



NAFTA 101 Overview

- NAFTA Internal Controls
 - NAFTA Rules of Origin
 - De Minimis Rule
 - Fungible Goods and Materials
- NAFTA Claims for Textile & Wearing Apparel
 - NAFTA Goods Qualification
- Certificate of Origin Preparation
 - NAFTA Best Practices



NAFTA Internal Controls

Under NAFTA Agreement - Importer must meet regulatory verification procedures **prior** to completing the NAFTA Certificate

- Internal Controls need to be demonstrated during a Focused Assessment (FA) such as accuracy and completeness of your NAFTA Certificates
- Failure to meet above may result in a NAFTA Verification Audit
- Important: Denial of NAFTA Benefits due to not meeting regulatory requirements **may not be protested**



NAFTA Rules of Origin

- Article 401 “Originating Goods”

“A” Wholly obtained or produced entirely in the territory

“B” Articles meeting the Annex 401 rules of Origin

“C” Produced entirely in the territory from originating materials

“D” Unassembled Goods, Goods classified with their parts



Preference Criterion “B”

- Any third country materials that undergo a tariff shift
- Some require Tariff Shift and/or Regional Value Content rule (RVC)
- Regional Value Content rule (RVC) only
- Tariff Shift – All non-originating materials undergo a change in tariff classification as per Annex 401



Tariff Shift Example

Tin Lids HS Tariff 7236.90

**ANNEX 401 Tariff Classification Rule for
73.25-73.26**

A change to heading 73.25 through 73.26 from any other heading outside that group

Non-NAFTA materials - Steel Tin Plate HS Tariff
7210



Operations That Do Not Confer Origin

- Simple Packaging
- Mere Dilution of Foreign Materials with water or Another Substance that don't alter the article
- Change from one classification to another as a result of change in end-use
- Change from one classification to another as a result of dismantling or disassembly



Regional Value Content Rule

Regional Value Content is the Calculated Percentage of the Value of the Product that represents its North American Content.

It must be calculated using one of two methods:

1. Transaction Value (Not less than 60%) or
2. Net Cost (Not less than 50%)

$$RVC = \frac{NC - VNM}{NC} \times 100$$



7% De Minimis Rule

Article 405 for Tariff Shift

- By VALUE for most products
- By WEIGHT for textiles
- EXCEPTIONS: Certain products of Chapter 1-27 plus Certain Chapter 73, 84, 85 items

Example: Food Product – 2106.90 contains flavoring of non-NAFTA origin also 2106.90

Excluded from NAFTA as flavoring was same subheading i.e. 2106.90



Fungible Goods & Materials

- Goods or materials that are interchangeable for commercial purposes and whose properties are essentially identical
- Must be decided upon GAAP recognized Inventory Methods i.e. LIFO, FIFO
- Physical Separation of inventory is not necessary



Textile & Wearing Apparel under NAFTA

- “Yarn-Forward” Rules apply with certain exceptions
- Tariff Preference Levels allow for duty free under NAFTA but subject to MPF
- “Special Regime” Program for articles assembled in Mexico
- Supplemental Verification Documents required to needed to support FTA claims



NAFTA Goods Qualification

- Determine the proper tariff classification of the finished article and all components
- Consult the NAFTA Rules of Origin (Article 401)
- Determine which qualification method(s) are available
- If you are Not the Producer, you must have substantiating documentation to make a NAFTA Claim



Certificate of Origin Preparation

- Field 2 – If a blanket NAFTA, ensure that the dates are valid
- Field 7- Select the correct Preference Criteria
- Field 8 - If not the producer, secure proof prior to issuing a NAFTA Certificate
- Field 11 - Certificate must be completed by Exporter (most knowledgeable person)



NAFTA Best Practices

- Always obtain, review & maintain documentary proof before you issue a NAFTA certificate of origin
- Certificate must be completed by most senior person with customs and product knowledge
- Importers & Exporters must retain your records for 5 years for US/MX and 6 years for Canada
- Seek NAFTA Advanced Rulings to answer issues on Marking, RVC, NAFTA qualification, etc.



Questions & Answers

Thank You