

NAFTA - RULES OF ORIGIN

WHAT'S IN THE AGREEMENT

- ◆ Clear and predictable rules that build on the Canada-U.S. Free Trade Agreement (FTA), allowing NAFTA preferential duties on a good after it has undergone a specified change from one tariff description to another;
- ◆ For some products, there will also be a second test based on the value of the content originating in the NAFTA countries. Two alternative formulae for calculating value content will give exporters flexibility. Products other than autos and footwear would qualify for preferential duties at 50% North American content under the net cost formula;
- ◆ Cohesive, new rules of origin for autos and auto parts, with a requirement of 62.5% North American content for light vehicles (including cars and light trucks) and their engines and transmissions, and 60% for other auto goods to qualify for duty-free access to U.S. and Mexican markets;
- ◆ For apparel: new rules of origin requiring that yarns, as well as fabric in a garment, be made in North America; for most yarns, new rules requiring that fibres be sourced in North America;
- ◆ Extended and enlarged quotas into the U.S giving preferential tariff treatment to Canadian textiles and apparel not meeting the rules of origin;
- ◆ Improved rules of origin for computers, telecommunications equipment and other high-tech equipment;
- ◆ Changes to FTA rules requested by Canadian producers (e.g., on computers, copper products, and certain household appliances).
- ◆ The FTA rules are continued in the NAFTA for many products, including most agricultural, food and beverages products, minerals, most chemicals, pulp and paper, wood products, most rubber and plastic products, much machinery and equipment, and most base-metal products;
- ◆ Uniform regulations to ensure the rules of origin are interpreted and applied uniformly in the NAFTA countries; and
- ◆ A mechanism to settle differences in interpreting and administering the rules of origin.

BENEFITS FOR CANADA

- ◆ A clearer and more predictable formula for calculating value content of automobiles and parts, thereby creating greater certainty for the North American auto industry;
- ◆ New quotas giving preferential tariff treatment to textiles and apparel that do not meet the rules of origin substantially exceed current export levels. Quotas in two key sectors are more than double the FTA levels. A 2% annual growth rate will also apply on most quotas for at least five years;
- ◆ Improved, straightforward rules for computers, telecommunications products, and other high-tech and electronic goods;
- ◆ FTA rules of origin are retained on a wide variety of exports, providing stability for those industries already benefiting from the FTA; and
- ◆ Improved dispute settlement procedures will constrain unilateral determinations, as occurred in the Honda case.