

COMMONLY ASKED QUESTIONS

How will the new formula on rules of origin help the auto industry in Canada?

The new formula is clearer and more straightforward than the FTA formula and provides more certainty for manufacturers. The formula addresses the problems of ambiguity experienced under the FTA regarding the types of costs that can be included. Manufacturers will be required to trace their North American content, thereby ensuring that the real North American level is calculated accurately. Content levels calculated under the formula are less likely to be misinterpreted and challenged. The new formula should encourage more sourcing of auto parts in Canada.

Did Canada agree to more restrictive rules of origin for textiles and apparel than existed in the FTA?

Canada agreed to accept the new rules only if, at the same time, Canadian producers obtained better access to the U.S. market. This was done by enlarging the special quotas contained in the FTA that extend the preferential duties to textiles and apparel that do not meet the rules of origin. The new quotas give the apparel industry ample opportunity to increase its exports to the U.S. under preferential conditions. The quotas substantially exceed the existing export levels of the Canadian apparel industry. Two of the three key quotas established in the FTA have been more than doubled in size. The quotas have also been made permanent and, in most cases, will increase by 2% annually for at least the next five years. In addition, the Agreement includes review clauses which will allow for future adjustments in light of changing circumstances.

Will the new rules of origin hurt Canada's textile and apparel industries?

Since the implementation of the FTA, our apparel exports to the U.S. have increased in value by 60%, with Canada holding a trade surplus. Our exports of yarn have more than doubled, with fabrics and fibres registering increases of 15% and 50% respectively.

The narrower NAFTA rules of origin are therefore offset by substantial increases in the tariff rate quotas negotiated under the FTA which should benefit both industries under the NAFTA.