# MAKING THE FTA WORK FOR YOU

## Presented by: Chris Thomas and Robert C. Strother

**Chris Thomas:**

It's a pleasure to be here today. What we've tried to do is take a three-hour audio visual presentation and extract a couple of case studies. We prepared this longer presentation and we've so far put it on in Vancouver and Hong Kong and we expect to do it in a number of other venues, particularly in the United States. So, what we thought we would try to do for today is to give you three case studies - two of them are longer, one of them is quite short - to demonstrate both the opportunities for business planning but also some of the problems that can crop up under the Free Trade Agreement.

One case study deals with the problem with the sourcing rules and I think it's very important for people to understand that once the agreement is fully phased in, even ten years down the road, not all goods are going to go across the border at preferential tariffs, that they have to qualify as being made in Canada or made in the United States and it's the process of qualifying the goods which can cause you some difficulty. So, these case studies illustrate, at least in two of them, how you deal with the sourcing rules.

Case Study No. 1 actually had four examples but we've extracted two examples for you and it makes a simple point that I just made before, which is that in order to get your goods into the United States at a preferential tariff, they have to qualify and if they don't qualify, then they will go in at the normal most favoured nation or MFN rate of duty and it's also important to keep in mind that the Free Trade Agreement did not require Canada or the United States to change their tariff schedules for the rest of the world. So, goods coming in from offshore come in at different tariff levels in many instances. That means that for business people looking to source inputs for their products from offshore, there can be some interesting possibilities for business planning.

Our first example is a high tech example and in this instance we had a business situated in Vancouver that was purchasing enclosures for automatic bank teller machines from Japan. Now most of the components here are sourced offshore but the research and development for this particular product, the automatic bank teller machine, had been done in Canada. So, the objective was to bring in a high quality component, the terminal enclosure for the machine, bring it into Canada along with additional imported components, put them all together, applying the research and design and engineering costs incurred in Canada, and then ship them into the United States.

Now, there are really three Free Trade Agreement considerations for this particular instance. The first is meeting the rules of origin, and I'll discuss that shortly. The second is the trans-border business travel aspects of the Free Trade Agreement and the third deals with after-sales servicing of the equipment in the United States.

Now the sourcing rules here are the most complicated sourcing rules under the Free Trade Agreement. If you are dealing with an area where you have natural resource products, where you are essentially taking oil out of the ground and further processing it or processing forest products which are grown and harvested in Canada, you'll have no difficulty whatsoever in complying with the rules of origin because those goods clearly originate in Canada.

The problem you are going to have is in the area of manufacturers and this is one of the examples here. In this particular instance, the company was going to have to meet what is known as the 50 percent direct cost of production method of calculating the origin of the goods. Now if you were just to add up the material components here, it would not be able to meet that rule of origin because most of the components are from offshore. If you're using components, unless you can have your suppliers validate the origin of those components, Revenue Canada and the United States Customs Service take the position that they are deemed to be foreign components, not of Canadian or American origin. So, if you rely on supplies which are developed in Canada and the United States, you should try to get supplier certificates which indicate the origin of the goods.