

Now, here we have the 50 percent direct cost of production rule. The Free Trade Agreement in Chapter 3 actually sets out what can and cannot be taken into consideration in calculating the direct cost of production. I won't go into it, I'll just mention that it's there in Chapter 3, it sets out what's allocable and what is not and I should note that it does not follow general accounting principles. So, there is a difference there between what you as rational business people would do and the way trade negotiators have come up with this particular calculation, and so what it means is that if you are in the area of manufacturing and you have the 50 percent direct cost of production rule, you're going to have to have your operations people and your accountants sit down and start to allocate costs in order to come up with the appropriate calculation. Remember that the sanction here if it turns out that you have been wrong or you have not properly calculated your direct cost of production, the sanction is that you will have to pay duties where you did not pay them before and you may be subject to criminal or civil prosecution in either country.

Now, there are two interesting points to this particular rule of origin calculation - exchange rates. Please keep in mind that if you are sourcing inputs from offshore, exchange rate fluctuations could knock you out of your 50 percent rule. If you're close to the rule and it turns out that you have inputs which gradually appreciate in value because of an appreciation of the currency in which they were sold, then you could find that where you once were within the rule of origin, you may no longer be, so you should make a point of keeping close tabs on exchange rate fluctuations.

The other point is the question of design costs. I think that Don pointed out that we are in a process of essentially feeling our way into the Free Trade Agreement and one of the interesting points that we've identified for our clients is that some of the costs that you take into consideration in meeting the 50 percent direct rule you would think should be amortized over time. For example, once you've had design costs in 1988, should you be able to claim those in 1998. Well, the Free Trade Agreement is silent on that point as are the interpretation bulletins of Revenue Canada. I can't speak authoritatively for the United States. But there's an interesting question there - whether or not you can maintain a fixed design cost ad infinitum. So, what we are suggesting is that design costs might be peeled out of the operation and put in a separate corporation which, then, licences back the use of the technology to the manufacturer and there you have a standardized design cost on an annual basis, and my friend Rob Strother who's a tax lawyer will tell you that there can be some tax advantages to doing this as well.

Now, the second free trade consideration deals with the business visitors and professional categories and after-sales servicing. One of the most important chapters of the agreement, and it's one which has been overlooked, in my view, by many people in the business community, is Chapter 15 which deals with temporary business travel and the concessions that were made by both countries. Chapter 14, which deals with services, and Chapter 16, which deals with investment, in my view, pale in comparison with Chapter 15 because what it does is it provides new means for getting professionals across the border to actually engage in remunerative work on the other side as in this instance. I'll just note a couple of opportunities here. To take these particular machines down and have them sold in the United States, the companies, of course, are going to have to have a sales force either on this side of the border or on the United States' side. If it has a sales force in the United States, and Rob will pick up on this, there may be U.S. tax consequences. So, it may want to actually have its sales force situated in B.C. and cross the border.

Well, as a result of the FTA, a business visitor and somebody who would be in the process of going down to solicit orders for these machines would qualify. The business visitor, upon proof of Canadian citizenship and meeting other entry requirements such as health and no criminal record will be able to cross the U.S. border much easier than prior to the Free Trade Agreement. So, sales personnel should find it easier to move across the American border.

I also should note that there is a tariff designation now which allows sales representatives to take commercial samples into the United States without posting a bond. Until the Free Trade Agreement came into effect, you were allowed to take commercial samples into the United States but you had to post a bond and it was just one more item which had to be dealt with when you made a border crossing. Now we have a tariff designation which deals specifically with moving commercial samples across.

And the final point to note here is after-sales servicing. Until the Free Trade Agreement came