In most cases, a specific rule will provide that the regional value content for a good is 50 percent, if the net cost method is used.

DETERMINING NET COST OF A GOOD

The *net cost* of a good is the total cost of the good less the costs of sales promotion, marketing and after-sales service, royalties, shipping and packing costs and certain non-allowable interest costs.

Total cost includes all product costs, period costs or other costs that can be reasonably allocated to the good. Accordingly, total cost includes the value of all materials, whether originating or non-originating. (Also included in total cost are all intermediate and indirect materials. Intermediate materials are originating materials or components produced by the manufacturer of the good, as described in Article 402. Indirect materials are materials such as fuel, tools and maintenance materials, that are used in the production of a good but not incorporated in it.)

Sales promotion, marketing and after-sales service, royalties, shipping and packing costs and non-allowable interest costs are all terms defined in the text of the rules of origin.

The formula for calculating net cost can be expressed as follows:

Net Cost = Total Cost - Costs of Sales/Marketing/Service/Royalties/Shipping/Packing/Non-Allowable Interest

In simple terms, to obtain the net cost of a good, one begins with all the costs of producing a good and then subtracts any cost that is specifically excluded. The total of the remaining costs, including overhead costs, is the net cost of the good.

Net Cost Method Example:
A producer sells a good for $100 but is not sure that this price will be considered acceptable under the customs valuation code. The producer opts for the net cost method. The value of non-originating materials is $30.

Using the net cost method, the calculation is as follows:

Step 1:
The total cost of the good is $90. Sales, shipping and royalty costs allocable to the good amount to $10. The net cost of the good is $80.

TC - excluded costs = NC

$90 - $10 = 80

Step 2:

$$\frac{NC - VNM}{NC} \times 100 = RVC$$

$$\frac{\$80 - 30}{80} \times 100 = 63.5\%$$

The regional value content of the good is 63.5 percent, using the net cost method.

Note: The calculation above does not mean that the goods originate. It is only relevant if the rule of origin applicable provides for regional value content and the necessary tariff changes are met.

NON-ORIGINATING MATERIALS

The non-originating materials used in the production of the good are those materials or components that would not qualify as "originating" in their own right under the NAFTA rules of origin.