the *de minimus* rule, as described below, and under *Article 401(d)*. If your goods do not satisfy the necessary tariff change, you should contact customs officials to determine if you are eligible to use these exceptions.)

De Minimus Exception to Tariff Change Requirement

The NAFTA provides some relief where a good does not originate only because a non-originating material of little value fails to meet a tariff classification change requirement. If the value of the non-originating material in question is no more than 7 percent of the value of the good, the good will originate.

Example:
A good uses two materials, A and B. Assume that A and B are both non-originating. As a result of its transformation into the finished good, A makes the required tariff change; but B does not. Because B fails to make the required change, the finished good will not qualify, *unless* the value of B is no more than 7 percent of the value of the good.

Note that the test is *only* whether the non-originating material *that fails to meet* the tariff classification change is not more than 7 percent of the total value. The general rule is that a good may incorporate *any* amount of non-originating material and still originate, provided that these materials meet the required tariff change for the finished product.

There are many cases where the de minimis exception may not be used. You should contact customs officials to determine if you are eligible to use de minimis.

REGIONAL VALUE CONTENT TEST

Sometimes a rule will require that an *additional condition* be met if a good is to qualify. Most commonly, this additional condition is a value-content test, which requires that a specified percentage of the value of a good originate in one or more of the NAFTA countries. This value content is known as the *regional value content (RVC)(see below)*.

For example, a rule may specify that a good must have an RVC of at least 50 percent. To qualify for originating status under the NAFTA, it must then be demonstrated that at least 50 percent of the value of the good originated in Canada, the United States or Mexico, *as calculated under the rules of origin in Chapter 4 of the NAFTA*.

If a rule requires a tariff classification change and an RVC test, *both* of these conditions must be met if the goods are to be considered originating.

For many manufactured items, two alternative specific rules are provided. The first requires only tariff classification change. The second requires a lesser degree of tariff classification change, such as a change of subheading instead of heading, but also requires an *RVC test*.

CALCULATING REGIONAL VALUE CONTENT (RVC)

GENERAL

The NAFTA provides two alternative formulas by which exporters can calculate the regional value content (RVC) of their goods:

1. **Transaction Value Method,**
2. **Net Cost Method.**

In the majority of cases, exporters will have the option of choosing either method.

In the following circumstances, however, *only the net cost method* may be used:

a) there is no transaction value for the good (e.g. barter);

b) the transaction value of the good is unacceptable under the Customs Valuation Code (e.g. a company transfer price is used);

c) certain transactions between related parties;