A product will qualify for duty-free treatment if the offshore materials that are used to make another product are imported into one country under one tariff item and the finished product enters the other country under a different tariff item.

In some cases, there is an additional requirement that at least 50 per cent of the direct cost of producing the product must originate in Canada or in the United States. Direct costs do not include costs relating to general expenses of doing business such as costs of administration, financing, sales advertising, marketing, packaging for export, accounting, legal and insurance services, and profit.

Special provision within the rules-of-origin elements of the Agreement has been made to permit Canadian manufacturers to use a certain quantity of fabric imported from third countries in apparel shipped duty-free to the United States. In other words, these products will be treated as being of Canadian origin even though they incorporate fabric made in other countries. For a limited time, specified quantities of fabrics made from third country yarn will receive the same treatment.

The Department of External Affairs is now examining, in consultation with the textiles and clothing industries, how best to administer the tariff rate quotas that will apply to trade in these products between the two countries in ways that will exploit the export potential of the two industries while minimizing uncertainty and documentation requirements.

Goods will have to be shipped direct from one party to the other to qualify under the origin rules of the Agreement. Material sent to other countries (e.g. Mexican free trade zones) for finishing will not qualify under the Agreement. Additionally, materials which are sent to other countries for partial processing will be considered third country materials when they re-enter either party for further processing. Revenue Canada (Customs) is now examining how best to implement the new system to protect the integrity of the rules-of-origin arrangement while minimizing documentation requirements for the private sector.