Note
The RVC percentage is only relevant if the production results in the necessary HS classification change **and** the specific rule of origin that applies requires an RVC.

In the following circumstances, exporters or producers cannot use the transaction value method, so they have to apply the net cost method:

- the good has no transaction value (e.g., barter);
- the transaction value of the good is unacceptable under the Customs Valuation Code (see the brochure called *Value For Duty*, which is available at any Customs regional office, for more information);
- related-party transactions where the majority of the producer's sales are to related parties;
- the goods being imported are certain motor vehicles or automotive parts; and
- the goods being imported are footwear or word-processing machines.

Exporters or producers who are not sure whether they can use the transaction value method should call a Revenue Canada Customs regional office. You will find addresses and telephone numbers on the back cover of this publication.

Net cost method

Under the net cost method, exporters or producers have to subtract the value of non-originating materials used to produce the finished good from the **net cost** of the good. In most cases, the **value of a non-originating material** is the total amount it costs producers to purchase the material and get it to the production site.

Then, exporters or producers have to divide the difference by the net cost, and convert the result to a percentage to get the RVC.

The net cost formula is as follows:

$$\frac{\text{Net cost} - \text{value of non-originating materials}}{\text{Net cost}} \times 100 = \text{RVC}$$

In most cases, if exporters or producers use the net cost method, the specific rule of origin will require that the RVC for an originating good must be at least 50%.

Determining the net cost of a good

To determine the **net cost** of a good, begin with all the costs of producing the good, and then subtract any costs that are specifically excluded. Specifically excluded costs are costs for:

- sales promotion and marketing;
- after-sales service;
- royalties;
- shipping and packing costs; and
- non-allowable interest costs.

Example
A producer sells a good for $100 but is not sure whether this price is acceptable under the Customs Valuation Code. The producer chooses to use the net cost method. The value of non-originating materials is $30.

Using the net cost method, the producer has to calculate as follows:

Step 1

The total cost of the good is $90. Sales, shipping, and royalty costs that can be allocated to the good are $10. Therefore, the net cost of the good is $80.

Step 2

$$\frac{\text{Net cost} - \text{value of non-originating materials}}{\text{Net cost}} \times 100 = \text{RVC}$$

$$\frac{\$80 - 30}{80} \times 100 = 62.5\%$$

Therefore, using the net cost method, the RVC of the good is 62.5%.