into effect, if you sold a piece of capital equipment, such as these automotive bank teller machines, into the United States, you could only send your service personnel into the U.S. for the first year of the warranty period in the after-sales period.

Now, the problem is that for many equipment sales, the servicing component of the package can make or break the deal, and so this was in the back in the mind of the negotiators when it came to temporary business travel. The FTA now says, if you sell something like automatic bank teller machines and you specify a five-year warranty period or a five-year service agreement, then you can send your after-sales servicing people, so long as they are Canadian citizens, across the border during the entire length of the warranty or the after-sales service agreement So that's a major opportunity for people who are involved in the production of high tech goods or other goods which require servicing and want to make their product particularly competitive.

Now in this particular instance, although the Free Trade Agreement is going to facilitate the movement of the goods through the border, at the end of the day you have to recognize that you are dealing with customs on both sides, and going into the United States it could be that your product will not move as quickly or as expeditiiously as you'd wish. So, in this particular hypothetical instance, we're suggesting that the company might want to establish a warehouse in the United States and supply the warehouse so that all customs clearances have been performed and that will enable as close to just-in-time delivery as possible in the United States.

Now Rob will speak to the tax consequences of this. Fortunately if it's done properly, there are no adverse tax consequences in terms of the United States but I'll let him expand upon that. But the point is that for effective sales into the United States, we would recommend that a business who is situated in Vancouver, first of all quote in U.S. prices and undertake, as part of the commercial undertaking, to perform all customs clearances so that you essentially make the border invisible for the purposes of transacting business and get your goods into the United States. If you want to have a warehousing operation there, you can and then supply through the United States from the warehousing operation.

Now, I'm going to sit down at this point and Rob's going to pick up and talk briefly about the Canadian tax issues and then I'll come back and talk a little bit more about distributorship contracts.

Rob Strother:

Thanks, Chris, and thanks all of you for not getting up and leaving when he mentioned tax. Unfortunately a tax lawyer is a guy who always wanted to be an accountant but didn't have sufficient personality, so I'll do the best I can.

The first Canadian tax issue is this concept of amortized design costs. Although the Free Trade Agreement is silent on this under the sourcing rules, because this product qualifies as Canadian because most of the what I call the soft costs or the design elements are higher relative to the hard cost, the cost of buying a box, you have a concern that if you're laying out design costs in the short run and have a relatively high portion, Revenue Canada may require you to amortize the costs over the life of the manufacturing, so that the relative proportion of your design costs to the hard costs, the cost of buying the box, go down over time, thereby perhaps ultimately taking you offside with your sourcing.

One possible solution to that would be to isolate your design costs and your manufacturing operations in separate corporations, so that you would have the soft costs, or the intangibles, the intellectual property if you will, the fruits of design in one company, the manufacturing operation in another. The company that owns the design, if you will, would charge the manufacturing operation a constant cost by way of rent, royalty or licencing fee, so that you have a constant charge for the design input and thereby don't have this potential for imbalance as you amortize.

Concern, though, with that is that you better set it up from the outset because if you do your design in a corporation, the same one you do the manufacturing in, to transfer the intellectual property, the right to the licence if you will, over to a new corporation, you'd have to do it on a tax-free roll-over basis and that would put the design costs at low cost, if you will, in one company and the manufacturing operation and the profits in another. So, you'd have a company which has got double tax shield, the original research and development deductions plus the costs of manufacturing the box,