles, shapes, or sections of heading 72.16:
- (a) drilling, punching, notching, cutting, cambering, or sweeping, whether performed individually or in combination;
  - (b) adding attachments or weldments for composite construction;
  - (c) adding attachments for handling purposes;
  - (d) adding weldments, connectors or attachments to H-sections or I-sections; provided that the maximum dimension of the weldments, connectors, or attachments is not greater than the dimension between the inner surfaces of the flanges of the H-sections or I-sections
  - (e) painting, galvanizing, or otherwise coating; or
  - (f) adding a simple base plate without stiffening elements, individually or in combination with drilling, punching, notching, or cutting, to create an article suitable as a column.
- 73.09-73.11 A change to heading 73.09 through 73.11 from any heading outside that group.



<b>Chapter 82</b>	<b>Tools, Implements, Cutlery, Spoons and Forks, of Base Metal; Parts Thereof of Base Metal</b>
82.01-82.15	A change to heading 82.01 through 82.15 from any other chapter.
<b>Chapter 84</b>	<b>Nuclear Reactors, Boilers, Machinery and Mechanical Appliances; Parts Thereof</b>
8412.10-8412.80	A change to subheading 8412.10 through 8412.80 from any other heading; or A change to subheading 8412.10 through 8412.80 from subheading 8412.90, 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.
8413.11-8413.82	A change to subheading 8413.11 through 8413.82 from any other heading; or A change to subheading 8413.11 through 8413.82 from subheading 8413.91 through 8413.92, 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.
8413.91	A change to subheading 8413.91 from any other heading.
8414.40-8414.80	A change to subheading 8414.40 through 8414.80 from any other heading; or A change to subheading 8414.40 through 8414.80 from subheading 8414.90, 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.
8414.90	A change to subheading 8414.90 from any other heading; or No required change in tariff classification to subheading 8414.90, 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.
8417.10-8417.80	A change to subheading 8417.10 through 8417.80 from any other heading; or A change to subheading 8417.10 through 8417.80 from subheading 8417.90, whether or not there is also a change from any other heading, provided there is a regional value content of not less than: (a) 60 percent where the transaction-value method is used, or (b) 50 percent where the net-cost method is used.



- 8419.11-8419.89 A change to subheading 8419.11 through 8419.89 from any other heading; or  
 A change to subheading 8419.11 through 8419.89 from subheading 8419.90, whether or not there is also a change from any other heading, provided there is a regional value content of not less than:  
 (a) 60 percent where the transaction-value method is used, or  
 (b) 50 percent where the net-cost method is used.
- 8421.19-8421.39 A change to subheading 8421.19 through 8421.39 from any other heading; or  
 A change to subheading 8421.19 through 8421.39 from subheading 8421.91 through 8421.99, whether or not there is also a change from any other heading, provided there is a regional value content of not less than:  
 (a) 60 percent where the transaction-value method is used, or  
 (b) 50 percent where the net-cost method is used.
- 8421.99 A change to subheading 8421.99 from any other heading; or  
 No required change in tariff classification to subheading 8421.99, 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.
- 8479.82
- 8479.82.aa A change to Mexican tariff item 8479.82.03 from any other tariff item, except from Canadian tariff item 8479.90.61, 8479.90.62, 8479.90.63 or 8479.90.64, U.S. tariff item 8479.90.80B, 8479.90.80C, 8479.90.80D or 8479.90.80E or Mexican tariff item 8479.90.17, 8479.90.18, 8479.90.19 or 8479.90.20, or combinations thereof.
- 8479.82 A change to subheading 8479.82 from any other heading; or  
 A change to subheading 8479.82 from subheading 8479.90, whether or not there is also a change from any other heading, provided there is a regional value content of not less than:  
 (a) 60 percent where the transaction-value method is used, or  
 (b) 50 percent where the net-cost method is used.
- 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**
- 85.37 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.

## Chapter 87

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

87.05

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

8708.92

A change to subheading 8708.92 from any other heading; or

A change to subheading 8708.92 from subheading 8708.99, whether or not there is also a change from any other heading, provided there is a regional value content of not less than 50 percent under the net-cost method.

## Chapter 90

### Optical, Photographic, Cinematographic, Measuring, Checking, Precision, Medical or Surgical Instruments and Apparatus; Parts and Accessories Thereof

9025.11-9025.80

A change to subheading 9025.11 through 9025.80 from any other heading; or

A change to subheading 9025.11 through 9025.80 from subheading 9025.90, 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.

9025.90

A change to subheading 9025.90 from any other heading.

9026.10-9026.80

A change to subheading 9026.10 through 9026.80 from any other heading; or

A change to subheading 9026.10 through 9026.80 from subheading 9026.90, 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.

9027.10-9027.50

A change to subheading 9027.10 through 9027.50 from any other heading; or

A change to subheading 9027.10 through 9027.50 from subheading 9027.90, 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.

9027.90

A change to subheading 9027.90 from any other heading.



## ANNEX C

### Calculating Regional Value Content

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

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

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

In most cases, exporters can choose either method.

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

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

#### Transaction-Value Method

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

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

The formula is as follows:

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

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



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

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

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

## **Net-Cost Method**

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

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

The net-cost formula is as follows:

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

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

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

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









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