

THE REGULATORY ENVIRONMENT

THE NORTH AMERICAN FREE TRADE AGREEMENT TARIFFS

The North American Free Trade Agreement (NAFTA) has greatly improved the access to the Mexican market for Canadian firms. The duties on most apparel products will be reduced in ten equal annual stages beginning January 1, 1994, and will become duty free on January 1, 2003.

RULES OF ORIGIN

To qualify for favourable tariff treatment under the North American Free Trade Agreement (NAFTA), goods must comply with the rules of origin specified in that Agreement. The rules for apparel are somewhat more complex than for most other products.

For most products, an input from outside the free trade area must be processed sufficiently to cause a change in tariff classification. For apparel, however, the rules of origin are "yarn forward". This means that all inputs used to manufacture the garment, starting with the yarn, must be included in the calculation of the NAFTA value-added. There are, however, a few exceptions. Several products fall under a so-called "single transformation rule". This means that the garment must be cut or knit to shape and sewn, or otherwise-assembled within a NAFTA country. The single transformation rule applies to the following products:

- apparel made from materials that are in short supply in North America, including Harris Tweed, velveteen and fine-wale corduroy among others;
- men's dress shirts made from certain specific cottons and cotton blends;
- brassieres; and
- silk and linen apparel.

In addition, the linings of tailored clothing and coats needs to be of NAFTA origin only from the fabric forward. There are a number of other rules that apply only to trade between the U.S. and Mexico or between Canada and the U.S.

A de minimis rule allows producers to use small amounts of non-originating material. Specifically, up to 7 percent by weight of the component that determines the classification may originate outside the free trade area.