

the tariff classifications of the materials and components to that of the finished product. (See below for an explanation of the Harmonized System of tariff classification.) The greater the degree of transformation, the greater the change in tariff classification in the customs tariff schedule. A minor transformation may result only in a small change of tariff classification, such as a change of subheading within the customs tariff. More significant transformations may cause changes of tariff heading or chapter. In this way, the change of tariff classification test provides an objective and transparent standard for determining whether a good has been substantially transformed as contemplated by the rules of origin.

For certain products, a supplementary requirement, a value-content test, must also be met. The particular requirements for each type of good are set out in the applicable specific rules.

#### **HARMONIZED SYSTEM (HS) OF TARIFF CLASSIFICATION AND NAFTA RULES OF ORIGIN**

The specific rule of origin for a good is based on its tariff classification under the HS. The HS is organized in a series of tariff items by number in 21 sections, with commodities arranged for the most part by economic sectors. Each section is divided into chapters (97 in total) covering all products contained in a section. Each chapter is divided into a number of main headings identified by a four-digit number. Subheadings are identified by six-digit numbers and tariff items by eight-digit numbers reflecting variations in similar goods and parts of goods.

The term "Harmonized System" refers to the fact that the chapter, heading and subheading numbers for any given product will be identical in any country using the HS. However, the eight-digit tariff items are not harmonized, but

are individually assigned by each country of import.

Once you have determined the tariff classification of the good, use that classification to find the specific rule in NAFTA Annex 401 that applies to that good. If the conditions set out in the rule are met, the good will qualify as originating.

#### **Example:**

All tomato sauces are classified in HS subheading 2103.20 regardless of the country of import. Tomato ketchup is specifically classified by tariff item 2103.20.10 in Canada, 2103.20.40 in the U.S. and 2103.20.01 in Mexico.

#### **CHANGE OF TARIFF CLASSIFICATION**

Most of the rules of origin require that, as a result of production in one or more of the NAFTA countries, there be a certain *change of tariff classification* between each of the non-originating materials (i.e., components and materials that do not meet the NAFTA rules of origin in their own right) to the finished good.

#### **Example:**

The specific rule for copperplate requires a change of tariff heading. Copperplate is classified in heading 74.09. Unrefined copper is classified in a different heading, 74.02. Assume that the unrefined copper is non-originating. If it is then transformed into copperplate through production in a NAFTA country, the copperplate originates because a heading change from 74.02 to 74.09 has occurred.

**In the majority of cases, the applicable rule of origin for a good may require only a change of tariff classification. This means that to determine whether a good qualifies as originating under the NAFTA, a producer will need to know only the tariff classification of the good and the classification of any non-originating materials.**

(*Exceptions* to the requirement for tariff classification change are provided for under