NAFTA Duty-savings Begin January First

by Jaime Seidner, Coopers & Lybrand

The new year will bring with it the potential for increased sales for Canadian exporters. Effective January 1, 1998, U.S. customs duty on most Canadian merchandise qualifying under the North American Free Trade Agreement (NAFTA) are reduced to zero.

Among other things, the NAFTA provides for customs tariff relief on originating merchandise from each of the three NAFTA members — Canada, the United States and Mexico — entering the customs jurisdiction of another NAFTA member. While exports from Canada to the United States and vice versa will, in most cases, be free of customs duty as of the new year, Mexico is on a tariff reduction schedule that will result in duty being phased out over time, with the complete removal of tariffs by 2009.

How to qualify for NAFTA benefits

To be considered originating for NAFTA purposes, and thereby entitled to tariff benefits, your company's goods must meet certain criteria under the NAFTA. These criteria deal with specific rule of origin tests, such as meeting a tariff change requirement, NAFTA content requirements and various other tests. The objective of the origin rule is to determine whether sufficient transformation processing has occurred in a NAFTA territory for certain goods, whether or not they are entirely grown, fished or mined in a member country. (Goods purchased in a NAFTA country that were imported and fully manufactured from a non-NAFTA country do not qualify for NAFTA tariff benefits.)

Why use NAFTA if my merchandise is classified as duty free?

There may be instances when merchandise exported to the United States has a duty-free classification without claiming NAFTA benefits. However, when Canadian goods are shipped from Canada into the United States and the goods are not certified as originating under the NAFTA, they are subject to Merchandise Processing Fees (MPF) that can add up to $485.00 to the cost of each shipment. This additional charge, although small, increases the cost to a U.S. importer or can lead to lost sales for Canadian exporters if their U.S. customers look for less expensive alternative sources of the product.

Make sure the paperwork is in order

NAFTA benefits require that documentation be prepared and retained in order to support a claim. Incorrect or incomplete documentation and analyses could result in the removal of tariff benefits and possible penalties. Exporters should therefore make sure the paperwork is filled out accurately and claim NAFTA benefits only when entitled.

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be participating in the project as subcontractors and suppliers. Many of these are small companies new to exporting and to international capital project activity.

Due to its success in export markets and the resultant sales growth, KSH is no longer eligible for PEMD assistance, which is now reserved for smaller companies that have total annual sales of less than $10 million.

As well as being used to cost-share bid preparation costs for international capital projects, PEMD assistance can be used to cost-share the implementation of a company's one- or two-year market development strategy in a new market. Companies new to exporting can obtain assistance to undertake a market investigation trip and/or to participate in an international trade fair.

While repayment of the assistance is required, companies need not repay until they have succeeded in making export sales or won a capital project tender. Non-repayable assistance is also provided to national industry or sector-specific trade associations to do generic promotion or to develop market intelligence on behalf of their member companies and industry.

For more information on PEMD, contact Dennis Gibson, Deputy Director, Export Development Division, DFAIT, tel.: (613) 996-1408, fax: (613) 995-5773.