Regional value content test

Sometimes a specific rule of origin will require you to meet an additional requirement for a good to qualify. Usually, this additional requirement tests the good's **regional value content (RVC)**, which requires that a certain percentage of the good's value has to originate in a NAFTA country.

For example, some rules may specify that a good must have at least 65% RVC. To qualify for originating status under NAFTA, therefore, you have to demonstrate that at least 65% of the good's value originated in Canada, the United States, or Mexico.

If a rule requires an HS classification change **and** an RVC test, the good has to meet **both** of these requirements to be an originating good.

For many manufactured items, NAFTA provides two alternative specific rules of origin. The first requires only an HS classification change. The second requires a lesser degree of HS classification change, such as a change of subheading instead of heading, but also requires an RVC test.

> **Example**
> Powdered laundry soap is classified in subheading 3401.20. Annex 401 provides two specific rules of origin for this product. For instance, if imported fatty acids (classified in chapter 15) are transformed into powdered laundry soap, this is sufficient for the powdered soap to be considered an originating good.
>
> However, if laundry soap is imported into North America in solid form and transformed into powdered laundry soap, it can only be considered an originating good if a certain percentage of the final good's value is added in North America.

Calculating Regional Value Content

NAFTA provides two alternative formulas that exporters or producers can use to calculate the regional value content (RVC) of their goods:

- the **transaction value method**; and
- the **net cost method.**

In most cases, exporters or producers can choose either method.

Transaction value method

Under the transaction value method, exporters or producers have to subtract the value of any non-originating material used to produce the good from the actual price paid for 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 price, and convert the result to a percentage to get the RVC.

The formula is as follows:

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

In most cases, if exporters or producers use the transaction value method, the specific rule of origin will require that the RVC for an originating good must be at least 60%.

> **Example**
> A producer sells a good for $100 in an arm's-length sale. The value of the non-originating materials used in the good is $30.
>
> Using the transaction value method, the producer calculates the RVC as follows:
>
> $$\frac{\text{Transaction value} - \text{value of non-originating materials}}{\text{Transaction value}} \times 100 = \text{RVC}$$
>
> $$\frac{\$100 - \$30}{\$100} \times 100 = 70\%$$
>
> Therefore, using the transaction value method, the RVC of the good is 70%.