

**PART ONE: OBJECTIVES AND SCOPE**  
**Chapter 1: Objectives and Scope**

**Article 105: National Treatment**

This article provides that to the extent provided in the trade agreement, each Party shall provide national treatment with respect to investment and to trade in goods and services.

The concept of national treatment is a basic liberalizing principle of international trade law. It is the foundation on which many of the obligations of the GATT and the Canada-U.S. Trade Agreement are built. The particular applications of national treatment and exceptions to it are specified in individual chapters.

**Chapter 2: General Definitions**

**PART TWO: TRADE IN GOODS**

**Chapter 3: Rules of Origin for Goods**

**Annex 301.2: Interpretations**

The general rule of origin for goods to receive duty free treatment for shipments between the Parties is a change of tariff classification. For a number of industries (e.g. chemicals, footwear, machinery, electronic, autos) this rule is supplemented by a 50% cost of production test to ensure that the benefits of the FTA tariff treatment will accrue to Canadian or US producers. The methodology agreed to for this test provides that duty and taxes on materials originating outside Canada or the United States and inland freight, although incurred in Canada or the United States, will be treated as foreign content whereas the total value of offshore components that meet the rules of origin will count towards the 50%.

Apparel made from offshore fabrics will qualify for preferential FTA treatment into the U.S., up to the following levels: 50 million square yards for non-woollen apparel and 6 million square yards for woollen apparel. Above these levels, apparel made from offshore fabrics will face MFN rates into the U.S., but can benefit from duty drawbacks. Apparel made from Canadian or U.S. fabrics will qualify for preferential FTA treatment into the U.S. The corresponding levels for apparel exported to Canada from the United States are 10.5 million square yards for non-woollen apparel and 1.1 million square yards for woollen apparel.