RULES OF ORIGIN ISSUES RELATED TO NAFTA AND THE NORTH AMERICAN AUTOMOTIVE INDUSTRY

Report to the Committee on Ways and Means, U.S. House of Representatives, on Investigation No. 332-314 Under Section 332 of the Tariff Act of 1930

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PREFACE

The U.S. International Trade Commission (Commission) instituted the present investigation, Rules of Origin Issues Related to NAFTA and the North American Automotive Industry, investigation No. 332-314, on September 16, 1991, pursuant to section 332(g) of the Tariff Act of 1930,[1] following receipt of a letter from the Committee on Ways and Means of the U.S. House of Representatives on August 27, 1991.[2] As requested by the Committee in its letter, the Commission's report—

1) analyzes existing customs treatment of automotive products under the value-added standard and the change-of-tariff-heading criterion, if applicable;

2) provides illustrative examples, to the extent available information permits, that may explain how non-U.S. and non-Canadian imported components are utilized in either major assemblies/subassemblies or in completed automobiles which are then classified as U.S.-origin or Canadian-origin goods eligible for duty-free entry; (In this connection, the letter requests that particular attention be given to the impact of concepts such as "internal roll-up", "direct costs of processing" (DCP), and "substantial transformation" on value-content determinations. The Committee also noted its particular interest in the definition of DCP, problems encountered in administering that concept, and the factors included in origin determinations based on DCP under the U.S.-Canada Free-Trade Agreement.)

3) seeks to evaluate other origin standards used in the automotive sector, such as those employed in making origin determinations for purposes of the Corporate Average Fuel Economy (CAFE) program; and

4) describes certain alternative origin standards that might be applied to the automotive sector in NAFTA.

The Commission's report is due no later than November 25, 1991. Public notice of the investigation was given by posting copies of the notice at the Office of the Secretary, U.S. International Trade Commission, Washington, DC, and by publishing the notice in the *Federal Register* of September 23, 1991 (56 F.R. 47966).[3] The information contained in this report was obtained from the Commission's files, other Federal agencies, responses to questionnaires, submissions by the public, and other sources.

[1] 19 U.S.C. 1332(g).

[2] The letter from the House Committee on Ways and Means is reproduced in app. A. Commissioner Carol Crawford did not participate.

[3] The notice of the institution of the Commission's Investigation No. 332-314 is reproduced in app. B.

CONTENTS

CONTENTS—*Continued*

CONTENTS—*Continued*

EXECUTIVE SUMMARY

This study examines issues relating to the formulation of eligibility rules for the automotive sector under the proposed North American Free-Trade Agreement (NAFTA). At the time this report was prepared, the NAFTA parties had not advanced a draft rule for consideration. An objective of this study, therefore, was to provide a framework for evaluating the eventual NAFTA rule in light of experience under various existing rules and the particular interests of the North American automotive industry. As more precise proposals take shape, more critical and complete evaluation of the implications of specific proposals may be required.

A primary goal of free-trade agreements is to enhance the economic development of the area concerned. This is accomplished by substantially reducing or eliminating internal barriers to trade and investment, so as to establish a larger and more competitive market. The creation of such a market provides incentives for additional investment in manufacturing activity within the free-trade area.

Preference or origin standards in such agreements seek to limit the extent of "foreign" content or value in goods to be accorded the benefits of the agreement, so that the advantages of the agreement accrue principally to the contracting parties. These advantages include increased trade, job creation and preservation, and added investment; the trading community receives the benefit of duty reduction or elimination along with other negotiated advantages.

In bilateral or multilateral free-trade agreements, the standards of eligibility for preferences are generally expressed in the form of—

(1) a change of tariff heading test, whereby foreign goods or materials which undergo processing in one party to the free-trade area sufficient to change their tariff classification become eligible for benefits upon importation into the other;

(2) a value-content standard, expressed either as a minimum percentage of "local" content or a maximum percentage of "foreign" content;

(3) a critical process requirement, which requires that certain processes be conducted or components be manufactured in the free-trade area for benefits to be conferred; or

(4) combinations of the above.

The task of deriving and applying a preference eligibility rule to the automotive sector, because of its economic importance, international linkages (in particular linkage with global vehicle parts suppliers as well as other important economic sectors, such as steel and electronics), and technical complexity, is daunting. Existing rules of preference tend to strain when applied to the automotive industry.

If the policy objective of an FTA is to increase economic development, then it would appear appropriate to place the eligibility threshold at a point where a significant contribution to goods for which FTA benefits are sought is required to obtain preferred status, but not at such a high level that the benefits do not justify the cost of that investment. It may be observed that eliminating the generally low duty rates in place, at least in the United States and Canada, would seem to offer minimal financial and competitive benefits, and that these benefits are but one aspect of the business planning and decision making process for automakers.

Although substantial transformation serves as the legal criterion used by the United States to determine origin, its terms (relying on the creation through processing of a new and different article of commerce) do not always have predictable and uniform results. While it does afford governments an opportunity to treat goods on a shipment-specific basis, and is a familiar standard for the trading community, the test operates with sufficient uncertainty that it was not employed as the eligibility standard in the CFTA and is not generally considered to be an option for the NAFTA regime.

The change of tariff heading test would assign origin to a country where imported materials or parts are processed so as to result in a change in their tariff classification when they are sent to another country. It is utilized as the basic eligibility standard in the CFTA, and has the advantage of being simpler and more objective than substantial transformation. Industry comments indicate support for using the principle to determine preference eligibility,

but also note problems with its implementation in the CFTA. Because the tariff nomenclature was not drafted with this use in mind, different product sectors and stages of manufacture are treated in inconsistent ways. Moreover, with the variation in product detail from heading to heading, this test alone does not always operate effectively, so that supplemental standards are usually deemed necessary. As applied to the automotive sector, application of this rule has great validity as a fundamental requirement for according NAFTA benefits to motor vehicles. However, the maximum value-added resulting from its application falls far below the contribution obtained using the standards currently in force with respect to almost every other U.S. preference program.

If the cost of assembly truly represented most of the manufacturing cost of a vehicle, setting an administrable standard based upon familiar customs value-added criteria and the change of tariff heading test would be substantially simplified. However, available information indicates that the cost of assembling a "typical" automobile or light truck represents only 15 to 20 percent of the direct cost of manufacture.

Although the extent to which assemblers produce their own parts and subassemblies varies widely, all generally rely heavily on a complex, global network of suppliers for their components. Parts suppliers may employ both FTA and non-FTA sources for their materials. Consequently, for purchased components, neither manufacturers (who do not know the cost and origin of the materials used in the component by the unrelated supplier) nor customs administrations (which cannot cope with the burden and expense of verifying the suppliers' records) can be entirely assured of the extent of local or foreign content.

Further, the determination of foreign content is clouded by the application of the concept of "roll-up," whereby "foreign" materials and parts are subsumed during the manufacture of new and different goods having a different commercial identity. When shipped across borders, the new product is said to "originate" where the conversion occurred, and the costs of foreign materials are said to have been rolled-up into the value of the finished good.

An examination of existing value-based standards in the CFTA and other preference programs reveals that they all tend to be applied in the same manner with respect to the roll-up question—goods from domestic suppliers are counted as domestic goods, even though varying levels of foreign content may be included. In the case of the auto industry, industry observers indicate that the network of U.S. suppliers traditionally serving the Big Three domestic producers tend as well to source materials and parts mainly from other domestic suppliers. At the same time, these sources indicate that Japanese-owned manufacturers tend to rely more heavily on imports, and that the growing network of North American-based suppliers which serve them uses more imported components than domestic fabricators. Because of these differences, a value-based regime may have different implications for individual firms, including how they choose to respond to such a rule. All industry representatives participating in the study favor inclusion of a value-related standard in the eventual NAFTA preference rule.

The so-called "critical processes or components" standard could be based on a menu of components which would be required to originate and be installed in vehicles within the free-trade area in order for such vehicles to benefit from the preference. Such a standard could be written to ensure that high-value added operations are performed or components manufactured in the free-trade area. This approach, which is not currently in use in the United States (but which has been used for some time in the European Community), could be verified by evidence confirming the performance of the operation, such as by a plant visit or certified work flow chart. Development of the enumeration of qualifying processes or components requires the exercise of judgment as to what is or is not critical. It is noted that all automakers interviewed by Commission staff were strongly opposed to such a standard. Among other reasons for this view, they feel it would reduce their sourcing flexibility, hamper their ability to shift production to maximize profits, and serve to discourage technological advances.

These methods of determining origin or preference eligibility may also be combined; for example, change of tariff heading, value content, and critical processes might all be employed in some aspect of origin or preference determinations. To date, the United States has not used all three tests in a generally applicable rule of origin or preference. Industry comments indicate that such a standard would be too complex and would limit their flexibility to shift production and sourcing to maximize profits. To make long-range plans, businessmen in particular need to be able to rely on the regular administration of understandable criteria that reflect rather than restructure economic reality.

The report also mentions that, in order to encourage the development of the North American automotive industry, the standards employed in a NAFTA rule could be applied

flexibly. For example, a value standard included in the regime along with a change of classification rule could be scheduled to be modified in subsequent years. A different value threshold could be applied separately on a temporary basis for new production models or models having small production runs. In addition, models with high production runs could be subject to special critical processes or value-content requirements. Further, in light of the higher duty rates imposed on U.S. imports of light trucks, a separate standard could be applied to such vehicles.

In its report the Commission also considered and discussed the following points as part of the relevant framework for analyzing the advantages and limitations of the possible rules:

- *The North American automotive industry is large and complex, with vehicles being assembled by U.S. firms, subsidiaries of foreign-owned companies, and U.S.-foreign joint ventures; in all such instances, the assembly process is similarly complicated.*

  Automotive assembly plants generally bring together parts purchased from suppliers (related and unrelated) and those fabricated on-site in increasingly complex, specialized operations. About 80-85 percent of costs are attributable to materials, parts, and components, while 15-20 percent are accounted for by labor and other costs of actual assembly.

  The "U.S. Big Three" manufacture motor vehicles in approximately 50 assembly plants in the United States and 10 in Canada, with 1990 production totaling approximately 11.5 million vehicles in the two countries. In 1990, 7 Japanese firms produced nearly 1.5 million vehicles in the United States, or about 15 percent of total U.S. production. Three Japanese firms producing in Canada accounted for about 12 percent of Canada's 1990 output; other foreign-owned assemblers produced smaller quantities.

  Mexican production, amounting to about 821,000 units in 1990, is entirely accounted for by 8 plants owned by the Big Three, Nissan, and Volkswagen. The industry is highly regulated and less modern than the U.S. and Canadian industry, but is experiencing rapid growth, with output rising by 140 percent during 1986-1990.

- *The vehicle parts segment of the industry has changed significantly in recent years, with the U.S. supplier base declining and that of Mexico expanding.*

  U.S. and Canadian parts production has historically been closely linked to the Big Three. One study concludes that the U.S. supplier base declined by about 35 percent during the 1980s, as Big Three production dropped and North American assemblers increased their global sourcing of parts.

  General Motors is the most vertically-integrated of the Big Three (with 70 percent of parts made by related firms), and Chrysler is the least integrated (30 percent from related suppliers).

  Japanese-owned assemblers still source substantial components from abroad. Approximately 500 Japanese-owned auto parts firms are now in operation in North America, with a continuing trend toward North American production of parts by related or traditional Japanese suppliers. At this time, it is not known to what extent these suppliers themselves import parts or materials or domestically fabricate the parts or assemblies they sell to the automakers. A Japanese-owned assembler typically purchases parts from 200-300 suppliers; by comparison, General Motors buys from about 3,000 such firms.

  The Mexican auto parts industry remains relatively small but is expanding rapidly, with output increasing during the late 1980s at an annual rate of 19 percent. U.S. firms supplied approximately 73 percent of the foreign direct investment in the Mexican auto industry in 1989.

- *In recent years, both automotive trade and parts sourcing have reflected automakers' decisions to make use of available mechanisms to reduce duty outlays.*

  Trade with Canada has largely been shaped by the "Big Three" automakers and has increasingly been structured to take advantage of benefits of trade agreements. Imports of both parts and finished vehicles have increased significantly during the last decade, as have exports of parts; exports of vehicles have not matched import levels.

  Passenger automobiles and light trucks imported from Canada enter free of duty under the terms of the bilateral auto pact (used primarily by the U.S. Big Three), or under the free-trade agreement with Canada (used primarily by foreign-owned or related firms). Vehicles imported from Mexico are nominally dutiable at MFN rates, but by use of foreign-trade zones and of tariff provisions imposing no duties on U.S.-origin parts are usually subject to lower duty liabilities.

  Automotive parts imported from Canada are generally free of duty under the auto pact, or subject to reduced duties under the free-trade agreement; those imported from Mexico are generally free of duty under the Generalized System of Preferences.

- *Decisions of automakers whether to import vehicles or their parts are strongly influenced by their ability to comply with U.S. average fuel economy standards (CAFE).*

  Compliance with average fuel economy standards is determined on a vehicle line basis during a model year. Automakers are permitted to separate their output into domestic or non-domestic fleets. Generally, passenger vehicles containing more than 25 percent of imported components are considered to be nondomestic. By carefully adjusting the imported content of each vehicle line, the mix of models eligible for each fleet can be balanced to provide both compliance with the fuel economy standard and marketability. Some U.S.-built vehicles have over 25 percent imported components and are included in the nondomestic fleet; at the same time, other models produced outside the United States have at least 75 percent U.S. content and are considered as domestic vehicles.

- *The CFTA, taken as a point of departure for the NAFTA preference regime, requires that goods originate in the territory of one or both parties in order to be eligible for the preference.*

  To qualify for the CFTA preference, goods must be wholly obtained in the territory of a party or, if third-country materials are included, undergo processes that result in the good meeting the criteria of the most specific enumerated changes of tariff classification. (See appendix C.)

  In addition, some goods (including most vehicles) must also meet a value-content test. To qualify, such goods must contain 50 percent or more by value of originating materials and direct costs of processing. These requirements are described by the automotive industry as providing considerable flexibility in sourcing and production but also presenting significant interpretative questions and uncertainty.

  Enforcement of the rules can require extensive audits that are costly and time-consuming to all involved. In addition, (at least in the case of the U.S. experience), they tend to focus on prior-period trade. Nevertheless, despite commonly cited problems with the CFTA rules, especially the value-based standards, all interested parties indicated their support for including such standards in the NAFTA regime.

- *The "direct costs of processing or assembling" component of the CFTA value-content test, while intended to take into account the contribution of additional U.S.-Canadian value to foreign inputs, has presented significant interpretative problems.*

  The pertinent provisions of the CFTA enumerate certain costs that can be counted toward the 50-percent value-content threshold and others that cannot. It has been asserted that, because the language of the agreement is ambiguous, clear administrative guidance is necessary for industry compliance, and that such guidance has not always been forthcoming on a prospective basis from Customs (contrary to the approach taken by the Canadian customs administration).

  Differences in interpretation have developed as to whether the cost enumeration is illustrative or all-inclusive, and as to the proper reading of agreement language on cost allocation. Moreover, conflicts between the treatment of some costs under the CFTA and generally accepted accounting principles, and problems in reflecting costs to Customs' satisfaction in existing accounting systems, have given rise to disputes between Customs officials and the private sector. These issues are among those at the foundation of ongoing audits of some automakers' operations, as well as disputes regarding the eligibility of some entries of motor vehicles for tariff preferences. Such concerns as to the rule's administrability would also apply to a NAFTA standard of a similar nature.

- *"Roll-up" of foreign content is common in ordinary MFN trade and is permitted in the CFTA preference regime as a means of increasing the level of originating materials that can be counted toward the 50-percent eligibility threshold.*

  Roll-up may occur internally (between related parties or between stages of an integrated production process) or externally (between unrelated parts suppliers and auto assemblers). Under the CFTA, an assembler is allowed to count 100 percent of the price paid for a part accompanied by a certificate of origin toward the 50-percent originating value threshold for the finished vehicle.

  Industry interviews indicate that all automobile producers manufacturing in the three potential NAFTA parties now benefit from one or both types of roll-up. Auto assemblers are generally unable to look behind certificates of origin from unrelated vendors. While it may be possible for them to look at the production records of related parties to determine exact levels of foreign content, to do so would be burdensome and difficult.

  The information needed for a purchaser of parts to verify that the parts comply with the CFTA rule is, for the supplier, of a confidential nature and would not be available to buyers or required to be supplied under the agreement or Customs regulations. The Commission was unable to estimate the U.S.-Canadian content and the foreign content of any vehicle or the levels of foreign content that may be rolled up into the value of a particular vehicle or component. Some illustrative examples of the roll-up of foreign content in individual components are provided.

- *Several private sector proposals for the NAFTA preference rule have been submitted and are directed at maximizing automakers' flexibility in sourcing and production.*

  In general, the proposals advocate the adoption of a rule that would reflect the modern, globally oriented vehicle production process. They have tended to favor a value-content or direct costs of processing approach and to oppose the use of a process- or component-based standard. The Big Three and the Motor and Equipment Manufacturers Association advocate a value-content threshold that is higher than the 50-percent CFTA standard, while foreign-owned producers generally support use of the CFTA threshold.

  Industry proposals, submissions, and interviews seem to suggest that the NAFTA standard should effectively afford benefits to all parts and vehicles other than those imported directly from third countries, and that the rule should be drafted to cover their current and projected future output without requiring significant changes and expenditures on the part of the industry to enable this output to qualify for NAFTA benefits. A principal objective, especially on the part of the Big Three, is the elimination of Mexican performance requirements and other restrictions.

The North American Automotive Industry

Introduction

Motor vehicle manufacture is enormously complex, considering the complicated nature of the manufacturing and assembly processes, the ever-increasing levels of technology involved, the high degree of specialization required, the sheer volume of production, the pressures on price, quality, and efficiency caused by the conditions of competition and buyer preferences, the need to satisfy environmental, health, and performance standards, and the size of the supplier network.

The North American automotive industry[1] is one of the world's largest in terms of production and sales.[2] The vast majority of the industry is located in the United States and Canada, with smaller operations in Mexico. In 1990, a total of approximately 11.5 million automobiles were produced in the United States and Canada (approximately 9.6 million in the United States and 1.9 million in Canada), while Mexican production was approximately 821,000 units. At the same time combined U.S. and Canadian automobile sales were about 15.2 million units, while Mexican sales were approximately 527,000 units. Shipments of U.S. and Canadian auto parts producers totaled approximately $119 billion in 1990.[3] Mexican auto parts shipments totaled over $7 billion in 1990.[4] Although much smaller than the U.S. and Canadian automotive industries, the Mexican automotive industry has been characterized in recent years by rapid growth in production and sales.

The U.S. and Canadian Automotive Industries

The Transformation of the Industry: 1970s and 1980s

Prior to the 1980s, the U.S. and Canadian automotive industries consisted primarily of four U.S.-owned automobile firms and several thousand auto parts firms. The automakers were General Motors Corp. (GM),[5] Ford Motor Co. (Ford),[6] Chrysler Corp. (Chrysler),[7] and American Motors Corp.[8] Until the 1970s, these automobile firms faced only limited competition in North America from foreign automakers and had over 85 percent of the North American automobile market. GM was by far the dominant auto firm in North America. As one indication of its position, the firm sold over twice as many passenger autos in 1979 as its nearest rival, Ford, and had approximately 60 percent of the U.S. domestic passenger auto market in the late 1970s. Ford, with approximately 25 percent of the market, sold more than twice as many passenger autos as Chrysler, which had about 12 percent of the market. American Motors had only about 2 percent of the market during the late 1970s.[9]

While the North American automotive industry was, overall, prosperous during the 1970s, the market itself was changing due to shifts in consumer preferences and increasing foreign competition. By the end of the decade, there was a dramatic reduction in the profitability of U.S.-owned automakers. Two energy shocks during the 1970s, particularly the second one in 1979, shifted a large portion of consumer demand toward small, fuel efficient automobiles. The Japanese automobile industry, which had pioneered a type of mass production of relatively small, high-quality automobiles produced with relatively low labor content, was ideally positioned to take advantage of these events.[10]

During the 1980s, the competitive challenge to the U.S. and Canadian automotive industries became more intense, coming almost entirely from Japanese-owned automobile firms. Japanese-owned automakers entered nearly all segments of the North American automobile market. According to industry sources, North American consumers generally began to associate Japanese-brand automobiles with high quality, value, and fuel efficiency.

Structure of the Industry: 1990s

The Big Three (Ford, General Motors, and Chrysler) currently manufacture automobiles in approximately 50 assembly plants in the United States

[1] For the purposes of this report the term "automotive industry" refers to manufacturers of passenger automobiles, light trucks, and parts used in these vehicles.

[2] The European Community leads the world in production of automobiles, and in sales of passenger automobiles (including U.S.-nameplate vehicles).

[3] Data based on estimates from *U.S. Industrial Outlook 1991*, U.S. Department of Commerce, and *Statistical Review of the Canadian Automotive Industry 1990*, Industry, Science, and Technology Canada, 1991.

[4] Based on USITC staff estimate using data from *The Likely Impact on the United States of a Free Trade Agreement with Mexico*, US International Trade Commission, 1991.

[5] GM subsidiaries include General Motors of Canada Ltd. and General Motors de Mexico S.A.

[6] Ford subsidiaries include Ford Motor Company of Canada, and Ford Motor Company S.A. in Mexico.

[7] Chrysler subsidiaries include Chrysler Canada Ltd., and Chrysler de Mexico S.A.

[8] In 1979 Renault purchased American Motors to obtain a production base in the United States. In 1987 Renault sold American Motors to Chrysler which is attempting to improve the competitiveness of these plants. GM, Ford, and Chrysler are referred to as the U.S. Big Three automakers.

[9] *1981 Ward's Automotive Yearbook.*

[10] See Daniel Roos and Alan Altshuler, *The Future of the Automobile*, MIT Press, 1984, pp. 29-32. The authors consider the emergence of the Japanese automobile production system to be the "third transformation" of the auto industry.

(accounting for about 83 percent of their North American production), and about 10 plants in Canada (accounting for about 17 percent of such production).[11] The remaining automobile production is accounted for by North American-based joint ventures, subsidiaries, or otherwise related firms of foreign automakers. Among these are CAMI Automotive Inc. (CAMI),[12] Diamond- Star Motors Corporation (Diamond-Star),[13] Honda of America Manufacturing Inc. (Honda-U.S.),[14] Honda Canada Manufacturing Inc. (Honda-Canada),[15] Hyundai Auto Canada Inc. (Hyundai),[16] Mazda Motor Manufacturing (Mazda),[17] New United Motor Manufacturing Inc. (NUMMI),[18] Nissan Motor Manufacturing Corporation (Nissan-U.S.),[19] Subaru-Isuzu Automotive Inc. (Subaru),[20] Toyota Motor Manufacturing (Toyota-U.S.),[21] Toyota Motor Manufacturing Canada Inc. (Toyota-Canada),[22] and Volvo Canada Ltd. (Volvo).[23]

The success of Japanese-owned automakers in the North American market has altered the structure of the North American industry. Most significantly, the Big Three automakers, while dominant in the region, have lost market share from 1980 to 1990 to Japanese-owned companies, which also opened assembly plants in North America during the 1980s. For example, by 1990, Japanese-company market share for passenger autos had increased to approximately 28 percent of total sales.[24] Table 1 shows 1990 market shares for major participants in the North American automobile market.

In 1990, seven Japanese-owned automobile firms produced nearly 1.5 million autos and light trucks in the United States, or about 15 percent of total U.S. production of those products.[25] Three Japanese-owned firms are involved in automobile assembly in Canada; production in those plants accounted for about 12 percent of Canadian automobile production in 1990.[26] Table 2 shows 1990 production of Japanese-owned auto plants in the United States and Canada.

Table 1
U.S. and Canadian automobile market share, 1990

Country share	*Percent of market*
United States:	
General Motors	35.5
Ford	23.9
Chrysler	12.2
Toyota/Lexus	7.6
Honda/Acura	6.2
Nissan/Infiniti	4.5
Mazda	2.5
Other	7.6
Total	100.0
Canada:	
General Motors	34.8
Ford	20.8
Chrysler	15.3
Honda/Acura	7.8
Toyota/Lexus	7.2
Mazda	3.8
Nissan/Infinity	3.0
Volkswagen	2.8
Other	4.5
Total	100.0

Source: *Automotive News market data book.*

Table 2
Production in Japanese-owned automobile plants in the United States and Canada, 1990

Country	*Production (Units)*
United States:	
Honda	433,317
Toyota	217,436
NUMMI	204,513
Nissan	236,972
Mazda	181,108
Diamond Star	151,052
Subaru-Isuzu	72,350
Subtotal	1,496,748
Canada:	
Honda	103,781
Toyota	61,112
CAMI	51,077
Subtotal	215,970
Total	1,712,718

Source: Automotive News, January 7, 1991, p. 39.

[11] "U.S. and Canadian '92 Model Car & Light Truck Final Assembly Plants", *Ward's Automotive Reports*, September 2, 1991, (insert).

[12] CAMI is a joint venture between Suzuki Motors of Japan and General Motors of Canada Ltd., and located in Ingersoll, Ontario, Canada.

[13] A joint venture between Mitsubishi and Chrysler, with facilities in Normal, Illinois.

[14] Honda-U.S. plants are located in East Liberty, Ohio and Marysville, Ohio.

[15] Honda-Canada is located in Alliston, Ontario, Canada.

[16] Hyundai is located in Bromont, Quebec, Canada.

[17] Mazda in located in Flat Rock, Michigan.

[18] NUMMI is a joint venture between Toyota Motors and GM-U.S., and is located in Fremont, California.

[19] Nissan-U.S. is located Smyrna, Tennessee.

[20] Subaru in located in Layfayette, Indiana.

[21] Toyota-U.S. is located in Georgetown, Kentucky.

[22] Toyota-Canada in located in Cambridge, Ontario, Canada.

[23] Volvo is located in Halifax, Nova Scotia, Canada.

[24] *Automotive News 1991 Market Data Book, Economic indicators*, MVMA, fourth quarter 1990, and *Ward's automotive yearbook, 1981*.

[25] Production data from *Automotive News*, January 7, 1991, p. 39.

[26] *Ward's Automotive Yearbook, 1991*

There is a tendency among Japanese-owned automakers to establish increasing portions of the production system in North America. Rather than only assembling vehicles, these Japanese-owned assembly plants often are manufacturing major automobile parts and subassemblies, including body panel stampings, engines and transmission assemblies, engine components, and other types of manufacturing beyond the assembly of the vehicle. Such components are among the highest-valued material inputs as well as value added in an automobile or light truck. Nevertheless, the parts and materials used to manufacture those components frequently are imported from Japan.[27]

Japanese-owned automotive parts firms have also increased their production in North America, often for the purpose of supplying parts to Japanese-owned vehicle assembly plants.[28] Currently, approximately 500 Japanese auto parts firms are involved in production in North America.[29] Industry analysts generally believe that the pace of Japanese direct investment in the North American auto parts industry is declining from its peak in the 1980s.

Employment in the North American automotive industry declined significantly during the 1980s. U.S. employment in the automobile industry reached a peak of 470,000 in 1978, and declined to 316,000 in 1990.[30] The auto parts industry employed 452,000 workers in 1978, and 398,000 workers in 1990.[31]

In contrast, employment in the Canadian automotive industry fluctuated upward from approximately 45,000 during the late 1970s, to about 53,000 in 1990. The employment gains in Canada occurred primarily in 1983 and 1984, as the Canadian industry benefited from having numerous plants that produced only one model.[32] In the late 1970s, employment in the Canadian parts industry was approximately 52,000 and increased to 88,000 in 1990. Again, large increases occurred in 1983 and 1984, associated with gains in Canadian auto production.[33]

Overall, the North American automotive industry experienced losses in jobs and profits during the 1980s. During 1979-90, North American job losses totaled approximately 165,000, or about 16 percent of the industry workforce in 1978. North American automotive industry profits, which totalled $50.8 billion during the 1970s, amounted to only $18.5 billion in the 1980s.[34]

Recent years have been particularly difficult for the North American automotive industry. North American sales began to decline in 1989 and fell again in 1990.[35] During January-October 1991, U.S. automobile sales decreased by nearly 14 percent compared with sales during the same period of 1990. The Big Three U.S. automakers lost over $4.6 billion during the first three quarters of 1991,[36] and total 1991 losses will likely reach record levels, exceeding $5 billion.

Because the fate of the U.S. auto parts industry is closely linked to that of the U.S. Big Three automakers, auto parts firms have faced intense competitive pressure in North America. Production declines by the Big Three, increased global sourcing by North American assemblers, and a reduction in the number of suppliers used by the Big Three has significantly reduced the number of auto parts firms in the United States. A recent study indicates that the U.S. supplier base declined by about 35 percent during the 1980s.[37] Another study predicts that the auto parts market will, overall, continue to grow only slowly, although sales to Japanese-owned auto assemblers and sales for aftermarket parts will be somewhat higher.[38]

As described above, the North American automotive industry in the 1990s is in a transitional period that began in the 1980s. These ongoing changes have contributed to making the North American automotive industry somewhat unique with respect to the level of competition. The relatively free market access, the large number of producers and participants in the market, relatively stable or declining sales, and escalating consumer expectations and government regulatory demands on automakers have made the North American automotive market one of the most competitive and demanding in the world.[39] The

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[27] Most Japanese firms are also establishing technical centers and styling studios in North America. This trend is at least partly a result of a general tendency in the global automotive industry to develop extensive production systems within major sales regions of the world in an effort to improve efficiency and responsiveness to regional market characteristics.

[28] Some of these parts plants also supply the U.S. Big Three automakers in North America.

[29] Stephen E. Plumb, "Transplant suppliers take root, but some may wither on the vine", *Ward's Auto World*, September 1991, p. 89.

[30] *Economic Indicators*.

[31] Ibid.

[32] *Statistical Review of the Canadian Automotive Industry: 1990*. Single-model plants tend to maintain strong production levels as long as the model remains popular.

[33] Ibid.

[34] Financial data is for Motor Vehicle and Equipment Manufacturing. *Economic Indicators*.

[35] *1991 Facts and Figures*, MVMA.

[36] *U.S. Automobile Industry Monthly Report on Selected Economic Indicators*, U.S. International Trade Commission, October 1991.

[37] "Japanese shutting out U.S. suppliers, study charges", *Ward's automotive international*, October 10, 1990, p. 10.

[38] Francis J. Gawronski, "Study says parts market is growing at snail's pace", *Automotive News*, January 22, 1990, p. 20.

[39] The United States is considered by some industry observers to be the "proving ground for global competition", and a market that provides valuable learning experiences for automakers. Bernard Avishai, "A European Platform for Global Competition: An Interview with VW's Carl Hahn", *Harvard Business Review*, July-August 1991, pp. 103-13. Two European automakers, Peugeot and Sterling, recently abandoned the U.S. market as a result of difficultly in maintaining profits in the region.

efficiency of production plants is, overall, second only to the Japanese industry.[40] The competitive nature of the North American industry continues to force automotive companies to make constant improvement in all aspects of their production systems. Thus, while the automotive industry is traditionally viewed a "mature" sector of the economy, since the 1980s it has been dynamic with respect to production processes, organizational structure, intra-industry linkages among firms, foreign investment, labor management relations, and product features (with respect to quality, styling, and technology).

The auto parts industry has also experienced substantial changes. The auto parts industry plays an integral role in the automobile production process, and has been forced to respond to the needs of auto assemblers. An efficient, flexible, and technologically advanced supplier base, capable of producing high quality parts, is now considered to be a critical element of a competitive automobile industry.

Relationships between assemblers and vehicle parts suppliers vary widely. The three major U.S. motor-vehicle producers, General Motors, Ford, and Chrysler (the Big Three), have a large number of primary and secondary suppliers, but have reduced the number during the last seven or eight years in an effort to reduce costs and adopt the lean production methods of the Japanese-owned producers.

By way of comparison, one major automaker in Japan may have a direct relationship with only 200 to 300 parts makers, whereas, in the past, General Motors may have dealt with approximately 3,500 different suppliers, just for assembly, versus about 3,000 parts makers today. The disparity is largely due to the fact that the Japanese-owned automakers assign a whole component, such as seating, to a first-tier supplier. In comparison, a U.S.-owned automaker may deal with 25 suppliers providing 25 different parts to the seating-manufacturing department of its assembly plants.

Japanese-owned automakers operating in North America tend to have longer contracts with their suppliers than U.S.-owned automakers; for example, these contracts may last about three to five years. In general, U.S.-owned automakers' contracts have been, at least until recently, for approximately one year.

The Big Three manufacturers in North America are all largely vertically-integrated. However, General Motors is by far the most integrated; its in-house parts divisions[41] supply approximately 70 percent of the parts in each GM car and truck. General Motors has divisions that make a wide variety of parts—for example, wiring harnesses, engine castings, batteries, electrical ignition equipment, auto trim, and auto glass. Chrysler is the least vertically-integrated U.S.-owned assembler; it purchases about 30 percent of its parts from captive suppliers.

The Japanese-owned automakers are much less vertically integrated. The more integrated Japanese producers produce their own bodies, and certain engine and transmission components. However, they purchase numerous other parts, especially higher-value added components from related suppliers; that is, companies in which they own stock.

While in the past the Big Three sourced the vast majority of their components domestically, today, they are importing more from foreign-based suppliers. This can be attributed, in part, to the relationships that the Big Three have formed with foreign manufacturers. For example, Chrysler owns 12.1 percent of Mitsubishi. Mitsubishi buys Chrysler-made automatic transmissions for its Japanese-made pickups that are exported to the United States, and Chrysler buys V-6 engines from Mitsubishi. Likewise, Ford owns 25 percent of Mazda and produces engines for the Mazda MX-6 built in Flat Rock, MI. Mazda supplies engines for Ford's Escort/Tracer. Mazda also supplies transmissions to Ford.[42]

Similarly, Japanese-owned producers are purchasing a higher percentage of components from firms located in the United States; however, many of these suppliers are Japanese-owned. Japanese-owned auto producers in North America have purchased lower-value parts, such as glass, batteries, and tires, from U.S.-owned parts makers for a number of years; at present, the Japanese claim to be purchasing more complex parts, such as anti-lock brakes, from these suppliers.

U.S. and Canadian Trade Regulation

The United States is widely considered to be one of the most accessible automotive markets in the world. The column 1-general or most-favored-nation (MFN) rate of duty for passenger autos is 2.5 percent ad valorem. The column 2 rate is 10 percent ad valorem. The MFN rate of duty for light trucks is 8.5 percent ad valorem, and the column 2 rate is 25 percent ad valorem. However, the column 1-general rate of duty for light trucks has been temporarily increased to 25 percent ad valorem.[43] The range of rates of duty applicable to vehicles is indicated in table 3, and those on vehicle parts in table 4, set forth in the discussion of North American tariff treatment below.

All motor vehicles sold in the United States must meet certain Federal and local standards, primarily as related to safety, emissions, and fuel economy. These standards currently tend to be more stringent for

[40] Data on assembly plants from James P. Womack, *The machine that changed the world*, Rawson, New York, 1990, p. 85.

[41] James A. Womack, Daniel T. Jones, and Daniel Roos, *The Machine That Changed the World*, p. 139, 1990.

[42] "How World's Automakers are Related", *Ward's Automotive International*. p. 3, 1991 edition.

[43] As a result of Pres. Proc. 3564 on Dec. 4, 1963, withdrawing previously proclaimed tariff concessions, the articles provided for under this item became subject to duty under TSUS item 945.69 in the Appendix to the (former) Tariff Schedules of the United States (TSUS) and dutiable at an MFN rate of duty of 25 percent ad valorem.

passenger autos than for trucks and buses. U.S. standards are fairly stringent, and many foreign producers must adopt these standards for vehicles they sell in the United States.

Effective January 1, 1991 purchasers of autos priced above $30,000 dollars must pay an excise tax of 10 percent on the amount of the price over $30,000. This tax affects European luxury automakers most because they are most reliant on sales of autos selling for over $30,000.

At present, the Japanese Government imposes a Voluntary Restraint Agreement (VRA) on Japanese exports of automobiles to the United States. Beginning in early 1981, as Japanese-made automobiles began to hold an increasing share of the U.S. market, legislation to restrict imports of Japanese cars to 1.6 million units was gaining support in the U.S. Congress.[44] In May 1981, the Japanese Ministry of International Trade and Industry (MITI), following meetings with U.S. trade officials, announced a voluntary restraint agreement on Japanese auto exports to the United States. The VRA reduced Japan's exports of cars to the United States from 1.82 million units in 1980, to 1.68 million automobiles and 70,000 units of four wheel-drive station wagons and "jeep"-type vehicles. In Japan's fiscal year 1984, the total VRA limit was raised to 2.02 million passenger automobiles.

On March 1, 1985, the U.S. Government announced that the United States would not ask the Japanese Government to renew the VRA for 1985. Each year during 1985-91, the Japanese Government has informed the Administration that it would limit annual auto exports to the United States to 2.3 million units.[45] However, as Japanese auto companies have increased production in the United States, Japanese exports failed to meet the limits set by the VRA.[46]

Canada maintains a 9.2 percent ad valorem tariff on imports of motor vehicles and parts. Canada has vehicle safety, emissions, and fuel efficiency standards that are similar to those of the United States. Under the U.S.-Canada FTA, Canada is phasing out a ban on imports of used motor vehicles, to be finalized by 1994.

The Mexican Automotive Industry

Development of the Industry

The Mexican automotive industry bears relatively little similarity to the U.S. and Canadian industries. The Mexican industry is much smaller, less modern, and more regulated, and is experiencing rapid growth. The Mexican auto assembly industry is entirely foreign owned, consisting of eight plants owned by the U.S. Big Three automakers, Nissan, and Volkswagen. The Mexican auto parts industry consists of several hundred firms, with U.S.-owned auto parts firms playing a major role in the industry.

The Mexican industry historically has been highly protected and regulated in the areas of trade and foreign investment. These impediments (discussed below), as well as other economic and political factors, have limited the integration of the Mexican industry with the U.S. and Canadian industries. Overall, the Mexican industry operates at a relatively low level of efficiency.[47] It is likely that under a NAFTA, the Mexican automotive industry will become much more integrated with the U.S. and Canadian industries, and will be restructured for greater efficiency.[48]

The Mexican automotive industry is growing rapidly in terms of both production and sales. This growth is largely a result of the strength of the Mexican economy, the continued commitment of five of the world's major automakers to maintain a strong presence in Mexico, and recent steps by the Mexican Government toward reduced protection of the industry under the 1989 Auto Decree. The industry's automobile output rose by 60 percent during 1986-90, to 820,558 units.[49] Furthermore, announcements by several automakers that they will make major investments in Mexico indicate that the country's

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[44] In 1980, the Commission conducted an investigation under section 201 of the Trade Act of 1974 involving certain motor vehicles and certain chassis and bodies therefor (investigation No. TA-201-44). In that investigation the Commission determined that certain motor vehicle and certain chassis and bodies therefor were not being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or threat thereof, to the domestic industry producing articles like or directly competitive with the imported articles. See *Report to the President on Investigation No. TA-201-44 Under Section 201 of the Trade Act of 1974*, USITC Pub. 1110, December 1980.

[45] *The Internationalization of the Automobile Industry and its Effects on the U.S. Automobile Industry*, June 1985, USITC Publication 1712.

[46] *The U.S. Automobile Industry Monthly Report on Selected Economic Indicators*, May 1991 and May 1990, USITC Publications 2393 and 2287. Since the Japanese automakers do not meet the VRA limit, the VRA is now viewed by many industry analysts as irrelevant, and consider its renewal to be a political gesture.

[47] While certain Mexican assembly plants, for example Ford's Hermosillo plant, are more efficient than others, all Mexican auto plants are commonly described as suffering from reduced efficiency as a result of the industrial structure arising out of government protection of the industry. See the May 15, 1990, Womack article cited above at pp. 26-27 for a discussion of the efficiency of Ford's Hermosillo plant; also see the Commission's report *The Likely Impact on the United States of a Free Trade Agreement with Mexico* for a discussion of the effect of government protection on the efficiency of the Mexican auto industry. For an excellent discussion of how similar government protection has affected the efficiency of the Southeast Asian auto industry, see Richard Doner, *Driving a Bargain: Automobile Industrialization and Japanese Firms in Southeast Asia*, Univ. of Cal. Press, Berkeley, 1991.

[48] *The Likely Impact on the United States of a Free Trade Agreement with Mexico*, February 1991, U.S. International Trade Commission, USITC publication 2353.

[49] *Ward's automotive yearbook*, various issues.

automotive industry will continue to expand for the foreseeable future.

The Mexican automobile market is supplied almost entirely by Mexican production. In 1990, Mexican automobile sales totaled over 527,000 units. Despite the close proximity of U.S. Big Three production facilities in North America, the U.S.-owned automakers do not dominate the Mexican market. In 1990, Volkswagen had 27.3 percent of the market, Nissan had 21.3 percent, GM had 17.5 percent, Chrysler had 17.3 percent, and Ford had 16.6 percent.[50] Under a NAFTA, it is anticipated that market shares in Mexico would shift favorably toward U.S. Big Three automakers.

The Mexican auto parts industry is also expanding rapidly. Output during the late 1980s increased at an annual rate of 19 percent, to approximately $7 billion in 1989. The United States supplied about 73 percent of the foreign direct investment in the Mexican auto parts industry in 1989. Other foreign investment came from the United Kingdom (8.7 percent), Germany (6.4 percent), and Japan (3.5 percent).[51] Most of the U.S. investment occurred in maquiladora plants.

Mexican Trade Regulation

The current tariff on automobiles imported into Mexico is 20 percent ad valorem, and 10-13 percent ad valorem on auto parts. More important, however, are Mexican nontariff and investment restrictions in the auto industry. First, Mexico requires its auto industry to maintain a trade surplus. For each dollar's worth of autos that automakers imported into Mexico in the 1991 model year, they had to earn $2.50 in auto exports. The export requirement will drop to $2 in the 1992 and 1993 model years, and will drop to $1.75 in the 1994 model year. Second, Mexico currently limits auto imports to 15 percent of total Mexican auto sales; the limit will rise to 20 percent in the 1993 model year.

Third, Mexico limits foreign investment in the auto parts industry to 40-percent equity participation. However, full foreign ownership is allowed on a temporary basis under the so-called Temporary Investment Trust Funds and in the maquiladora sector provided that at least 80 percent of the output is exported. In addition, Mexico requires at least 36-percent Mexican content in autos produced there.[52] Furthermore, in order to receive credit towards the 36-percent local content requirement, this minimum local content must be purchased from suppliers in Mexico that are either: (1) unrelated to the vehicle assemblers and have 30 percent local content, and (2) sell 60 percent of their production to vehicle assemblers.

[50] *Automotive new market data book, 1991.*

[51] *CMP (country market profile) industry sector analysis*, Eduardo Sandoval, Mexico City, March 1990, p. 3.

[52] *The Likely Impact on the United States of a Free Trade Agreement with Mexico*, February 1991, U.S. International Trade Commission, USITC publication 2353.

North American Customs Treatment

Background

Each of the three North American customs tariffs is organized in accordance with the Harmonized Commodity Description and Coding System (HS).[53] The HS was established by the International Convention on the Harmonized Commodity Description and Coding System (HS Convention), sponsored by the Customs Cooperation Council (CCC). The HS Convention was implemented by the original parties on January 1, 1988.[54]

The HS is composed of General Rules for the Interpretation of the HS and a nomenclature consisting of twenty-one sections divided into 97 chapters.[55] Each chapter can be further subdivided into headings (4-digit codes) and subheadings (6-digit codes), each with an associated article description.

Under the HS, articles are generally identified by name or categorized on the basis of their end use or constituent materials. Classification of goods in the HS is based on the condition of the goods at the time of examination and in accordance with the HS general rules of interpretation. Among other matters, these rules provide that any reference in a heading to an article is be taken to include that article, incomplete or unfinished, provided that it has the essential character of the complete or finished article.

In the last three decades, most industrialized countries engaging in international trade have undertaken to reduce tariff rates on imported goods, both in their own self-interest and in support of accelerated development of less developed nations.

[53] The HS was derived generally from the Brussels Tariff Nomenclature (BTN) and its more recent namesake, the Customs Cooperation Council Nomenclature (CCCN). Prior to 1988, with the notable exceptions of Canada and the United States, the CCCN served as the basis for most import tariff nomenclatures. The United States and Canada maintained unique non-CCCN based tariff nomenclatures. For further background on the HS, see U.S. International Trade Commission, *Conversion of the Tariff Schedules of the United States Annotated into the Nomenclature Structure of the Harmonized System, Submitting Report* (investigation 332-131), USITC publication 1400, June 1983.

[54] The United States implemented its HS-based import tariff on January 1, 1989. Mexico has adopted the HS as the basis for its import tariff system but is not a party to the HS Convention.

[55] Chapter 77 is reserved for future use. Two additional chapters, chapters 98 and 99, are reserved for national use. In both the U.S. and Canadian import tariffs, chapter 98 is used for special classification provisions which permit conditionally duty-free or partially duty-free entry of goods that would otherwise be fully dutiable. In the U.S. tariff, chapter 99 covers provisions which temporarily modify duty rates provided in chapters 1 to 97, or impose non-duty restrictions such as quotas on imports.

Such duty reductions have been made on a multilateral basis, usually during trade and tariff negotiations sponsored by the GATT, or on a bilateral basis between trading partners having a common interest in the liberalized movement of goods across their borders. As a consequence, most industrialized countries maintain multiple rates of duty applicable to a given article, with each rate of duty or duty-free status dependent on conformity with a specific set of criteria. Thus, depending on the particular situation, an imported article may be subject to the full rate of duty, conditionally subject to a reduced rate of duty, conditionally subject to partial dutiability, or unconditionally free of duty.

In addition, the dutiable status or applicable rate of duty on imported goods can be affected by nontariff practices, procedures and programs. For example many countries have established free trade areas or zones within their borders into which goods can be landed, manipulated, and exported without payment of duty or being required to comply with most customs procedures. Similarly, most countries have established criteria and procedures which permit the temporary importation of goods without payment of duty pending eventual exportation from the importing country.

To a certain extent, North American trade in motor vehicles and motor vehicle parts is influenced by almost all of the possible permutations of dutiable or duty-free status permitted under the import tariffs and related procedures of Canada, the United States, and Mexico. The following discussion highlights the most significant features of the three North American import tariffs as well as nontariff programs with regard to the dutiable status of motor vehicles and motor vehicle parts.

The HS-based import tariffs used currently by the United States, Canada, and Mexico are respectively: (1) the *Harmonized Tariff Schedule of the United States (1991)* (HTS), (2) the Canadian *Customs Tariff* (CCT), and (3) *Ley Del Impuesto General de Importacion (Nuevo Sistema Armonizado)* (IGI). Each of these import tariffs sets out its general terms and applicability, descriptions of the goods covered by the tariff, and the individual rates of duty or duty-free status applicable to each category of goods.

Motor vehicles and many of their major components and accessories are classified in HS chapter 87.[56] However, a wide range of other automotive parts, components and accessories fall within the headings of many other chapters, including chapters 39, 40, 68, 70, 84, 85, and 90. Tables 3 and 4 illustrate the range of HS subheadings with significant North American automotive trade and indicate the rates of duty or preferential treatment typically applied to the goods covered by those subheadings imported into Canada, Mexico, or the United States.[57]

[56] The relevant portion of HS chapter 87 is reproduced at app. D.

[57] Relevant portions of chapter 87 of the HTS, the CCT, and the IGI are reproduced in app. E, app. F, and app. G respectively.

MFN Tariff Treatment

The basic rates of duty encountered most frequently in international trade are those established in accordance with GATT rules and must be applied on a non-discriminatory basis to all GATT members. Such rates of duty are referred to as "most-favored-nation" (MFN) rates of duty. The CCT, the HTS, and the IGI all include MFN rates of duty. Motor vehicles and motor vehicle parts or accessories imported into the United States, Canada or Mexico are subject to full MFN rates of duty unless they are eligible for preferential treatment or otherwise conditionally or partially free of duty.[58]

Both the United States and Canadian tariffs include provisions which are conditionally free of duty or subject to partially free rates of duty on an MFN basis. Although many of these provisions have little or no applicability to trade in automotive products, several are used regularly and affect a significant amount of that trade.

For the United States, the most prominent are HTS subheadings 9802.00.40, 9802.00.60 and heading 9802.00.80, all of which are applied on an MFN basis.[59] Subheading 9802.00.40 applies to articles exported from the United States for repair or alteration. Under this subheading, duties are assessed only on the value of the repairs or alterations. Subheading 9802.00.60 applies to any article of metal manufactured in the United States and exported for further processing, and returned to the United States for further processing. Under this subheading, duties are assessed only on the value of the foreign processing. Heading 9802.00.80 applies to articles assembled abroad in whole or in part of fabricated components which are a product of the United States, have not lost their identity, and have not been advanced in value or condition. Under this heading, duties are assessed on the full value of the imported article less the value of the U.S. products.

For Canada, the CCT and various related schedules, e.g. the Statutory Concessionary Provisions, contain various conditionally duty-free or reduced-rate of duty provisions applied on an MFN-basis, as well as to imports under the General Preferential Tariff (GPT). Many of these provisions apply to specified motor vehicle parts and components.[60]

[58] Under both the U.S. and Canadian tariffs motor vehicles and motor vehicle parts can be, on an MFN-basis, free of duty or subject to varying rates of duty generally calculated on a percent of the value basis (ad valorem). Under the Mexican tariff five rates of duty are applied to imported goods free of duty, 5 percent, 10 percent, 15 percent or 20 percent ad valorem. With respect to motor vehicles and motor vehicle parts, three MFN rates of duty are generally applied—10 percent, 15 percent or 20 percent ad valorem.

[59] Subchapter II of chapter 98 which includes these HTS subheadings is reproduced at app. H.

[60] The transportation section of the CCT Statutory Concessionary Provisions are reproduced at app. I.

Table 3
Duty rates applicable to selected motor vehicles and related articles under the Canadian, Mexican, and United States 1991 import tariffs

HS heading/ subheading	*Description*	*Country*	*National subheading*	*Rates of duty (percent ad valorem)*			
				MFN[1]	*GPT[2]/GSP[3]*	*CFTA[4]*	*APTA[5]*
8703	**Motor cars and other motor vehicles principally designed for the transport of persons, including station wagons and racing cars.**						
8703.21	-With spark-ignition engine of a cylinder capacity not exceeding 1,000 cc						
		Canada	8703.21.90	9.2%	6% (6)	6.4% (6)	Free (6)
		Mexico	8703.21.01	20%			
		United States	8703.21.00	2.5%	(7)	Free	Free
8703.22	-With spark-ignition engine of a cylinder capacity exceeding 1,000 cc but not 1,500 cc						
		Canada	8703.22.00	9.2%	6% (6)	6.4% (6)	Free (6)
		Mexico	8703.22.01	20%			
		United States	8703.22.00	2.5%	(7)	Free	Free
8703.23	-With spark-ignition engine of a cylinder capacity exceeding 1,500 cc but not 3,000 cc						
		Canada	8703.23.00	9.2%	6% (6)	6.4% (6)	Free (6)
		Mexico	8703.23.01	20%			
		United States	8703.23.00	2.5%	(7)	Free	Free
8703.24	-With spark-ignition engine of a cylinder capacity exceeding 3,000 cc						
		Canada	8703.24.00	9.2%	6% (6)	6.4% (6)	Free (6)
		Mexico	8703.24.01	20%			
		United States	8703.24.01	2.5%	(7)	Free	Free
8703.31	-With a diesel engine of a cylinder capacity not exceeding 1,000 cc						
		Canada	8703.31.00	9.2%	6% (6)	6.4% (6)	Free (6)
		Mexico	8703.31.01	20%			
		United States	8703.31.00	2.5%	(7)	Free	Free

See footnotes at end of table.

Table 3—Continued
Duty rates applicable to selected motor vehicles and related articles under the Canadian, Mexican, and United States 1991 import tariffs

HS heading/ subheading	*Description*	*Country*	*National subheading*	*Rates of duty (percent ad valorem)*			
				MFN[1]	*GPT[2]/GSP[3]*	*CFTA[4]*	*APTA[5]*
8703.32	-With a diesel engine of a cylinder capacity exceeding 1,000 cc but not 2,500 cc						
		Canada	8703.32.00	9.2%	6%	6.4%	Free
		Mexico	8703.32.01	20%	(6)	(6)	(6)
		United States	8703.32.00	2.5%	(7)	Free	Free
8703.33	-With a diesel engine of a cylinder capacity exceeding 2,500 cc						
		Canada	8703.33.00	9.2%	6%	6.4%	Free
		Mexico	8703.33.01	20%	(6)	(6)	(6)
		United States	8703.33.00	2.5%	(7)	Free	Free
8703.90	-With other than an internal combustion engine						
		Canada	8703.90.00	9.2%	6%	6.4%	Free
		Mexico	8703.90[8]	20%[9]	(6)	(6)	(6)
		United States	8703.90.00	2.5%	(7)	Free	Free
8704	**Motor vehicles for the transport of goods.**						
8704.21	-With diesel engine, and a G.V.W.[10] not exceeding 5 metric tons						
		Canada	8704.21.00	9.2%	6%	6.4%	Free
		Mexico	8704.21.99[11]	20%	(6)	(6)	(6)
		United States	8704.21.00	8.5%[12]	(7)	Free	Free
8704.31	-With spark-ignition engines, and a G.V.W not exceeding 5 metric tons						
		Canada	8704.31.00	9.2%	6%	6.4%	Free
		Mexico	8704.31.99[11]	20%	(6)	(6)	(6)
		United States	8704.31.00	8.5%[12]	(7)	Free	Free
8706.00	**Chassis fitted with engines, for the motor vehicles of headings 8701 to 8705.**						
		Canada	8706.00.90[13]	9.2%	6%	6.4%	Free
		Mexico	8706.00.99[14]	15%	(6)	(6)	(6)
		United States	8706.00.10[15]	4%	(7)	Free	Free
			8706.00.15[16]	2.5%	(7)	Free	Free

See footnotes at end of table.

Table 3—Continued
Duty rates applicable to selected motor vehicles and related articles under the Canadian, Mexican, and United States 1991 import tariffs

HS heading/ subheading	*Description*	*Country*	*National subheading*	*Rates of duty (percent ad valorem)*			
				MFN[1]	*GPT[2]/GSP[3]*	*CFTA[4]*	*APTA[5]*
8707	**Bodies (including cabs), for the motor vehicles of headings 8701 to 8705.**						
8707.10	-For the vehicles of heading 8703						
		Canada	8707.10.90[17]	9.2%	Free	6.4%	Free
		Mexico	8707.10[8]	15%[18]	(6)	(6)	(6)
		United States ...	8707.10.00	2.5%	(7)	1.7%	Free
8707.90	-For the vehicles of headings 8701, 8702, 8704, and 8705						
		Canada	8707.90.90[13]	9.2%	6%	6.4%	Free
		Mexico	8707.90[8]	15%[18]	(6)	(6)	(6)
		United States ...	8707.90.50[13]	4%	(7)	2.8%	Free

[1] Most Favored Nation.
[2] Canadian General Preferential Tariff.
[3] United States Generalized System of Preferences.
[4] United States-Canada Free-Trade Agreement.
[5] United States-Canada Automotive Products Trade Agreement.
[6] Not applicable.
[7] Not eligible for GSP duty-free treatment.
[8] Includes two or more national subheadings.
[9] Applicable to all national subheadings of this subheading.
[10] Gross vehicle weight.
[11] Except for vehicles used for carrying slag.
[12] MFN duty rate temporarily increased to 25% on motor vehicles valued at $1000 or more.
[13] Except for certain tractors of heading 8701.
[14] Except for certain two cylinder engine powered vehicles.
[15] For the vehicles of subheading 8701.20, or headings 8702 or 8704.
[16] For the vehicles of heading 8703.
[17] Except for camper vehicles.
[18] Except for use as engineering models.

Table 4
Duty rates applicable to selected motor vehicles parts and components under the Canadian, Mexican, and United States 1991 import tariffs

HS heading/ subheading	*Description*	*Country*	*National subheading*	*Rates of duty (percent ad valorem)*			
				MFN[1]	*GPT[2]/GSP[3]*	*CFTA[4]*	*APTA[5]*
4011	**New pneumatic tires, of rubber.**						
4011.10	-Of a kind used on motor cars						
		Canada	4011.10.00	10.7%	7%	7.4%	(6)
		Mexico	4011.10.01	20%	(6)	(6)	(6)
		United States	4011.10.00	4%	Free[7]	2.8%	(6)
4011.20	-Of a kind used on buses or trucks						
		Canada	4011.20.00	10.7%	7%	7.4%	(6)
		Mexico	4011.20.01	20%	(6)	(6)	(6)
		United States	4011.20.00	4%	Free[7]	2.8%	(6)
4016	**Other articles of vulcanized rubber, other than hard rubber.**						
4016.93	-Gaskets, washers, and other seals						
		Canada	4016.93.00	10.3%	6.5%	7.2%	Free
		Mexico	4016.93[8]	15%	(6)	(6)	(6)
		United States	4016.93.00	3.5%	Free	2.4%	Free
7007	**Safety glass, consisting of toughened (tempered) or laminated glass.**						
7007.11	-Toughened safety glass of a size and shape suitable for incorporation in vehicles						
		Canada	7007.11.19	9.2%	Free	6.4%	Free
		Mexico	7007.11[8]	20%	(6)	(6)	(6)
		United States	7007.11.00	6.2%	Free	4.3%	Free
7007.21	**-Laminated safety glass of a size and shape suitable for incorporation in vehicles**						
		Canada	7007.21.19	9.2%	Free	6.4%	Free
		Mexico	7007.21[8]	20%	(6)	(6)	(6)
		United States	7007.21[8]	5.5%[9]	Free[9]	3.8%[9 10]	Free[9]
7320	**Springs and leaves for springs, of iron or steel.**						
7320.10	-Leaf-springs and leaves therefor						
		Canada	7320.10.00	12.8%	8.5%	8.9%	Free
		Mexico	7320.10[8]	10%	(6)	(6)	(6)
		United States	7320.10.00	4%	Free	2.8%[10]	Free

See footnotes at end of table.

Table 4—Continued
Duty rates applicable to selected motor vehicles parts and components under the Canadian, Mexican, and United States 1991 import tariffs

HS heading/ subheading	*Description*	*Country*	*National subheading*	*Rates of duty (percent ad valorem)*			
				MFN[1]	*GPT[2]/GSP[3]*	*CFTA[4]*	*APTA[5]*
7320.20	-Helical springs	Canada	7320.20.90	9.6%	6%	6.7%	Free
		Mexico	7320.20[8]	10%/15%	(6)	(6)	(6)
		United States	7320.20.10[11]	4%	Free	2.8%[10]	Free
8302	**Base metal mountings, fittings and similar articles suitable for coachwork or the like.**						
8302.10	-Hinges	Canada	8302.10.00	10.2%	6.5%	7.1%	Free
		Mexico	8302.10.02	20%	(6)	(6)	(6)
		United States	8302.10.30	3.1%	Free	2.1%[10]	Free
8302.30	-Other mountings, fittings and similar articles suitable for motor vehicles	Canada	8302.30.00	9.2%	6%	6.4%	Free
		Mexico	8302.30[8]	20%	(6)	(6)	(6)
		United States	8302.30.30[12]	3.1%	Free	2.1%[10]	Free
8407	**Spark-ignition reciprocating or rotary internal combustion piston engines.**						
8407.34	-Of a cylinder capacity exceeding 1,000 cc	Canada	8407.34.00	9.2%	6%	6.4%	Free
		Mexico	8407.34.99	10%	(6)	(6)	(6)
		United States	8407.34.20[13]	3.1%	Free[7]	2.1%[10]	Free
8408	**Compression-ignition internal combustion piston engines (diesel or semidiesel).**						
8408.20	-Engines of kind used for the propulsion of vehicles of chapter 87	Canada	8408.20.90[13]	9.2%	Free	Free	Free
		Mexico	8408.20.99	10%	(6)	(6)	(6)
		United States	8408.20.20[13]	3.7%	Free[7]	Free	Free
8409	**Parts suitable for use solely or principally with the engines of heading 8407 or 8408.**						
8409.91	-Suitable for use solely or principally with spark-ignition internal combustion piston engines	Canada	8409.91.94	9.2%	6%	7.3%	Free
		Mexico	8409.91[8]	10%/15%	(6)	(6)	(6)
		United States	8409.91.91	3.7%	Free	2.5%	Free

See footnotes at end of table.

Table 4—Continued
Duty rates applicable to selected motor vehicles parts and components under the Canadian, Mexican, and United States 1991 import tariffs

HS heading/ subheading	*Description*	*Country*	*National subheading*	*Rates of duty (percent ad valorem)* MFN[1]	GPT[2]/GSP[3]	CFTA[4]	APTA[5]
8409.99	-Other						
		Canada	8409.99.93	9.2%	Free	Free	Free
		Mexico	8409.99[8]	10%/15%	(6)	(6)	(6)
		United States	8409.99.91	3.7%	Free	2.5%	Free
8512	**Electrical lighting or signalling equipment (excluding articles of heading 8539), windshield wipers, defrosters and demisters, of a kind used for cycles or motor vehicles.**						
8512.20	-Lighting or visual signalling equipment						
		Canada	8512.20.00	9.2%	6%	6.4%	Free
		Mexico	8512.20[8]	15%	(6)	(6)	(6)
		United States	8412.20.20[14]	Free	(6)	(6)	(6)
			8412.20.40[15]	2.7%	Free	1.8%	Free
8512.90	-Parts						
		Canada	8512.90.00	9.2%	6%	6.4%	Free
		Mexico	8512.90[8]	10%/15%	(6)	(6)	(6)
		United States	8412.90.20[15]	2.7%	Free	1.8%	Free
			8412.90.60[14]	Free	(6)	(6)	(6)
8527	**Radio-broadcast receivers not capable of operating without an external source of power,** of a kind used in motor vehicles,						
8527.21	-Combined with sound recording or reproducing apparatus						
		Canada	8527.21.00	Free	Free	Free	Free
		Mexico	8527.21.02	20%	(6)	(6)	(6)
		United States	8527.21.10	3.7%	Free[16]	1.4%	Free
8708	**Parts and accessories for the motor vehicles of headings 8701 to 8705.**						
8708.10	-Bumpers and parts thereof						
		Canada	8708.10.00	9.2%	6%	6.4%	Free
		Mexico	8708.10[8]	10%/15%	(6)	(6)	(6)
		United States	8708.10.00	3.1%	Free	2.1%[10]	Free

See footnotes at end of table.

Table 4—Continued
Duty rates applicable to selected motor vehicles parts and components under the Canadian, Mexican, and United States 1991 import tariffs

HS heading/ subheading	*Description*	*Country*	*National subheading*	*Rates of duty (percent ad valorem)*			
				MFN[1]	*GPT[2]/GSP[3]*	*CFTA[4]*	*APTA[5]*
8708.21	-Safety seat belts	Canada	8708.21.00	9.2%	6% (6)	6.4% (6)	Free (6)
		Mexico	8708.21.01	15%			
		United States	8708.21.00	3.1%	Free[17]	2.1%[10]	Free
8708.29	-Other parts and accessories of bodies (including cabs)	Canada	8708.29[8]	9.2%[18]	6%[18] (6)	6.4%[18] (6)	Free (6)
		Mexico	8708.29[8]	10%/15%			
		United States	8708.29.00	3.1%	Free	2.1%[10]	Free
8708.39	-Brakes and servo-brakes and parts thereof	Canada	8708.39.90	9.2%	6% (6)	6.4% (6)	Free (6)
		Mexico	8708.39[8]	10%/15%			
		United States	8708.39.50	3.1%	Free	2.1%[10]	Free
8708.40	-Gear boxes (transmissions)	Canada	8708.40.90	9.2%	6% (6)	6.4% (6)	Free (6)
		Mexico	8708.40[8]	10%/15%			
		United States	8708.40.20	3.1%	Free	2.1%[10]	Free
8708.50	-Drive axles with differential, whether or not provided with other transmission components	Canada	8708.50.90	9.2%	6% (6)	6.4% (6)	Free (6)
		Mexico	8708.50[8]	10%/15%			
		United States	8708.50.50	3.1%	Free	1.8%[10]	Free
8708.60	-Non-driving axles and parts thereof	Canada	8708.60.90	9.2%	6% (6)	6.4% (6)	Free (6)
		Mexico	8708.60[8]	10%/15%			
		United States	8708.60.50	3.1%	Free	1.8%[10]	Free
8708.70	-Road wheels and parts and accessories thereof	Canada	8708.70.90	9.2%	6% (6)	6.4% (6)	Free (6)
		Mexico	8708.70[8]	10%/15%			
		United States	8708.70.80	3.1%	Free	2.1%[10]	Free
8708.80	-Suspension shock absorbers	Canada	8708.80.00	9.2%	6% (6)	6.4% (6)	Free (6)
		Mexico	8708.80[8]	10%/15%			
		United States	8708.80.50	3.1%	Free	1.8%[10]	Free
8708.91	-Radiators	Canada	8708.91.90	9.2%	6% (6)	6.4% (6)	Free (6)
		Mexico	8708.91.99	15%			
		United States	8708.91.50	3.1%	Free	2.1%[10]	Free
8708.92	-Mufflers and exhaust pipes	Canada	8708.92.90	9.2%	6% (6)	6.4% (6)	Free (6)
		Mexico	8708.92.99	15%			
		United States	8708.92.50	3.1%	Free	2.1%[10]	Free

See footnotes at end of table.

Table 4—Continued
Duty rates applicable to selected motor vehicles parts and components under the Canadian, Mexican, and United States 1991 import tariffs

HS heading/ subheading	*Description*	*Country*	*National subheading*	*Rates of duty (percent ad valorem)*			
				MFN[1]	*GPT*[2]/*GSP*[3]	*CFTA*[4]	*APTA*[5]
8708.93	-Clutches and parts thereof						
		Canada	8708.93.90	9.2%	6%	6.4%	Free
		Mexico	8708.93.03	15%	(6)	(6)	(6)
		United States	8708.93.50	3.1%	Free	2.1%[10]	Free
8708.94	-Steering wheels, steering columns and steering boxes						
		Canada	8708.94.90	9.2%	6%	6.4%	Free
		Mexico	8708.94[8]	10%/15%	(6)	(6)	(6)
		United States	8708.94.50	3.1%	Free	2.1%[10]	Free
8708.99	-Other parts and accessories						
		Canada	8708.99.99	9.2%	6%	6.4%	Free
		Mexico	8708.99[8]	10%/15%	(6)	(6)	(6)
		United States	8708.99.50	3.1%	Free	2.1%[10]	Free
9401	**Seats and parts thereof.**						
9401.20	-Seats of kind used for motor vehicle						
		Canada	9401.20.00	9.2%	Free	3.6%	Free
		Mexico	9401.20.01	20%	(6)	(6)	(6)
		United States	9401.20.00	3.1%	Free[17]	1.2%	Free
9401.90	-Parts of seats						
		Canada	9401.90.10	12.6%	8%	5%	Free
			9401.90.90	15%	105	6%	Free
		Mexico	9401.90[8]	10%/15%	(6)	(6)	(6)
		United States	9401.90.10	3.1%	Free	1.2%	Free

[1] Most Favored Nation.
[2] Canadian General Preferential Tariff.
[3] United States Generalized System of Preferences.
[4] United States-Canada Free-Trade Agreement.
[5] United States-Canada Automotive Products Trade Agreement.
[6] Not applicable.
[7] Imports from Brazil not eligible for GSP under this subheading.
[8] Includes two or more national subheadings, duty rate(s) shown are generally applicable to automotive products of this subheading.
[9] Applicable to all national subheadings of this subheading.
[10] Articles of this subheading originating in Canada and intended for use in the repair or maintenance of certain motor vehicles, are subject to accelerated staged tariff rate reduction.
[11] For motor vehicle suspension.
[12] Of iron or steel, aluminum or zinc.
[13] Except for use in certain tractors of heading 8701.
[14] Lighting equipment.
[15] Signalling equipment.
[16] Imports from Brazil and Mexico not eligible for GSP under this subheading.
[17] Imports from Mexico not eligible for GSP under this subheading.
[18] Except for truck caps, floor mats of plastics, and seat covers of plastics or textile materials.

Preferential Tariff Treatment

In addition to duties applied on an MFN basis, there are numerous other rates of duty established under bilateral and multilateral trade agreements or programs which provide for preferential duty rates or duty-free provisions. The most significant tariff preferences affecting automotive sector trade in North America are: (1) the United States-Canada Free-Trade Agreement (CFTA) that provides duty-free entry or reduced rates-of-duty on goods of U.S. or Canadian origin imported into the United States or Canada when exported from either country, (2) the United States-Canada Agreement Concerning Automotive Products (commonly referred to as APTA)[61] that provides for duty-free entry of specified motor vehicles and motor vehicle parts and accessories traded between the United States and Canada, (3) the U.S. Generalized System of Preferences (GSP) that provides for non-reciprocal duty-free entry of eligible articles from developing countries, and (4) the Canadian GPT rates that provide for reduced rates-of-duty for eligible products from developing countries.

Tariff Treatment Under the CFTA

The CFTA is a comprehensive bilateral reciprocal agreement between the United States and Canada that, among other things, provides for a 10-year phaseout of tariffs on all goods originating in the territory of Canada or the United States. Under the agreement some goods became free of duty immediately, some are subject to a five-year phaseout, and the remainder are subject to the full ten-year phaseout.[62] This phaseout is scheduled to be completed by 1998.

Eligibility for preferential treatment under CFTA is dependent on the goods being deemed to originate in Canada or United States. As is discussed more fully elsewhere in this report, the rules used to determine eligibility under the CFTA represent a significant departure from traditional rules of origin. Although based on the underlying principle of substantial transformation, the CFTA rules reflect substantial transformation in terms of change-of-tariff classification.

An article produced, processed, or manufactured in Canada, but not wholly of U.S. or Canadian origin, is treated as originating in the United States or Canada if it has been sufficiently transformed so that the tariff classification applicable to the article at the time of entry, differs, in accordance with specified rules, from that applicable to the article or its precursor at the time it was initially imported into Canada or the United States. With regard to certain goods, such as motor vehicles and most motor vehicle parts, the CFTA origin rules also require that in addition to the requisite change of tariff classification, a specified percentage of value of an article must be attributable to materials or operations originating in either the United States or Canada or both, to be eligible for the preferential tariff rate.

Tariff Treatment Under APTA

APTA is a bilateral agreement between Canada and the United States under which Canada accords duty-free treatment to specified new motor vehicles and motor vehicle parts imported from the United States by certain Canadian original equipment manufacturers (OEM). In return, the United States gives duty-free entry to specified new and used motor vehicles and OEM automotive parts imported from Canada.[63] In Canada, bona fide Canadian vehicle manufacturers may import most motor vehicles and automotive products free of duty, whether or not of U.S. origin. In addition they must meet certain minimum Canadian value-added and Canadian-production-to-Canadian sales ratio requirements. In both countries, only bona fide manufacturers may import OEM parts and accessories free of duty under the agreement.[64] APTA was amended by the CFTA to incorporate the CFTA rules of origin as the basis for determining Canadian origin for products imported into the United States under APTA. The standard used to determine the U.S. origin of goods imported into Canada under APTA remained unchanged after adoption of the CFTA.

Tariff Treatment Under GSP and the GPT

The U.S. GSP grants duty-free entry on a unilateral basis to eligible articles from designated beneficiary countries, including Mexico. The President is authorized to designate beneficiary developing countries as well as eligible articles, and to review the program regularly to adjust these designations. GSP applies only to a positive list of designated articles. Continuation of GSP eligibility is reviewed annually in accordance with the competitive-need criteria and can be removed from a product for one or more beneficiary countries by Presidential proclamation.

The GSP rules grant duty-free entry to an eligible article that is the growth, product, or manufacture of a beneficiary country,[65] if the article is imported directly

[61] The agreement was signed on January 16, 1965, 17 U.S.T 1372, T.I.A.S No. 6093. The agreement was implemented for the United States by the Automotive Products Trade Act of 1965, Pub. L. 89-283 as amended by Pub. L. 100-418, 19 U.S.C. 2001 et. seq.

[62] See Presidential Proclamation 5923, To Implement the United States-Canada Free-Trade Agreement, December 14, 1988, 53 F.R. 50638, December 16, 1988.

[63] Excepted from APTA are certain special-purpose vehicles, e.g. electric buses, three-wheeled vehicles, and motor vehicles specially constructed and equipped for special services and functions, tires and tubes, and trailers.

[64] Note that certain non-OEM parts intended for the repair or maintenance of the motor vehicles of headings 8702, 8703, or 8704 are subject to accelerated staged-rate duty reductions under the CFTA. See HTS heading 9905.00.00 and CCT After-Market Automotive Parts Provisions which are reproduced at app. J.

[65] Section 226 of the Customs and Trade Act of 1990 amended section 503(b) of the Trade Act of 1974 (19 U.S.C. 2463(b)) to revise the GSP rule of origin in order to limit duty-free treatment to eligible articles which are

from a beneficiary country and the cost or value of the materials produced in such a country plus the direct costs of processing operations in a beneficiary country is not less than 35 percent of the appraised value at the time of entry into the United States. GSP rules do not permit either the cumulation of costs and value added in other beneficiary countries or the inclusion of the value of any U.S. materials contained therein.

Most motor vehicles imported into the United States are not eligible for duty-free entry under GSP, whether from Mexico or any other beneficiary country. However, motor vehicle parts, components, and accessories are generally eligible for GSP treatment. Of the 640 HTS tariff lines which include articles covered by APTA, 509 are, at present[66], either fully or partially GSP eligible. Mexico is eligible for GSP treatment under all but nineteen of those tariff lines.

The Canadian GPT, like GSP, applies to designated goods from listed beneficiary countries. However, unlike GSP, the GPT rate may be either a reduced-rate of duty or a duty-free provision. Mexico is a listed beneficiary country for GPT purposes. As can be seen from tables 3 and 4, most motor vehicles and motor vehicle parts imported into Canada are eligible for GPT treatment.

Non-Tariff Programs and Procedures Affecting Duties

U.S. Foreign Trade Zones

In the United States, a foreign trade zone (FTZ) is a special enclosed area within, or adjacent to, ports of entry usually located at industrial parks or warehouse facilities. Foreign trade zones are the U.S. version of what are known internationally as free trade zones.[67] Although operated under the supervision and enforcement of the U.S. Customs Service, they are considered to be outside the customs territory of the United States for purposes of customs entry procedures. With certain exceptions, foreign or domestic merchandise can be brought into an FTZ for storage, repacking, assembly, manufacturing or other processing. Foreign merchandise brought into an FTZ is not subject to duty, formal entry procedures or quotas, unless or until it is imported into the U.S. customs territory.

The final tariff treatment of goods imported into the U.S. customs territory from an FTZ is dependent on their declared status at the time the goods were entered into the FTZ. Goods entering an FTZ can be designated as foreign or domestic, and as privileged or nonprivileged. U.S. Customs appraises and classifies privileged foreign merchandise according to the condition of the merchandise when it enters an FTZ. In contrast, merchandise that is composed entirely of, or derived from, nonprivileged merchandise, either foreign or domestic, is appraised and classified based on its condition when it is transferred out of an FTZ; that is at the time it is imported into the U.S. customs territory.

Consequently, an importer can substantially alter the eventual duty liability on the imported products by choosing the most advantageous designation of goods that are intended to be manufactured, assembled or further processed in an FTZ. For example, the rates of duty applicable to most parts of passenger automobiles are higher than those applicable to complete passenger automobiles. Therefore an importer, operating within an FTZ, by designating imported parts as nonprivileged merchandise, can assemble those parts into a vehicle and be liable only for duties based on the rate applicable to the entire vehicle, rather for duties based on the rates applicable to individual parts. In cases where the duty rates applicable to parts are lower than those applicable to a complete article, designation of the parts as privileged merchandise would maintain their lower dutiable status, even though the completely assembled article is being imported.[68] It is noteworthy that most automotive assembly facilities within the United States are located in FTZs or subzones.[69]

U.S. imports of passenger automobiles through foreign trade zones increased from approximately 131,840 units in 1980 to approximately 4,850,010 units in 1990, as U.S.- and Japanese-owned automakers sought FTZ status for their establishments primarily to reduce tariff liabilities (Table 5). As of November 1991, 36 of the 45 auto assembly plants in the United States operate in active trade zones.[70]

65—Continued

the growth, product, or manufacture of a beneficiary country. Previously, by judicial interpretation, duty-free treatment applied to any eligible article, regardless of its growth, production or manufacture, so long as the 35 percent beneficiary country content criteria were met.

[66] The President is currently considering petitions which would give full GSP status to an additional seven tariff lines, and restore eligibility to Mexico for five others. See, Notice of the United States Trade Representative, 56 F.R. 42080, August 26, 1991.

[67] U.S. Department of Commerce, *51st Annual Report of the Foreign Trade Zones Board to the Congress of the United States.*

[68] See, for example, U.S. Customs ruling HQ 083222, April 25, 1989, reproduced at app. K. See also U.S. Customs ruling HQ 544250, July 26, 1991.

[69] For further information on FTZs and their operation, see U.S.International Trade Commission, *The Implications of Foreign-Trade Zones for U.S. Industries and for Competitive Conditions Between U.S. and Foreign Firms,* USITC publication 1496, February 1984, and *The Implications of Foreign-Trade Zones for U.S. Industries and for Competitive Conditions Between U.S. and Foreign Firms (Supplement and Expansion),* USITC publication 2059, February 1988.

[70] Staff telephone interview with officials of the Foreign Trade Zones Board, November 1991.

Table 5
Automobiles: U.S. imports through foreign trade zones, 1980-90

Year	Quantity (units)
1980	131,840
1981	146,668
1982	140,689
1983	550,308
1984	1,317,412
1985	2,006,456
1986	3,442,016
1987	4,047,380
1988	6,196,033
1989	4,898,269
1990	4,850,010

Source: USITC staff estimates based on official statistics of U.S. Department of Commerce.

Mexican Maquiladoras

The maquiladoras are in-bond production facilities established in 1965 under Mexico's Border Industrialization Program. They are generally located along the U.S.-Mexican border and are primarily engaged in labor-intensive assembly operations. They are used to combine Mexican labor with foreign capital and technology. The maquiladora is a plant operated by a firm that temporarily imports goods for the purposes of dedicating itself, either in whole or in part, to the business of exportation. Articles brought into Mexico for the maquila program are considered to be temporary importations and are not subject to Mexican import duties. The articles are defined as those goods necessary for the operation of the maquiladora that are imported for a specific period of time and which, ultimately, must be exported to the country of origin, usually the United States.[71]

Generally, U.S. firms operate maquiladoras to assemble articles that require substantial labor-intensive assembly steps or manufacturing processes. Articles assembled or manufactured in a maquiladora when imported into the United States may be eligible for duty-free entry under GSP, or reduced duties under HTS subheadings 9802.00.60 or 9802.00.80, thereby taking advantage of both the lower labor costs incurred in the maquiladora program and the substantially reduced U.S. duties on the imported articles.

North American Automotive Trade

U.S. Trade With Canada

U.S. imports of automotive products from Canada, including passenger automobiles, lightweight trucks, and motor vehicle parts, increased from $8.3 billion in 1980 to $28.8 billion in 1990, an average annual increase of 13 percent (figure 1). U.S. imports of automobiles from Canada increased from 594,731 units ($3.8 billion) in 1980 to 1.2 million units ($13.7 billion) in 1990 (figure 2). U.S. parts imports from Canada increased from $3.3 billion in 1980 to $9.6 billion in 1990. U.S. exports of automotive products to Canada, consisting primarily of auto parts, increased from $7.8 billion in 1980 to $17.8 billion in 1990, an average annual increase of 9 percent (figure 3). Despite steadily rising U.S. exports of parts, the total U.S. automotive trade deficit with Canada amounted to $11 billion in 1990, attributable almost entirely to a U.S. trade deficit in vehicles.[72]

Current trade patterns suggest an improving U.S. trade balance with Canada in automotive products, possibly due, at least in part, to the strong Canadian dollar. During January-July 1991, U.S. imports of automotive products from Canada decreased to $15.2 billion compared with $17.3 billion during the corresponding period in 1990. During January-July 1991, U.S. exports of automotive products to Canada increased to $11.8 billion from $11.4 billion during the same period in 1990.

Since the 1950s, U.S.-Canada automotive trade has been determined primarily by the North American production and sourcing strategies of the U.S. Big Three automakers. For example, during 1980-90, U.S. imports outstripped U.S. exports of automobiles, primarily because of the strong export orientation of the Canadian auto industry.[73] This orientation was achieved by design as subsidiaries of the Big Three U.S. and Japanese-owned automakers sought not only to supply the Canadian market, but to export their products to the United States. Over 80 percent of the vehicles built in Canada were exported to the United States during the 1980s. During this period, there were several advantages for U.S.- and Japanese-owned automakers to produce in Canada vis-a-vis the United States. One major advantage was economic rationalization of production based on a Canadian cost advantage achieved primarily through lower overhead, a reduced social cost component for vehicle manufacturers in Canada,[74] as well as generally lower

[71] For a review of the maquiladora program, see U.S. International Trade Commission, *The Impact of Increased United States-Mexico Trade on Southwest Border Development*, USITC publication 1915, November 1986.

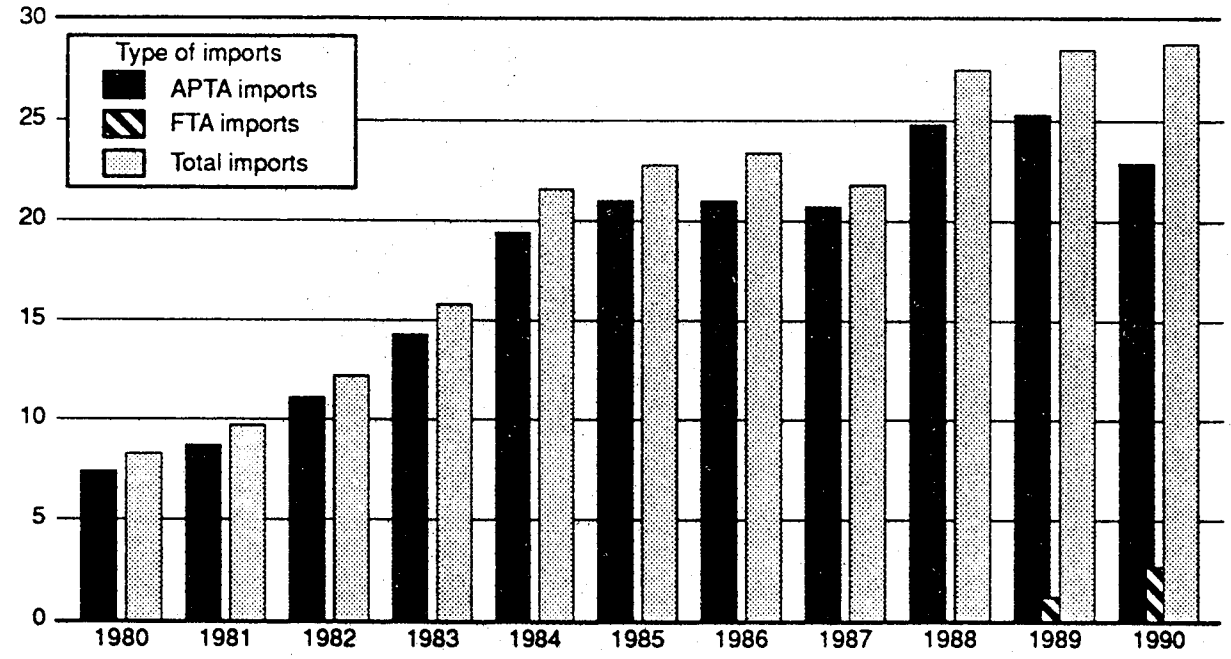
[72] The actual U.S. automotive trade deficit with Canada during 1980-89 may have been less significant than official U.S. Government statistics indicate. Prior to 1989, Statistics Canada regularly reported higher Canadian import levels of parts than U.S. export statistics documented. According to a U.S. Government official, this gap totaled about $5 billion annually. However, Canada, in preparation for the CFTA, fully adopted the Harmonized Tariff System in January 1988. Subsequently, an exchange of tapes containing U.S. and Canadian import statistics between the U.S. Bureau of the Census and Canadian trade authorities was initiated in 1989, thereby gradually reducing discrepancies in official statistics.

[73] USITC staff interviews with officials of Statistics Canada during 1990.

[74] According to a Canadian Government official, social benefits allocated to Canadian auto workers are factored into the national tax base, and do not directly burden Canadian vehicle manufacturers.

Figure 1
U.S. imports of automotive products[1] from Canada, 1980-90, by trade agreement

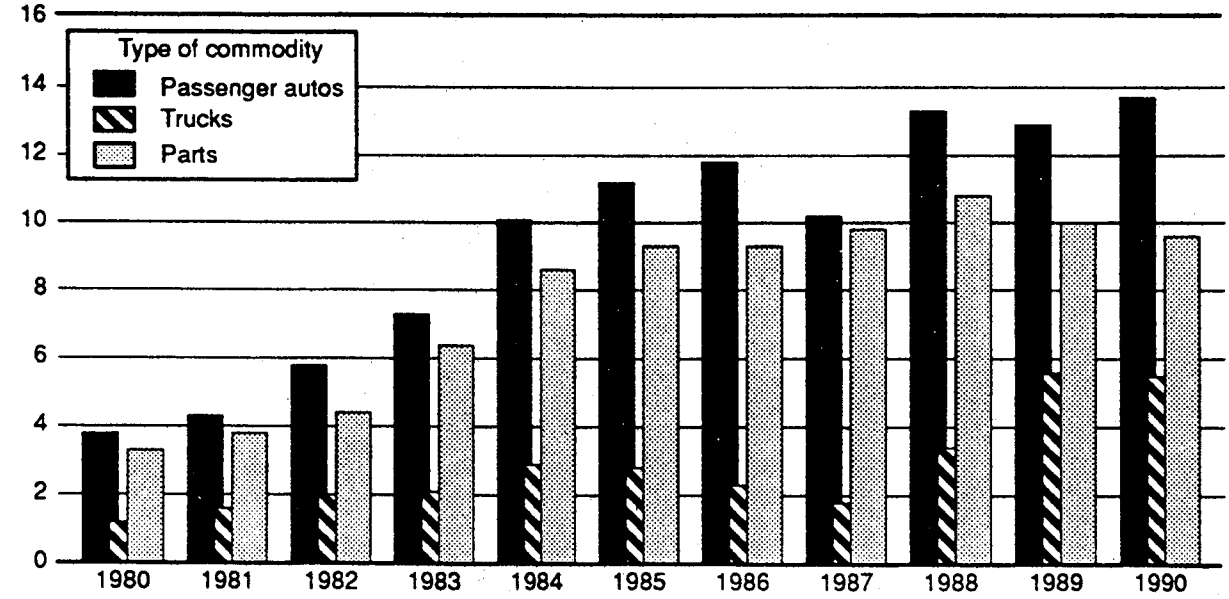
Billion dollars



[1] Includes automobiles, trucks and parts
Source: U.S. DOC trade statistics. APTA and total imports are estimated by USITC staff.

Figure 2
U.S. imports of automotive products from Canada, 1980-90, by commodity type

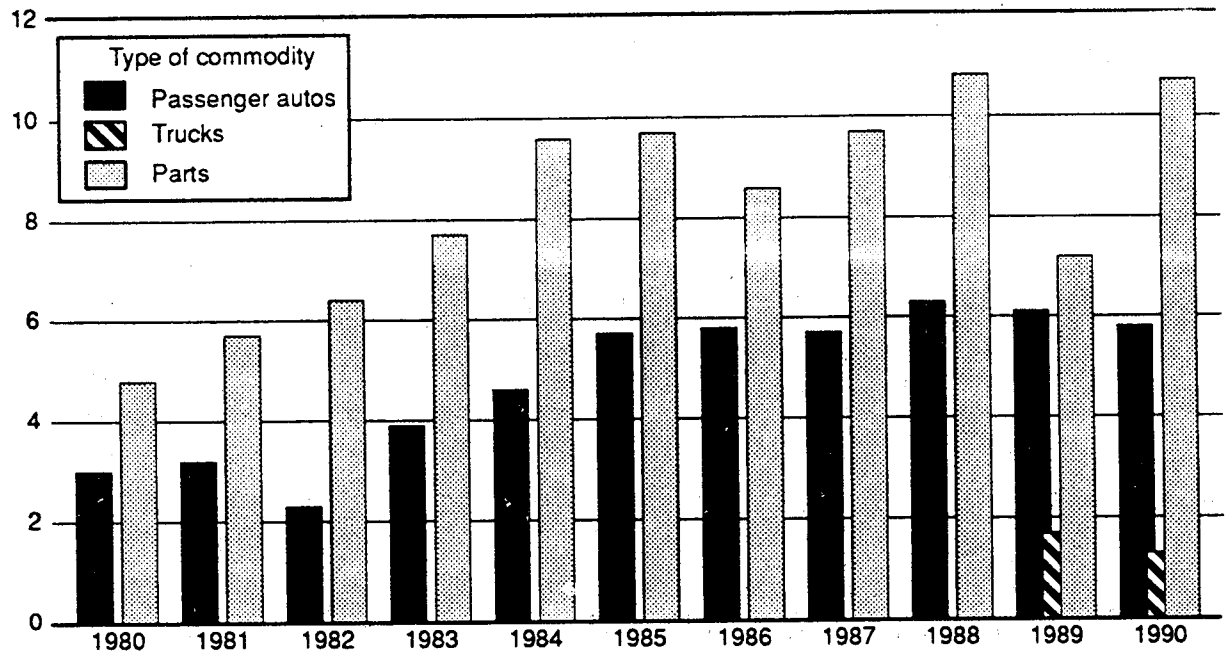
Billion dollars



Source: U.S. Department of Commerce trade statistics.

Figure 3
U.S. exports of automotive products to Canada, 1980-90, by commodity type

Billion dollars



Source: U.S. Department of Commerce trade statistics.

labor rates in Canada during 1980-88.[75] Another incentive to locate in Canada was the production and export-based duty remission programs (applicable to Japanese and to other non-U.S. suppliers to the Canadian market).

During 1985-90, Canadian vehicle production remained relatively stable, while U.S. vehicle sales and production began to show irregular declines in 1987. During 1989, the Canadian market also began to contract, largely because of higher interest rates, as well as new taxes levied on gasoline, tires, and fuel inefficient vehicles by the Canadian Government and the Province of Ontario. Despite weakening U.S. and Canadian vehicle sales and sporadic downtime at U.S.-owned Big Three plants in Canada, Canadian vehicle production continued at a steady pace, reinforced by new production at foreign-owned automaking facilities in Canada, including those of Toyota, Honda, Hyundai, and CAMI (GM-Suzuki). A number of other factors accounted for stable Canadian vehicle production during this period, including the existing model mix produced at Canadian plants;[76] shifts in U.S. consumer preferences; and the relatively young fleet of Canadian models, vis-a-vis more mature life-cycles for certain U.S.-made models that gradually had to be discontinued. Primarily because of increased U.S. demand for certain models[77] made in Canada, U.S. imports of vehicles from Canada increased from $18.5 billion in 1989 to $19.2 billion in 1990. U.S. exports of vehicles decreased from $7.9 billion in 1989 to $7.1 billion in 1990, mainly because of softer demand in the Canadian market.

Auto parts trade between the United States and Canada followed a different pattern from vehicle trade. U.S. exports of parts to Canada increased because of cross-border rationalization of assembly operations by the U.S. Big Three automakers and the subsequent rapid expansion of the Canadian auto industry during the 1970s and early 1980s. As a result of this expansion, certain segments of the Canadian parts industry have not been able to keep up with Canadian auto industry demands. Consequently, U.S. parts manufacturers have been able to supply Canadian-based vehicle manufacturers. Canadian undercapacity as to auto parts was especially evident in body stampings, transmissions, and air-conditioning equipment. On the other hand, U.S. imports of auto parts from Canadian suppliers, mostly by the U.S. Big

[75] USITC staff interview with an official of Industry, Science and Technology Canada on October 28, 1991.

[76] Single sourcing, which indicates production of one model at one plant, is more prevalent in the Canadian automobile industry vis-a-vis the U.S. industry. As long as a particular model produced by a one-model oriented plant remains popular, local production will likely remain strong, even during periods of softened demand in a regionally integrated industry, such as the North American automobile industry.

[77] Some popular models that have been sold in the U.S. market are now produced in Canada; e.g., the Honda Civic Hatchback and the Toyota Corolla. Other popular models in the United States that recently came on-line in Canada include the Suzuki Sidekick and the Geo Metro (by CAMI Automotive, Inc.), and the Hyundai Sonata.

Three automakers, also increased during the 1980s, drawing from stronger production segments of the Canadian parts industry, which included piston-type internal combustion engines, tires, locks and hinges, rubber and plastics for automotive use, and automotive furniture. Another reason for documentable increases in U.S. exports of parts to Canada was that, especially prior to 1989, as discussed, U.S. exports to Canada may have been understated.[78]

During the 1980s, and going into the 1990s, automotive trade between the United States and Canada, and especially auto parts trade, was shaped increasingly by the 1965 APTA and the 1989 CFTA, both of which reduced the dutiable portion of automotive trade between the United States and Canada. By 1989, however, the APTA portion of total U.S. imports of automotive products leveled off and even decreased, from a record $25.3 billion in 1989 to $22.9 billion in 1990. Automotive trade for which benefits of the CFTA were claimed, on the other hand, increased from $1.2 billion in 1989 to $2.7 billion in 1990 (figure 1). As the CFTA is phased in, it will be in effect concurrently with the APTA, but it will not supplant the APTA. Aftermarket duties will be phased out on a 5-year schedule, and original equipment tariffs will be eliminated on a 10-year schedule. Based on this schedule, all automotive duties on originating goods will be eliminated between the United States and Canada by January 1, 1998.

[78] See last footnote on the first page of this discussion of U.S. trade with Canada as to discrepancies in data.

The APTA may continue to have significance in Canada beyond 1998, since it was originally conceived by Canada as a multilateral agreement; i.e., pertaining to products imported from the United States and all other countries that meet Canadian (APTA) company-specific, 60 percent Canadian value-added performance requirements. Currently, an increasing number of importers source automotive products under the already reduced tariff rates and lessened administrative requirements of the CFTA. Some officials believe that, with the advent of the CFTA in 1989, APTA's administrative requirements (such as diversion reports) have served to encourage firms to claim CFTA rather than APTA status for Canadian exports to the United States.[79]

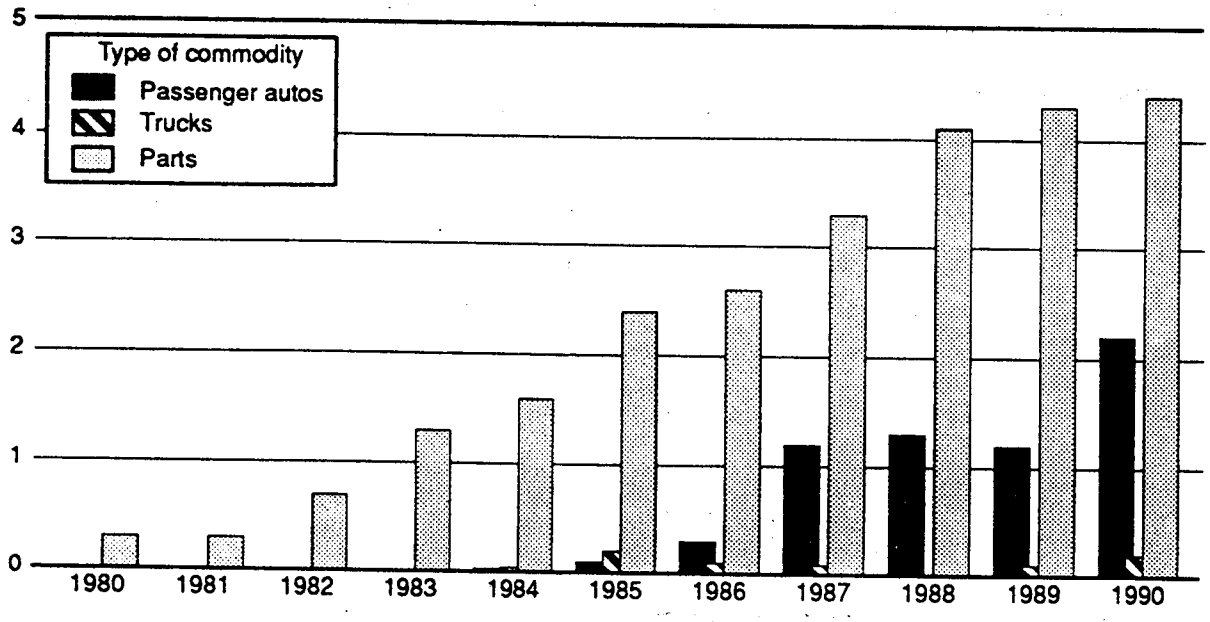
U.S. Trade With Mexico

U.S. imports of automotive products from Mexico increased from $300 million in 1980 to $6.8 billion in 1990, an average annual increase of 37 percent (figure 4). U.S. imports of automobiles from Mexico increased from 0 units in 1980 to 215,986 units ($2.2 billion) in 1990. U.S. imports of parts from Mexico increased from $300 million in 1980 to $4.4 billion in 1990. U.S. Trade in automotive products to Mexico increased from $1.3 billion in 1980 to $2.9 billion in

[79] USITC staff interviews with officials of the U.S. Customs Service and the U.S. Department of Commerce, October 1991.

Figure 4
U.S. imports of automotive products from Mexico, 1980-90, by commodity type

Billion dollars



Source: U.S. Department of Commerce trade statistics.

1990, an average annual increase of 8 percent (figure 5). The increased trade activity can be attributed to the overall trade liberalization policies of the Government of Mexico, improved economic conditions in Mexico, and the corresponding expansion in Mexican vehicle production capacity. The Mexican industry's output of autos and light trucks rose by 88 percent during 1986-89, to 641,000 units in 1989.[80] During January-July 1991, U.S. imports of automotive products from Mexico remained at about 1990 levels despite the import deterrent effects of a relatively weak U.S. currency. During January-July 1991, U.S. exports of automotive products to Mexico increased to $2.0 billion compared with $1.4 billion during the corresponding period in 1990.

U.S. Automotive Imports Under HTS Heading 9802[81]

As is discussed in more detail below in the section on tariff treatment, U.S.-origin materials and components shipped to Mexico for processing or assembly, then returned in the form of finished goods, may be entered free of duty under HTS subheading 9802.00.60 and heading 9802.00.80. U.S. imports of automotive products under HTS subheading 9802.00.60 and heading 9802.00.80 increased from $10.7 billion in 1980 to $50.4 billion in 1989,[82] an annual average increase of 19 percent. Most of this increase was recorded after 1986, when automakers began to enter APTA-eligible products under the provisions of HTS heading 9802.00.80 to avoid the Customs user fee that was established in December 1986 and applied to entries of APTA-eligible goods in chapters 1-97 of the HTS.[83] APTA imports that were also declared eligible for tariff treatment under HTS heading 9802.00.80 rose from negligible levels in 1986 to $18.8 billion in 1989. The principal sources of imports of motor vehicles under HTS heading 9802.00.80 during 1980-89 (most of which were new automobiles) were Canada, Japan, and Mexico. During 1980-89, U.S. imports of automotive products under HTS heading 9802.00.80 from Canada rose from $37.0 million in 1980 to $20.4 billion in 1989, an average annual increase of 78 percent.

[80] For a more detailed discussion on developments in the Mexican automotive sector, see USITC Publication 2353, The Likely Impact on the United States of a Free Trade Agreement with Mexico, February 1991, pp. 4-17/4-22.

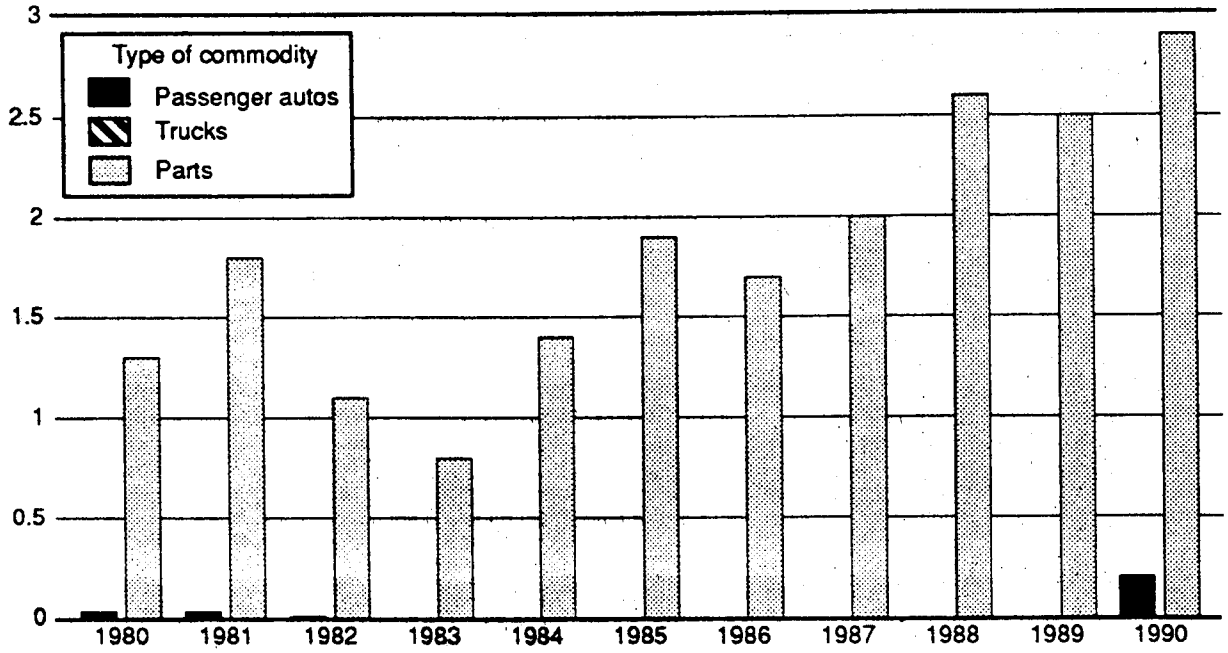
[81] Prior to 1989, HTS subheading 9802.00.60 and heading 9802.00.80 corresponded to items 806.30 and 807.00 of the former Tariff Schedules of the United States (TSUS). Data for 1980 in this section were retrieved according to parameters for the latter items from the TSUS.

[82] See USITC Publication 2365, *Production Sharing: U.S. Imports under Harmonized Tariff Schedule Subheadings 9802.00.60 and 9802.00.80, 1986-1989*, March 1991.

[83] *Ibid.*, p. 3-3.

Figure 5
U.S. exports of automotive products to Mexico, 1980-90, by commodity type

Billion dollars



Source: U.S. Department of Commerce trade statistics.

Mexico's share of total HTS heading 9802.00.80 imports of motor vehicles in 1989 accounted for only 4 percent of total shipments, but 9 percent of the U.S. content, or duty-free value under this provision. However, Mexico recorded the highest share, 53 percent, of the value of U.S.-made motor-vehicle parts contained in imports under HTS heading 9802.00.80 to total imports of HTS heading 9802.00.80 value. In contrast, U.S.-made parts entered free of duty accounted for $495 million, or just 26 percent of the total value of HTS heading 9802.00.80 imports from Canada in 1989. The principal motor-vehicle parts that qualified for duty-free treatment under HTS heading 9802.00.80 were headlights, wheels, glass, fabric, tires, engine parts, catalytic converters, and batteries.[84]

Customs Rules of Origin and Preference

Background

Most countries establish standards to determine the country of origin, or "legal nationality," of imported goods that are not wholly grown, mined, or produced in a single country. These rules, which are applied on either a most-favored-nation or a preferential basis, reflect that international trade is regulated on a country-specific as well as a product-specific basis. They serve multiple purposes, allowing the assessment of customs duties (including antidumping and countervailing duties) on the basis of a single country of origin, ensuring that foreign goods are correctly marked as to their origin, assisting in the analysis of trade and capital flows, and limiting application of country-specific trade measures to goods of the targeted exporter.

While many aspects of international trade regulation are covered by international agreements, which generally require some degree of transparency and accountability, rules of origin have been one of a small number of areas that remain within national government discretion. There has to date been no international standard or discipline setting forth accepted norms and procedures for origin determinations. Moreover, until fairly recently only specialized international bodies (such as the Customs Cooperation Council (CCC)) with relatively few participants attempted to obtain agreed practices as to origin rules. This situation may change in the near future, because the Contracting Parties to the General Agreement on Tariffs and Trade (GATT) have nearly completed work on a proposed agreement to set principles and procedures for establishing and changing nonpreferential origin rules and eventually to harmonize them.[85]

As indicated above, origin/preference standards fall into two broad categories: nonpreferential rules, applicable to ordinary MFN trade, and preferential rules, applicable to particular goods of designated countries. The general objective of nonpreferential origin regimes is to identify and assign origin to a particular country as to any imported goods; often, this is the country where the "last significant processing" operations occur. Because trade patterns and legal regimes have become more complex since World War II, and because multiple-country manufacturing and sourcing have become commonplace, origin issues have become more important and troublesome.

By contrast, the chief aim of preferential rules is to tailor the extent and availability of tariff reductions in programs having specific policy goals. These criteria are commonly intended to promote trade and investment (in the recipient countries or, in the case of FTAs, in all parties) and to try to ensure that firms claiming the benefits have made some level of economic contribution in the pertinent countries. The advent of trade preference programs and customs unions, with the significant benefits available to qualifying goods, has served to promote more numerous and complex criteria as preference-giving countries attempt to prevent pass-through operations and to accomplish all of the policy objectives of these programs.[86]

Both public and private entities need 5 fundamental characteristics in rules of origin and of preference: objectivity, reasonableness, uniformity, predictability, and consistency. To make long-range plans,

[84] Compiled from *Ibid.*, Chapter 3.

[85] The agreement would cover rules utilized in administering nonpreferential trade programs: MFN duty assessment and statistical compilation; antidumping, countervailing, and escape clause duties; marking; public procurement; and discriminatory quantitative restraints or tariff-rate quotas. The proposal would set requirements for notification of interested parties when a rule is to be created or amended and provide such parties an opportunity for comment, as well as ensure that they, and other members of the trading community, are made aware of the eventual decision. A major objective is to achieve consistent, uniform, impartial, and reasonable administration of rules based on a positive statement as to what will confer origin. In addition, rulings on the origin of particular goods would be made available, with protection assured for confidential information. After a transition period, work toward the harmonization of origin rules would be undertaken, based upon the principle of "last substantial transformation" and directed at attaining objective, understandable, and predictable standards not formulated to achieve policy goals. The criterion of "change of tariff heading" (CTH) would, where appropriate, serve as a means of representing substantial transformation, with supplemental measures added for particular goods. Input from the CCC would be considered by the Contracting Parties in the harmonization work. Attached to the agreement is a common declaration as to rules of preference, focusing again on principles and procedures to be employed by user countries. It has not been finally determined if this package would apply broadly to GATT's members or only to signatories of an "origin code."

[86] It may be observed that anticircumvention criteria employed in the antidumping context are often described as falling into the category of preferential (country-specific) rules, although additional duties rather than tariff preferences are involved.

businessmen in particular need to be able to rely on the regular administration of understandable criteria that reflect rather than restructure economic reality. Customs administrations likewise desire fundamentally simple and reliable standards, given tremendous increases in the volume of trade, shrinking manpower and budget levels, and the continuing shift to containerized trade and electronic data transmission. Of paramount importance to governments is the dual objective of ensuring that trade agreement benefits inure to the parties concerned and of discouraging deflections and diversions of trade. That is, the rules are structured with a view toward averting activities intended merely to take advantage of them without satisfying the goals of the agreement.

This underlying policy goal received special emphasis in the development of more recent tariff preference programs, such as the Generalized System of Preferences (GSP), the Caribbean Basin Economic Recovery Act (CBERA), and free-trade arrangements for sector or country trade. The administering country attempts to balance the objectives of encouraging trade and investment in targeted countries and of restricting the ability of developed trading partners to use such programs for their own advantage. In addition, pressures from domestic industries facing import competition or seeking lower-cost foreign sources must also be considered.

Thus, it is useful to separate rules generally applicable to all trading partners ("origin") from rules aimed at conferring advantages to a select group ("preference"). In the case of the United States, the rule of "origin" for all trade is substantial transformation, derived by the courts from the language of section 304 of the Tariff Act of 1930 concerning marking of imported goods.[87] That principle is employed to ascertain appropriate marking, duty imposition, and the base-line standard for preference eligibility—namely, whether the shipment in question is the "product of" an eligible country. Only after that decision is it appropriate to examine whether the shipment qualifies for tariff preferences, under the special rules applicable to that program (rules of preference).

Like the detailed set of criteria for establishing eligibility for benefits of the United States-Canada Free-Trade Agreement (CFTA), any such standards for determining eligibility under a North American Free-Trade Agreement are most properly described as rules of preference. That is, a determination by customs officials that particular goods do not qualify for FTA benefits would not affect their already-established status as "products of" Mexico or Canada, and they would be marked and dutied accordingly. For any shipment, importers have a choice of paying MFN rates of duty or claiming reduced-duty or duty-free status based on narrow tariff provisions (such as duty suspensions) or on preferential programs.

In the case of Mexico, one option is to establish eligibility for duty-free entry under the Generalized System of Preferences (GSP) for articles designated as eligible for such treatment (notably, almost all auto parts are included), and another is to make use of applicable U.S. tariff provisions covering American goods returned.[88] In the case of Canada, and of great significance for the subject of this report, original motor-vehicle equipment and vehicles may qualify for duty-free entry under the APTA or the CFTA. Where an entry is submitted with a claim of qualification for any such duty reduction, and that claim is rejected by Customs, the goods are dutiable based on the country-of-origin finding pursuant to substantial transformation. The goods are also marked in accordance with that finding, regardless of their eligibility for preferences. Both to the trading community and to Customs officials, however, it has been common to refer to all of these distinguishing legal standards as rules of origin.

Methods of Ascribing Origin

Many possible mechanisms can be utilized to ascribe origin to goods in trade. In most countries, these mechanisms rely on one or more of four general principles.[89] These principles, defined and discussed below, include: (1) substantial transformation; (2) value content (either a minimum level of domestic content or a maximum level of foreign content) or value added (by means of processing or other operations, without

[87] For the United States, a finding that substantial transformation has occurred rests on the following standard: ". . .if as a result of processes performed in that country a new article emerges with a new name, use or identity" (*Belcrest Linens* v. *United States*, 2 CAFC 105, 741 F.2d 1368, 1371 (Fed. Cir. 1984). If imported components or materials, or a combination of imported and domestic ones, are found to meet that standard, they acquire origin in the country of processing or manufacturing. See *Standardization of Rules of Origin: Report to the Committee on Ways and Means on Investigation No. 332-239*, USITC Publication 1976 (May 1987), and *Assessment of Rules of Origin Under the Caribbean Basin Economic Recovery Act: Report to the President, the Committee on Finance, and the Committee on Ways and Means on Investigation No. 332-298*, USITC Publication 2381 (May 1991), for detailed information. As noted in these reports, this principle is easy to state but not necessarily easy to apply or susceptible of consistent, predictable results.

[88] These provisions are set forth in chapter 98 of the HTS. For an analysis, see *Production Sharing: U.S. Imports Under Harmonized Tariff Schedule Subheadings 9802.00.60 and 9802.00.80, 1986-1989*, USITC Publication 2365 (March 1991) and earlier reports in this series.

[89] For example, the EC utilizes "last substantial transformation" represented by a change of tariff heading in its rule, with supplemental value-content criteria and, for some goods, mandatory or prohibited processes that must be done to obtain origin or can never confer origin. The United States has never utilized a process-based test; a small number of the CFTA enumerated tariff changes (discussed below) might involve processes by virtue of the pertinent tariff headings. In addition, preferential rules commonly require direct shipment of the goods in question from an eligible supplier to the preference-giving country.

necessarily adding materials originating in the country of processing); (3) change of tariff classification; and (4) specified processes or components (either those which will confer origin or those which will never confer origin). Depending upon a government's objectives and whether a preferential or nonpreferential rule is involved, combinations of these rules may be adopted, usually to provide further assurance that the results of these rules, when applied, are more or less predictable. It may also be observed that origin/preference standards can be developed on a country-, sector-, or product-specific basis. While affording a measure of governmental control over the trade concerned, these rules can be quite complex and may not be fully comprehensible to businessmen.

Substantial Transformation

Definition

As noted above, substantial transformation was defined for the United States in judicial rulings to provide for the assignment of origin to the country where processing of inputs results in a new article emerging with a new name, use or identity. This standard, easy to state but not always easy to apply,[90] is the legal concept underlying many origin rules, including that of the United States. In the United States, the principle has been interpreted and applied by the Customs Service to goods imported into the customs territory. In practice, the standard is applied to materials or components brought together in a country and subjected to processing, manufacture, or assembly operations. If these operations result in the creation of a new and different article of commerce, which is then shipped to another country, customs officials in that country may deem the goods to originate in the country of processing.

Application

Where all materials or components incorporated in goods are grown, mined, assembled, or otherwise derived in a single country, there is usually little difficulty in determining the origin of the processed or finished goods, even if there remains some dispute as to the precise nature of the goods or the tariff provision that may apply thereto. Problems have arisen more frequently where goods are initially "wholly obtained or produced" in one country but undergo processing in another country, or where goods of more than one country are assembled or further manufactured in one such country or in a different one.[91] In such situations, it is not always simple to decide, based on a factual, technical, and legal analysis, if any particular process or combinations of processes created a new article of commerce. Moreover, it is hard to enunciate a consistent approach to this sort of analysis, one which will result in uniform and predictable findings as to similar goods.

As indicated, a finding of substantial transformation is possible even where all of the materials or components being assembled were obtained or derived from countries other than the country of processing. By implication, where such operations result in a change of origin of third-country inputs, these inputs lose not only their identity in terms of physical description (they are no longer "screws" or "fabric" but are instead "machinery" or "apparel") but also their prior origin status. Where no claim for tariff preference is sought, customs officials of the importing country ordinarily have no reason to go behind the acquired status—as an article the product of the manufacturing country—or to consider the sources or value of the foreign inputs.

In the case of the United States, goods are classified and appraised for tariff purposes in their condition as imported based upon the nomenclature of the HTS. Only in limited product categories, such as the provisions for watches, has constructive segregation of imported goods into specified constituents been required, imposing compliance burdens on firms and administrative ones on Customs. For a complex product, especially one with a large volume of trade and a vast array of parts (and their sources), segregation as to all shipments would seem to

[90] To attempt to ensure a consistent approach to such analyses, countries have adopted varying ways of representing substantial transformation in a more concrete or objective fashion. One common approach has been to apply the change of tariff classification standard to indicate when substantial transformation has occurred, relying on the underlying tariff nomenclature principle that each article in trade is described by only one tariff provision and, as a corollary, different tariff provisions cover different goods. This methodology is more fully described below. Some rules arguably attempt to pinpoint the country of "most substantial transformation" rather than "last substantial transformation."

[91] See "Proposed Customs Regulations Amendments Regarding Rules of Origin Applicable to Imported Merchandise," 56 *Fed.Reg.* 48448 (Sept. 25, 1991), in which Customs proposes "to set forth a uniform rule governing the determination of the country of origin of imported merchandise which is wholly obtained or produced in a single country." In addition, the notice proposes rules applicable for most purposes to base metals and base metal articles. The notice observes that the application of the substantial transformation test, which has involved a myriad of administrative rulings and judicial decisions,—

> has not been without problems. These problems devolve from the fact that application of the substantial transformation rule is on a case-by-case basis and often involves subjective judgments as to what constitutes a new and different article or as to whether processing has resulted in an article with a new name, character, and use.

Thus, the proposed rules would draw upon the CFTA criteria and rely upon the change-in-tariff-classification standard, to be applied "as the basis for a new rule of origin that would apply for all purposes except where different origin standards are specifically prescribed by statute." The new rules, if adopted, would establish the appropriate marking of a shipment regardless of its eligibility for tariff preferences.

present insurmountable delays and administrative difficulties.[92]

Implications

The need to apply substantial transformation on a case-by-case basis means that it does not fully measure up to the desirable characteristics of an origin rule mentioned early in this chapter—objectivity, reasonableness, uniformity, predictability, and consistency. The private sector cannot always predict the eventual decision, and must therefore consult legal counsel or Customs; sometimes this consultation occurs too late in the transaction to avoid problems at importation. In addition, the interpretative nature of the standard presents a degree of discretion to administering agencies, with the possibility that policy objectives may influence individual determinations. Last, rulings issued by Customs and to a lesser degree the courts are fact-specific, and cannot be relied upon by importers whose goods differ in some respect from those covered by the decisions.[93]

On the positive side, the standard has been applied for a number of years and is therefore familiar to Customs and the trading community. Uncomplicated record-keeping and the absence of elaborate value tracking are prominent advantages. Moreover, it does encourage commercially significant productive investment in the situs country, so that the latter has an "economic stake" in the operation concerned. Its flexibility further allows governmental goals to be advanced; for example, some relatively simple and therefore less costly facilities in a developing country may be sufficient to warrant findings of origin therein, promoting economic diversity and reducing the need fordirect aid. In addition, this test permits governments to deal with "screw-driver plants" carrying out mere assembly operations so as to accomplish program objectives.

[92] In the CFTA context, if foreign content in purchased parts could not be rolled up (see discussion of roll-up, below), Customs and the industry would be required to constructively segregate the levels of absolute foreign and domestic content in imported vehicles, moving back beyond the importer's assembly operations to parts and eventually to materials. In essence, this would be similar to the very troublesome constructive segregation required as to imported watches for duty purposes; at least in that instance it is still conceptually possible to differentiate between a movement and a case.

[93] Customs has issued for comment proposed regulations that, once effective, would define substantial transformation for the first time for several purposes, as Customs attempts to ameliorate some of the problems with the standard. These provisions would hold that achieving specified changes of tariff classification or, where impossible, meeting the criteria noted in the text, above, would result in the assignment of origin to the situs country. See "Proposed Customs Regulations Amendments Regarding Rules of Origin Applicable to Imported Merchandise," 56 Fed.Reg. 48448 (Sept. 25, 1991).

Change of Tariff Classification

Definition

The use of the tariff nomenclature, which is designed to provide for each article in one and only one category, to reflect the creation of different articles of commerce has in recent years served as an alternative to substantial transformation. The widespread usage of the Harmonized Commodity Description and Coding System (HS) in the last few years means that most trading nations (including all three potential NAFTA members) categorize goods based on a common descriptive structure. This origin standard (referred to hereafter as CTH), as generally applied, would assign origin to the country of processing of foreign inputs where the tariff classification of those inputs, as entered, changes as a result of the processing, so that the ultimate article is classifiable in another provision. CTH serves as the basis for representing substantial transformation in both the EC's origin standard and the CFTA preference rule, as discussed in more detail below.

Application

The mechanics of the rule appear to be straightforward: goods entering country A are classified for tariff purposes, and are brought into that country for processing or manufacturing (whether or not combined with goods of country A). When the ultimate product is exported to country B, its customs officials determine the classification of that product. If the applicable provision differs from the initial finding in country A, in simple terms, origin would be assigned to country A.

Implications

This method of ascertaining origin/preference presents the advantage of relying not only on previously adopted tariff nomenclature but also on an established body of more or less objective principles for tariff classification. As such, it is simpler, more objective, and more likely to be administered in a predictable, consistent manner. With many trading countries now utilizing the HS nomenclature structure in customs tariffs (with a more or less comparable interpretation), it has become more realistic to contemplate using CTH as an origin/preference standard. Also, as noted above, changing an article's tariff category does implicitly represent the creation of a different article, because each imported article is classifiable in only one provision. Some documentation to verify the tariff classification of the original imports is likewise available, either from appropriate customs authorities or from private sector records.

However, several significant deficiencies exist as to this standard as well. As discussed below, the negotiators of the CFTA had these and other problems in mind when preparing the rule of preference ultimately adopted.

(1) Because the tariff nomenclature was not drafted with a view toward this potential application, different product sectors or stages of manufacture (having greatly differing levels of tariff detail) would seem likely to be treated in inconsistent ways. Also, the types, costs, and complexity of processing that are necessary to cause tariff shifts varies from one product area to another. In some cases, considerable and expensive processing may not cause a tariff change, because of the scope of an HS heading, but a substantial transformation may indeed be found to have occurred.[94]

(2) Customs officials must effectively make at least two tariff classification decisions—one or more for inputs and another for the finished product. If the customs authorities of country B, in the hypothetical illustration above, disagree with country A's tariff classification of the foreign materials or components, the importer may find unexpectedly that his goods do not qualify for the contemplated status or benefit.

(3) For some goods, because applicable tariff provisions encompass assembled and unassembled goods, or goods and their parts, origin cannot be determined based on CTH.

(4) The extent to which inputs must change classification must be specified, and any such standard is inherently arbitrary. If all third-country inputs are required to comply (in general terms or under a CFTA-type enumeration), many goods cannot achieve a change of origin, or importers may find record-keeping costs exceed potential duty benefits. If not all foreign inputs must comply, much of the predictability derived from such a rule is lost. It would not seem reasonable for the origin of goods to change based upon a CTH as to a single screw, but use of a *de minimis* standard might present other administrative and interpretative problems.[95]

[94] This fact is often overlooked as a source of practical difficulties for business interests trying to qualify goods under the CFTA. For example, some chemical compounds can undergo significant value-added processing that would, for MFN purposes, be considered substantial transformation, but because the goods do not change tariff classification, and involve neither "parts" nor "assembly," cannot qualify for CFTA status even after the end of the transition period.

[95] In the CFTA context, such a standard would mean that some small percentage of foreign inputs would not be required to change tariff classification or incorporate sufficient CFTA content to qualify under the agreement's rule.

Value-based Standards

Definition

Value criteria, while ordinarily thought of as involving only the concept of "value added," may also take the form of value-threshold or value-content minimum standards or be phrased as maximum foreign-content limits. In such instances, depending on the facts and the nature of the goods, the article concerned may be broken into its constituent components or materials, and/or to stages of processing or manufacturing. A value analysis is then undertaken for each such element, so that as to each contributing country there may be a comparison against a set figure. If written as a minimum content test, like that of the CFTA, goods are deemed to originate or to qualify for a preference if the value attributable to the country claiming origin reaches the chosen figure. If a maximum foreign-content figure is established, as is the case with the U.S. insular possessions preference, goods originate or qualify for benefits unless the discernible foreign content exceeds the chosen limit. A value-added standard may require a comparison between the value contributed by country A and that contributed by country B, resulting in the assignment of origin to country B if its contribution to the ultimate product reached the chosen percentage figure.

Application

In the United States, two types of value-related rules have been enacted in order to narrow the scope of goods that, although substantially transformed in the pertinent country, will be afforded tariff reductions or eliminations. One such standard, setting the maximum permissible foreign content in goods for which preferential treatment is being claimed, is found in general note 3(a)(iv) to the HTS, for products of insular possessions of the United States.[96] Such imports cannot contain foreign (third-country) materials constituting by value over 70 percent of the total import value of the goods (50 percent for articles covered by the exclusions from the CBERA program). Customs regulations provide that any shipment valued over $100 for which such duty-free entry is sought must be accompanied by a certificate describing the goods and indicating their value, and that a comparison be made between the "actual purchase price of the foreign material" (excluding MFN duty-free goods) plus the cost of transportation to the insular possession and the "final appraised value in the United States." (19 CFR sec. 7.8) Additional verifying information, in the form of a special Customs invoice, must accompany most shipments of dutiable merchandise valued over $500.

Value-based standards based upon direct costs of processing are employed in the GSP, the CBERA, the Israel FTA, and to a more limited extent in the CFTA.

[96] The test applies to goods that are not wholly obtained or produced in the insular possessions or made entirely from materials or components of United States origin.

The CFTA standard will be discussed in greater detail in the next section of this chapter. The other programs incorporate statutory, broad enumerations of eligible direct costs of processing and require that, in sum, 35 percent of the entered value of goods for which a preference is claimed be composed of (1) materials or components the product of the country in question plus (2) such permissible direct processing costs. In addition, the goods must have been substantially transformed in a beneficiary country. In the case of many claims for benefits under the GSP, third-country inputs must first have been substantially transformed in the designated beneficiary and then used in the manufacture of the ultimate article—the so-called "double substantial transformation" test.

Implications

On the surface, both types of value standards would seem more objective, predictable, and controllable than substantial transformation, and more likely to avert pass-through operations.[97] These standards are familiar to both government and private sector parties, and may represent to the latter an approach that limits the exercise of government discretion while providing some flexibility to business. In addition, international and domestic legal regimes provide guidance as to valuation and appraisement; recourse to the courts and to dispute settlement procedures is available and interpretative rulings are thereby provided. Last, because of the wide usage of value-related criteria in many trade programs, it may be difficult to obtain acceptance of a preference standard having no such provision.

However, among the readily apparent problems with these rules are the following:[98]

(1) With respect to complex industries, with multiple tiers of suppliers and large numbers of both related and unrelated firms involved, a value-based standard faces the general roll-up problem, more fully explained below in the detailed discussion entitled "Roll-up".

(2) The figures on which determinations are based are in the accounting records of the firms that make or process the goods, but such firms may not be the importers of record, thus posing tracing and verification problems where multiple-tiered manufacturing activities are involved.

(3) There is a potential for extreme shifts in value and costs as currency exchange rates fluctuate. Even a relatively small change could affect the outcome (as in determining preference eligibility) under such a standard. Moreover, the same product moving from country A to country B may not be treated in the same fashion as an otherwise identical one moving from country B to country A, given cost differences in the two.

(4) If a single value standard is used in a rule, a level that may be employed to protect one industry or permit adjustment, as well as encourage investment in suppliers thereto, might for a second industry be so high as to effectively prohibit the second industry's goods from qualifying for the preference, by virtue of the production processes involved, the nature of the goods, or the products' degree of complexity. This factor has significant consequences, in terms of eligibility, where the products involved cannot for some reason be produced in a participating or beneficiary country. Such standards have different implications for integrated and nonintegrated operations. Also, the cost and value of significant materials or components may vary considerably over time. Last, too high a value-content requirement may have the effect of prohibiting or limiting new foreign investment in production or the expansion to new products or models in a country, because such start-up operations tend to rely on significantly higher levels of foreign/parent country content in early years. To the extent this situation would constitute a disincentive toward greater competitiveness for a domestic industry, there could be long-term adverse effects on employment and consumer prices.

(5) Because such rules, where employed in a bilateral or multilateral agreement, are negotiated, the end result may not be equivalent treatment by the parties involved—especially where production and labor costs differ markedly among such countries. Value threshold standards, in particular, present difficulties in verification through layers of manufacturing, problems of transfer pricing where related parties are involved, possible differences resulting from varied application of accounting standards, cost allocation complexities, and ambiguous "direct costs of processing." It is likewise extremely difficult for negotiators to enunciate all-encompassing lists of allowable costs in terms that are clear and that reflect business and accounting practices.[99]

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[97] One submission indicated that both substantial transformation and change of tariff classification are very subjective standards, and that value standards were preferable.

[98] See below for a discussion of value-related problems especially notable with respect to the automotive sector.

[99] Several firms contacted by the Commission indicated that provisions in the NAFTA (unlike those negotiated for the CFTA) should be designed to capture or count inventoriable costs already accumulated in their records, subject to independent audit and segregated from general and noninventoriable period expenses. In the industry's

(6) Auditing the books of both a claimant firm and its suppliers, where necessary, presents serious administrative burdens on customs officials and record-keeping burdens on firms. Over time, the effectiveness of the rule of preference may be undermined if companies disregard the possibility of audits or, at the other extreme, are so burdened by audit and compliance costs that they decide to stop utilizing the preference program. These choices, occurring well after the negotiations on such an agreement are concluded, pose considerable economic and policy problems for all affected interests.

Critical Processes or Components

Definition

This alternative method for assigning origin focuses on the manufacturing process for particular goods and/or on the major parts or subassemblies involved in their manufacture. The test may be used either as the major determinant of origin or as a supplement to any other method of assigning origin.[100] Under this type of standard, if it is not easy or possible to ascertain the last country of significant processing or manufacturing, the goods may be deemed to originate in the country that accomplished a specified process or supplied specified components.

The suggested "key components" approach implicitly relies on processing (perhaps in addition to a requirement of change of tariff classification). With this type of standard, origin would be assigned to the country supplying one or more particular major parts or subassemblies, such as an engine, drive train, or body of a vehicle. In effect, this methodology represents a "fine tuning" of a value-based standard, targeting those physical elements that account for a large percentage of the overall cost of the vehicle and recognizing the processes involved.

The country that carried out the enumerated process (or the last significant process) may be viewed as the appropriate choice for the assignment of origin, as opposed to the country of most significant processing, for two reasons: it may have the most direct economic interest in the goods (or at least in their subsequent dutiable status), and the onerous process of ascertaining the major contributor is avoided. While a value-based standard could be met by the addition of many small parts to a bundle of production costs, a "key components" rule might be more likely to result in added investment in or continued operation of production facilities turning out significant pieces of the finished goods. If obtaining a tariff preference is deemed sufficiently valuable, firms not able to produce the specified components in an FTA country might be encouraged to purchase them from a qualifying North American supplier instead of importing them.

Application

Such a rule can be based on enumerations of processes, by industry sector or HS subdivision (section, chapter, or even heading), that are considered of sufficient significance to justify a change of origin for the pertinent imported components or materials—from their country of export to the country of processing.[101] These enumerations can take into account variations in the types and complexity of production operations from industry to industry, and have the benefit of being understandable to businessmen involved with these operations. They may be drafted based upon a review of both actual firms and the tariff nomenclature. Once the list of processes that will be deemed to confer origin is developed, it is applied to goods in trade; the list may also serve as a guideline in business planning, helping to determine the appropriate production patterns and locations needed to obtain or avoid the finding that origin should be assigned to a particular country.

Implications

While this option is used in some countries for certain purposes,[102] it has been criticized on several grounds. Among them are the extremely complicated information-gathering task involved, the potential for discrimination or abuse in the processes chosen for or omitted from the listing, the highly technical and often proprietary nature of modern manufacturing, the differences in processes (and the value contribution each represents) from industry to industry, and the likelihood that any enumeration cannot be kept current.

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99 *Continued*

view, this would promote consistency and would facilitate administration (while avoiding dual sets of books or costly accounting or inventory changes). Some ambiguity remains as to plant support services, such as communications, accounting, finance, and similar functions; these areas could be addressed by negotiators and drafters for greater clarity.

[100] The critical processes test has been in use in the EC's MFN origin rule for some years as a supplemental standard to change of tariff classification, and has since been considered by government officials and the private sector to be an alternative methodology for origin/preference standards.

[101] For example, a rule could hypothetically state that the process of grinding a mineral substance into a powder would always result in origin being assigned to the country where the grinding occurs.

[102] The EC uses lists of processes that will and will not confer origin to supplement its basic rule of origin, which relies on change of tariff classification. This approach, while sometime complex, means that if a particular article is classifiable in one tariff category regardless of the operations that may be performed upon it, a process involving significant value-added can result in acquisition of origin. Processes are also employed in some countries' anticircumvention rules in the antidumping context, to deal with multi-country production operations and with screw-driver assembly operations (or other operations deemed to have been set up to avoid dumping duties, rather than for economic or other reasons).

The chief business objections expressed to the Commission have consistently involved allegations that such a standard limits operational flexibility, and that policy considerations would bias the development of the enumeration. It is also asserted that the adoption of such a list, or more specifically of "key components" needed to acquire origin, would discriminate against preexisting firms with committed investments, and/or against smaller firms incapable of investing enough to produce the key components required.

Still, on the positive side, the process approach (like substantial transformation) relies more on observable or physical characteristics of the goods themselves and the ways in which they are created, than on additional records that might not otherwise be compiled, are costly to maintain, and may be susceptible of some manipulation to establish eligibility for a preference. If such a rule of origin/preference stated that "a vehicle originates in country A if final assembly plus the manufacture of the engine block and the assembly of the drive train occurs therein" (as a completely hypothetical criterion), both the industry and customs officials could more readily ascertain whether country A could claim origin.

Such a standard may be more useful than others in meeting particular policy objectives; for example, if it were decided that specified high-technology, high value-added components should be produced in North America to qualify for a tariff preference, it may be inadequate to rely on value-based or change of classification criteria. In addition, if the finished product is evaluated to ascertain what elements or characteristics give it its essential character (the basic principle of tariff classification under the HS), it might be said that the "key components" intrinsically do so, and at the same time represent a significant portion of the finished goods' value.[103]

Options For A NAFTA Rule Of Origin

Introduction

In order to provide an additional perspective into the complexity of the automotive industry and the difficulties inherent in developing a workable and practical rule of origin—that is, one that is both administrable and effective—it is useful to review the assembly process itself. After establishing the real-world framework, some alternatives for dealing with this industry are discussed. Prominently mentioned as possible choices are a rule more or less modeled upon the CFTA regime, and a rule applying the same criteria as are utilized in administering the corporate average fuel economy program. In addition, while not discussed at that level of detail, it should again be observed that rules employing new standards or combinations of existing methodologies could be negotiated for NAFTA.

It must be noted that, because this rule is critical to establishing eligibility for benefits under the agreement, it must be formulated in such a way that a balance is achieved between each party's import and export interests. That is, the level of rigor imposed has a dual impact; high standards to protect a party against the effect of imports serve to limit the extent to which its exports can qualify for tariff benefits. Moreover, it would seem desirable to strike a balance between too detailed a structure, complicating efforts to apply it and perhaps influencing business transactions, and too general a standard, encouraging diversion or circumvention.

Last, an important feature of such an international-level origin/preference standard is its administrability by all of the customs officials concerned. This factor would appear even more crucial in terms of any rule negotiated under NAFTA, or any other agreement involving both developed and developing parties. If the agreed standard is too complex or requires too much documentation and inspection, customs officers in developing countries with simpler legal regimes and differing interests may find it impossible or difficult to implement.

The Motor Vehicle Assembly Process

Sequence of Operations

Although the sequence of the motor vehicle assembly process varies significantly among different assembly plants, industry experts generally agree that the production process begins with the welding together of a number of steel stampings to create an underbody to which body stampings and other components are attached. After the underbody has been welded together, side and roof stampings are welded to the underbody to create the shell of the vehicle. (Certain automobile assembly plants have integrated stamping facilities at the assembly plant to improve the efficiency of the manufacturing process.) The car body is then washed in a phosphate bath to clean the surface of any debris, submerged in an anti-corrosion solution, usually zinc phosphate, and painted. The body is then sent, via a conveyor, to the trim line, where the hard, and then soft, trim is installed. (Certain automobile assembly plants will install only a portion of the trim as well as the suspension before installing the engine and transmission.) The hard trim often includes the wiring for the electrical components, instrument panels, steering columns, weather stripping, body glass, radio, air conditioning, and heater; soft trim includes the carpeting, seats, door pads, ceiling insulation, and upholstery.

Next, the car body is fitted with the gas tank, catalytic converter, muffler, tail pipe, and bumpers.

[103] It was stated during interviews with North American automakers (Oct. 1991) that, in a typical assembly plant, 75 to 80 percent of the cost of a vehicle is attributable to materials and 15 to 20 percent to final assembly.

While this is happening, the engine is being "dressed" on a feeder line sub-assembly system. During "dressing", the transmission, coolant hoses, alternator, and other components are assembled onto the engine. After the engine is "dressed", these items are often installed with the suspensions, front and rear, into the car bodies. In another feeder line, tires are computer-matched to the appropriate wheels. Once the tires are mounted onto the wheels, the wheel-tire assemblies move through a special chute and roll out to be installed onto the car body. After the wheels are installed, the car is considered complete.[104]

Relative Costs of Manufacture

In a "typical" U.S. assembly plant, 75 to 80 percent of the costs are attributable to materials and 15 to 20 percent are attributable to final assembly.[105] The following chart provides percentage estimates represented by each major component/material in an average vehicle's total cost of materials:[106]

Component	*Estimated percentage of total material*
Power train	
Engine	14.51
Transmission	7.40
Other	8.04
	29.95
Stampings	
Body	16.31
Other	2.68
	18.99
Electrical	
Radio	1.58
Air Conditioner	2.23
Wiring	1.40
Heater	1.04
Other	5.31
	11.56
Suspension/Steering	
Axles	1.91
Steering	1.14
Suspension	1.73
Other	3.47
	8.25
Glass	1.95
Hardware	2.80
Rubber	
Tires	2.83
Other	1.23
	4.06
Soft trim	
Seats	2.57
Other	3.96
	6.53
Wheels/Brakes	3.46
Other parts	5.13
Paint/metal	.73
Other	5.96
	6.69
Other	.65
Total cost of materials	100.00

[104] *Making the Car*, Motor Vehicle Manufacturers Association, June 1987, pages 28-32.

[105] USITC staff interview with North American automakers, October 1991.

[106] Compiled from information provided by the Motor Equipment Manufacturers Association.

The CFTA Preference Rule Model

Basic Provisions

In General

As the first detailed, bilateral origin/preference system adopted at the international level, and one departing from the traditional legal approach of both countries, several aspects of the CFTA rule merit specific analyses. As a general matter, this rule was designed to reflect the concept of substantial transformation by means of the change of tariff heading methodology, with specified value standards added or used in particular circumstances. The deficiencies of the pertinent criteria underlying this rule—CTH and value standards—noted in earlier sections of this chapter apply here as well. Because of the complexity of the standard, as written in the agreement, the discussion attempts to set forth the fundamental elements of the rule.

Goods Originating in the Territory of a Party

According to the Agreement, in article 301, goods are considered to originate in the territory of one of the parties if: (1) they are wholly obtained or produced in the territory of one or both parties, or (2) they are transformed in one or both parties in a way that effects an enumerated change in tariff classification, or that meets any other specified requirements where no CTH occurs. Particular minor operations, including packing, combining, diluting with water or another substance that does not materially alter the characteristics of the goods, and processes whose object was to circumvent provisions of the CFTA, will not give rise to a finding that the article originates in a party. Customary quantities and values of spare parts, tools, or accessories delivered with appropriate goods and forming part of the goods' standard equipment have the same origin as the goods. To receive benefits under the CFTA, the goods cannot enter the commerce of a third country or undergo any operations beyond transport and preservation. The above discussion is set forth, in terms of a firm's step-by-step analysis of their goods' eligibility, in appendix C to this report.

Change of Tariff Classification

Annex 301.2 to the CFTA sets forth the applicable rules for the CTH determination, based upon the HS. It provides that, whenever the assembly or processing of [foreign] goods in one or both parties causes those goods to move from one tariff provision to a second from an enumerated list of "tariff heading combinations," those goods are deemed to originate in the territory of the party, so long as the subsequent processing criterion noted above is not violated. Some of the specified combinations are at the chapter level ("a change to chapter 31 from any other chapter"), and others are based upon listed 4- or 6-digit headings or subheadings ("a change to subheading 1519.19 from any other subheading"). The ability of goods to comply depends in part upon the exact words of the tariff provisions and their degree of descriptive detail. The rules also include a provision to the effect that a specific provision, pertaining to the heading or subheading applicable to the goods in question, is to be utilized over a general one, such as a "change of chapter" clause.

Value-Related Criteria

If goods incorporate foreign materials or components, the rule includes multiple provisions intended to determine if benefits of the agreement should be afforded. Among the concepts employed in this respect are "direct costs of processing or direct costs of assembling" criteria and the computation of the value of originating materials. Related to both of these is the concept of roll-up. Each will be described and its implications identified.

Direct Costs of Processing

Direct costs of processing enter into the analysis in two respects. First, if a CTH fails to occur because (1) the tariff provision covering the final product also covers its unassembled or disassembled foreign components, or (2) the tariff provision covers both the finished article and its foreign parts, these final products will not be viewed as "originating." However, if the value of originating materials used or consumed to make the ultimate product, plus the direct cost of assembly in one or both parties, is not less than 50 percent of the value of the goods being exported, and they meet the "no subsequent third-country processing" test, they will be considered to "originate" and therefore be eligible for the preference.

Second, an enumerated tariff change may include one or more additional elements, based generally upon processing criteria[107] or direct costs of processing. Under the latter category, which appear in many tariff combinations applicable to assembled goods, 50 percent of the goods' export value, as they move to the second party, must represent the value of originating materials used or consumed in production, plus the direct cost of processing performed in one or both parties. Article 304 of the agreement defines "direct cost of processing" or "direct cost of assembling" as—

> the costs directly incurred in, or that can reasonably be allocated to, the production of goods, including—
>
> a) the cost of all labor, including benefits and on-the-job training, labor provided in connection with supervision, quality control, shipping, receiving, storage, packaging, management at the location of process or assembly, and other like labor, whether provided by employees or independent contractors;
>
> b) the cost of inspecting and testing the goods;
>
> c) the cost of energy, fuel, dies, molds, tooling, and the depreciation and maintenance of machinery and equipment, without regard to whether they originate within the territory of a Party;
>
> d) development, design, and engineering costs;
>
> e) rent, mortgage interest, depreciation on buildings, property insurance premiums, maintenance, taxes and the cost of utilities for real property used in the production of the goods; and
>
> f) royalty, licensing, or other like payments for the right to the goods;
>
> but not including:
>
> g) costs relating to the general expense of doing business, such as the cost of providing executive, financial, sales, advertising, marketing, accounting and legal services, and insurance;
>
> h) brokerage charges relating to the importation and exportation of goods;
>
> i) costs for telephone, mail and other means of communications;
>
> j) packing costs for exporting the goods;
>
> k) royalty payments related to a licensing agreement to distribute or sell the goods;
>
> l) rent, mortgage interest, depreciation on buildings, property insurance premiums,

[107] In one case, for certain preparations of chapter 20, such processes as roasting, freezing, or packing in water or brine will not change the origin of the fresh product. Constituent materials may also be specified, as in the case of blended fruit juices.

maintenance, taxes and the cost of utilities for real property used by personnel charged with administrative functions; or

m) profit on the goods[.]

The use of the term "including" implies that the list is not all-inclusive, so that other costs would need to be evaluated and then counted or excluded based on customs' interpretation.[108]

Value of Originating Materials

The second part of the 50-percent supplemental criterion, to be added to the direct cost of processing, is the category "value of materials originating in the territory of either Party or both Parties used or consumed in the production of the goods." The word "materials" is broadly defined in article 304 as "goods, other than those included as part of the direct cost of processing or assembling, used or consumed in the production of other goods". Thus, it would seem that anything other than the finished goods being imported with claim for CFTA preference could be considered to be "materials."

The first element of the value of these originating materials is the aggregate of "the price paid by the producer of an exported good for materials originating in the territory of either Party or both Parties or for materials imported from a third country used or consumed in the production of such originating materials." This language merits attention in two respects. First, it requires a finding of the price paid (not the manufacturing cost) of purchased inputs, and adds several supplemental costs when not already included in the "price paid": freight, insurance, packing and other transport costs; duties, taxes and brokerage fees paid in the territory of one or both Parties; waste or spoilage, less recoverable value; and assists. Second, the last clause represents the adoption of the so-called "roll-up" principle in the CFTA, and an explicit recognition that, as a general rule, a buyer of materials or goods is not expected to verify the elements of his/its "price paid." That is, a manufacturer who purchased components (which are or have qualified as "originating materials") made in a party from an intermediate supplier can count the entire "price paid" for these components, including any third-country material used or consumed (and probably substantially transformed, in the usual customs sense), in computing the CFTA content of the final product.

Under the related definition in article 304, for "value of the goods when exported to the territory of the other Party," a U.S. or Canadian producer may count the aggregate of the "price paid" (plus the same four items noted above) "for all materials, whether or not the materials originate in either Party or both Parties, . . . and the direct cost of processing or the direct cost of assembling the goods." Again, a sort of "roll-up" or "substantial transformation" regarding any such foreign materials seems to have been contemplated.

The value of foreign materials that are "transformed" into components, or of foreign parts that are "transformed" into subassemblies or goods, is effectively lost for origin and customs valuation purposes (see discussion of roll-up, below). That is, customs officials in an importing country generally assign origin and appraise merchandise based on the article before them, in its present condition, not on a constructive segregation basis to break down the composite article into its earlier inputs.[109] As a result, third country content is transformed into exporting country content, in both ordinary MFN trade and in preferential arrangements.

When a set figure is chosen and implemented as the minimum level of value to be supplied by the country of export, firms trying to operate efficiently and also obtain benefits of a particular duty status may comply by adding the minimum value needed to qualify, perhaps with a small "safety margin" as well. This may discourage some direct importations from the third country into the ultimate importer, depending on pertinent economic circumstances, duty rates, and other factors. However, by setting a fixed target, it may also have the effect of inviting creative means of appearing to comply while requiring large expenditures in government audits.

Roll-up

Description and definitions

No analysis of the CFTA preference rules can ignore the phenomenon broadly referred to as "roll-up." The roll-up of value content is of great significance in regard to the automotive industry, with its very complex corporate and joint venture relationships, broad-based sourcing, and multiple-tiered, ever-changing suppliers. In terms of ordinary MFN trade, unless a vehicle is made entirely from U.S. materials (which no longer seems to occur) there is some roll-up of foreign content and value, even among domestic assemblers, in almost every vehicle sold.

It should be emphasized immediately that under the CFTA rules, qualifying value content is computed on the basis of the location where materials or components are produced or where manufacturing or assembly occurs, but not on the basis of the ownership of the entity concerned. That is, the focus of the negotiators

[108] See below for additional discussion of this provision of the agreement, as interpreted.

[109] As has been frequently observed in submissions received in this investigation, there is a corollary concept of "roll-down" in which the value of U.S. materials that are exported for processing or fabrication but that are incorporated in nonqualifying components or parts is "lost" for purposes of being counted toward the 50 percent threshold.

was on the location and level of the economic activity involved and its resulting employment, not on whether the value is contributed by a foreign-owned or domestically owned firm or by a related or unrelated company, in view of the broad goal of encouraging investment and production in the territories of the parties.[110]

This decision embodies a recognition of the fundamental change from a national to a global economy—namely, that at some point foreign-owned entities accomplishing essentially the same activities as traditional domestic firms and at a significant level may in reality become part of the "domestic industry" for a product, by virtue of added investment, employment, and other contributions.[111] All government efforts to regulate international trade are influenced by this evolution of previous views of the scope of "domestic industry," again pointing out the need to formulate the policy objectives underlying non-MFN arrangements and to develop criteria that achieve these objectives in the business world.

In the CFTA context, imported materials or components are subsumed in the U.S. or Canadian manufacture of new and different products (either parts or finished goods), in such fashion as to represent a loss of the imports' commercial identity. The new product is then considered to have been *wholly* made in the U.S. or Canada, and the cost of the imported material is said to have been "rolled up" into the value of the finished goods.

Two types of roll-up are involved in the operations of U.S. and Canadian automakers and of their suppliers. First, internal roll-up arises either (a) as between stages of a single manufacturing/assembly process (where some firms believe "substantial transformation" of foreign material occurs, despite the absence of that concept from the CFTA preference rule) or (b) as between related parties in a vertically integrated company. In the latter circumstances, components producers may use wholly foreign inputs or a combination of domestic and foreign inputs to manufacture parts or subassemblies for sale to a parent firm or related assembler.

When these parts producers determine that their goods meet CFTA eligibility requirements and supply certificates of origin, the price charged to and paid by the parent or assembler is originating value, which the buyer can count toward the 50-percent threshold. In these instances, there is buyer/parent access to the underlying records regarding costs and sourcing, but firms are not always able and/or willing to trace such amounts back through their accounting systems.

Second, external roll-up of "transformed" foreign content arises between arms' length suppliers of components or materials, who again provide certificates of origin merely stating that the goods are CFTA-qualified, and the manufacturers or assemblers who purchase such goods. Again, the buyers can count the entire "price paid" for these materials, now considered "originating," toward the 50-percent value threshold. In these situations, goods may include a quantity of foreign content unknown to and unascertainable by a purchaser, who is unlikely to be given access to business-confidential cost and pricing data. Depending on relative levels of foreign content and eligible direct costs of processing, a particular article might comprise 100% foreign materials but still qualify for a preference.

As discussed above, the level of includable content[112] in goods for which CFTA benefits are to be claimed is increased when foreign inputs are "transformed" into "originating materials" (by accomplishing a change of tariff classification and/or in conjunction with the 50 percent value-content standard). The corollary effect of "roll-down," involving a reduction in the countable domestic (U.S./Canadian) content, also occurs, according to automakers in interviews with the Commission. In this situation, a component incorporated in a vehicle may have a significant amount of domestic content, but not enough to qualify the component as originating (in most cases, less than 50 percent). Thus, the component is attributed zero percent domestic value content in the assembler's efforts to reach the 50-percent threshold.

Prohibiting roll-up altogether in any preference rule with a value-based standard would seem inconsistent with the MFN origin rule, substantial transformation, and would appear to present almost insurmountable verification problems. Prohibiting only one type of roll-up (internal or external), on the

[110] For an analysis of value content on the basis of ownership, see the cover story entitled "Honda: Is It an American Car?" in *Business Week* (Nov. 18, 1991), pp. 105-12. The illustrated crankshaft (p. 106) is, in terms of physical characteristics, wholly of U.S. materials and undergoes wholly domestic processing. However, as the article explains, issues of keiretsu practices, transplants, transfer pricing, and antitrust compliance, among others, and their relationship to international trade regimes are of increasing interest, to both U.S. and Canadian officials. The article discusses parts purchasing patterns of the foreign-owned auto companies, asserting that many of their U.S.-based suppliers are Japanese-owned or are joint ventures involving Japan rather than U.S.-owned producers. The choices and difficulties facing U.S. and Canadian policymakers are likewise discussed.

[111] By the same token, a U.S. firm may establish operations in another country of sufficient significance to that country that it considers the U.S.-owned company to be part (or all) of its domestic industry for the product concerned. Such a U.S. firm would likely wish to be able to operate in the same fashion as a traditional firm of that host country and to be treated on the same terms. The principal problem facing policymakers arises when U.S. firms are deterred from activities in a country whose firms have undertaken and are expanding U.S.-based manufacturing.

[112] That which may be counted by a firm with respect to the final article for which benefits are to be obtained by moving from 0 percent to 50 percent originating value content.

other hand, has been described by industry officials as discriminating against the firms affected based on their corporate structure, rather than based on the goods themselves. Because of differences between traditional U.S. auto companies and newer transplants, such a discrimination would seem to have serious legal and policy implications. Nor is it altogether clear that abandoning roll-up, totally or for one such category of firms, would be of benefit to U.S. auto parts suppliers, in terms of future growth in sales. The added problem of "roll-down," with respect to domestic content that is "lost" when incorporated in nonqualifying foreign parts, further complicates any effort to arrive at a "fair" approach.

Administration of a CFTA-type preference standard by customs officials is complicated by the allowance of roll-up. Moreover, the size and general complexity of the auto industry, with joint ventures and cross-company models and sourcing, and the allowance of averaging in any form, means that there is essentially no ability on Customs' part to audit as to current trade and no ability on industry's part to change what it did as to prior output. When coupled with transfer pricing between/among related firms, the result is the extremely lengthy audits of the type faced by Honda, which require extensive resources but deal with trade in prior years. Adding these facts to the problems noted above for all value-content standards makes it apparent that such standards are not realistic or practical means of assessing the composition of goods in trade, but finding an alternative approach may be impossible.

During the Commission's investigation, information about and examples of roll-up were obtained through questionnaires and on-site plant visits. For the most part, the presentation of actual situations involving roll-up would disclose confidential business information, because it would (among other things) disclose an individual firm's sourcing, cost, and pricing information.[113] To illustrate the use and impact of roll-up without disclosing confidential business information, the Commission has constructed several *hypothetical* examples based upon its review of industry information and knowledge of industry practices and capabilities. These hypothetical situations demonstrate how foreign content may be rolled up under the CFTA.[114]

[113] Several firms did provide information on a confidential basis indicating costs for requested components, including domestic and foreign content and direct costs of processing, in replying to the Commission's questionnaire.

[114] While it is believed that situations similar to the following examples occur, it should be noted that, unless otherwise indicated, these are merely illustrative examples of roll-up and are not indicative of any specific manufacturer's operations.

Roll-up with change of tariff classification

A Canadian manufacturer of catalytic converters imports precious or noble metal, consisting of platinum, palladium, and rhodium, valued at $85, from a third country, and the metal is classified by Canadian customs officials in chapter 71 of the CCT. The same Canadian firm uses imported steel sheet (classified in CCT chapter 72) valued at $5 and adds $55 of North American content to this good, in the form of coating, substrate, seal and internal supports, end pipes, housing, and brackets. The resulting article is classifiable as a catalytic converter (classified in chapter 87 of the HTS by U.S. Customs upon importation), when the Canadian parts manufacturer sells the converter to an auto manufacturer located in the United States. According to the CFTA, products falling under chapter 87 of the HTS are considered to "originate in Canada" if the imported materials or components (in this example, both the precious metal and the steel sheet) have undergone operations that changed the tariff classification to chapter 87 from any other chapter.

In this case, both imported products underwent an enumerated tariff classification change by reason of the Canadian processing, moving from chapters 71 and 72 (applicable upon entry into Canada) to chapter 87 (upon entry into the United States). Because a tariff chapter change occurred, and no more specific enumerated provision of the CFTA tariff rules for chapter 87 existed, there was no requirement that the Canadian firm meet a 50-percent value threshold. Therefore, for the U.S. vehicle assembler's required 50-percent threshold, the converter can be considered 100 percent originating value, even though the total U.S./Canadian content in the converter is $55, or perhaps 30-40 percent of its total customs value.

	Typical cost per vehicle
Imported content:	
• Noble metal (platinum, palladium, rhodium)	$85
• Steel sheet	5
North American content and processing:	
• Coating	11
• Substrate	11
• Seal and internal supports	3
• End Pipes, Housing, Brackets	30
Total Cost Per Vehicle	$145
Total imported content - $90 or 62%	
Total value counted as North American	—$145 or 100%

One of the automakers surveyed by the Commission indicated that it imports rolled steel,

which is classifiable at importation in chapter 72. At its plant, the steel is blanked and stamped, and the firm converts the rolled steel into vehicle body parts of chapter 87. Under the CFTA, the parts are considered to be "originating" and, in effect, to be 100-percent qualifying value when exported to the United States or Canada.

Roll-up based on value content

This example, illustrated on the next page, assumes that no change in tariff classification can occur because the tariff provision for the ultimate goods covers both the goods themselves and their parts.[115] In other cases, an importer seeking CFTA benefits applies notes G and H of the CFTA rule, which allow goods to qualify based solely on a 50 percent value-content standard. Such goods will qualify where, subsequent to assembly, the goods have not undergone processing or further assembly in a third country.

The following example (shown in graphic form after this introduction) illustrates how "roll-up" can mask the actual value of domestic and foreign content of large assemblies of parts and components. In the following example, a U.S. auto parts maker manufactures an instrument cluster housing for an automobile instrument panel. The housing consists of a molded housing and printed circuits manufactured in the United States. To produce this housing, the manufacturer uses $24 worth of components imported from Japan and adds $25 worth of United States labor and North American produced components. Using the value-content formula employed by Customs, and adding direct costs of processing, the firm would compute eligibility as follows:

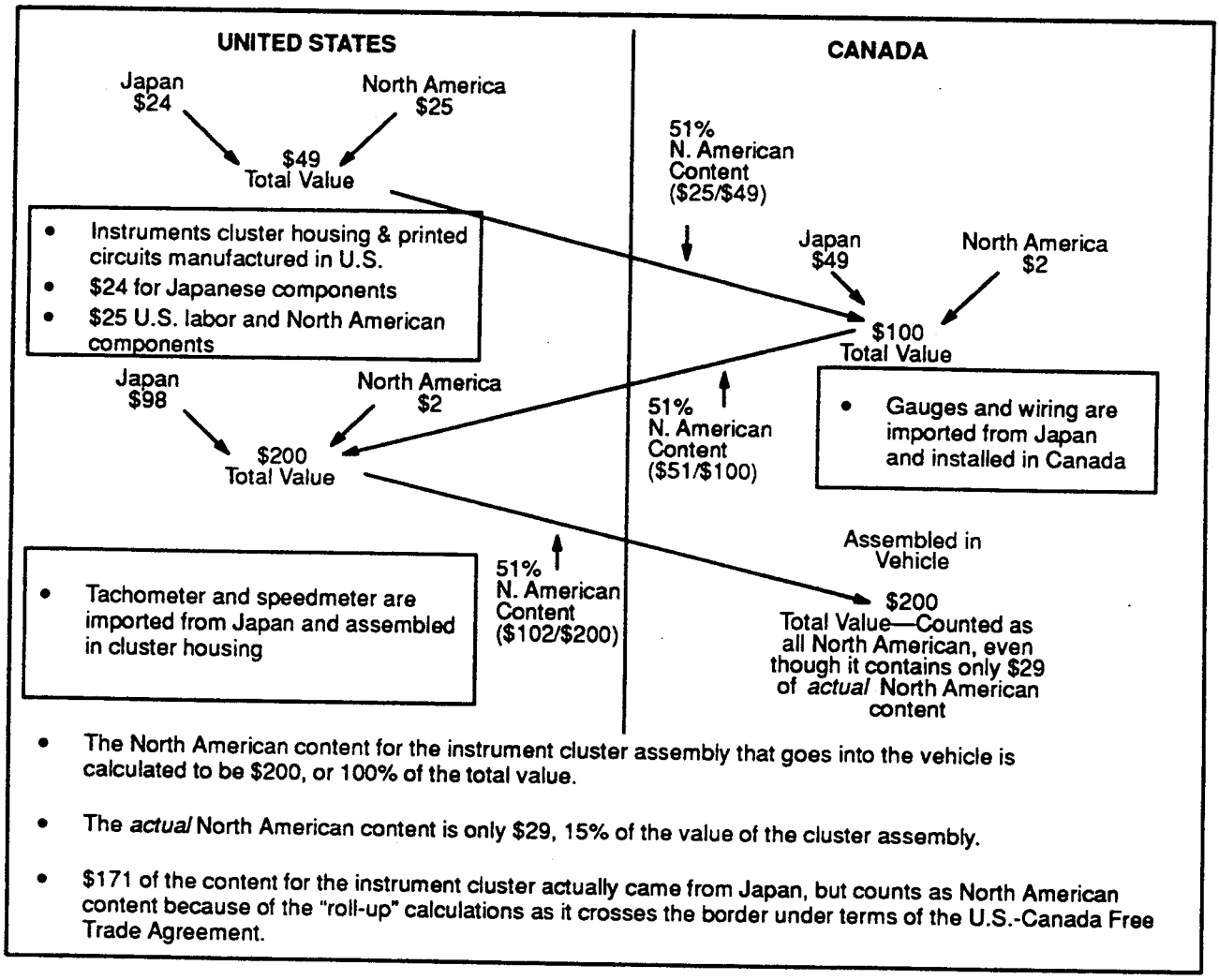
$$\frac{\textit{price paid for originating materials + direct costs of processing}}{\textit{price paid for all materials + direct costs of processing.}}$$

The assembled housing is valued at $49 and in absolute terms has a North American content of 51 percent and a foreign content of 49 percent. As a consequence the unit can be imported into Canada under the CFTA as a product originating in the United States.

In Canada, an additional $49 worth of Japanese components, such as gauges and wiring, are incorporated into the assembly. The installation of these imported components requires $2 worth of Canadian labor. The resulting partially assembled instrument panel is now valued at $100 ($49 for the original housing imported from the United States + $49 additional foreign components + $2 Canadian labor). The instrument panel assembly is then returned to the United States for further assembly. As imported into the United States, the panel has 51 percent North American content (the original $49 value of the housing + the $2 Canadian labor) and again is an eligible product under the CFTA.

In the United States, another $98 worth of foreign components plus $2 of United States labor are needed to complete the panel. The instrument panel is now ready to be installed into an automobile. The instrument panel, at the time of installation, is valued at $200 ($100 for the partially assembled housing as imported from Canada + $98 of foreign components added in the United States + $2 labor expended in the United States).

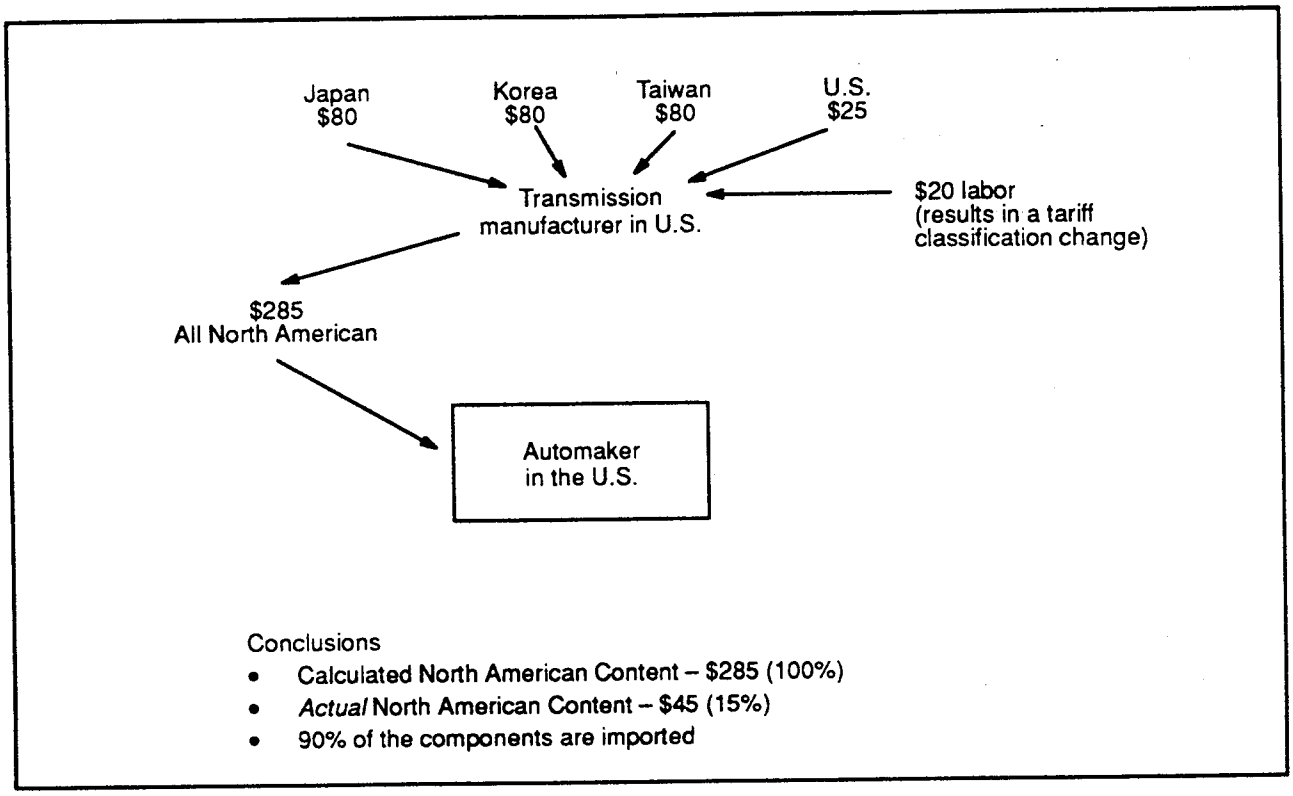
[115] The illustrated data, developed during interviews with firms in Oct. 1991, are representative of ongoing operations.



Because 51 percent of the value of the completed panel is attributable to North American value, the panel is considered to originate in the United States and 100 percent of its value is eligible for the CFTA preference (and its entire value can be counted by a purchaser/assembler toward its own value threshold). However, in absolute terms, the value of the North American content is much less. The actual value added in North America amounts to only $29 (the initial $25 of components and labor + $2 of Canadian labor + $2 of U.S. labor) or only 14.5 percent of the total value of $200.

Roll-up of major components in U.S.-assembled vehicle to be shipped to Canada

Various transmission components, $80 of parts from Japan, $80 of parts from Korea, and $80 of parts from Germany, are imported into the United States where they are assembled with U.S. components into a transmission. Two requirements must be met in order for the full value of the transmission to be considered "originating" (U.S. or Canadian) in evaluating the finished vehicle shipped under the CFTA: (1) the tariff classification for each of these components must have changed and/or the value-content criteria met; and (2) the product must be assembled in a vehicle shipped directly to the other party. In this example, assume that all of the components were found to qualify under the CFTA, and that the transmission has been sent to the U.S. automaker. Since the transmission was deemed to "originate" in the United States and the vehicle was assembled in the United States, the transmission can be considered 100 percent U.S. content when the vehicle is exported to Canada.



One automaker indicated that a subsidiary manufactures radios in North America from parts that are largely sourced from third countries. The foreign materials represent about 54 percent of the total materials cost, with the remainder obtained from U.S. and Canadian firms. Counting direct labor and other direct costs, representing about 36-37 percent of the total cost of the radio, the result of applying the value-content formula is a fractional result of about 51 percent, thus qualifying the radio as "originating." Its full "price paid" could be counted by the purchaser/assembler with respect to the vehicle as a whole.

Issues related to internal roll-up

The pricing of parts sold to assemblers is of considerable significance, because the CFTA provisions on "price paid for originating materials" effectively allow manipulations of price to affect apparent domestic content of finished goods. This factor points to added verification problems, particularly with respect to related parties. A related supplier, especially if he buys materials from a related initial fabricator, might be able to contribute more originating value to the assembler's finished vehicle by increasing the component's stated price and holding constant the level of foreign content in the component. This supplier could charge a correspondingly lower price on other components, or the parent company could rebate to the assembler a portion of the price paid in a way that would be difficult to identify.

Similarly, a third-country related supplier of a foreign-owned automaker operating in the United States or Canada could decrease the foreign content of a component (and the ultimate vehicle) and/or lower the "price paid [charged] for non-originating materials" when the component is incorporated into a vehicle by the related assembler.[116] Unrelated suppliers must price goods competitively to locate buyers, and would seem less likely to be able to change component prices for one buyer—or to influence the eligibility of the final product in the same manner as may related suppliers.

As noted above, originating value is computed by means of the following formula:

$$\frac{\textit{price paid for originating material plus direct costs of processing}}{\textit{price paid for all materials plus direct costs of processing}}$$

Transfer prices have tremendous impact on costs and profitability, are subjective in most instances, and may not permit an evaluation of actual profitability. By eliminating corporate general and administrative

[116] In addition, many firms take into account fluctuations in exchange rates and make adjustments as needed in pricing and sourcing.

expenses (G&A) from inclusion as a "direct cost of processing or assembling," the CFTA rules were attempting to compensate somewhat for transfer pricing and to avoid penalizing integrated producers.

A related problem, if a NAFTA rule were to eliminate internal roll-up, is the difficulty of defining those structures which will be treated as "related" or "integrated." U.S. Customs deems firms to be "related" if one company has 5 percent or more equity relationship in another. However, many industry officials contacted by the Commission question whether Japanese keiretsu companies can be readily identified using that standard, because the automaker and other components are often under common control of a Japanese banking or trading company.[117] Audits in such cases will of necessity be lengthy and difficult.

Industry use of roll-up

The majority of foreign-owned North American automakers surveyed and one U.S.-owned automaker use internal roll-up, to varying degrees, in determining the North American content of their vehicles under the CFTA. Two of the three U.S.-owned automakers stated that they (apparently referring to the assembly operations) "do not use internal roll-up" when calculating North American content of the finished vehicles, because they view the domestic content of their automobiles and light trucks as being very high, usually between 70 to 85 percent.[118] On further discussion, these firms indicated that related components suppliers probably did include "rolled-up" foreign value in the components' prices.

Virtually all U.S.- and foreign-owned automakers use external roll-up. Further, these automakers said that they were unable to determine or provide the "actual" or absolute domestic or foreign content levels in their vehicles or parts, respectively. They said that it would be extremely difficult to track the actual domestic and foreign content of any major assembly, let alone a complete auto or light truck, considering that an automobile consists of about 15,000 parts. The industry representatives noted that to accomplish the manufacture of major subassemblies, first tier-parts suppliers purchase components from second-tier suppliers, who in turn purchase less complex parts from third-tier suppliers, and so forth.

With respect to questions about obtaining data from unrelated suppliers, the automakers contacted by the Commission indicated that such content information and related values could not be obtained, and that they rely on the certificates of origin supplied by their suppliers. In these situations, assemblers are therefore effectively precluded from verifying whether the purchased parts comply—and at the extreme would be unable to count particular purchases toward the value threshold if there were any reason to believe they did not qualify.

[117] USITC staff interviews with North American automakers, October 1991.
[118] Ibid.

Impact of eliminating roll-up on sourcing strategies and production patterns

Firms were asked how their sourcing strategies or the location of their plants would be affected if a NAFTA rule said internally rolled-up foreign content would no longer be included in calculating North American content. Two U.S.-owned automakers initially stated that a NAFTA rule eliminating internal roll-up would have little or no effect on their corporate strategies, but later indicated there would likely be some impact on related suppliers and on component pricing. The other U.S.-owned automaker maintained that if internal roll-up were eliminated, but external roll-up continued to be allowed, the firm would have to consider sourcing certain components from unrelated vendors. In the process, its representative indicated that the company would be forced to absorb a significant cost for idled plant capacity and to lay off numerous employees in its component divisions.[119]

Foreign-owned automakers operating in the United States and Canada indicated that they were uncertain as to how an elimination of internal roll-up could affect their companies' sourcing strategies. They stated that there are many other factors which influence sourcing and production patterns, such as price, quality, and proximity to market and suppliers.

Both U.S.- and foreign-owned automakers operating in the United States and Canada stated that they were uncertain how an elimination of external roll-up would affect their sourcing and production strategies, because they do not know the "actual" domestic content of the automotive components purchased from outside vendors. They noted that vendors are required only to certify that the goods originate in the United States or Canada, not to set forth all pertinent data relating to content.

However, in Commission interviews, these companies indicated that they would likely source more components from North America if external roll-up were not permitted. At the same time, all automakers agree that the absence of external roll-up would result in a very complex purchasing and accounting system, which would track the exact percentage and value of foreign and domestic content for thousands of vehicle parts from hundreds of suppliers and would require constant monitoring and updating as engineering changes result in part number additions and deletions. It was widely indicated that this restriction would result in a costly and inefficient compliance system for vehicle manufacturers and in severe auditing complications.

Documentation

Under Customs regulations (19 CFR sec. 10.307), a claim for CFTA preference must specify on the entry summary or other document for each HTS subheading covering an eligible good the appropriate symbol prescribed by regulation; failure to make such an

[119] USITC staff interviews with U.S.-owned automakers, October 1991.

affirmative claim at the time of filing the entry summary will result in the assessment of otherwise-applicable duty rates. In addition, an exporter's certificate of origin must accompany such goods, other than informal entries and certain noncommercial importations. Supporting evidence or documents can be required by Customs, which can demand any verification deemed necessary.

As to motor vehicles, as noted above, section 10.310 of the regulations allows a manufacturer (under the CFTA or the APTA) to—

> elect to average, over its 12-month financial year, its calculation of the value-content requirement for vehicles of the same class or sister vehicles which are assembled in the same plant as provided for in the Agreement. A manufacturer must declare its election to average before the importation of any vehicles produced within the identified 12-month period.

Any such arrangement approved by Customs seems likely to continue in place until a significant change or problem is brought to Customs' attention. Because of the volume of vehicles involved, and the number of entries filed over a year, this rule would seem to facilitate Customs' day-to-day handling of vehicle trade but at the same time to limit significantly its ability to carry out ongoing verification (to the extent of available manpower) for an electing manufacturer during its year. Only at the conclusion of a financial year can the actual average value content be computed. At that point, the goods have entered the stream of commerce, the company cannot change any aspect of the production or importation of the goods, and it may face penalties if its goods are found not to have complied.

Such a rule deviates from the prevailing requirement that each entry be accompanied by all documents necessary for Customs to determine that the goods concerned qualify for the treatment sought. This requirement not only makes the information more accessible for administrative purposes but also serves as an incentive for the importer to comply with all applicable provisions of law or regulations. While the averaging standard obviously allows greater flexibility to the electing firms, it means that the quantity of goods receiving benefits of the tariff preference could be wider than was predicted and that third-country content levels are difficult to verify.

Administration

Article 303 provides for regular consultations between the parties "to ensure that the provisions . . . are administered effectively, uniformly and consistently with the spirit and intent of this agreement." Revisions based upon technological changes or "other matters" are allowed, by agreement of the parties. It is unclear whether this language has resulted in frequent or daily communications between customs officials of the two parties or in relatively infrequent consultations (perhaps at a higher policy level) involving particular problems deemed to be of especial significance.

Difficulties with the Rule

Wording Problems

Specifically, particular features of the CFTA rule seem likely to pose significant difficulties. The primary one is its complexity, both as a result of the adoption of the enumerated CTH approach and of its legalistic nature. The rule's provisions and definitions are carefully written and interdependent, but the words and relationships are not always obvious (whether or not intentionally so).

For example, many of the enumerated tariff change clauses are set forth to require a change *from* one tariff subdivision to another, while others are written to necessitate a change *to* one category from another. The effective difference between the two wordings—namely, that it is considered more difficult (in terms of the nature and extent of processing required and of satisfying Customs) to satisfy a standard based upon shifting goods into a particular heading than out of one—is not readily apparent to the average reader, even if the underlying tariff language itself is compared.[120] Nor is it clear from the agreement that any particular level of foreign inputs (all, some portion, or even one of them) in an article for which benefits are claimed must have met the tariff change or supplementary criteria applicable thereto.[121]

Other interpretative problems and ambiguities surround several terms critical to the CFTA, such as the analysis of the "price paid" for materials or components and whether sellers and purchasers have priced them at arm's length when the two entities are

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[120] The apparent explanation for this view is that, once a good is classified as an article falling into a particular tariff category, and especially if the tariff category is one covering finished goods as opposed to parts, the only way to compel a reclassification of the article is to disassemble or destroy it (returning it to the status of "parts" or "materials" or causing it to be scrap). By contrast, only small processing of or additions to goods may cause them to be viewed as "more than" the named goods of a tariff category and thus classifiable as more advanced products. This situation is largely a factor of particular physical characteristics pertaining to goods and of the pertinent tariff provisions.

[121] According to Customs, the U.S. interpretation is that *each* foreign-origin component or material must achieve one of the enumerated changes of tariff classification (and meet supplementary criteria) or qualify based upon value content. (Meeting with John Valentine, Office of Regulations and Rulings, U.S. Customs Service, Sept. 16, 1991.) Canada appears to have adopted the same interpretation, as indicated by the "Layman's Guide to Free Trade" set forth in *McGoldrick*'s (1988) two-volume compendium of Canadian customs acts. According to industry sources, this rule was espoused almost immediately after the CFTA became effective, without prior indication to the private sector.

related parties.[122] To comply with CFTA requirements would seem to necessitate that components and materials be segregated into two groups, U.S./Canadian origin and foreign origin, and be tracked through the manufacturing process to ensure a proper match between these inputs and the final exported product. For some firms this tracing is overly costly or difficult, compared to the benefits. Two possible reactions may result: a conscious choice to forego CFTA benefits (especially where duty rates on the product concerned are low), or the completion of required documentation without the actual ability to prove the necessary tariff changes or contribution.

Direct Costs of Processing/Assembling

The agreement's provisions concerning direct costs of processing have been among the most troublesome from an interpretative standpoint, but are at the same time of critical importance in establishing eligibility for CFTA benefits. The requirements as to what will and will not be deemed to be a direct cost of processing or assembling are reportedly not as clear as the trading community would like, and customs administrations in the two countries have not fully elaborated all aspects of the accounting involved. Where no clear administrative guidance is provided, the trading community may have problems complying with the rule (potentially to such an extent that certificates of origin are filed with shipments despite the fact that some firms involved reportedly do not actually compute the necessary figures for proving eligibility).

Perhaps the single problem with the CFTA rule cited by those supplying information during this investigation has been the lack of written and oral guidance by the Customs Service in the form of detailed regulations and rulings. Many industry sources indicated that, together with legal counsel, they tried to arrive at appropriate and workable interpretations of language when they began to import under the CFTA and were subsequently faced with disqualified entries or other roadblocks they felt could have been avoided. Even now, final texts of regulations have not been issued, and many issues of interpretation are unsettled.

One result of this situation has been that some firms believe that their goods are in overall compliance and pay little attention to the tracking and documentation of value required by the rule. Because of averaging, and with monthly entry summaries (rather than individual entries) being filed, firms have indicated that where they assume they use domestic content in their overall production at a level above the 50 percent minimum, they do not maintain accounting records to establish compliance in the event of an audit. At least one firm indicated that any detailed definition of costs acceptable to Customs would be acceptable, because (even if disputes as to the definition existed) there would at least be a higher degree of certainty that goods would eventually qualify.

The terms of article 304 itself present numerous questions. Some of the above cost categories appear ambiguous, such as "development costs" (development may or may not equate to or include any portion of "research and development"). Also, many costs that might ordinarily be recorded by accountants as indirect labor, allocated overhead, or even selling, general, and administrative expenses (SGA) are here legally defined as "direct" costs. Nor do all firms use comparable terminology (such as account titles) or practices in their accounting records.[123] This confusion complicates any effort to verify a firm's assertion that particular contributed elements should be counted and perhaps requiring changes in accounting or record-keeping practices. Last, the same definition for such costs is used regardless of any legal relationship that may exist among firms, so that no criteria for adjustments to costs of related parties are adopted.

In the absence of regulations, the cost provisions may sometimes be interpreted and applied in the broadest manner by the industry. For example, one producer claimed that if an auto plant does no selling, marketing or distributing, all costs incurred at the plant are allowable direct costs of processing unless specifically prohibited from being considered as such by the agreement. These aspects cannot be addressed in the context of this report, because no firm contacted submitted complete information as to its cost computation process. It is clear that a firm's interpretation of "direct costs of processing" can influence stated content levels.

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[122] It would appear that Customs has attempted, on more or less a ruling-by-ruling basis, to provide a legally consistent framework for its overall interpretation of the CFTA regime. See, for example, Internal Advice 61-90, CIE N-36/75 (HQ 087897) of Dec. 5, 1990, where an importer who claimed eligibility for automobile window guides on the basis that they were "wholly originating," although painted with foreign paint was denied such benefits on the grounds that he did not so prove. Customs stated—

> In order for the window guides to be "wholly obtained or produced" every ingredient in the plastic and the paint must be made exclusively from such extracted minerals or harvested goods in the United States and/or Canada. We do not have sufficient facts or evidence to make this determination.

(The window guides were, however, considered covered by APTA because the imported paint did change tariff heading.) Such an interpretation, while logical, does pose additional burdens on both parties and Customs, and would seem to cause confusion as to goods that for MFN purposes would be "products of Canada" but would be "foreign" under APTA or CFTA.

[123] Variations in generally accepted accounting procedures, especially with regard to firms in Mexico, and the fact that separate accounting records for tax and financial purposes are widely kept, may present severe problems if a value-added or value-threshold criteria are embodied in the NAFTA rules of preference. In addition, currency controls and changing exchange values seem likely to impair the effectiveness of such a standard.

Industry representatives mentioned examples of some costs which, they claim, may or may not be part of direct cost of processing. These examples include training, employee problem solving or quality groups, data processing, payroll administration, toolmaking, experimental or trial assembly lines, processing supplies, lubricants, protective clothing, expensed tools consumed in the manufacturing process, and computer equipment used to run the manufacturing equipment.

A bigger difficulty has reportedly involved significant disputes as to the meaning of the language "costs directly incurred in, or that can reasonably be allocated to" and of the word "including". There have been differences in opinion between industry and Customs as to (1) whether the enumeration is all-inclusive, and (2) whether costs outside that list, or that are not clearly shown by existing accounting structures, that firms consider "reasonably allocated" to production may in fact be counted toward the 50-percent standard. In addition, because no detailed standards have been finalized to date, firms have asserted that they have been adversely affected by improper retroactive interpretations by Customs. These companies indicate they are being audited in relation to 1989 and 1990 shipments despite efforts on their part to apply the agreement's language in a reasonable manner.

Application by Customs Officials

Uniform application of the CFTA rules of preference can also be impeded by differences between national implementing legislation and by varying interpretations by customs officials.[124] A chief example may be found in a change in wording reflected in the U.S. statute that has been interpreted by Customs in such fashion as to narrow the apparent intent of a CFTA provision. The agreement sets forth, in annex 301.2:3, two instances where CTH can fail to occur and states that in such cases the goods shall not be treated as originating in a party.

In paragraph 4, it then provides that "[n]otwithstanding paragraph 3, goods[125] shall nonetheless be considered to have been transformed in the territory of a party and be treated as goods originating in the territory of a party" if the value test and the no-third-country processing rule are met. The opening clause implies an intent to provide a second means of establishing origin; that is, both goods covered by paragraph 3 and goods for which an importer can prove eligibility on a value basis would seem to be within the purview of paragraph 4. However, as reflected in section 202(c)(3) of the U.S. statute,[126] only those assembled goods for which a CTH is impossible by virtue of the tariff nomenclature could establish eligibility by value.

This difference has affected two classes of merchandise. First, where the negotiators did not include the combination of tariff provisions applicable to a product and its inputs, the product can never qualify for reduced duty or duty-free entry despite the fact that (under substantial transformation) it is a product of Canada for ordinary customs purposes.[127] Second, for some tariff headings, inputs that are not considered "parts" for "assembly" fall in the same category as the ultimate product, and no amount of processing can change the tariff classification. Because these situations are not described in paragraph 3 (or its corresponding U.S. statutory provision, section 202(c)(2)), the affected goods can likewise never obtain CFTA benefits in the United States, again despite the fact that the operations concerned are viewed as accomplishing substantial transformation.

The extent to which either situation applies to any goods in the automotive products sector is not known, and would be extremely difficult to ascertain (because of the size of the automobile and automotive parts industry and the number of ports of entry involved). However, it would be a misstatement to say, even at the end of the transition period, that all goods that would for MFN purposes be "products of Canada" will receive duty-free entry into the United States under the agreement.

Vehicle Provisions

Specified Criteria

The tariff change list for purposes of section XVII of the HS (vehicles, aircraft, vessels and associated transport equipment) is set forth below (omitting one provision solely concerning vessels):

1. A change from one chapter to another.

2. A change to any heading of this Section (other than a heading within the groups 8701-8705 or 8901-8905) from another heading other than a parts heading.

3. A change to any heading of this Section from a parts heading; or within any heading, a change to any subheading from a parts subheading; provided, that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party.

[124] While the United States includes tariff enumerations at the 8-digit (national) level, Canada's are set forth at the 2- to 6-digit (international) levels. The extent to which these differences result in varying treatment is unknown, and would require considerable and lengthy information-gathering beyond the time limit provided for this study.

[125] It may be observed that the use of "goods" implies that paragraph 4 can cover the finished/exported product, as well as materials which have undergone processing and for which "originating status" is being sought.

[126] Public Law 100-449 of Sept. 28, 1988, the United States-Canada Free-Trade Agreement Implementation Act of 1988, 102 Stat. 1851, at 1857.

[127] Unless additions to the CTH enumeration are negotiated and agreed to by the two parties.

4. A change to headings 8701-8705 from any other heading; provided, that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party.

Other enumerated combinations of tariff heading changes may apply to imported materials or other inputs used by automotive parts manufacturers to produce parts or subassemblies for which certificates of origin must be supplied, depending on the respective tariff classifications of such goods.

Certification

The CFTA certification procedures as to value content, including the above vehicle-related value standards, have been described as confusing and cumbersome. One General Motors official has indicated that the CFTA rules are so complicated that many importers and exporters do not utilize the program. This official reported that such certification is required for "each product of each supplier sold to each customer which certifies the county of origin for that product. If the product is changed even slightly, a new certificate must be issued," according to the official. Thus, an importer is reportedly faced with endless paper work and is often required to duplicate very similar transactions.[128]

Relationship to APTA Eligibility

Under chapter 10 of the CFTA, on trade in automotive goods, the legal relationship between the CFTA and the bilateral auto pact is defined. Article 1005 provides that the CFTA rules of origin apply to *all* "automotive goods imported *into* the territory of *the United States*," and (rather more narrowly) only to "automotive goods imported *into* the territory of *Canada under this Agreement*."[129] Canada is thereby afforded the legal right to retain its own regime under the auto pact, which waived customs duties for approved, enumerated manufacturers showing that substantial costs of processing are attributable to Canada.[130] On the U.S. side, the CFTA and APTA qualifying criteria are identical for all firms.

[128] *Complicated Rules of Origin Set by FTA Discourage Exporters, GM Official Says,* 6 Int'l Trade Rep. (BNA) No. 41, at 1355 (Oct. 18, 1989), interviewing Terry McBride, Manager of Customs for General Motors of Canada, referenced in Note, "United States Exports with a Japanese Label: Potential Effects of EC '92 on Automobiles Manufactured by Japanese Companies on U.S. Soil," 24 *Geo. Wash. J. of Int'l L. & Econ.* 623 (1991).

[129] Emphasis supplied.

[130] For a full report on the pre-auto pact Canadian and U.S. legal regimes and the implications of the pact, see the report of the Commission to the House Ways and Means Committee on H.R. 6960, the Automotive Products Trade Act of 1965, April 23, 1965).

The principal differences in practical terms between the two programs are that (1) duties under the auto pact are immediately eliminated, while duties are being reduced in stages under the CFTA,[131] and (2) if a firm desiring to import into Canada is not on the list in annex 1002.1, it must import under the CFTA (meaning that it must meet the 50 percent content standard), but firms on the list can use either method.[132] Whenever there are variances in both the applicable external duty rates and the origin/preference criteria in such a bilateral context, diversion and deflection of trade by outside firms seems more likely to arise.

Qualifying Firms

Other provisions of chapter 10 of the CFTA reflect the negotiated differences in treatment to be afforded by the two parties, although the language is not easy to interpret. The approved manufacturers list set forth in annex 1002.1 creates three groups of firms, essentially described as the old Canadian auto pact list (part one), the list of foreign transplants located in Canada (part two), and a list of four new companies (part three).

The part two firms are those that had already qualified for export-based waivers of Canadian duties before the CFTA and those that were "reasonably expected to qualify by the date of entry into force" of the CFTA. The part three firms had qualified for or were expected to qualify for production-based waivers of Canadian duties. The part two firms can continue to receive duty waivers until the close of 1997, but as of January 1, 1989 were precluded from counting duties paid on exports to the United States from the totals being claimed. The part three firms' waivers, to the extent the duty waived is based on Canadian value added in Canadian products, terminate by no later than the close of 1995.

As to part one firms, articles 1005 and 405 provide that performance requirement-dependent duty waivers can continue, even beyond January 1, 1998.[133] These are the only companies allowed such treatment after

[131] It should be noted that eligible firms exporting to Canada under the APTA may enter other APTA-covered goods from third countries into Canada free of duty as well. The United States has no comparable duty provision.

[132] According to industry observers, the changes made by the CFTA have "already diminished foreign investment in Canada's auto industry [citing *U.S.-Canada Pact Has Chilled Auto Investment Climate in Canada, Auto Parts Industry Says,* 6 Int'l Trade Rep. (BNA) No. 10, at 296 (Mar. 8, 1989)]. Unless the FTA rule-of-origin provisions are modified to ease certification and to place the same local content requirements on automakers, regardless of their pre-FTA standing, significant trade diversion will continue because the Japanese will not open auto plants in Canada. Also, imports into Canada and exports from Canada are likely to decrease." See Note, "United States Exports with a Japanese Label: Potential Effects of EC '92 on Automobiles Manufactured by Japanese Companies on U.S. Soil," 24 *Geo. Wash. J. of Int'l L. & Econ.* 623 (1991).

that date (unless part one is modified). Thus, whether a firm uses CFTA or auto pact provisions to obtain duty reductions or eliminations depends on its status in Canada, its content levels, its sourcing changes for CAFE purposes, the duty rate applicable, and many other factors.

Averaging

Paragraph 2 of article 1005 allows a manufacturer to elect to average over a 12-month period for each class of vehicles or sister vehicles assembled in the same plant (whether or not for export to the other party), as an alternative to value calculations by vehicle. That election would substantially widen the possible limits on car-to-car variances in foreign and domestic content on autos traded between the parties.

This provision was reflected in U.S. law by means of a grant of authority to the Secretary of the Treasury to issue regulations on the averaging of value content (section 202(e) of the CFTA implementing legislation). Customs regulations specify that manufacturers importing motor vehicles under the CFTA can average over their respective 12-month financial years and must file quarterly and annual reports on vehicle content with the Customs Regulatory Audit Division in Detroit. (19 CFR secs. 10.84, 10.310-311) Under section 10.310(c), a firm electing to average need not file certificates of origin with any shipment but instead are directed to attach a copy of its declaration of election to average. Thus, it is only possible to examine and verify the value content of any shipment after the fact, with a complicated audit trail for Customs to follow. Individual shipments could deviate significantly from the figures submitted to Customs as a firm's average.

The regulations also authorize a Customs officer to accept, in lieu of a certificate detailing the vehicles' content, a form from firms not electing to average for value-content purposes stating that third-country materials were included but that—

> It is impractical to ascertain the exact number of units of third country material, if any, used in its production or the price paid (and other costs required to be included in the price paid) of such materials but to the best of (my) (our) (its) knowledge the materials are described (sufficient for tariff classification purposes) as follows:_____.

[133] For an analysis of Canadian content and production/sales performance requirements, see the Commission's report to the House Ways and Means Committee on H.R. 6960, the Automotive Products Trade Act of 1965 (April 23, 1965). A bound volume containing the report and supporting documents, including Canada's orders in council implementing the auto pact, may be found in the Commission's library. The manufacturers in Canada were assigned differing required levels of Canadian content and processing costs based on a formula taking into account net sales and other factors.

Commercial invoices covering the goods must be attached, providing basic information about imported inputs.

Corporate Average Fuel Economy Standard

Background

Following the 1973-1974 oil embargo and energy supply crisis, the U.S. Congress enacted the Energy Policy and Conservation Act of 1975 (EPCA)[134] to reduce U.S. dependence on foreign oil by enhancing supplies of fossil fuels through increased production and energy conservation programs. EPCA established a major program to bring about improved motor vehicle fuel efficiency.

Title III of EPCA added Title V to the Motor Vehicle Information and Cost Savings Act (MVICSA).[135] Title III required the Secretary of Transportation (NHTSA)[136] to establish mandatory average motor vehicle fuel economy standards for passenger automobiles[137] and light trucks.[138] These standards are referred to as corporate average fuel economy standards (CAFE).[139] Average fuel economy standards refer to performance standards which specify

[134] Pub. L. 94-163, Title III, December 22, 1975, 89 Stat. 901.

[135] Pub. L. 92-513, Title V, 15 U.S.C. 1901 et seq.

[136] The Secretary delegated this authority to the National Highway and Traffic Safety Administration (NHTSA); see 49 CFR 1.50.

[137] An automobile is any 4-wheeled vehicle propelled by fuel that is manufactured primarily for use on public streets, roads, and highways, and that is either rated at 6,000 pounds gross vehicle weight (g.v.w) or less, or, if rated more than 6,000 pounds g.v.w. but less than 10,000 pounds g.v.w., meets, as determined by the administrator of NHTSA, certain specified criteria. See 49 CFR 523.3. A passenger automobile is any automobile (other than an automobile capable of off-highway operation) manufactured primarily for use in the transportation of not more than 10 individuals. See 49 CFR 523.4.

[138] A light truck is an automobile other than a passenger automobile that is either designed for off-highway operation or performs at least one of the following functions: (1) transports more than 10 persons, (2) provides temporary living quarters, (3) transports property in an open bed, (4) provides greater cargo-carrying than passenger-carrying volume; or (5) permits expanded use of the automobile for cargo-carrying purposes through removal of seats by means installed for that purpose by the manufacturer. See 49 CFR 523.5.

[139] Average fuel economy standards for passenger automobiles manufactured after 1977, in model years 1978-1980 and in model years 1985 and beyond were set out in EPCA. Standards for model years 1981-1984 were to be determined by the Secretary of Transportation. Standards for covered vehicles other than passenger automobiles (i.e., light trucks) were to be set by the Secretary at a level that is the maximum feasible average fuel economy which the manufacturers are able to achieve in each model year. See 15 U.S.C. 2002 and 49 CFR 531.5.

minimum levels of average fuel economy[140] which are applicable to a manufacturer in a model year.[141] In addition, Title III assigned to the Administrator of the Environmental Protection Agency (EPA), the responsibility for calculating "average fuel economy"[142] as well as for determining "fuel economy,"[143] "model type," and "model year."

Individual vehicles and models are not required to meet the mileage standard, rather each manufacturer must achieve an average level of fuel economy for all specified vehicles in a given model year. The CAFE standards apply generally to any domestic or foreign vehicle manufacturer that manufactures (whether or not in the customs territory of the United States) 10,000 or more passenger cars in a model year.[144]

Under the law, manufacturers failing to meet the standard are liable for a civil penalty of $5 multiplied by each tenth of a MPG the applicable average fuel economy standard exceeds the average fuel economy and multiplied by the number of automobiles covered by the standard and manufactured by the manufacturer in a model year.[145] Thus, the penalty applies to all cars sold in the fleet in question, not just the particular models that bring the average below the minimum level. A manufacturer that fails to meet CAFE standards established for a particular model year may apply credits generated by exceeding the law in up to three model years prior to or following the affected model year. The system of credits was instituted in 1980 and was applied retroactively.[146]

EPCA also permits automakers to petition NHTSA for rollbacks or decreases in the CAFE standards when they are unable to be met because of consumer preference or other factors. A softening of oil prices in the mid-1980s diminished the demand for small cars, and these circumstances prompted U.S. automakers to petition NHTSA for rollbacks. Subsequently, for passenger autos, CAFE was rolled back for model year 1986 through 1989 (see Table 6).

Domestic and Non-Domestic Fleets

In calculating average fuel economy for passenger automobiles, EPA is required by EPCA to separate the total number of passenger automobiles manufactured by a manufacturer into two categories—(1) passenger automobiles which are domestically manufactured and (2) passenger automobiles which are not domestically manufactured (imported)—and calculate the average fuel economy of each separately.[147] Each category is treated as if manufactured by a separate manufacturer. This provision permits manufacturers to segregate their fleets of passenger automobiles into two segments, domestic and imported. Each fleet must comply with the same CAFE standard.

A car line[148] is considered domestically produced if less than 25 percent of the components are imported.[149] This percentage is calculated as a ratio: the sum of the declared value of imported components plus the cost of transportation and insurance for the components to the United States or Canadian port of entry, divided by the cost of production.[150]

The declared value of imported components is the value at which components are declared by the importer to the Customs at the date of entry. The cost of production of a car line is defined as the average U.S. dealer wholesale price for such car line as computed from each official dealer price list effective

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[140] Fuel economy standards are set out in 49 CFR 531.5.

[141] Model year means the manufacturer's annual production period (as determined by the Administrator of EPA) that includes January 1 of such calendar year. If a manufacturer has no annual production period, model year means calendar year. 40 CFR 600.002-85(a)(6).

[142] EPCA provides that the average fuel economy for passenger automobiles be calculated by dividing (a) the total number of passenger automobiles manufactured in a given model year by a manufacturer, by (b) a sum of terms, each term of which is a fraction created by dividing—(1) the number of passenger automobiles of a given model type manufactured in the model year by (2) the fuel economy measured for such model type. See 15 U.S.C 2003 and 40 CFR 600.510-86. The calculation for light trucks was left to rules devised by EPA. Under those rules, for each model, EPA divides the number of vehicles manufactured in that model line by the fuel economy measured for that model. The total number of light trucks manufactured in a given model year is then divided by the sum of the calculation for each separate model.

[143] Fuel economy means the average number of miles traveled by an automobile per gallon (MPG) of gasoline or equivalent fuel consumed.

[144] Low-volume automobile manufacturers, that is manufacturers who have produced fewer than 10,000 passenger automobiles in the second model year preceding the affected model year or in the affected model year, may petition the Secretary of Transportation for exemption from the otherwise applicable CAFE standard for passenger automobiles and establishment of an appropriate alternative average fuel economy standard. See 15 U.S.C. 2002(c)(1) and 49 CFR Part 525.

[145] 15 U.S.C 2008.

[146] See 15 U.S.C. 2002(l)(1)(a) and 49 CFR Part 535.

[147] See 15 CFR 2003(b)(1).

[148] Car line means a name denoting a group of vehicles within a make or car division that has a degree of commonality in construction (e.g., body, chassis). Car line is generally not distinguished by characteristics as roof line, number of doors, seats, or windows. 40 CFR 600.002-85(a)(20).

[149] Components are considered imported unless they are either wholly the growth, product, or manufacture of the United States and/or Canada, or substantially transformed in the United States or Canada into a new and different article of commerce. Imported components which are purchased and merely incorporated by assembly, are not considered to be substantially transformed and are included in the imported content. EPA has stated that imported raw materials should not be included in calculation of the imported content ratio, since the materials are likely to have undergone substantial transformation in the United States or Canada.

[150] 40 CFR 600.511-80; supplemental information provided by the U.S. Environmental Protection Agency.

Table 6
Federal CAFE standards, 1978-91

(Miles per gallon)

Model year	Passenger cars	Light trucks 2-wheel drive	Light trucks 4-wheel drive
1978	18.0	no standard	no standard
1979	19.0	17.2	15.8
1980	20.0	16.0	14.0
1981	22.0	16.7	15.0
1982	24.0	18.0	16.0
1983	26.0	19.5	17.5
1984	27.0	20.3	18.5
1985	27.5	19.7	18.9
1986	26.0	20.5	19.5
1987	26.0	21.0	19.5
1988	26.0	21.0	19.5
1989	26.5	21.5	19.0
1990	27.5	20.5	19.0
1991	27.5	20.7	19.1

Source: U.S. Environmental Protection Agency.

during the course of a model year, multiplied by the number of automobiles within the car line produced during the part of the model year that the price was in effect.[151]

If EPA finds that the declared value of imported components did not represent fair market value at the date of entry,[152] it may review its determination made as to whether the car lines which utilize such components were correctly included within the manufacturer's domestic or foreign fleets. If EPA finds that determination was in error due to misrepresentation of the value of the imported components at the date of entry, it may recalculate the manufacturer's average for the affected model year, in order to correctly reflect the valuation of those components in each affected car line.[153]

For example, an automobile manufacturer may import engines, which with minor adjustments, are used in several car lines. If EPA determines that the declared value of those engines did not represent fair market value at the time of customs entry, EPA could recalculate the foreign content levels of the vehicles using those engines. The new foreign content levels could differ from those used by the manufacturer in determining its domestic and non-domestic fleets, and as a consequence, change the average fuel economy for each fleet which in turn might result in failure to comply with the applicable CAFE standard.

Final decisions regarding the appropriate category (domestic or non-domestic) for a car line and related average fuel economy matters are made by NHTSA, while EPA administers the procedures. As a matter of policy, EPA has permitted manufacturers to calculate their own domestic content levels, subject to EPA audit and oversight. Furthermore, EPA has ruled that manufacturers do not need to submit the cost of production, percentage of domestic content, or declared value for a car line; EPA allows manufacturers to simply report the category into which each car line falls. EPA targets its oversight efforts on vehicles near the 25-percent import limit.[154]

Recently, EPA began an audit of the methods used by several manufacturers to calculate domestic content and determine the makeup of their domestic or non-domestic fleets. The methods used by those manufacturers varied, although they shared a common theme. No manufacturer audited was actually tracking declared value. Instead, they were inferring this value from an accounting model that broke a vehicle down into components (the level of detail tracked varied among manufacturers).

Manufacturers classified each component as being domestic or imported based on their assembly information. If the component was purchased from a vendor, in some cases the vendor was asked about the origin. However, in the majority of the instances, the component was considered to have originated at the address of the vendor (unless the vendor was known to have simply repackaged components purchased from another source). The cost of imported components were then summed to reach a surrogate for declared value.[155]

Legally, EPA does not allow domestic car lines to be averaged with non-domestic car lines. Average fuel economy must be calculated separately for the fleet of domestically-produced car lines and the fleet of non-domestically-produced car lines. However, within a car line (which includes station wagons together with

[151] 40 CFR 600.502-81.

[152] At the time of entry, importers are only required to pay estimated duties, which when applied to the value of the goods are based upon the importer's declared value of the goods. The final assessed duties are based upon the final rate of duty applied to the value of the goods as appraised by Customs and may or may not be equal to the estimated duties.

[153] 40 CFR 600.511-80.

[154] Information provided by EPA.

[155] Information provided by EPA.

sedans for CAFE purposes), data relating to the cost of production and declared value of imported components for all vehicles, regardless of plant of manufacture (or location of that plant) are totalled. This has the effect of "averaging" vehicles built at a U.S. plant with vehicles built at a foreign plant if the vehicles are in the same car line.[156]

Impact of CAFE Standards on Industry Sourcing Patterns

U.S.-Owned Automakers

While presumably the limit on the amount of imported content was intended to encourage domestic production of fuel efficient passenger cars, manufacturers have noted that exceeding the 25 percent threshold for imported content on certain car lines can improve a domestic fleet CAFE. Because U.S. automakers build many of their fuel efficient automobiles abroad, it is often difficult for them achieve a mix of passenger automobiles which both satisfy CAFE standards and at the same time can be marketed successfully. By moving some of their less fuel efficient automobile production abroad or by producing domestically with more than 25 percent imported content, a manufacturer may be able to meet the CAFE standard for both its domestic fleets and its import fleet, where the higher fuel economy of imported smaller and lighter cars can offset the larger, less fuel efficient models in the non-domestic fleet.

An example of this practice can be seen in the 1992 model Ford Crown Victoria and Mercury Grand Marquis car lines. Beginning in mid-1991, some components that were purchased previously from U.S. and Canadian suppliers were sourced from third country partsmakers. Domestic content went from about 90 percent to less than 75 percent.[157] This change in sourcing caused the two car lines to be included in Ford's import fleet rather than its domestic fleet for CAFE purposes, which resulted in a better balancing of the CAFEs of the two fleets.[158] CAFE considerations appear to have influenced decisions by General Motors and Toyota, the owners of New United Motor Manufacturing, Inc. (NUMMI), to increase North American sourcing of components for the Geo Prizm.[159]

Japanese-Owned Automakers

Assembly plants in the United States operated by foreign manufacturers (except for Volkswagen of America in the 1983-86 model years[160]) have generally not reduced import content for CAFE purposes below the 25 percent limit. As now structured, the CAFE standards appear to provide a disincentive to these companies to increase the domestic content of their fleet. As long as they exceed the 25 percent imported content threshold, they can keep their U.S. produced models in their non-domestic fleet, which is still rich in CAFE credits and import large and profitable cars from manufacturing bases in Japan.

As of the 1991 model year, none of the eight Japanese automakers building cars in the United States under its own name produce models that are considered domestic models for the purposes of CAFE. It has been reported however, that the 1991 model Accord manufactured by Honda of America Manufacturing, Inc., reached a 75-percent domestic content although the entire Accord car line (which includes direct imports from Japan) continues to be treated as a non-domestic fleet for CAFE purposes. At the same time, the Honda Civic model achieved a 72-percent domestic content,[161] and reportedly is projected to reach 75-percent domestic content in model year 1992.[162]

As Japanese manufacturers shift more production of passenger automobiles to North America and reduced import content levels begin to shift some models out of non-domestic fleets, they could be faced with the challenge of having to making relatively large gains in fuel-economy ratings in order to avoid costly penalties. Such concerns are reported to have caused Nissan Motor Co. to slow down its domestic-sourcing and indicate that the company will hold its Tennessee-built Sentra below the 75-percent domestic mark to avoid the issue.[163]

Mexican-Produced Vehicles

Mexico's "Big 5" automakers are Ford, GM, Chrysler, VW, and Nissan. The U.S.-owned manufacturers all assemble models in Mexico that qualify as part of their U.S. domestic fleets for CAFE purposes, either because they are averaged with U.S.- or Canadian-assembled models of the same type, or enough of their components are sourced in the United States or Canada so that their imported content is less than 25 percent. Chrysler, Ford, and GM have the largest share of the Mexican market and also export much of their production to the United States. Chrysler produces the Dodge Shadow convertible, Ford produces the Escort station wagon and the Mercury Tracer, and GM produces the Buick Century.[164]

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[156] Information provided by EPA.

[157] "1991 Accord to qualify as 'American' car", *Automotive News*, April 2, 1990.

[158] "1991 Accord to qualify as 'American' car", *Automotive News*, April 2, 1990.

[159] "Small-car content shift leads GM's CAFE plan", *Automotive News*, June 26, 1989.

[160] "1991 Accord to qualify as 'American' car", *Automotive News*, April 2, 1990.

[161] "Parts study says Honda is shunning U.S. suppliers", *Automotive News*, May 13, 1991.

[162] "Double-Edged Sword: Japanese transplants being pushed to add more local content, but 'Americanization' of vehicles adds risk of CAFE penalties", *Automotive News*, March 4, 1991.

[163] "Double-Edged Sword: Japanese transplants being pushed to add more local content, but 'Americanization' of vehicles adds risk of CAFE penalties", *Automotive News*, March 4, 1991.

[164] "Mexico an Emerging Giant in the Auto Industry," *Washington Times*, October 18, 1991.

The Big 3 U.S. automakers do not anticipate sourcing and production pattern changes as a result of including Mexican content as domestic under CAFE standards. Any changes in the long run would undoubtedly depend on the quality and competitiveness of Mexican production. Foreign-owned manufacturers operating in North America, however, have reacted more strongly, noting that it is likely that their part of the motor vehicle industry would reevaluate sourcing and production patterns if Mexican content were to be included as domestic under CAFE standards.

Comments Relating to Comparison Between CFTA and CAFE Rules

Because of suggestions that the CAFE criteria could be applied to determine trade preference eligibility, the Commission was asked to investigate the possibility that a single preference/CAFE standard could be applied based on CAFE provisions. Accordingly, private sector parties were asked for their views on CAFE rules and their utility as a trade-regulating device.

Eligibility Criteria

Comments from industry representatives indicated that preference/origin rules and the CAFE two-fleet rules, in terms of content requirements, are different in their actual effects and serve different and often conflicting purposes, but are applied simultaneously to the same vehicles. This would seem to be a valid perspective. From a government standpoint, preference rules are designed to ensure that "ineligible" goods do not receive a tariff reduction, while CAFE has served to provide companies a certain degree of control over the cost of improving fuel economy. Industry sources noted, for example, that profit is included in the CAFE content computation, along with other allocated costs not considered direct costs of processing for tariff preference purposes. This is said to afford automakers sourcing flexibility and give wider options as to the make-up of the foreign and domestic fleets. The content levels reported to the Customs and EPA may differ significantly, according to information gained from public and private parties, making any real quantitative comparison of the two difficult.

Under CAFE, automobile manufacturers, by carefully balancing the numbers of direct imports, domestically produced "non-domestic" models, and domestic models, have been able to meet the CAFE standards and make incremental fuel efficiency advances while maintaining a broad range of sizes and models in the marketplace. If a NAFTA value threshold figure approaches the 75-percent CAFE dividing line,[165] different considerations might need to be taken into account by industry planners.

For example, foreign-owned producers operating in North America beginning domestic production of new, larger models (usually having higher proportions of foreign content and lower fuel economy than earlier output) would need to compare trade benefits with CAFE implications. An attempt to qualify these larger vehicles for NAFTA tariff reductions by raising domestic content would likely result in CAFE penalties on each vehicle, because such vehicles would need to be included in the firms' domestic fleets once the foreign content drops below 25 percent. The alternative could be to import directly vehicles incorporating less than 75 percent U.S. content, with the consequent loss of North American economic activity and employment.

Similarly, with company-wide averaging of North American production (which, of all averaging techniques, allows greatest flexibility to firms and potentially greater content variations from one car line to another), some firms would need to adjust their sourcing and content mix to obtain maximum tariff benefits while avoiding CAFE fleet shifts and potential penalties. Any attempt to predict these changes, however, is far beyond the scope of this study.

Varying opinions were received from industry representatives on the question of whether the CFTA rules or the CAFE regulations provide greater flexibility. While some concluded that both were relatively inflexible for different reasons, others indicated that CAFE may allow greater discretion in calculating content. It was stated by way of an advantage that CAFE allows firms to use wholesale prices in calculating the "cost of production" pursuant to statute. Additionally, it was asserted that CAFE rules may be somewhat less strict than the CFTA rules, because CAFE's application of substantial transformation to determine "origin" of imported components is subject to a greater degree of interpretation. The absence of a minimum percentage value-content rule for vehicles subject to CAFE was cited as an advantage, in that country-of-origin status is said to be easier to obtain under CAFE rules than under the CFTA.[166]

Those who cited differing but noteworthy areas of stringency in the two systems found the CFTA rules of origin to be more restrictive in other respects. First, it was noted that CFTA processing must take place in a designated country, and that the rules specifically exclude many cost items, including selling and administrative costs, royalties, and profits, which firms argue can reasonably be allocated by vehicle. Second, one manufacturer noted that, while CAFE definitions encompass a more expansive definition of domestic content (for example, allowing content to be determined based on price rather than customs value), the calculation of import content is based on verifiable

[165] A passenger automobile containing more than 25 percent non-U.S.-Canadian content, the vehicle is counted as "foreign" for fleet purposes.

[166] As noted above, CAFE essentially has the effect of a foreign-content limitation, rather than a domestic-content threshold.

documentation, such as customs invoices, and thereby facilitates industry use. Conversely, it was noted that domestic content under the CFTA, while more limited in scope, is based largely upon application of generally accepted accounting principles, which can vary from company to company. Most manufacturers did note that the target domestic content level of 75 percent under CAFE is considerably higher than the target content level of 50 percent under CFTA; again, the differing purposes of the two standards were cited.

In terms of the actual implementation of the two schemes, it was stated that, if a company claims to have only one fleet, no detailed cost information is supplied to EPA. Also, EPA is said to accept the figures supplied to it by the companies without serious or any question. Further, CAFE computations are done by car line, including those assembled abroad, in contrast to the CFTA's application to goods crossing a common border and APTA's plant averaging basis.

From a trade-regulatory perspective, it would seem that the CAFE approach might not entail the desired characteristics of rules of origin or preference, and might not serve government interests in having tariff benefits accrue only to complying participants. Further, as has been seen in recent years, its broader flexibility may be an incentive to third-country production of parts (especially given the availability of foreign-trade zones, which effectively reduce the applied duty rate on such parts to the 2.5 percent ad valorem level imposed on finished vehicles).

Averaging

As discussed previously, U.S.-owned companies conduct U.S.-Canadian auto trade almost entirely under APTA. Because of the limited application of APTA, foreign-owned automobile firms producing in the two countries generally may qualify for tariff reductions only under the CFTA. Under article 1005:2 of the CFTA, a manufacturer may establish its compliance with the rules of origin by electing to average the U.S./Canadian content over a 12-month period on the same class of vehicles or sister vehicles (including "station wagons and other body styles in the same car line"), assembled in the same plant, rather than calculating content for each vehicle. There are seven vehicle classes—minicompact auto; subcompact auto; compact auto; midsize auto; large auto; trucks; and buses.[167] Averaging, under the CFTA and APTA, applies only to vehicles produced in the United States and Canada. Thus, for example, vehicles built in Japan cannot currently be averaged into U.S.- or Canadian-built vehicles being traded between the United States and Canada under these programs (unlike the averaging methodology of CAFE).

Most North American producers said they strongly support provisions for averaging the domestic content of their North American-produced vehicles. They claim that determining domestic content on a per-vehicle basis would greatly increase the administrative burden for companies and government, and reduce producer flexibility. They note that content levels vary with vehicle options because automobile firms often use multiple sources for the same part. One firm argued that averaging may be particularly critical for a new assembly plant that over time will develop more extensive North American supplier linkages, but must rely on averaging to qualify for benefits during the initial stages of operation.

One producer argued that prohibiting averaging would be a bigger disadvantage to U.S.-owned firms than to non-U.S.-owned producers. It claimed that the U.S.-owned firms have such high overall local content levels that they can enter into U.S. production of selected models with relatively high foreign content for niche markets, rather than import them directly, and by averaging qualify these vehicles for tariff reductions. All of the U.S. Big Three automakers indicated a preference for company-wide averaging for content computation purposes under a NAFTA. Foreign-owned automakers producing in North America generally have lower levels of domestic content, especially in early years of production of a model and therefore would not benefit to the same extent from a company-wide averaging provision.

Some firms did note the need for clarification of the term "twelve-month year" as used in the CFTA, saying that Customs had interpreted the term as meaning "financial year" and thereby disqualifying some shipments. Companies emphasized the importance to them of obtaining tariff reductions for as many vehicles as possible, so that their numerous models can compete in the marketplace. Again, they cited a need for the widest flexibility in sourcing components and subassemblies, whether from sources within the NAFTA area or from those in other countries. It may be observed, in summary, that avoiding payment of the generally low duty rates in place, at least in the United States and Canada, would seem to offer minimal financial and competitive benefits, and that these benefits are but one aspect of the business planning and decision making process for the automotive producers.

Considerations in a NAFTA Rule of Origin

Introduction

In its letter, the Ways and Means Committee requested that the Commission undertake this study as a basis for assessing the NAFTA rule of preference eligibility for the automotive industry. As of the time of this report, however, not even a draft rule has been advanced for consideration. Because the CFTA rules of preference eligibility already apply to two of the NAFTA parties, a great deal of this report's focus has been on those rules. In addition, most of the proposals and comments submitted by the private sector have addressed their experience under the CFTA. The entire CFTA experience seems likely to provide the fundamental elements of any proposed NAFTA rule.

[167] U.S. Customs Service, *U.S./Canada Free Trade Agreement*.

The purpose of this part of the report is to provide a framework for analyzing preference eligibility standards, and in particular the eventual NAFTA rule.

The Objective of Eligibility Standards

Generally, a chief goal of a free-trade agreement is to enhance the economic development of the area concerned. This can be accomplished by substantially reducing or eliminating internal barriers to trade and investment, so as to establish a larger and more competitive market; the creation of such a market provides incentives for additional investment in manufacturing activity.

Because such agreements are, by their very nature, preference arrangements, goods traded within the preference area are usually required to meet an "eligibility" or "preference" standard, i.e. they must be considered to "originate" in the territory of a contracting party for purposes of the agreement. While aimed primarily at conferring benefits upon originating goods, all such arrangements recognize, of course, that goods traded under preference arrangements often have some included "foreign" content. Total exclusion of goods incorporating some foreign materials or parts would unduly frustrate the underlying intention of the agreement by substantially limiting its application. Nevertheless, to permit an "excess" of foreign content might only serve to invite nominal investment in the FTA area, designed merely to render the product eligible for FTA benefits.[168] It could also have potentially adverse effects on material and components producers already operating in the parties.

The greatest difficulty in designing a preference standard is determining how and where to place the threshold for eligibility. This exercise must take into account and give weight to a variety of factors, including industry structure, the extent of local production, the general level of barriers to be reduced or eliminated, the cost of market entry, the effect of external barriers, the potential for diversion or deflection of trade, the attractiveness of the area to the production concerned, and the size of the market. The exercise is also fundamentally dependent on the policy objectives of the decision makers.

If as a matter of policy the objective of implementing an FTA is to increase economic development in the parties, then it would appear appropriate to place the threshold at a point where a significant contribution to goods claimed to originate within the area is required to obtain preferred status.[169] However, the threshold could be fixed at such a high level that the additional benefits (in terms of duty savings or other advantages) do not justify the cost of that investment. Motor vehicle manufacturers and their associations have tended to suggest eligibility standards that they themselves currently can satisfy or will be able satisfy with a minimum of difficulty, but standards that also may prevent qualification by certain of their competitors absent significant alterations in their manufacturing operations.

In analyzing the effects of any potential rule on the automotive sector, it is also important to keep in mind that the impact of any given rule will be different for different portions of the sector. A rule which, for example, is advantageous to integrated companies may disadvantage nonintegrated ones. Similarly, a rule which aids the development or operations of assemblers of automobiles may hinder the development or operations of parts producers. The Commission notes that the comments by various participants in the study reflect their particular position within the industry.

Form of a NAFTA Standard

As a practical matter, the form of a bilateral or multilateral FTA eligibility standard is limited to one of four options: a change of tariff heading test, a value-content standard, a critical process requirement, or a combination of the three. Because use per se of the substantial transformation test was rejected by the parties to the CFTA, it is not considered to be an option for NAFTA. Each of the four options available is discussed below.

Change of Tariff Heading Test

As discussed above, this test requires that a foreign article undergo processing in one of the beneficiary countries causing a change in tariff classification to be considered an eligible product. Under a strict application of this standard (that is, without another criterion such as value content), motor vehicles assembled from "foreign" parts would qualify for the preference, but unfinished motor vehicles completed in North America would not. The final assembly process is estimated to add only 15 to 20 percent to the manufacturing cost of a vehicle. Thus, the maximum value added that would result from this standard falls far below the contribution obtained using the standards currently in force with respect to almost every other U.S. preference program. The obvious implications of such a test for auto parts fabricators need not be further discussed. Because one of the goals of the CFTA was to retain existing automotive industry capacity, a strict change of tariff heading standard for automotive products was not selected in the CFTA.

However, a change of classification standard obviously has great validity as a fundamental requirement to according NAFTA benefits. Not only does final assembly add substantial value, but also the locality of such assembly, it is said, has significant influence on where component parts are sourced. It is

[168] Such operations are sometimes referred to under the terms "pass through," "medicine show," "screw-driver," or "wand-waving".

[169] There is a fine line between a threshold which will confer benefits upon goods already in trade among the parties (or where minor restructuring of operations will result in eligibility) and a threshold which will require additional sourcing from or investment in the contracting parties. Moreover, as to the latter, the standard may result in a shift (not a creation) of investment and capacity among the contracting parties.

no accident that supplier and support networks are often found in close proximity to manufacturing and assembly centers. Certainly the demands of lean production techniques and just-in-time delivery augur in favor of local availability of supplier networks. It can be anticipated, therefore, that the place of final assembly would have a positive affect on local producers of parts and components, and there is some likelihood that suppliers will shift their operations to accommodate the needs of their customers.

Value-Content Standard

Most comments received regarding the question of "origin" discuss various options based on a value content standard. Value content has historically served as the linchpin in all U.S. duty preference schemes. While it represents the easiest means of expressing the *intention* of requiring significant value added, as an *applied* standard it obviously leaves much to be desired; a value approach nevertheless finds favor among many concerned with this issue.

Expressing the Standard

Value standards are normally expressed in one of two ways, either as requiring a minimum local content (as used in GSP and CBERA, and usually reflected as direct cost of processing) or as setting a maximum foreign content (as used in the insular possessions preference and CAFE).

In principle these two may seem like opposite sides of the same coin. However, practical differences exist. For example, a maximum foreign content test provides an invitation to transfer pricing practices and possible abuses, where a related party sells components at unusually low prices to reduce the "foreign" content of the vehicle. On the other hand, foreign content may be easier to track through customs records than local content, which is extremely difficult to verify but which is intended to reflect a measure of local input.

Definition Of Terms

Whichever standard is used, a major consideration lies in the definition of terms, particularly what is meant by foreign value, direct cost of processing, and originating materials.

Obviously, a major difficulty in this regard is the treatment to be accorded foreign materials or components that are "rolled up" in the manufacture of domestically made assemblies, whether by the supplier (external roll-up) or the vehicle manufacturer (internal roll-up). With respect to external roll-up, the absence of information on the sourcing practices of unrelated suppliers and the administrative difficulties involved in determining the foreign content of components produced by first-, second- and third-tier unrelated suppliers means that determining the extent of foreign content is very difficult.

This problem is particularly troublesome when one considers an industry with enormous supplier networks, such as the automotive industry. Internal roll-up presumably poses a less serious calculation problem. In addition, a rule that would not require segregation of the foreign content included in domestically produced purchased components, but that would require identification of the foreign content of materials subsumed in internal production of components, may cause some concern about the relative fairness of treatment between highly integrated and less integrated producers.

One insight gained under the CFTA is that the terms and conditions of any value-added scheme used in NAFTA must be clear, unambiguous, and straightforward, if compliance and effective enforcement are to be expected. The record-keeping requirements should be as reasonable as practicable, capable of being maintained by producers, and consistent with generally accepted accounting practices.

In this regard, it is possible that each firm keeps production and accounting records on a different basis, while still complying with generally accepted accounting principles, and that government requests for information may not be structured in accordance with any existing system. Also, because of the structure of the CFTA and APTA regimes, trade going north to Canada for a firm often occurs under one preference while its trade coming south is under the other preference. Records may therefore be kept on differing bases by plants in the two countries. This situation impedes effective information-gathering and frustrates verification procedures.

The Threshold

The Commission notes that proposals submitted on the appropriate measure of eligibility have advocated figures ranging from 50 percent to 75 percent North American content, but generally lack great specificity. In assessing the eventual standard, it is necessary to have a clear understanding of the costs or values to be included in both the numerator and denominator of the fraction being applied by firms to ascertain if particular goods qualify.

For example, a 60 percent local content requirement based upon the vehicles' retail value represents a lower real threshold than a 60 percent requirement based on its wholesale value. Similarly, a content definition which does not permit allocations to royalties or administrative costs represents a more difficult threshold than one that does, assuming the percentage content requirement is the same in both cases. It also appears that the less inclusive the definition, the more limited is the opportunity for manipulation, but the lower the actual "equivalent" percentage threshold would be.

How Applied

Historically, U.S. Customs enforcement practices have required goods covered by particular documents

to be entered through the ports of entry designated in the documents, and for each article to be appraised and classified on an entry by entry basis as to its appropriate duty treatment. Each entry is essentially "audited" during the process of liquidation. That paradigm still applies for the most part, but it is also possible for eligibility requirements to be applied, like the CAFE rules, to shipments over a designated period of time, such as a model or calendar year. Such an approach provides the manufacturer with greater flexibility than the historic method permits and requires periodic audits to confirm eligibility for preferential treatment.

Because duty-free or preferential entry is based on importer certification at the time of entry, duties are usually not collected at that time. Only later, after an audit reveals an inconsistency with applicable rules and regulations, is a demand for payment of duties made. This situation is likely to occur long after the goods are imported and have entered the stream of commerce. Question is therefore raised as to whether this approach is acceptable from a policy perspective, and whether the parties to the agreement will treat individual entries in the same manner (that is, whether they will waive payment of duties at the time of entry, or alternatively require the payment of estimated duties, the posting of bond or other assurances of payment).

Critical Processes Standard

As discussed earlier in this report, a critical processes standard would require that certain processes be conducted or components be manufactured within the FTA for benefits to be conferred. In one sense it is similar to the change of heading standard, which in effect requires significant processing, manufacturing, or assembly to take place before a heading change can occur (such as the assembly of a motor vehicle from parts). However, a critical processes test can provide greater precision by additionally requiring the manufacture in the FTA of specifically enumerated valuable or key subassemblies or systems. For instance, to establish eligibility, it could be required that a menu of components, such as the power train, body stampings, suspension, and/or steering systems, be manufactured in the FTA.

Two particular advantages to this approach are that (1) it ensures that certain high-value-added operations are performed in the FTA and (2) it avoids the value-added standard with its associated definitional problems, accounting subtleties, enforcement audits, and other administrative difficulties. A critical processes standard could be more easily administered, since it could be verified by evidence confirming the performance of the operation, such as a plant visit or certified work flow diagram.

All U.S. and foreign-owned automakers interviewed by staff were adamant in their opposition to such a rule. The firms claim that a rule of origin based on "critical processes" would reduce their sourcing flexibility and hamper their ability to shift production to maximize profits. In addition, they claim that such a rule would act as a disincentive to, rather than encourage, technological advances. In their view, it would not be rational, for example, to stipulate that only automobiles containing an engine produced in North America would be considered "originating in North America," especially because the firms say consumers will be driving electric vehicles in the future. Last, certain automakers are opposed to such a rule owing to difficulties associated with economies of scale.

For example, if a "critical processes" approach mandated that engines be produced in North America, certain low-volume motor vehicle producers claim that they would not be able to consider their products North American because they cannot justify engine production in North America (due to the small number of engines required for particular models). In at least some instances, it would seem possible for such firms to purchase originating engines from North American suppliers.

It may be observed that, if as a matter of policy the balancing process undertaken by decision makers wishes to provide some control over long-term implications of NAFTA for parts producers (especially those making higher-cost components or subassemblies), as well as assemblers, the key components approach may be of some utility.

Combinations of Standards

The attractiveness of using a combination of approaches for an eligibility rule lies in the ability to take advantage of the benefits of each while minimizing administrative and other difficulties. Consideration of alternative or hybrid approaches may also offer some useful options for enhancing North American production.

For example, a value standard included in the regime along with a change of classification rule could be scheduled to be modified in subsequent years. Also, a different value threshold could be applied separately on a temporary or shorter-term basis for new production models or models having small production runs. In addition, models with high production runs could be subject to special critical processes or value-content requirements. Further, in light of concerns as to light trucks (which are subject to a 25 percent ad valorem duty), a separate standard could be applied to such vehicles.

Administration

It seems that the further customs administration and review get from the time and place of entry, the more complex becomes the process of verification. In the case of administering value-content standards, it should be remembered that the task necessarily deals with operations performed outside the United States. The agreement should undoubtedly contain provisions permitting access to information required to verify claims for duty-free entry—including, for example, the

exchange of customs information. Another concern involves the payment of duties found to be due as a result of verification audits. Under normal customs procedures, additional payments are found to be due based on the liquidation of individual entries. Under periodic audit procedures, it may be possible that entries made during a year or a longer period are found not to qualify for duty-free entry. Accordingly, the amounts claimed as due may be staggeringly high and are assessed too late for the importer to pass on to its customers. In such a case, it may be useful to consider alternative measures to ensure payment.

Observations on Auto Sector Rules

As with the rules drafted for other preference programs, NAFTA's preference eligibility provisions will likely be developed primarily from a customs standpoint (because eligible goods crossing a border between parties must be distinguished from ineligible goods by customs officials); this might be viewed as principally a technical frame of reference than an economic- or policy-oriented one. Similarly, because multiple and varying rules affect goods in international trade, it is difficult to arrive at a composite regulatory approach—and one which refrains from utilizing trade-related measures to try to achieve other types of objectives. Because of the importance of the motor vehicle industry, more reactions to possible approaches have perhaps been sought by the government agencies involved from these firms than from most other sectors. It would seem that, to the extent a single regime is to cover all goods, criteria which may prove necessary with respect to the auto sector might not be needed as to other industries.

APPENDIX A
LETTER FROM THE HOUSE COMMITTEE ON WAYS AND MEANS

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

August 27, 1991

The Honorable Anne E. Brunsdale
Acting Chairman
U.S. International Trade Commission
500 E Street, S.W.
Washington, D.C. 20436

Dear Madam Chairman:

As you know, negotiations are now proceeding on a North American Free Trade Agreement (NAFTA) with Mexico and Canada. One of the most important and controversial issues in these negotiations will be provision of adequate rules of origin to determine the eligibility of products for duty-free and other preferential treatment under the agreement. The Congress will closely scrutinize these rules to ensure that they are in the best interests of U.S. industries and workers.

The effect of these rules on the automotive sector, in particular, will be of critical importance given the significance of this sector to overall North American trade and to the U.S. economy. The Committee considers that any origin standard for automobiles under the NAFTA should inure to the benefit of the parties to the Agreement and should not invite only minimal processing or investment in order to qualify for preferential treatment.

During a recent Congressional briefing on the NAFTA negotiations it became evident that there is a paucity of information sufficient to examine the effects that various rule-of-origin proposals would have on the North American automotive industry. Consequently, on behalf of the Committee on Ways and Means, I request that the U.S. International Trade Commission conduct an investigation under section 332(g) of the Tariff Act of 1930 of various potential NAFTA rule-of-origin requirements.

Specifically, the Committee would like you to analyze existing customs treatment of automotive products under the value-content standard, as well as the Change of Tariff Heading (CTH) criterion, if applicable. To the extent data permit, we would appreciate any illustrative examples that may explain how non-U.S. and non-Canadian imported components are utilized in either major

assemblies/subassemblies or in completed automobiles, which are then classified as U.S.-origin or Canadian-origin goods eligible for duty-free entry. In setting forth these illustrative examples, the Committee would like you to pay particular attention to the impact of concepts such as "internal roll-up," "direct cost of processing," and "substantial transformation" upon value-content determinations. With respect to "direct cost of processing," the Committee is particularly interested in how the concept is defined, what problems have been encountered in its administration, and what factors are included in the determination under the U.S.-Canada Free-Trade Agreement.

The Committee would also like you to evaluate other origin standards that are used in the automotive sector, such as those employed in making CAFE origin determinations. If, in the course of its investigation, the Commission becomes aware of alternative origin standards which might be applied to the automotive sector in the NAFTA, it would be helpful if the Commission could identify and describe those standards.

This investigation and resulting report will be of great value to Members of the Congress, the Administration, and the public as the negotiations proceed and an agreement is evaluated. In addition to Members of the Committee, this information and request is of particular interest to the Majority Leader of the House, the Honorable Richard A. Gephardt.

By copy of this letter, I am requesting the Secretary of the Treasury, the Secretary of Transportation, the Under Secretary for International Trade of the Department of Commerce (with respect to foreign trade zones), and the Administrator of the Environmental Protection Agency to extend their assistance and cooperation to the Commission in the course of this investigation. In particular, I am requesting that they make available any information or other resources which may bear upon the subject of this investigation.

Since the NAFTA negotiations could be concluded in the next several months, I would appreciate your expeditious consideration of this request and receipt of your report by November 25, 1991.

Thank you for your cooperation.

Sincerely yours,

Dan Rostenkowski
Chairman

DR/mwp

APPENDIX B
NOTICE OF INSTITUTION OF THE INVESTIGATION

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

(Investigation No. 332-314)

Rules of Origin Issues Related to NAFTA and the North American Automotive Industry

AGENCY: United States International Trade Commission

ACTION: Institution of investigation and scheduling of public hearing.

SUMMARY: Following receipt of a letter from the Committee on Ways and Means of the U.S. House of Representatives on August 27, 1991, the Commission has instituted investigation No. 332-314, Rules of Origin Issues Related to NAFTA and the North American Automotive Industry, under section 332(g) of the Tariff Act of 1930. The Committee has requested that the Commission's report of the results of this investigation be transmitted to it by November 25, 1991.

As requested by the Committee in its letter, the Commission will analyze various rule-of-origin proposals being considered in the context of negotiations on a North American Free-Trade Agreement (NAFTA). More specifically, as requested by the Committee in its letter, the Commission will--

1) analyze existing customs treatment of automotive products under the value-added standard and the change-of-tariff-heading criterion, if applicable;
2) provide illustrative examples, to the extent available information permits, that may explain how non-U.S. and non-Canadian imported components are utilized in either major assemblies/subassemblies or in completed automobiles which are then classified as U.S.-origin or Canadian-origin goods eligible for duty-free entry; (In this connection, the letter requests that particular attention be given to the impact of concepts such as "internal roll-up", "direct costs of processing" (DCP), and "substantial transformation" on value-content determinations. The Committee also noted its particular interest in the definition of DCP, problems encountered in administering that concept, and the factors included in origin determinations based on DCP under the U.S.-Canada Free-Trade Agreement.)
3) seek to evaluate other origin standards used in the automotive sector, such as those employed in making origin determinations for purposes of the Corporate Average Fuel Economy (CAFE) program; and
4) identify and describe any alternative origin standards that it becomes aware of that might be applied to the automotive sector in NAFTA.

EFFECTIVE DATE: September 16, 1991

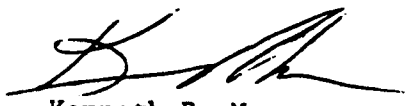
FOR FURTHER INFORMATION CONTACT: For information on aspects of the investigation related to the automotive industry, contact Mr. Dennis Rapkins, (202-205-3406). For information on aspects of the investigation related to customs, tariff, or origin matters, contact Mr. Leo Webb (202-205-2599) or Ms. Janis Summers (202-205-2605).

PUBLIC HEARING: A public hearing in connection with this investigation will be held in the Commission Hearing Room, 500 E Street S.W., Washington DC 20436, beginning at 9:30 a.m. on October 22, 1991. All persons shall have the right to appear by counsel or in person, to present information, and to be heard. Persons wishing to appear at the public hearing should file requests to appear and should file pre-hearing briefs (original and 14 copies) with the Secretary, United States International Trade Commission, 500 E Street S.W., Washington DC 20436, not later than the close of business on October 16, 1991. Post-hearing briefs (original and 14 copies) must be filed by October 25, 1991.

WRITTEN SUBMISSIONS: In lieu of, or in addition to, appearances at the public hearing, interested persons are invited to submit written statements concerning this investigation. Written statements are encouraged early in the investigative process, but should be received at the Commission by the close of business on October 25, 1991, in order to be considered. Commercial or financial information which a submitter desires the Commission to treat as confidential must be submitted on separate sheets of paper, each marked "Confidential Business Information" at the top. All submissions requesting confidential treatment must conform with the requirements of section 201.6 of the Commission's Rules of Practice and Procedure (19 CFR 201.6). All written submission, except for confidential business information, will be available for inspection by interested persons. All submissions should be addressed to the Office of the Secretary, United States International Trade Commission, 500 E Street S.W., Washington DC 20436.

Hearing impaired persons are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on 202-205-1810.

By order of the Commission.



Kenneth R. Mason
Secretary

Issued: September 17, 1991

APPENDIX C
STEPS FOR DETERMINING CFTA ORIGIN

Steps for Determining CFTA Origin

The following chart attempts to set forth in a simpler format the analytical process for determining if CFTA benefits are available to finished goods crossing a border from one party into the other, or if a part (being sold to an arms' length buyer for use in a finished article for export from one party into the other) may be accompanied by a certificate of origin allowing the buyer to count price paid therefor toward the 50 percent value–content threshold. (If a part crosses the border from one party into the other, it must meet the rule of preference to receive tariff benefits.)

1. Are goods/materials wholly obtained in U.S./Canada?

   — If so, goods/materials originate and qualify for benefits/count toward 50% value threshold.

   — If not, go on to step 2.

2. Identify and classify in the HS–based tariff schedule of the country of importation all third–country inputs. Is each such input covered by an enumerated tariff classification change provision?

   — If so, the goods/part may qualify—see step 2A.

   — If not, goods/part cannot qualify for benefits/count toward 50% threshold unless result of step 2B is positive.

2A. If any enumerated tariff change contains a value–content or other test, do goods/part comply?

   — If so, goods/part generally will be deemed to originate and qualify for benefits/count toward 50% threshold (see step 3).

   — If not, goods/part do not originate; benefits should not be claimed/no certificate of origin should be provided to buyer.

2B. If no enumerated tariff classification change provision applies to a third–country input, is the input classifiable as part of a finished article in the same tariff category or was it classified at importation as unassembled or disassembled goods?[1]

   — If so, goods/part qualify/count[2] if value of originating materials plus direct costs of processing or assembling equals not less than 50% of value of the goods exported from one party into the other.

   — If not, goods/part cannot qualify for benefits/count toward 50% threshold.

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[1] Pursuant to general rule of interpretation 2(a), where a heading refers to an article it is also considered to refer to that article entered unassembled or disassembled.

[2] The price paid by the buyer for the part could be counted toward the buyer's 50–percent content threshold for the *finished goods* being exported from one party into the other.

3. Are direct shipment, documentation, certificate of origin, other requirements met (for goods/parts crossing border)?

   — If so, goods obtain tariff benefits/count toward 50% threshold.

   — If not, goods/part generally disqualified and no benefits should be claimed/no certificate of origin supplied.

APPENDIX D
HS CHAPTER 87, HEADINGS 8701 THROUGH 8708

Chapter 87

Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof

Notes.

1.- This Chapter does not cover railway or tramway rolling-stock designed solely for running on rails.

2.- For the purposes of this Chapter, "tractors" means vehicles constructed essentially for hauling or pushing another vehicle, appliance or load, whether or not they contain subsidiary provision for the transport, in connection with the main use of the tractor, of tools, seeds, fertilisers or other goods.

3.- For the purposes of heading No. 87.02, the expression "public-transport type passenger motor vehicles" means vehicles designed for the transport of ten persons or more (including the driver).

4.- Motor chassis fitted with cabs fall in headings Nos. 87.02 to 87.04, and not in heading No. 87.06.

5.- Heading No. 87.12 includes all children's bicycles. Other children's cycles fall in heading No. 95.01.

Heading No.	H.S. Code	
87.01		**Tractors (other than tractors of heading No. 87.09).**
	8701.10	- Pedestrian controlled tractors
	8701.20	- Road tractors for semi-trailers
	8701.30	- Track-laying tractors
	8701.90	- Other
87.02		**Public-transport type passenger motor vehicles.**
	8702.10	- With compression-ignition internal combustion piston engine (diesel or semi-diesel)
	8702.90	- Other
87.03		**Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading No. 87.02), including station wagons and racing cars.**
	8703.10	- Vehicles specially designed for travelling on snow ; golf cars and similar vehicles
		- Other vehicles, with spark-ignition internal combustion reciprocating piston engine :
	8703.21	- - Of a cylinder capacity not exceeding 1,000 cc
	8703.22	- - Of a cylinder capacity exceeding 1,000 cc but not exceeding 1,500 cc
	8703.23	- - Of a cylinder capacity exceeding 1,500 cc but not exceeding 3,000 cc
	8703.24	- - Of a cylinder capacity exceeding 3,000 cc
		- Other vehicles, with compression-ignition internal combustion piston engine (diesel or semi-diesel) :
	8703.31	- - Of a cylinder capacity not exceeding 1,500 cc
	8703.32	- - Of a cylinder capacity exceeding 1,500 cc but not exceeding 2,500 cc
	8703.33	- - Of a cylinder capacity exceeding 2,500 cc
	8703.90	- Other

Heading No.	H.S. Code	
87.04		**Motor vehicles for the transport of goods.**
	8704.10	- Dumpers designed for off-highway use
		- Other, with compression-ignition internal combustion piston engine (diesel or semi-diesel):
	8704.21	- - g.v.w. not exceeding 5 tonnes
	8704.22	- - g.v.w. exceeding 5 tonnes but not exceeding 20 tonnes
	8704.23	- - g.v.w. exceeding 20 tonnes
		- Other, with spark-ignition internal combustion piston engine:
	8704.31	- - g.v.w. not exceeding 5 tonnes
	8704.32	- - g.v.w. exceeding 5 tonnes
	8704.90	- Other
87.05		**Special purpose motor vehicles, other than those principally designed for the transport of persons or goods (for example, breakdown lorries, crane lorries, fire fighting vehicles, concrete-mixer lorries, road sweeper lorries, spraying lorries, mobile workshops, mobile radiological units).** I
	8705.10	- Crane lorries
	8705.20	- Mobile drilling derricks
	8705.30	- Fire fighting vehicles
	8705.40	- Concrete-mixer lorries
	8705.90	- Other
87.06	8706.00	**Chassis fitted with engines, for the motor vehicles of headings Nos. 87.01 to 87.05.**
87.07		**Bodies (including cabs), for the motor vehicles of headings Nos. 87.01 to 87.05.**
	8707.10	- For the vehicles of heading No. 87.03
	8707.90	- Other
87.08		**Parts and accessories of the motor vehicles of headings Nos. 87.01 to 87.05.**
	8708.10	- Bumpers and parts thereof
		- Other parts and accessories of bodies (including cabs):
	8708.21	- - Safety seat belts
	8708.29	- - Other
		- Brakes and servo-brakes and parts thereof:
	8708.31	- - Mounted brake linings
	8708.39	- - Other
	8708.40	- Gear boxes
	8708.50	- Drive-axles with differential, whether or not provided with other transmission components
	8708.60	- Non-driving axles and parts thereof
	8708.70	- Road wheels and parts and accessories thereof
	8708.80	- Suspension shock-absorbers
		- Other parts and accessories:
	8708.91	- - Radiators
	8708.92	- - Silencers and exhaust pipes
	8708.93	- - Clutches and parts thereof
	8708.94	- - Steering wheels, steering columns and steering boxes
	8708.99	- - Other

APPENDIX E
HTS CHAPTER 87, HEADINGS 8701 THROUGH 8708

CHAPTER 87

VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING-STOCK,
AND PARTS AND ACCESSORIES THEREOF

Notes

1. This chapter does not cover railway or tramway rolling-stock designed solely for running on rails.

2. For the purposes of this chapter, "tractors" means vehicles constructed essentially for hauling or pushing another vehicle, appliance or load, whether or not they contain subsidiary provision for the transport, in connection with the main use of the tractor, of tools, seeds, fertilizers or other goods.

3. For the purpose of heading 8702, the expression "public-transport type passenger motor vehicles" means vehicles designed for the transport of ten persons or more (including the driver).

4. Motor chassis fitted with cabs fall in headings 8702 to 8704, and not in heading 8706.

5. Heading 8712 includes all children's bicycles. Other children's cycles fall in heading 9501.

Additional U.S. Notes

1. Road tractors, trailers and semi-trailers remain separately classified in headings 8701 and 8716, respectively, even when entered together.

2. For the purposes of classifying bicycles under the provisions therefore in heading 8712, the diameter of each wheel is the diameter measured to the outer circumference of the tire which is mounted thereon or, if none is mounted thereon, of the usual tire for such wheel.

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty 1 General	Rates of Duty 1 Special	Rates of Duty 2
8701		Tractors (other than tractors of heading 8709):				
8701.10.00	00 3	Pedestrian controlled tractors	No.	Free		Free
8701.20.00		Road tractors for semi-trailers		4%	Free (B,CA,E,IL)	25%
	15 4	New: G.V.W. not exceeding 36,287 kg	No.			
	45 8	G.V.W. exceeding 36,287 kg	No.			
	80 4	Used	No.			
8701.30		Track-laying tractors:				
8701.30.10		Suitable for agricultural use		Free		Free
	15 0	New: With a net engine power of less than 93.3 kW	No.			
	30 1	With a net engine power of 93.3 kW or more but less than 119.4 kW	No.			
	45 4	With a net engine power of 119.4 kW or more but less than 194 kW	No.			
	60 4	With a net engine power of 194 kW or more but less than 257.4 kW	No.			
	75 7	With a net engine power of 257.4 kW or more	No.			
	90 8	Used	No.			
8701.30.50		Other		2.2%	Free (A,CA,E,IL)	27.5%
	15 1	New: With a net engine power of less than 93.3 kW	No.			
	30 2	With a net engine power of 93.3 kW or more but less than 119.4 kW	No.			
	45 5	With a net engine power of 119.4 kW or more but less than 194 kW	No.			
	60 5	With a net engine power of 194 kW or more but less than 257.4 kW	No.			
	75 8	With a net engine power of 257.4 kW or more	No.			
	90 9	Used	No.			

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty 1 General	Rates of Duty 1 Special	Rates of Duty 2
8701 (con.)		Tractors (other than tractors of heading 8709) (con.):				
8701.90		Other:				
8701.90.10		Suitable for agricultural use.....	.....	Free		Free
	01 3	Log skidders.....	No.			
		Other:				
		New:				
		Power take-off (PTO) type:				
	05 9	With a PTO of less than 14.9 kW.....	No.			
	10 2	With a PTO of 14.9 kW or more but less than 22.4 kW.....	No.			
	15 7	With a PTO of 22.4 kW or more but less than 29.8 kW.....	No.			
	30 8	With a PTO of 29.8 kW or more but less than 44.8 kW.....	No.			
	35 3	With a PTO of 44.8 kW or more but less than 59.7 kW.....	No.			
	40 6	With a PTO of 59.7 kW or more but less than 74.6 kW.....	No.			
	45 1	With a PTO of 74.6 kW or more but less than 89.5 kW.....	No.			
	50 3	With a PTO of 89.5 kW or more but less than 104.4 kW.....	No.			
	55 8	With a PTO of 104.4 kW or more but less than 119.4 kW...	No.			
	60 1	With a PTO of 119.4 kW or more but less than 134.3 kW...	No.			
	65 6	With a PTO of 134.3 kW or more.....	No.			
	70 9	Other.....	No.			
	90 5	Used.....	No.			
8701.90.50		Other.....	.....	2.2%	Free (A,E,IL) 1.5% (CA)	27.5%
	15 8	With a net engine power of less than 223.8 kW.....	No.			
	20 1	With a net engine power of 223.8 kW or more but less than 373 kW.....	No.			
	25 6	With a net engine power of 373 kW or more.....	No.			

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty 1 General	Rates of Duty 1 Special	Rates of Duty 2
8702		Public-transport type passenger motor vehicles:				
8702.10.00	00 2	With compression-ignition internal combustion piston engine (diesel or semi-diesel).....	No.....	3.1%	Free (A,B,CA,E,IL)	25%
8702.90.00	00 5	Other.....	No.....	3.1%	Free (A,B,CA,E,IL)	25%
8703		Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 8702), including station wagons and racing cars:				
8703.10		Vehicles specially designed for traveling on snow; golf carts and similar vehicles:				
8703.10.10	00 9	Vehicles specially designed for traveling on snow.....	No.....	2.5%	Free (B,CA,E,IL)	10%
8703.10.50	00 0	Other.....	No.....	2.5%	Free (A,B,CA,E,IL)	10%
		Other vehicles, with spark-ignition internal combustion reciprocating piston engine:				
8703.21.00	00 8	Of a cylinder capacity not exceeding 1,000 cc.....	No.....	2.5%	Free (B,CA,E,IL)	10%
8703.22.00	00 7	Of a cylinder capacity exceeding 1,000 cc but not exceeding 1,500 cc.....	No.....	2.5%	Free (B,CA,E,IL)	10%
8703.23.00		Of a cylinder capacity exceeding 1,500 cc but not exceeding 3,000 cc.....	.....	2.5%	Free (B,CA,E,IL)	10%
	10 4	Motor homes.....	No.			
		Other:				
		New:				
		Having engines with not more than 4 cylinders:				
		Station wagons and passenger vans:				
		Station wagons under 160 cm in height:				
	22 0	Of an interior volume not exceeding 2.8m³..	No.			
	24 8	Of an interior volume exceeding 2.8m³ but not exceeding 3.1m³..	No.			
	26 6	Of an interior volume exceeding 3.1m³ but not exceeding 3.4m³..	No.			
	28 4	Of an interior volume exceeding 3.4m³.....	No.			

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty 1 General	Rates of Duty 1 Special	Rates of Duty 2
8703 (con.)		Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 8702), including station wagons and racing cars (con.):				
		Other vehicles, with spark-ignition internal combustion reciprocating piston engine (con.):				
8703.23.00 (con.)		Of a cylinder capacity exceeding 1,500 cc but not exceeding 3,000 cc:				
		Other (con.):				
		New (con.):				
		Having engines with not more than 4 cylinders (con.):				
		Station wagons and passenger vans (con.):				
		Other:				
	32 8	Of an interior volume not exceeding 2.8m³ ...	No.			
	34 6	Of an interior volume exceeding 2.8m³ but not exceeding 3.1m³ ..	No.			
	38 4	Of an interior volume exceeding 3.1m³ but not exceeding 3.4m³ ..	No.			
	38 2	Of an interior volume exceeding 3.4m³	No.			
		Other:				
	42 6	Of an interior volume not exceeding 2.4m³ ...	No.			
	44 4	Of an interior volume exceeding 2.4m³ but not exceeding 2.8m³	No.			
	46 2	Of an interior volume exceeding 2.8m³ but not exceeding 3.1m³	No.			
	48 0	Of an interior volume exceeding 3.1m³ but not exceeding 3.4m³	No.			
	52 3	Of an interior volume exceeding 3.4m³	No.			

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty 1 General	Rates of Duty 1 Special	Rates of Duty 2
8703 (con.)		Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 8702), including station wagons and racing cars (con.):				
		Other vehicles, with spark-ignition internal combustion reciprocating piston engine (con.):				
8703.23.00 (con.)		Of a cylinder capacity exceeding 1,500 cc but not exceeding 3,000 cc (con.):				
		Other (con.):				
		New (con.):				
		Having engines with more than 4 but not more than 6 cylinders:				
	62 1	Of an interior volume not exceeding 2.8m³	No.			
	64 9	Of an interior volume exceeding 2.8m³ but not exceeding 3.1m³	No.			
	66 7	Of an interior volume exceeding 3.1m³ but not exceeding 3.4m³	No.			
	68 5	Of an interior volume exceeding 3.4m³	No.			
		Having engines with more than 6 cylinders:				
	72 9	Of an interior volume not exceeding 2.8m³	No.			
	74 7	Of an interior volume exceeding 2.8m³ but not exceeding 3.1m³	No.			
	76 5	Of an interior volume exceeding 3.1m³ but not exceeding 3.4m³	No.			
	78 3	Of an interior volume exceeding 3.4m³	No.			
	90 7	Used	No.			
8703.24.00		Of a cylinder capacity exceeding 3,000 cc		2.5%	Free (B,CA,E,IL)	10%
	10 3	Ambulances, hearses and prison vans	No.			
	30 9	Motor homes	No.			
		Other:				
		New:				
		Having engines with not more than 4 cylinders:				
	32 7	Of an interior volume not exceeding 2.4m³	No.			
	34 5	Of an interior volume exceeding 2.4m³ but not exceeding 2.8m³	No.			
	36 3	Of an interior volume exceeding 2.8m³ but not exceeding 3.1m³	No.			
	38 1	Of an interior volume exceeding 3.1m³ but not exceeding 3.4m³	No.			
	42 5	Of an interior volume exceeding 3.4m³	No.			

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty 1 General	Rates of Duty 1 Special	Rates of Duty 2
8703 (con.)		Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 8702), including station wagons and racing cars (con.):				
		Other vehicles, with spark-ignition internal combustion reciprocating piston engine (con.):				
8703.24.00 (con.)		Of a cylinder capacity exceeding 3,000 cc (con.)				
		Other (con.):				
		New (con.):				
		Having engines with more than 4 cylinders but not more than 6 cylinders:				
	52 2	Of an interior volume not exceeding 2.8m³	No.			
	54 0	Of an interior volume exceeding 2.8m³ but not exceeding 3.1m³	No.			
	56 8	Of an interior volume exceeding 3.1m³ but not exceeding 3.4m³	No.			
	58 6	Of an interior volume exceeding 3.4m³	No.			
		Having engines with more than 6 cylinders:				
	62 0	Of an interior volume not exceeding 2.8m³	No.			
	64 8	Of an interior volume exceeding 2.8m³ but not exceeding 3.1m³	No.			
	66 6	Of an interior volume exceeding 3.1m³ but not exceeding 3.4m³	No.			
	68 4	Of an interior volume exceeding 3.4m³	No.			
	90 6	Used	No.			
		Other vehicles, with compression-ignition internal combustion piston engine (diesel or semi-diesel):				
8703.31.00	00 6	Of a cylinder capacity not exceeding 1,500 cc	No.	2.5%	Free (B,CA,E,IL)	10%
8703.32.00		Of a cylinder capacity exceeding 1,500 cc but not exceeding 2,500 cc		2.5%	Free (B,CA,E,IL)	10%
	10 3	New	No.			
	50 4	Used	No.			
8703.33.00		Of a cylinder capacity exceeding 2,500 cc		2.5%	Free (B,CA,E,IL)	10%
	10 2	Ambulances, hearses and prison vans	No.			
	30 8	Motor homes	No.			
		Other:				
	45 1	New	No.			
	85 2	Used	No.			
8703.90.00	00 4	Other	No.	2.5%	Free (B,CA,E,IL)	10%

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty 1 General	Rates of Duty 1 Special	Rates of Duty 2
8704		Motor vehicles for the transport of goods:				
8704.10		Dumpers designed for off-highway use:				
8704.10.10	00 8	Cab chassis	No.	4%	Free (B,CA,E,IL)	25%
8704.10.50		Other		8.5% 1/	Free (B,CA,E,IL)	25%
		Rear dump:				
	20 5	With a capacity of 40.8 metric tons or less	No.			
	30 3	With a capacity exceeding 40.8 metric tons but not exceeding 63.5 metric tons	No.			
	40 1	With a capacity exceeding 63.5 metric tons but not exceeding 90.7 metric tons	No.			
	50 8	With a capacity exceeding 90.7 metric tons	No.			
	60 6	Other	No.			
		Other, with compression-ignition internal combustion piston engine (diesel or semi-diesel):				
8704.21.00	00 7	G.V.W. not exceeding 5 metric tons	No.	8.5% 1/	Free (B,CA,E,IL)	25%
8704.22		G.V.W. exceeding 5 metric tons but not exceeding 20 metric tons:				
8704.22.10		Cab chassis		4%	Free (B,CA,E,IL)	25%
	20 0	G.V.W. exceeding 5 metric tons but not exceeding 9 metric tons	No.			
	40 6	G.V.W. exceeding 9 metric tons but not exceeding 12 metric tons	No.			
	60 1	G.V.W. exceeding 12 metric tons but not exceeding 15 metric tons	No.			
	80 7	G.V.W. exceeding 15 metric tons but not exceeding 20 metric tons	No.			
8704.22.50		Other		8.5% 1/	Free (B,CA,E,IL)	25%
	20 1	G.V.W. exceeding 5 metric tons but not exceeding 9 metric tons	No.			
	40 7	G.V.W. exceeding 9 metric tons but not exceeding 12 metric tons	No.			
	60 2	G.V.W. exceeding 12 metric tons but not exceeding 15 metric tons	No.			
	80 8	G.V.W. exceeding 15 metric tons but not exceeding 20 metric tons	No.			
8704.23.00	00 5	G.V.W. exceeding 20 metric tons	No.	8.5% 1/	Free (B,CA,E,IL)	25%

1/ Duty on motor vehicles (valued $1,000 or more) for the transportation of goods temporarily increased. See subheading 9903.87.00

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty 1 General	Rates of Duty 1 Special	Rates of Duty 2
8704 (con.)		Motor vehicles for the transport of goods (con.):				
		Other, with spark-ignition internal combustion piston engine:				
8704.31.00		G.V.W. not exceeding 5 metric tons	.....	8.5% 1/	Free (B,CA,E,IL)	25%
	20 1	G.V.W. not exceeding 2.5 metric tons	No.			
	40 7	G.V.W. exceeding 2.5 metric tons but not exceeding 5 metric tons	No.			
8704.32.00		G.V.W. exceeding 5 metric tons	.....	8.5% 1/	Free (B,CA,E,IL)	25%
	10 2	G.V.W. exceeding 5 metric tons but not exceeding 9 metric tons	No.			
	20 0	G.V.W. exceeding 9 metric tons but not exceeding 12 metric tons	No.			
	30 8	G.V.W. exceeding 12 metric tons but not exceeding 15 metric tons	No.			
	40 6	G.V.W. exceeding 15 metric tons but not exceeding 20 metric tons	No.			
	50 3	G.V.W. exceeding 20 metric tons	No.			
8704.90.00	00 3	Other	No.	8.5% 1/	Free (B,CA,E,IL)	25%
8705		Special purpose motor vehicles, other than those principally designed for the transport of persons or goods (for example, wreckers, mobile cranes, fire fighting vehicles, concrete mixers, road sweepers, spraying vehicles, mobile workshops, mobile radiological units):				
8705.10.00		Mobile cranes	.....	3.7%	Free (A,E,IL) 1.4% (CA)	25%
	10 7	Cable operated	No.			
	50 8	Other	No.			
8705.20.00	00 7	Mobile drilling derricks	No.	3.7%	Free (A,CA,E,IL)	25%
8705.30.00	00 5	Fire fighting vehicles	No.	3.7%	Free (A,CA,E,IL)	25%
8705.40.00	00 3	Concrete mixers	No.	3.7%	Free (A,E,IL) 1.4% (CA)	25%
8705.90.00	00 2	Other	No.	3.7%	Free (A,E,IL) 2.5% (CA)	25%
8706.00		Chassis fitted with engines, for the motor vehicles of headings 8701 to 8705:				
8706.00.10		For the vehicles of subheading 8701.20 or heading 8702 or 8704	.....	4%	Free (B,CA,E,IL)	25%
	20 4	For the vehicles of subheading 8701.20	No.			
	40 0	For the vehicles of heading 8702	No.			
	60 5	For the vehicles of heading 8704	No.			
8706.00.15		For the vehicles of heading 8703	.....	2.5%	Free (B,CA,E,IL)	10%
	20 9	For passenger automobiles	No.			
	40 5	For other vehicles of heading 8703	No.			
8706.00.25	00 1	For the vehicles of heading 8705	No.	2.5%	Free (E,IL) 1.7% (CA)	10%
		For other vehicles:				
8706.00.30	00 4	For tractors suitable for agricultural use	No.	Free		Free
8706.00.50	00 9	Other	No.	2.2%	Free (A,E,IL) 1.5% (CA)	27.5%

1/ Duty on motor vehicles (valued $1,000 or more) for the transportation of goods temporarily increased. See subheading 9903.87.00.

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty 1 General	Rates of Duty 1 Special	Rates of Duty 2
8707		Bodies (including cabs), for the motor vehicles of headings 8701 to 8705:				
8707.10.00		For the vehicles of heading 8703.....	.....	2.5%	Free (B,E,IL) 1.7% (CA)	10%
	20 3	For passenger automobiles.....	No.			
	40 9	For other vehicles.....	No.			
8707.90		Other:				
8707.90.10	00 8	For tractors suitable for agricultural use.....	No.....	Free		Free
8707.90.50		For other vehicles.....	.....	4%	Free (B,E,IL) 2.8% (CA)	25%
	20 5	For vehicles of subheading 8701.20..	No.			
	40 1	For vehicles of heading 8702.....	No.			
	60 6	For vehicles of heading 8704.....	No.			
	80 2	For vehicles of heading 8705.....	No.			
	90 0	For other vehicles.....	No.			
8708		Parts and accessories of the motor vehicles of headings 8701 to 8705:				
8708.10.00		Bumpers and parts thereof.....	.....	3.1%	Free (A,B,E,IL) 2.1% (CA) 1/	25%
	10 4	Stampings.....	X			
	50 5	Other.....	X			
		Other parts and accessories of bodies (including cabs):				
8708.21.00	00 3	Safety seat belts.....	kg.....	3.1%	Free (A*,B,E,IL) 2.1% (CA) 1/	25%
8708.29.00		Other.....	.....	3.1%	Free (A,B,E,IL) 2.1% (CA) 1/	25%
	10 3	Stampings.....	X			
	25 6	Truck caps.....	No.			
	60 2	Other.....	X			
8708.31		Brakes and servo-brakes and parts thereof: Mounted brake linings:				
8708.31.10	00 9	For tractors suitable for agricultural use.....	X.....	Free		Free
8708.31.50	00 0	For other vehicles.....	X.....	3.1%	Free (A,B,E,IL) 2.1% (CA) 1/	25%
8708.39		Other:				
8708.39.10	00 1	For tractors suitable for agricultural use.....	X.....	Free		Free
8708.39.50		For other vehicles.....	.....	3.1%	Free (A,B,E,IL) 2.1% (CA) 1/	25%
	10 0	Brake drums and rotors (discs).....	No.			
	50 1	Other.....	X			

1/ Equipment, originating in the territory of Canada, intended for use in the repair or maintenance of certain motor vehicles subject to accelerated staged rate reductions. See heading 9905.

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty 1 General	Rates of Duty 1 Special	Rates of Duty 2
8708 (con.)		Parts and accessories of the motor vehicles of headings 8701 to 8705 (con.):				
8708.40		Gear boxes:				
8708.40.10	00 8	For the vehicles of subheading 8701.20, or heading 8702 or 8704.....	No.....	3.1%	Free (A,B,E,IL) 2.1% (CA) 1/	25%
8708.40.20	00 6	For the vehicles of heading 8703.....	No.....	3.1%	Free (A,B,E,IL) 2.1% (CA) 1/	25%
8708.40.30	00 4	For tractors suitable for agricultural use.....	No.. ...	Free		Free
8708.40.50	00 9	For other vehicles.....	No.....	3.1%	Free (A,E,IL) 2.1% (CA) 1/	25%
8708.50		Drive axles with differential, whether or not provided with other transmission components:				
		For tractors (except road tractors):				
8708.50.10	00 5	For tractors suitable for agricultural use.....	No.....v kg	Free		Free
8708.50.30	00 1	For other tractors.....	No.....v kg	2.2%	Free (A,E,IL) 1.5% (CA) 1/	27.5%
8708.50.50	00 6	For vehicles of heading 8703.....	No.....v kg	3.1%	Free (A,B,E,IL) 1.8% (CA) 1/	25%
8708.50.80	00 0	For other vehicles.....	No.....v kg	3.1%	Free (A,B,E,IL) 1.8% (CA) 1/	25%
8708.60		Non-driving axles and parts thereof:				
		For tractors (except road tractors):				
8708.60.10	00 3	For tractors suitable for agricultural use.....	X.....	Free		Free
8708.60.30	00 9	For other tractors.....	X.....	2.2%	Free (A,E,IL) 1.5% (CA) 1/	27.5%
8708.60.50	00 4	For vehicles of heading 8703.....	X.....	3.1%	Free (A,B,E,IL) 1.8% (CA) 1/	25%
8708.60.80		For other vehicles.....	.....	3.1%	Free (A,B,E,IL) 1.8% (CA) 1/	25%
	10 6	Spindles.....	No. v kg.			
	50 7	Other.....	X			
8708.70		Road wheels and parts and accessories thereof:				
		For tractors (except road tractors):				
8708.70.10	00 1	For tractors suitable for agricultural use.....	X.....	Free		Free
8708.70.30	00 7	For other tractors.....	X.....	2.2%	Free (A,E,IL) 1.5% (CA) 1/	27.5%
8708.70.80		For other vehicles.....	.....	3.1%	Free (A,B,E,IL) 2.1% (CA) 1/	25%
		Wheels:				
	15 9	For vehicles of subheading 8701.20 or heading 8702, 8704, or 8705.....	No.			
	30 0	Other.....	No.			
		Other:				
	45 3	Wheel rims for vehicles of subheading 8701.20 or heading 8702, 8703, 8704, or 8705.....	X			
	60 3	Wheel covers and hubcaps for vehicles of subheading 8701.20 or heading 8702, 8703, 8704, or 8705.....	X			
	75 6	Other.....	X			
8708.80		Suspension shock absorbers:				
8708.80.10	00 9	For tractors suitable for agricultural use.....	X.....	Free		Free
8708.80.50	00 0	For other vehicles.....	No.....	3.1%	Free (A,B,E,IL) 1.8% (CA) 1/	25%

1/ Equipment, originating in the territory of Canada, intended for use in the repair or maintenance of certain motor vehicles subject to accelerated staged rate reductions. See heading 9905.

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty 1 General	Rates of Duty 1 Special	Rates of Duty 2
8708 (con.)		Parts and accessories of the motor vehicles of headings 8701 to 8705 (con.):				
		Other parts and accessories:				
8708.91		Radiators:				
8708.91.10	00 6	For tractors suitable for agricultural use	X.....	Free		Free
8708.91.50	00 7	For other vehicles	No.....	3.1%	Free (A,B,E,IL) 2.1% (CA) 1/	25%
8708.92		Mufflers and exhaust pipes:				
8708.92.10	00 5	For tractors suitable for agricultural use	X.....	Free		Free
8708.92.50	00 6	For other vehicles	X.....	3.1%	Free (B,E,IL) 2.1% (CA) 1/	25%
8708.93		Clutches and parts thereof:				
8708.93.10	00 4	For tractors suitable for agricultural use	X.....	Free		Free
8708.93.50	00 5	For other vehicles	X.....	3.1%	Free (A,B,E,IL) 2.1% (CA) 1/	25%
8708.94		Steering wheels, steering columns and steering boxes:				
8708.94.10	00 3	For tractors suitable for agricultural use	X.....	Free		Free
8708.94.50	00 4	For other vehicles	X.....	3.1%	Free (A,B,E,IL) 2.1% (CA) 1/	25%
8708.99		Other:				
8708.99.10	00 8	Parts of tractors suitable for agricultural use	X.....	Free		Free
8708.99.20		Parts of other tractors (except road tractors)	.....	2.2%	Free (A,E,IL) 1.5% (CA) 1/	27.5%
	10 4	Tracklinks for track-laying tractors	No. v kg			
	50 5	Other	X			
		Other:				
8708.99.30	00 4	Of cast-iron	kg.....	Free		Free
8708.99.50		Other	.....	3.1%	Free (A*,B,E,IL) 2.1% (CA) 1/	25%
	05 4	Brake hoses of plastics, with attached fittings	X			
	10 7	Steering shaft assemblies incorporating universal joints	No. v kg			
		Double flanged wheel hub units:				
	20 5	Incorporating ball bearings	No. v kg			
	25 0	Other	No. v kg			
	30 3	Beam hanger brackets	No.			
	45 6	Slide-in campers	No.			
	60 6	Radiator cores	No.			
	70 4	Cable traction devices	kg			
	85 7	Other	X			

1/ Equipment, originating in the territory of Canada, intended for use in the repair or maintenance of certain motor vehicles subject to accelerated staged rate reductions. See heading 9905.

APPENDIX F
CCT CHAPTER 87, HEADINGS 8701 THROUGH 8708

Chapter 87

VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING-STOCK, AND PARTS AND ACCESSORIES THEREOF

Notes.

1. This Chapter does not cover railway or tramway rolling-stock designed solely for running on rails.

2. For the purpose of this Chapter, "tractors" means vehicles constructed essentially for hauling or pushing another vehicle, appliance or load, whether or not they contain subsidiary provision for the transport, in connection with the main use of the tractor, of tools, seeds, fertilizers or other goods.

3. For the purpose of heading No. 87.02, the expression "public-transport type passenger motor vehicles" means vehicles designed for the transport of ten persons or more (including the driver).

4. Motor chassis fitted with cabs fall in heading Nos. 87.02 to 87.04, and not in heading No. 87.06.

5. Heading No. 87.12 includes all children's bicycles. Other children's cycles fall in heading No. 95.01.

General Information

In addition to codes referred to against specific tariff items, the goods of this Chapter may be eligible for the concessionary provisions of the following codes.

1910	2465	2469	2481
2450	2466	2470	2482
2455	2467	2475	
2460	2468	2480	

Tariff Item	SS	Description of Goods	Unit of Meas. Code	Most-Favoured-Nation Tariff	General Preferential Tariff	United States Tariff	Codes
87.01		**Tractors (other than tractors of heading No. 87.09).**					
8701.10		**-Pedestrian controlled tractors**					
8701.10.10	00	---Powered by an internal combustion engine	NMB	Free	Free	Free	
8701.10.90	00	---Other	NMB	9.2%	6%	7.3% 6.4%	1343
		On and after January 1, 1991					
8701.20.00		**-Road tractors for semi-trailers**		9.2%	6%	7.3%	1343 2440 9410
		On and after January 1, 1991				6.4%	
		-----New:					
	11	*-------g.v.w. not exceeding 36 tonnes*	NMB				
	12	*-------g.v.w. exceeding 36 tonnes*	NMB				
	20	*-----Used*	NMB				
8701.30		**-Track-laying tractors**					
8701.30.10		---Powered by an internal combustion engine		Free	Free	Free	
		-----New:					
	11	*-------With a net engine power of less than 93.3 kW*	NMB				
	12	*-------With a net engine power of 93.3 kW or more but less than 119.4 kW*	NMB				
	13	*-------With a net engine power of 119.4 kW or more but less than 194 kW*	NMB				
	14	*-------With a net engine power of 194 kW or more but less than 257.4 kW*	NMB				
	15	*-------With a net engine power of 257.4 kW or more*	NMB				
	20	*-----Used*	NMB				
8701.30.90	00	---Other	NMB	9.2%	6%	Free	1343
8701.90		**-Other**					
		---Powered by an internal combustion engine					
8701.90.11	00	-----Of a kind for hauling logs (log skidders)	NMB	8%	5%	6.4% 5.6%	MACH 1343
		On and after January 1, 1991					
8701.90.19		-----Other		Free	Free	Free	
		-----New tractors of a kind for agricultural use, with power take-off (PTO) of less than 74.6 kW:					
	11	*-------With a PTO of less than 14.9 kW*	NMB				
	12	*-------With a PTO of 14.9 kW or more but less than 22.4 kW*	NMB				
	13	*-------With a PTO of 22.4 kW or more but less than 29.8 kW*	NMB				
	14	*-------With a PTO of 29.8 kW or more but less than 44.8 kW*	NMB				
	15	*-------With a PTO of 44.8 kW or more but less than 59.7 kW*	NMB				
	16	*-------With a PTO of 59.7 kW or more but less than 74.6 kW*	NMB				
		-----New tractors of a kind for agricultural use, with power take-off (PTO) of 74.6 kW or more:					

Tariff Item	SS	Description of Goods	Unit of Meas. Code	Most-Favoured-Nation Tariff	General Preferential Tariff	United States Tariff	Codes
8701.90.19 Continued	21	------*With a PTO of 74.6 kW or more but less than 89.5 kW*	NMB				
	22	------*With a PTO of 89.5 kW or more but less than 104.4 kW*	NMB				
	23	------*With a PTO of 104.4 kW or more but less than 119.4 kW*	NMB				
	24	------*With a PTO of 119.4 kW or more but less than 134.3 kW*	NMB				
	25	------*With a PTO of 134.3 kW or more*	NMB				
	30	-----*Other new agricultural tractors*	NMB				
	40	-----*Used agricultural tractors*	NMB				
		-----*Other:*					
	91	------*With a net engine power of less than 223.8 kW*	NMB				
	92	------*With a net engine power of 223.8 kW or more but less than 373 kW*	NMB				
	93	------*With a net engine power of 373 kW or more*	NMB				
8701.90.90	00	----Other	NMB	9.2%	2.5%	7.3% 6.4%	1343
		On and after January 1, 1991					
87.02		**Public-transport type passenger motor vehicles.**					
8702.10.00	00	**-With compression-ignition internal combustion piston engine (diesel or semi-diesel)**	NMB	9.2%	6%	7.3%	2440 9400 9420
		On and after January 1, 1991				6.4%	
8702.90.00	00	**-Other**	NMB	9.2%	6%	7.3%	2440 9400 9420
		On and after January 1, 1991				6.4%	
87.03		**Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading No. 87.02), including station wagons and racing cars.**					
8703.10		**-Vehicles specially designed for travelling on snow; golf cars and similar vehicles**					
8703.10.10	00	---Recreational or sporting vehicles specially designed for travelling on snow	NMB	Free	Free	Free	
8703.10.90		----Other		9.2%	6%	7.3%	1344 2440
		On and after January 1, 1991				6.4%	
		-----*Golf carts:*					
	11	------*Powered by an electric motor*	NMB				
	19	------*Other*	NMB				
		-----*Other:*					
	91	------*Powered by an electric motor*	NMB				
	99	------*Other*	NMB				

Tariff Item	SS	Description of Goods	Unit of Meas. Code	Most-Favoured-Nation Tariff	General Preferential Tariff	United States Tariff	Codes
		-Other vehicles, with spark-ignition internal combustion reciprocating piston engine:					
8703.21		**--Of a cylinder capacity not exceeding 1,000 cc**					
8703.21.10	00	---Non-amphibious all terrain vehicles of a weight of less than 227.3 kg, having fewer than six wheels and designed to carry only one passenger	NMB	9.2%	6%	Free	1344 2440
8703.21.90	00	---Other	NMB	9.2%	6%	7.3%	1344 2440
		On and after January 1, 1991				6.4%	
8703.22.00		**--Of a cylinder capacity exceeding 1,000 cc but not exceeding 1,500 cc**		9.2% BPT Free	6%	7.3%	1344 2440 9400 9410
		On and after January 1, 1991				6.4%	
	10	*-----New or used racing cars*	NMB				
	20	*-----Other used vehicles*	NMB				
		-----Other:					
	91	*------Of an interior volume not exceeding 2.4 m^3*	NMB				
	92	*------Of an interior volume exceeding 2.4 m^3 but not exceeding 2.8 m^3*	NMB				
	93	*------Of an interior volume exceeding 2.8 m^3 but not exceeding 3.1 m^3*	NMB				
	94	*------Of an interior volume exceeding 3.1 m^3 but not exceeding 3.4 m^3*	NMB				
	95	*------Of an interior volume exceeding 3.4 m^3*	NMB				
8703.23.00		**--Of a cylinder capacity exceeding 1,500 cc but not exceeding 3,000 cc**		9.2% BPT Free	6%	7.3%	1344 2440 9400 9410
		On and after January 1, 1991				6.4%	
	10	*-----New or used motorhomes*	NMB				
	20	*-----New or used racing cars*	NMB				
	30	*-----Other used vehicles*	NMB				
		-----New motor cars and other motor vehicles not exceeding 4 cylinders:					
	41	*------Of an interior volume not exceeding 2.4 m^3*	NMB				
	42	*------Of an interior volume exceeding 2.4 m^3 but not exceeding 2.8 m^3*	NMB				
	43	*------Of an interior volume exceeding 2.8 m^3 but not exceeding 3.1 m^3*	NMB				
	44	*------Of an interior volume exceeding 3.1 m^3 but not exceeding 3.4 m^3*	NMB				
	45	*------Of an interior volume exceeding 3.4 m^3*	NMB				
		-----New motor cars and other motor vehicles exceeding 4 cylinders but not exceeding 6 cylinders:					
	51	*------Of an interior volume not exceeding 2.8 m^3*	NMB				
	52	*------Of an interior volume exceeding 2.8 m^3 but not exceeding 3.1 m^3*	NMB				
	53	*------Of an interior volume exceeding 3.1 m^3 but not exceeding 3.4 m^3*	NMB				
	54	*------Of an interior volume exceeding 3.4 m^3*	NMB				
		-----New motor cars and other motor vehicles exceeding 6 cylinders:					
	61	*------Of an interior volume not exceeding 2.8 m^3*	NMB				
	62	*------Of an interior volume exceeding 2.8 m^3 but not exceeding 3.1 m^3*	NMB				
	63	*------Of an interior volume exceeding 3.1 m^3 but not exceeding 3.4 m^3*	NMB				
	64	*------Of an interior volume exceeding 3.4 m^3*	NMB				

Tariff Item	SS	Description of Goods	Unit of Meas. Code	Most-Favoured-Nation Tariff	General Preferential Tariff	United States Tariff	Codes
8703.24.00		**--Of a cylinder capacity exceeding 3,000 cc**		9.2% BPT Free	6%	7.3%	1344 2440 9400 9410
		On and after January 1, 1991				6.4%	
	10	*-----New or used ambulances, hearses or prison vans*	NMB				
	20	*-----New or used motorhomes*	NMB				
	30	*-----New or used racing cars*	NMB				
	40	*-----Other used vehicles*	NMB				
		-----New motor cars and other motor vehicles not exceeding 4 cylinders:					
	51	*------Of an interior volume not exceeding 2.4 m^3*	NMB				
	52	*------Of an interior volume exceeding 2.4 m^3 but not exceeding 2.8 m^3*	NMB				
	53	*------Of an interior volume exceeding 2.8 m^3 but not exceeding 3.1 m^3*	NMB				
	54	*------Of an interior volume exceeding 3.1 m^3 but not exceeding 3.4 m^3*	NMB				
	55	*------Of an interior volume exceeding 3.4 m^3*	NMB				
		-----New motor cars and other motor vehicles exceeding 4 cylinders but not exceeding 6 cylinders:					
	61	*------Of an interior volume not exceeding 2.8 m^3*	NMB				
	62	*------Of an interior volume exceeding 2.8 m^3 but not exceeding 3.1 m^3*	NMB				
	63	*------Of an interior volume exceeding 3.1 m^3 but not exceeding 3.4 m^3*	NMB				
	64	*------Of an interior volume exceeding 3.4 m^3*	NMB				
		-----New motor cars and other motor vehicles exceeding 6 cylinders:					
	71	*------Of an interior volume not exceeding 2.8 m^3*	NMB				
	72	*------Of an interior volume exceeding 2.8 m^3 but not exceeding 3.1 m^3*	NMB				
	73	*------Of an interior volume exceeding 3.1 m^3 but not exceeding 3.4 m^3*	NMB				
	74	*------Of an interior volume exceeding 3.4 m^3*	NMB				
		-Other vehicles, with compression-ignition internal combustion piston engine (diesel or semi-diesel):					
8703.31.00	00	**--Of a cylinder capacity not exceeding 1,500 cc**	NMB	9.2%	6%	7.3%	1344 2440 9400 9410
		On and after January 1, 1991				6.4%	
8703.32.00		**--Of a cylinder capacity exceeding 1,500 cc but not exceeding 2,500 cc**		9.2%	6%	7.3% 6.4%	
		On and after January 1, 1991					
	10	*-----New or used motorhomes*	NMB				
	20	*-----Other used vehicles*	NMB				
		-----Other:					
	91	*------Of an interior volume not exceeding 2.4 m^3*	NMB				
	92	*------Of an interior volume exceeding 2.4 m^3 but not exceeding 2.8 m^3*	NMB				
	93	*------Of an interior volume exceeding 2.8 m^3 but not exceeding 3.1 m^3*	NMB				
	94	*------Of an interior volume exceeding 3.1 m^3 but not exceeding 3.4 m^3*	NMB				
	95	*------Of an interior volume exceeding 3.4 m^3*	NMB				

Tariff Item	SS	Description of Goods	Unit of Meas. Code	Most-Favoured-Nation Tariff	General Preferential Tariff	United States Tariff	Codes
8703.33.00		---Of a cylinder capacity exceeding 2,500 cc		9.2%	6%	6.4%	1344 2440 9400 9410
	10	-----*New or used ambulances, hearses or prison vans*	NMB				
	20	-----*New or used motorhomes*	NMB				
	30	-----*Other used vehicles*	NMB				
		-----*Other:*					
	91	------*Of an interior volume not exceeding 2.4 m^3*	NMB				
	92	------*Of an interior volume exceeding 2.4 m^3 but not exceeding 2.8 m^3*	NMB				
	93	------*Of an interior volume exceeding 2.8 m^3 but not exceeding 3.1 m^3*	NMB				
	94	------*Of an interior volume exceeding 3.1 m^3 but not exceeding 3.4 m^3*	NMB				
	95	------*Of an interior volume exceeding 3.4 m^3*	NMB				
8703.90.00		-Other		9.2%	6%	6.4%	1344 2440 9400 9410
	10	-----*Powered by an electric motor*	NMB				
	90	-----*Other*	NMB				
87.04		**Motor vehicles for the transport of goods.**					
8704.10.00		-Dumpers designed for off-highway use		9.2%	5%	6.4%	
	10	-----*Cab chassis*	NMB				
		-----*Other rear dump:*					
	21	------*With a capacity not exceeding 40.8 metric tonnes*	NMB				
	22	------*With a capacity exceeding 40.8 metric tonnes but not exceeding 63.5 metric tonnes*	NMB				
	23	------*With a capacity exceeding 63.5 metric tonnes but not exceeding 90.7 metric tonnes*	NMB				
	24	------*With a capacity exceeding 90.7 metric tonnes*	NMB				
	90	-----*Other (including side and bottom dump)*	NMB				
		-Other, with compression-ignition internal combustion piston engine (diesel or semi-diesel):					
8704.21.00		---g.v.w. not exceeding 5 tonnes		9.2%	6%	6.4%	1344 2440 9410
	10	-----*g.v.w. not exceeding 2 tonnes*	NMB				
	20	-----*g.v.w. exceeding 2 tonnes but not exceeding 3 tonnes*	NMB				
	30	-----*g.v.w. exceeding 3 tonnes but not exceeding 5 tonnes*	NMB				
8704.22.00		---g.v.w. exceeding 5 tonnes but not exceeding 20 tonnes		9.2%	6%	6.4%	1344 2440 9410
	10	-----*g.v.w. exceeding 5 tonnes but not exceeding 10 tonnes*	NMB				
	20	-----*g.v.w. exceeding 10 tonnes but not exceeding 12 tonnes*	NMB				
	30	-----*g.v.w. exceeding 12 tonnes but not exceeding 15 tonnes*	NMB				
	40	-----*g.v.w. exceeding 15 tonnes but not exceeding 20 tonnes*	NMB				

Tariff Item	SS	Description of Goods	Unit of Meas. Code	Most-Favoured-Nation Tariff	General Preferential Tariff	United States Tariff	Codes
8704.23.00	00	**—g.v.w. exceeding 20 tonnes**	NMB	9.2%	6%	6.4%	1344 2440 9410
		-Other, with spark-ignition internal combustion piston engine:					
8704.31.00		**—g.v.w. not exceeding 5 tonnes**		9.2%	6%	6.4%	1344 2440 9410
	10	*-----g.v.w. not exceeding 2.5 tonnes*	NMB				
	20	*-----g.v.w. exceeding 2.5 tonnes but not exceeding 5 tonnes*	NMB				
8704.32.00		**—g.v.w. exceeding 5 tonnes**		9.2%	6%	6.4%	1344 2440 9410
	10	*-----g.v.w. exceeding 5 tonnes but not exceeding 10 tonnes*	NMB				
	20	*-----g.v.w. exceeding 10 tonnes but not exceeding 12 tonnes*	NMB				
	30	*-----g.v.w. exceeding 12 tonnes but not exceeding 15 tonnes*	NMB				
	40	*-----g.v.w. exceeding 15 tonnes but not exceeding 20 tonnes*	NMB				
	50	*-----g.v.w. exceeding 20 tonnes*	NMB				
8704.90.00	00	**-Other**	NMB	9.2%	6%	6.4%	1344 2440 9410
87.05		**Special purpose motor vehicles, other than those principally designed for the transport of persons or goods (for example, breakdown lorries (wreckers), crane lorries (mobile cranes), fire fighting vehicles, concrete mixer lorries (concrete-mixers), road sweeper lorries (road sweepers), spraying lorries (spraying vehicles), mobile workshops, mobile radiological units).**					
8705.10		**-Crane lorries (mobile cranes)**					
8705.10.10		---For underground mining		Free	Free	Free	
	10	*-----Cable-operated*	NMB				
	90	*-----Other*	NMB				
8705.10.90		---Other		9.2%	6%	3.6%	9410 MACH
	10	*-----Cable-operated*	NMB				
	90	*-----Other*	NMB				
8705.20.00		**-Mobile drilling derricks**		9.2%	6%	Free	1550 9410 MACH
	10	*-----For drilling oil or natural gas wells*	NMB				
	20	*-----For drilling water wells*	NMB				
	90	*-----Other*	NMB				
8705.30.00	00	**-Fire fighting vehicles**	NMB	10.2%	Free	Free	2440 6302
8705.40.00	00	**-Concrete-mixer lorries (concrete-mixers)**	NMB	9.2%	2.5%	3.6%	9410 MACH

Tariff Item	SS	Description of Goods	Unit of Meas. Code	Most-Favoured-Nation Tariff	General Preferential Tariff	United States Tariff	Codes
8705.90		**-Other**					
8705.90.10	00	---Spraying lorries (spraying vehicles) for spreading dry or liquid fertilizer or sludge for agricultural use	NMB	Free	Free	Free	
8705.90.90	00	---Other	NMB	9.2%	2.5%	6.4%	MACH
8706.00		**Chassis fitted with engines, for the motor vehicles of heading Nos. 87.01 to 87.05.**					
8706.00.10	00	---For the tractors of tariff item No. 8701.10.10, 8701.30.10 or 8701.90.19	NMB	Free	Free	Free	
8706.00.90		---Other		9.2%	6%	6.4%	0523 9400 9410 9420 MACH
		-----For the tractors of subheading No. 8701.20 or the vehicles of heading No. 87.02 or 87.04:					
	11	*------For the tractors of subheading No. 8701.20*	NMB				
	12	*------For the vehicles of heading No. 87.02*	NMB				
	13	*------For the vehicles of heading No. 87.04*	NMB				
		-----For the vehicles of heading No. 87.03 or 87.05:					
	21	*------For motor cars of heading No. 87.03*	NMB				
	22	*------For the vehicles other than motor cars of heading No. 87.03*	NMB				
	23	*------For the vehicles of heading No. 87.05*	NMB				
	90	*-----Other*	NMB				
87.07		**Bodies (including cabs), for the motor vehicles of heading Nos. 87.01 to 87.05.**					
8707.10		**-For the vehicles of heading No. 87.03**					
8707.10.10	00	---For camper vehicles	NMB	12.2%	8%	8.5%	9450
8707.10.90		---Other		9.2%	Free	6.4%	9450
	10	*-----For motor cars*	NMB				
	90	*-----Other*	NMB				
8707.90		**-Other**					
8707.90.10	00	---Cabs for the tractors of tariff item No. 8701.10.10, 8701.30.10 or 8701.90.19	NMB	Free	Free	Free	
8707.90.90		---Other		9.2%	6%	6.4%	0523 9450 MACH USME
	10	*-----For the tractors of subheading No. 8701.20*	NMB				
	20	*-----For the vehicles of heading No. 87.02*	NMB				
	30	*-----For the vehicles of heading No. 87.04*	NMB				
	40	*-----For the vehicles of heading No. 87.05*	NMB				
	90	*-----Other*	NMB				

Tariff Item	SS	Description of Goods	Unit of Meas. Code	Most-Favoured-Nation Tariff	General Preferential Tariff	United States Tariff	Codes
87.08		**Parts and accessories of the motor vehicles of heading Nos. 87.01 to 87.05.**					
8708.10.00		**-Bumpers and parts therof**		9.2% BPT Free	6%	6.4%	0523 0531 0544 1343 6200 9450 9606 MACH
	10	-----*Stampings*	-				
	90	-----*Other*	-				
		-Other parts and accessories of bodies (including cabs):					
8708.21.00	00	**---Safety seat belts**	-	9.2%	6%	6.4%	0523 0544 1343 9450 9606
8708.29		**---Other**					
8708.29.10		---For the tractors of tariff item No. 8701.10.10, 8701.30.10 or 8701.90.19		Free	Free	Free	
	10	-----*Stampings*	-				
	90	-----*Other*	-				
		---Other:					
8708.29.91	00	----Veterinary units, designed for the transportation and storage of veterinary equipment and preparations, for installation on motor vehicles; parts and accessories of the foregoing	-	Free	Free	Free	
8708.29.92	00	----Truck caps	-	11.9%	7.5%	8.3%	1343 9450 9622
8708.29.93	00	----Floor mats of plastics	-	17.5%	11.5%	12.2%	1343 9450 9631
8708.29.94	00	----Seat covers of plastics	-	13.6%	9%	9.5%	1343 9450 9630

Tariff Item	SS	Description of Goods	Unit of Meas. Code	Most-Favoured-Nation Tariff	General Preferential Tariff	United States Tariff	Codes
8708.29.95	00	-----Seat covers of textile materials	-	25%	X	20%	0523 0544 1343 5814 9450 9632
		On and after January 1, 1991				17.5%	
8708.29.99		----Other		9.2% BPT Free	6%	7.3%	USME 0523 0530 0533 0534 0541 0544 1343 5814 9450 9606
		On and after January 1, 1991				6.4%	
	10	-----*Stampings*	-				
	90	-----*Other*	-				
		-Brakes and servo-brakes and parts thereof:					
8708.31		**---Mounted brake linings**					
8708.31.10	00	----For the tractors of tariff item No. 8701.10.10, 8701.30.10 or 8701.90.19	-	Free	Free	Free	0523 0544 1343 5814
8708.31.90		----Other		9.2% BPT Free	6%	7.3%	MACH 0523 0544 1343 5814 6205 9450 9606
		On and after January 1, 1991				6.4%	
	10	-----*For the motor vehicles of heading No. 87.03*	-				
	90	-----*Other*	-				
8708.39		**---Other**					
8708.39.10	00	----For the tractors of tariff item No. 8701.10.10, 8701.30.10 or 8701.90.19	-	Free	Free	Free	0523 0544 1343 5814
8708.39.90		----Other		9.2% BPT Free	6%	7.3%	MACH 0523 0544 1343 5814 6205 9450 9606
		On and after January 1, 1991				6.4%	
	10	-----*Brake cylinders*	-				
	20	-----*Disc brake caliper assemblies*	-				
	30	-----*Brake drums*	-				
	90	-----*Other*	-				
8708.40		**-Gear boxes (transmissions)**					
8708.40.10	00	----For the tractors of tariff item No. 8701.10.10, 8701.30.10 or 8701.90.19	-	Free	Free	Free	0523 0544 1343 5814

Tariff Item	SS	Description of Goods	Unit of Meas. Code	Most-Favoured-Nation Tariff	General Preferential Tariff	United States Tariff	Codes
8708.40.90		---Other		9.2%	6%	7.3%	MACH 0523 0544 1343 1940 5814 5816 9450 9606
		On and after January 1, 1991				6.4%	
	10	-----*For the motor vehicles of heading No. 87.03*	-				
	20	-----*For the tractors of sub- heading No. 8701.20 or the vehicles of heading No. 87.02 or 87.04*	-				
	90	-----*Other*	-				
8708.50		**-Drive-axles with differential, whether or not provided with other transmission components**					
8708.50.10	00	---For the tractors of tariff item No. 8701.10.10, 8701.30.10 or 8701.90.19	-	Free	Free	Free	0523 0544 1343 5814
8708.50.90		---Other		9.2%	6%	7.3%	MACH 0523 0544 1343 1940 5813 5814 9450 9606
		On and after January 1, 1991				6.4%	
	10	-----*For the motor vehicles of heading No. 87.03*	-				
	90	-----*Other*	-				
8708.60		**-Non-driving axles and parts thereof**					
8708.60.10	00	---For the tractors of tariff item No. 8701.10.10, 8701.30.10 or 8701.90.19	-	Free	Free	Free	0523 0544 1343 5814
8708.60.90		---Other		9.2%	6%	7.3%	MACH 0523 0544 1343 1940 5813 5814 9450 9606
		On and after January 1, 1991				6.4%	
	10	-----*For the motor vehicles of heading No. 87.03*	-				
	90	-----*Other*	-				
8708.70		**-Road wheels and parts and accessories thereof**					
8708.70.10	00	---For the tractors of tariff item No. 8701.10.10, 8701.30.10 or 8701.90.19	-	Free	Free	Free	0523 0544 1343 5814
8708.70.90		---Other		9.2% BPT Free	6%	7.3%	MACH 0523 0544 1343 5814 6210 9450 9606
		On and after January 1, 1991				6.4%	
	10	-----*Hub-caps*	-				
	90	-----*Other*	-				

Tariff Item	SS	Description of Goods	Unit of Meas. Code	Most-Favoured-Nation Tariff	General Preferential Tariff	United States Tariff	Codes
8708.80.00		**-Suspension shock-absorbers**		9.2%	6%	7.3%	MACH 0523 0544 1343 5814 9450 9606
		On and after January 1, 1991				6.4%	
	10	*-----For the motor vehicles of heading No. 87.03*	-				
		-----Other:					
	91	*------For tractors of a kind for agricultural use*	-				
	99	*------Other*	-				
		-Other parts and accessories:					
8708.91		**--Radiators**					
8708.91.10	00	---For the tractors of tariff item No. 8701.10.10, 8701.30.10 or 8701.90.19	-	Free	Free	Free	0523 0544 1343 5814
8708.91.90	00	---Other	-	9.2%	6%	7.3%	MACH 0523 0544 1343 5814 9450 9606
		On and after January 1, 1991				6.4%	
8708.92		**--Silencers (mufflers) and exhaust pipes**					
8708.92.10	00	---For the tractors of tariff item No. 8701.10.10, 8701.30.10 or 8701.90.19	-	Free	Free	Free	0523 0544 1343 5814
8708.92.90		---Other		9.2%	6%	7.3%	MACH 0523 0544 1343 5814 9450 9606
		On and after January 1, 1991				6.4%	
	10	*-----Silencers (mufflers)*	-				
	20	*------Exhaust pipes*	-				
8708.93		**--Clutches and parts thereof**					
8708.93.10	00	---For the tractors of tariff item No. 8701.10.10, 8701.30.10 or 8701.90.19	-	Free	Free	Free	0523 0544 1343 5814
8708.93.90	00	---Other	-	9.2%	6%	7.3%	MACH 0523 0544 1343 5814 5817 6215 9450 9606
		On and after January 1, 1991				6.4%	
8708.94		**--Steering wheels, steering columns and steering boxes**					
8708.94.10	00	---For the tractors of tariff item No. 8701.10.10, 8701.30.10 or 8701.90.19	-	Free	Free	Free	0523 0544 1343 5814

Tariff Item	SS	Description of Goods	Unit of Meas. Code	Most-Favoured-Nation Tariff	General Preferential Tariff	United States Tariff	Codes
8708.94.90	00	---Other	-	9.2%	6%	7.3%	MACH 0523 0544 1343 2425 5814 9450 9606
		On and after January 1, 1991				6.4%	
8708.99		**---Other**					
8708.99.10	00	----For the tractors of tariff item No. 8701.10.10, 8701.30.10 or 8701.90.19	-	Free	Free	Free	0523 0544 1343 5814
		----Other:					
8708.99.91	00	-----Veterinary units, designed for the transportation and storage of veterinary equipment and preparations, for installation in motor vehicles; parts and accessories of the foregoing	-	Free	Free	Free	0523 0544 1343 5814
8708.99.99		-----Other		9.2%	6%	7.3%	MACH 0523 0535 0544 1343 2425 5673 5814 6220 9450 9606
		On and after January 1, 1991				6.4%	
		------For the power train:					
	11	*-------Half-shafts and drive shafts*	-				
	12	*-------Universal joints*	-				
	19	*-------Other*	-				
	20	*------For the suspension*	-				
	30	*------For the cooling system*	-				
		------For the steering system:					
	41	*-------Tie rod assemblies*	-				
	42	*-------Idler arms*	-				
	49	*-------Other*	-				
		------Frames and frame components:					
	51	*-------Frames*	-				
	52	*-------Frame components*	-				
	90	*------Other*	-				
87.09		**Works trucks, self-propelled, not fitted with lifting or handling equipment, of the type used in factories, warehouses, dock areas or airports for short distance transport of goods; tractors of the type used on railway station platforms; parts of the foregoing vehicles.**					
		-Vehicles:					
8709.11.00		**---Electrical**		9.2%	2.5%	7.3%	MACH
		On and after January 1, 1991				6.4%	
	10	*------Tractors*	NMB				
	90	*------Other*	NMB				

APPENDIX G
IGI CHAPTER 87, HEADINGS 8701 THROUGH 8708

Codigo Sistema Armonizado	Descripcion	Unidad de Cantidad	AD/ Valorem %
86.09	CONTENEDORES (INCLUIDOS LOS CONTENEDORES-CISTERNA Y LOS CONTENEDORES-DEPOSITO) ESPECIALMENTE PROYECTADOS Y EQUIPADOS PARA UNO O VARIOS MEDIOS DE TRANSPORTE.		
8609.00	Contenedores (incluidos los contenedores-cisterna y los contenedores-deposito) especialmente proyectados y equipados para uno o varios medios de transporte. (11)		
8609.00.01	Contenedores (incluidos los contenedores-cisterna y los contenedores-deposito) especialmente proyectados y equipados para uno o varios medios de transporte	Kg.	20

CAPITULO 87

VEHICULOS AUTOMOVILES, TRACTORES, CICLOS Y DEMAS VEHICULOS TERRESTRES, SUS PARTES Y ACCESORIOS

Notas.

1. Este capitulo no comprende los vehiculos proyectados para circular solamente sobre carriles (rieles).

2. En este capitulo, se entiende por tractores, los vehiculos con motor esencialmente proyectados para tirar o empujar a otros aparatos, vehiculos o cargas, incluso si tienen ciertos acondicionamientos accesorios en relacion con el uso principal, que permitan el transporte de herramientas, semillas, abonos, etc.

3. En la partida 87.02 se consideran vehiculos automoviles para el transporte colectivo de personas, los vehiculos proyectados para transportar un minimo de diez personas, incluido el conductor.

4. Los chasis con cabina para vehiculos automoviles se clasifican en las partidas 87.02 a 87.04 y no en la 87.06.

5. La partida 87.12 comprende todas las bicicletas para ninos. Los demas ciclos para ninos se clasifican en la partida 95.01.

87.01	TRACTORES (EXCEPTO LAS CARRETILLAS-TRACTOR DE LA PARTIDA 87.09).	
8701.10	- Motocultores.	

N. del E.-Vease la Nota Nacional del Capitulo 72 que figura en la Pag. 638 referente a las Partidas 87.01 a 87.08.

HOJA G	Cancela la hoja "F" para poner Nota del Editor.

Codigo Sistema Armonizado	Descripcion	Unidad de Cantidad	AD/ Valorem %
8701.10.01	Motocultores. (0-6) ..... (**)	Pza.	10
8701.20	- Tractores de carretera para semirremolques.		
8701.20.01(*)	Tractores de carretera para semirremolques .... (**) (Vease Grupo 35)	Pza.	20
8701.30	- Tractores de orugas.		
8701.30.01 (&) (&&&)	Tractores de orugas con potencia al volante del motor igual o superior a 105 C.P. sin exceder de 380 C.P., medida a 1900 RPM, incluso con hoja empujadora ..... (**)	Pza.	20
8701.30.99	Los demas. (0-7)	Pza.	10
8701.90	- Los demas.		
8701.90.01 (&) (&&&) (&&)	Tractores de rueda con toma de fuerza o enganche de tres puntos, para acoplamiento de implementos agricolas. (0-1-6) ..... (**)	Pza.	15
8701.90.02 (&) a	Tractores para vias ferreas, provistos de aditamento de ruedas con llantas neumaticas accionadas mecanicamente para rodarlos sobre pavimento. (0-6)	Pza.	15
8701.90.03	DEROGADA. (0-6)		
8701.90.99	Los demas. (0-6)	Pza.	15
87.02	VEHICULOS AUTOMOVILES PARA EL TRANSPORTE COLECTIVO DE PERSONAS.		
8702.10	- Con motor de embolo o piston, de encendido por compresion (diesel o semidiesel).		
8702.10.01(*)	Con carroceria montada sobre chasis ..... (**) (Vease Grupo 35)	Pza.	20
8702.10.02(*)	Con carroceria integral ..... (**) (Vease Grupo 35)	Pza.	20

(Vease significado de llamadas Pag. XVII.)

Código Sistema Armonizado	Descripción	Unidad de Cantidad	AD/ Valórem %
8702.90	— Los demás.		
8702.90.01 (&) @	Trolebuses. (0-1)	Pza.	20
8702.90.02 (*)	Con carrocería montada sobre chasis. (0-1) ... (**) (**Véase Grupo 35**)	Pza.	20
8702.90.03 (*)	Con carrocería integral. (0-1) ..... (*) (**Véase Grupo 35**)	Pza.	20
8702.90.04	DEROGADA. (0-1)		
87.03	Coches de turismo y demás vehículos automóviles proyectados principalmente para el transporte de personas (excepto los de la partida 87.02), incluidos los vehículos del tipo familiar ("break" o "station vagón") y los de carreras.		
8703.10	— Vehículos especialmente proyectados para desplazarse sobre la nieve; vehículos especiales para el transporte de personas en terrenos de golf y vehículos similares.		
8703.10.01 (&) (&&&)	Con motor eléctrico ..... (**)	Pza.	20
8703.10.02	Vehículos especiales para el transporte de personas en terrenos de golf. (5) ..... (**)	Pza.	20
8703.10.03	Motociclos de cuatro ruedas (cuadrimotos) (10)	Pza.	20
8703.10.99 (*)	Los demás ..... (**) (**Véase Grupo 35**)	Pza.	20
	— Los demás vehículos con motor de émbolo o pistón alternativo, de encendido por chispa:		

(Véase significado de llamadas Pág. XVII.)

Código Sistema Armonizado	Descripción	Unidad de Cantidad	AD/ Valórem %
8703.21	— — De cilindrada inferior o igual a 1,000 cm^3.		
8703.21.01 (*)	De cilindrada inferior o igual a 1,000 cm^3 ..... (**) (**Véase Grupo 35**)	Pza.	20
8703.22	— — De cilindrada superior a 1,000 cm^3 pero inferior o igual a 1,500 cm^3.		
8703.22.01 (*)	De cilindrada superior a 1,000 cm^3 pero inferior o igual a 1,500 cm^3 ..... (**) (**Véase Grupo 35**)	Pza.	20
8703.23	— — De cilindrada superior a 1,500 cm^3 pero inferior o igual a 3,000 cm^3.		
8703.23.01 (*)	De cilindrada superior a 1,500 cm^3 pero inferior o igual a 3,000 cm^3 ..... (**) (**Véase Grupo 35**)	Pza.	20
8703.24	— — De cilindrada superior a 3,000 cm^3.		
8703.24.01 (*)	De cilindrada superior a 3,000 cm^3 ..... (**) (**Véase Grupo 35**)	Pza.	20
	— Los demás vehículos con motor de émbolo o pistón de encendido por compresión (diesel o semidiesel):		
8703.31	— — De cilindrada inferior o igual a 1,500 cm^3.		
8703.31.01 (*)	De cilindrada inferior o igual a 1,500 cm^3 ..... (**) (**Véase Grupo 35**)	Pza.	20
8703.32	— — De cilindrada superior a 1,500 cm^3 pero inferior o igual a 2,500 cm^3.		
8703.32.01 (*)	De cilindrada superior a 1,500 cm^3 pero inferior o igual a 2,500 cm^3 ..... (**) (**Véase Grupo 35**)	Pza.	20
8703.33	— — De cilindrada superior a 2,500 cm^3.		
8703.33.01 (*)	De cilindrada superior a 2,500 cm^3 ..... (**) (**Véase Grupo 35**)	Pza.	20

(Véase significado de llamadas Pág. XVII.)

Código Sistema Armonizado	Descripción	Unidad de Cantidad	AD/ Valórem %
8703.90	— Los demás.		
8703.90.01 (&) (&&&)	Eléctricos ..... (**)	Pza.	20
8703.90.99 (*)	Los demás ..... (**) (**Véase Grupo 35**)	Pza.	20
87.04	**Vehículos automóviles para el transporte de mercancías.**		
8704.10	— Volquetes automotores proyectados para utilizarlos fuera de la red de carreteras.		
8704.10.01	Tipo "Dumpers" con capacidad útil de carga hasta 30,000 kilogramos. (0-7) ..... (**)	Pza.	10
8704.10.02	Tipo "Dumpers" con capacidad útil de carga superior a 30,000 kilogramos. (1-2-7) ..... (**)	Pza.	10
8704.10.99	Los demás. (0-7) ..... (**)	Pza.	10
	— Los demás con motor de émbolo o pistón de encendido por compresión (diesel o semidiesel):		
8704.21	— — De peso total con carga máxima, inferior o igual a 5 tons.		
8704.21.01	Acarreadores de escoria. (0-7)	Pza.	10
8704.21.99 (*)	Los demás ..... (**) (**Véase Grupo 35**)	Pza.	20
8704.22	— — De peso total con carga máxima superior a 5 toneladas pero inferior o igual a 20 toneladas.		
8704.22.01	Acarreadores de escoria. (0-7)	Pza.	10

(Véase significado de llamadas Pág. XVII.)

HOJA C — **Cancela la hoja "B" según decreto en el Diario Oficial de 11 de enero de 1989.**

Remesa 1-89

Código Sistema Armonizado	Descripción	Unidad de Cantidad	AD/ Valórem %
8704.22.99 (*)	Los demás ..... (**) (Véase Grupo 35)	Pza.	20
8704.23	— — De peso total con carga máxima, superior a 20 toneladas.		
8704.23.01	Acarreadores de escoria. (0-7)	Pza.	10
8704.23.99 (*)	Los demás ..... (**) (Véase Grupo 35)	Pza.	20
	— Los demás, con motor de émbolo o pistón de encendido por chispa:		
8704.31	— — De peso total con carga máxima, inferior o igual 5 toneladas.		
8704.31.01	Acarreadores de escoria. (0-7)	Pza.	10
8704.31.99 (*) (&&)	Los demás ..... (**) (Véase Grupo 35)	Pza.	20
8704.32	— — De peso total con carga máxima, superior a 5 toneladas.		
8704.32.01	Acarreadores de escoria. (0-7)	Pza.	10
8704.32.99 (*)	Los demás ..... (**) (Véase Grupo 35)	Pza.	20
8704.90	— Los demás.		
8704.90.01	Con motor eléctrico. (1)	Pza.	20
8704.90.99	Los demás ..... (**)	Pza.	20
87.05	**Vehículos automóviles para usos especiales, excepto los proyectados principalmente para el transporte de personas o de mercancías (por ejemplo: coches para reparaciones, camiones-grúa, camiones de bomberos, camiones-hormigonera, coches-barredera, coches de riego, coches-taller o coches radiológicos).**		
8705.10	— Camiones-grúa.		

(Véase significado de llamadas Pág. XVII.)

Código Sistema Armonizado	Descripción	Unidad de Cantidad	AD/ Valórem %
8705.10.01 (&) @	Camiones-grúa ..... (**)	Pza.	20
8705.20	— Camiones automóviles para sondeos o perforaciones.		
8705.20.01 (*) (&&)	Con equipos hidráulicos de perforación destinados a programas de abastecimiento de agua potable en el medio rural. (0-7)	Pza.	10
8705.20.99 (&) @	Los demás ..... (**)	Pza.	20
8705.30	— Camiones de bomberos.		
8705.30.01	Camiones de bomberos. (0-7)	Pza.	10
8705.40	— Camiones-hormigonera.		
8705.40.01 (*)	Camiones-hormigonera ..... **(Véase Grupo 35)**	Pza.	20
8705.90	— Los demás.		
8705.90.01 (&) @	Con equipos especiales para el aseo de calles. (0-7) ..... (**)	Pza.	10
8705.90.99 (&) @	Los demás ..... (**)	Pza.	20
87.06	**Chasis de vehículos automóviles de las partidas 87.01 a 87.05, con el motor.**		
8706.00.01 (*)	Chasis con motor de explosión, de dos cilindros de 700 c.c., de cuatro tiempos y con potencia inferior a 20 caballos de fuerza (15 KW). (0-7)	Pza.	10
8706.00.99 (*)	Los demás ..... (**) **(Véase Grupo 35)**	Pza.	15
8706.99.38	DEROGADA. (0-1)		

(Véase significado de llamadas Pág. XVII.)

HOJA D ‖ **Cancela la hoja "C" por modificaciones.**

Remesa 2-90

Código Sistema Armonizado	Descripción	Unidad de Cantidad	AD/ Valórem %
87.07	**Carrocerías de vehículos automóviles de las partidas 87.01 a 87.05, incluso las cabinas.**		
8707.10	— De los vehículos de la partida 87.03.		
8707.10.01	Para ser utilizadas como modelos para la fabricación de herramientas para el ensamble de carrocerías de vehículos automotrices. (0-7) ...	Pza.	10
8707.10.02	Cabinas	Pza.	15
8707.10.99	Los demás	Pza.	15
8707.90	— Los demás.		
8707.90.01	Para ser utilizadas como modelos para la fabricación de herramientas para el ensamble de carrocerías de vehículos automotrices. (0-7) ...	Kg.	10
8707.90.02	Cabinas	Kg.	15
8707.90.99	Los demás	Kg.	15
87.08	**Partes y accesorios de vehículos automóviles de las partidas 87.01 a 87.05.**		
8708.10	— Paragolpes o defensas y sus partes.		
8708.10.01	Paragolpes o defensas para vehículos automóviles hasta de diez plazas	Kg.	15
8708.10.02	Paragolpes o defensas para trolebuses. (0-1-7)	Kg.	10
8708.10.03	Paragolpes o defensas, reconocibles como concebidas exclusivamente para tractores agrícolas. (0-7)	Kg.	10
8708.10.04	Partes	Kg.	15
8708.10.99	Los demás	Kg.	15
	— Las demás partes y sus accesorios de carrocería (incluidas las cabinas):		

Código Sistema Armonizado	Descripción	Unidad de Cantidad	AD/ Valórem %
8708.21	— — Cinturones de seguridad.		
8708.21.01	Cinturones de seguridad. (0-1-11)	Kg.	15
8708.29	— — Los demás.		
8708.29.01	Guardafangos	Kg.	10
8708.29.02	Capots (cofres)	Kg.	10
8708.29.03	Estribos	Kg.	10
8708.29.04	Viseras, forros de tablero, paneles de puerta, coderas, cabeceras, sombrereras incluso acojinadas	Kg.	15
8708.29.05	Para trolebuses. (0-7)	Kg.	10
8708.29.06	Para tractores de ruedas. (0-7)	Kg.	10
8708.29.07	Parrillas de adorno y protección para radiador.	Kg.	15
8708.29.08	Biseles	Kg.	15
8708.29.09	Tapas de cajuelas portaequipajes	Kg.	10
8708.29.10	Marcos para cristales	Kg.	15
8708.29.11	Aletas, excepto de vidrio, aun cuando se presenten con marco	Kg.	15
8708.29.12	Soportes o armazones para acojinados	Kg.	15
8708.29.13	Reconocibles como concebidas exclusivamente para capots (cofres). (0-7)	Kg.	10
8708.29.14	Cajas de volteo	Pza.	15
8708.29.15	Cajas "Pick-up". (0-1)	Pza.	10

HOJA D | **Cancela la hoja "C" según decreto en el Diario Oficial de 2 de noviembre de 1989.**

Remesa 4-89

Código Sistema Armonizado	Descripción	Unidad de Cantidad	AD/ Valórem %
8708.29.16	Toldos exteriores acojinados, techos corredizos centrales o laterales y sus partes; de accionamiento manual o electrónico. (0-1) ..... (**)	Kg.	15
8708.29.17	Juntas preformadas para carrocería. (0-1)	Kg.	15
8708.29.18	Reconocibles como concebidas exclusivamente para lo comprendido en la fracción 8701.30.01.	Kg.	15
8708.29.19	DEROGADA. (0-1)		
8708.29.20	Portaequipajes exteriores "canastilla" con o sin deflector de aire ..... (**)	Kg.	15
8708.29.99	Los demás ..... (**)	Kg.	15
	— Frenos y servofrenos, y sus partes.		
8708.31	— — Guarniciones de frenos montadas.		
8708.31.01	Para trolebuses. (0-7)	Kg.	10
8708.31.02	Reconocibles como concebidas exclusivamente para tractores de ruedas. (0-7)	Kg.	10
8708.31.03	Reconocibles como concebidas exclusivamente para lo comprendido en la fracción 8701.30.01. (0-1)	Kg.	15
8708.31.99	Los demás. (0-2)	Kg.	10
8708.39	— — Los demás. (0-7)	Kg.	10
8708.39.01	Para trolebuses. (0-7)	Kg.	10
8708.39.02	Reconocibles como concebidas exclusivamente para tractores de ruedas. (0-7)	Kg.	10
8708.39.03	Mecanismos de frenos de disco o sus partes componentes. (0-2)	Kg.	10

(Véase significado de llamadas Pág. XVII.)

Código Sistema Armonizado	Descripción	Unidad de Cantidad	AD/ Valórem %
8708.39.04	Frenos de tambor accionados hidráulicamente o sus partes componentes, excepto lo comprendido en las fracciones 8708.39.05 y 8708.39.08	Kg.	15
8708.39.05	Partes, incluso esbozos de cilindros, reconocibles como concebidos exclusivamente para cilindros hidráulicos de frenos, excepto lo comprendido en la fracción 8708.39.08	Kg.	10
8708.39.06	Frenos de tambor accionados por leva o sus partes componentes	Kg.	15
8708.39.07	Cilindros maestros para mecanismos de frenos.	Kg.	15
8708.39.08	Cilindros de ruedas para mecanismos de frenos; juegos de repuesto para cilindros de rueda y para cilindros maestros, presentados en surtido (kits) para su venta al por menor	Kg.	15
8708.39.09	Mangueras de frenos hidráulicos automotrices con conexiones	Kg.	15
8708.39.10	Reforzador por vacío para frenos ("booster") o sus partes y piezas sueltas	Kg.	15
8708.39.11	Tubos preformados, para sistemas de frenos, de hierro o acero, soldado por procedimiento brazing, con diferentes tipos de recubrimiento, cuyo diámetro exterior sea igual o superior a 3.175 mm. sin exceder de 9.525 mm. y pared de 0.450 mm. sin exceder de 2.032 mm., con sus terminales de conexión y resortes o adaptaciones. (0-1)	Kg.	15
8708.39.12	Tubos preformados, de cobre, cuyo diámetro exterior sea igual o superior a 1.520 mm., sin exceder de 25.400 mm. y pared de 0.200 mm., sin exceder de 5.08 mm., con sus terminales de conexión y resortes o adaptaciones	Kg.	15

HOJA C **Cancela la hoja "B" según decreto en el Diario Oficial de 11 de enero de 1989.**

Remesa 1-89

Código Sistema Armonizado	Descripción	Unidad de Cantidad	AD/ Valórem %
8708.39.13	Reconocibles como concebidas exclusivamente para el sistema de frenos de aire. (0-2-6)	Kg.	15
8708.39.99	Los demás. (0-7)	Kg.	10
8708.40	— Cajas de cambio.		
8708.40.01	Reconocibles como concebidas exclusivamente para lo comprendido en la fracción 8701.90.01. (0-7)	Kg.	10
8708.40.02	Cajas de velocidades mecánicas, con peso inferior a 120 kilogramos	Kg.	15
8708.40.03	Cajas de velocidades automáticas. (0-7)	Kg.	10
8708.40.04	Cajas de velocidades mecánicas con peso igual o superior a 120 kilogramos	Kg.	15
8708.40.05	Reconocibles como concebidas exclusivamente para lo comprendido en la fracción 8701.30.01.	Kg.	15
8708.40.99	Los demás ..... (**)	Kg.	15
8708.50	— Ejes con diferencial, incluso con otros órganos de transmisión.		
8708.50.01	Para trolebuses. (0-7)	Kg.	10
8708.50.02	Reconocibles como concebidas exclusivamente para lo comprendido en la fracción 8701.90.01. (0-7)	Kg.	10
8708.50.03	Incluso acoplados a las masas, con o sin mecanismos de frenos y tambores. (0-6)	Kg.	15
8708.50.04	Ejes delanteros	Kg.	15
8708.50.05	Reconocibles como concebidas exclusivamente para lo comprendido en la fracción 8701.30.01. (**)	Kg.	15
8708.50.99	Los demás	Kg.	15
8708.60	— Ejes portadores y sus partes.		

(Véase significado de llamadas Pág. XVII.)

Código Sistema Armonizado	Descripción	Unidad de Cantidad	AD/ Valórem %
8708.60.01	Para trolebuses. (0-7)	Kg.	10
8708.60.02	Reconocibles como concebidas exclusivamente para lo comprendido en la fracción 8701.90.01. (0-7)	Kg.	10
8708.60.03	Delanteros	Kg.	15
8708.60.04	Fundas para ejes traseros	Kg.	15
8708.60.05	Reconocibles como concebidas exclusivamente para lo comprendido en la fracción 8701.30.01. (**)	Kg.	15
8708.60.06	Ejes cardánicos	Kg.	15
8708.60.99	Los demás ..... (**)	Kg.	15
8708.70	— Ruedas y sus partes y accesorios.		
8708.70.01	Para trolebuses. (0-7)	Kg.	10
8708.70.02	Reconocibles como concebidas exclusivamente para lo comprendido en la fracción 8701.90.01. (0-7)	Kg.	10
8708.70.03	Ruedas o rims (camas) sin neumáticos, con diámetro exterior máximo de 70 centímetros, excepto lo comprendido en la fracción 8708.70.04. (0-1) ..... (**)	Kg.	15
8708.70.04	Ruedas, de aleaciones metálicas de rayos o deportivos de cama ancha ..... (**)	Kg.	15
8708.70.05	Reconocibles como concebidas exclusivamente para lo comprendido en la fracción 8701.30.01. (0-1) ..... (**)	Kg.	15
8708.70.06	Tapones o polveras y arillos para ruedas	Kg.	15

(Véase significado de llamadas Pág. XVII.)

HOJA D | **Cancela la hoja "C" según Acuerdo en el Diario Oficial de 4 de septiembre de 1989.**

Remesa 3-89

Código Sistema Armonizado	Descripción	Unidad de Cantidad	AD/ Valórem %
8708.70.99	Los demás ..... (**)	Kg.	15
8708.80	— Amortiguadores de suspensión.		
8708.80.01	Para trolebuses. (0-7)	Kg.	10
8708.80.02	Reconocibles como concebidas exclusivamente para lo comprendido en la fracción 8701.90.01. (0-7)	Kg.	10
8708.80.03	Reconocibles como concebidas exclusivamente para lo comprendido en la fracción 8701.30.01.	Kg.	15
8708.80.99 (1)	Los demás	Kg.	15
	— Las demás partes y accesorios:		
8708.91	— — Radiadores.		
8708.91.01	Reconocibles como concebidas exclusivamente para lo comprendido en la fracción 8701.90.01. (0-7)	Kg.	10
8708.91.02	Reconocibles como concebidas exclusivamente para lo comprendido en la fracción 8701.30.01.	Kg.	15
8708.91.99	Los demás	Kg.	15
8708.92	— — Silenciadores y tubos de escape.		
8708.92.01	Reconocibles como concebidas exclusivamente para lo comprendido en la fracción 8701.90.01. (0-7)	Kg.	10
8708.92.02	Reconocibles como concebidas exclusivamente para lo comprendido en la fracción 8701.30.01.	Kg.	15
8708.92.99	Los demás	Kg.	15
8708.93	— — Embragues y sus partes.		
8708.93.01	Para trolebuses. (0-7)	Kg.	10
8708.93.02	Reconocibles como concebidas exclusivamente para lo comprendido en la fracción 8701.90.01. (0-7)	Kg.	10
8708.93.03	Embragues completos (disco y plato opresor), excepto lo comprendido en las fracciones 8708.93.02 y 8708.93.04	Kg.	15
8708.93.04	Reconocibles como concebidas exclusivamente para lo comprendido en la fracción 8701.30.01.	Kg.	15

(Véase significado de llamadas Pág. XVII.)

Código Sistema Armonizado	Descripción	Unidad de Cantidad	AD/ Valórem %
8708.93.99	Los demás	Kg.	10
8708.94	— — Volantes, columnas y cajas de dirección.		
8708.94.01	Para trolebuses. (0-7)	Kg.	10
8708.94.02	Reconocibles como concebidas exclusivamente para lo comprendido en la fracción 8701.90.01. (0-7)	Kg.	10
8708.94.03	Volante de dirección con diámetro exterior inferior a 54.5 centímetros ..... (**)	Kg.	15
8708.94.04	Cajas de dirección mecánica. (0-2)	Kg.	10
8708.94.05	Volantes de dirección, con diámetro exterior igual o superior a 54.5 centímetros. (0-1-7)	Kg.	10
8708.94.06	Columnas para el sistema de dirección. (0-1)	Kg.	10
8708.94.07	Cajas de dirección hidráulica. (0-7)	Kg.	10
8708.94.08	Reconocibles como concebidas exclusivamente para lo comprendido en la fracción 8701.30.01. (**)	Kg.	15
8708.94.99	Los demás ..... (**)	Kg.	15
8708.99	— — Los demás.		
8708.99.01	Mecanismos de cambio de diferencial (dual). (0-2)	Kg.	15
8708.99.02	Para trolebuses. (0-1-7)	Kg.	10
8708.99.03	Reconocibles como concebidas exclusivamente para lo comprendido en la fracción 8701.90.01. (0-7)	Kg.	10

(Véase significado de llamadas Pág. XVII.)

HOJA C ‖ **Cancela la hoja "B" según decreto en el Diario Oficial de 11 de enero de 1989.**

Remesa 1-89

Código Sistema Armonizado	Descripción	Unidad de Cantidad	AD/ Valórem %
8708.99.04	Flechas semiejes, acoplables al mecanismo diferencial, incluso las de velocidad constante (homocinéticas) y sus partes componentes	Kg.	15
8708.99.05	Rodillos para el sistema de oruga, con diámetro exterior superior a 15 centímetros y espesor o longitud sin considerar la flecha, igual o superior a 7 centímetros, con peso total igual o superior a 15 kilogramos, o los rodillos sin armar de las mismas dimensiones. (0-7)	Kg.	10
8708.99.06	Flechas o varillas de la columna de la dirección, brazos pittman, sin fin, sector piñón o cremallera de la caja de la dirección. (0-1-7)	Kg.	10
8708.99.07	Tanques de combustible	Kg.	15
8708.99.08	Acoplamientos o dispositivos de enganche para remolcar, excepto lo comprendido en la fracción 8708.99.09	Kg.	10
8708.99.09	Acoplamientos o dispositivos de enganche para tractocamiones. (0-1)	Kg.	15
8708.99.10	Engranes	Kg.	15
8708.99.11	Ventiladores de aspas, para radiadores	Kg.	15
8708.99.12	Horquillas de levante hidráulico	Kg.	15
8708.99.13	Convertidores de par o divisores de par. (0-1-7)	Kg.	10
8708.99.14	Juntas universales, tipo cardán de cruceta, o sus partes.	Kg.	15
8708.99.15	Bastidores ("chasis")	Kg.	15
8708.99.16	Perchas o columpios	Kg.	15
8708.99.17	Reconocibles como concebidas exclusivamente para ejes cardán	Kg.	15

Código Sistema Armonizado	Descripción	Unidad de Cantidad	AD/ Valórem %
8708.99.18	Reconocibles como concebidas exclusivamente para lo comprendido en las fracciones 8708.40.02 y 04, excepto lo comprendido en la fracción 8708.99.10. (0-1-4)	Kg.	15
8708.99.19	Uniones de ballestas (abrazaderas o soportes).	Kg.	15
8708.99.20	Horquillas, brazos, excéntricos o pernos, para el sistema de suspensión delantera	Kg.	15
8708.99.21	Suspensiones neumáticas. (0-7)	Kg.	10
8708.99.22	Barras de torsión o sus partes componentes ...	Kg.	15
8708.99.23	Reconocibles como concebidas exclusivamente para convertidores hidráulicos de torsión. (0-7)	Kg.	10
8708.99.24	Reconocibles como concebidas exclusivamente para marcos (bastidores) acoplados, excepto lo comprendido en las fracciones 8708.99.16 y 19.	Kg.	10
8708.99.25	Palancas al piso para cambios de velocidades o dispositivos interiores (consolas), reconocibles como concebidas exclusivamente para vehículos automóviles hasta de diez plazas. (0-6) ..... (**)	Kg.	15
8708.99.26	Mecanismos de ajuste; para volantes de-dirección ..... (**)	Kg.	15
8708.99.27	Conjunto diferencial integral, compuesto de caja de velocidades, diferencial, con o sin flecha (semieje) y sus partes componentes	Kg.	15
8708.99.28	Esbozos forjados de pernos esféricos para rótulas de suspensión o dirección, esbozos forjados de cuerpo para rótulas de suspensión y dirección.	Kg.	10

(Véase significado de llamadas Pág. XVII.)

HOJA D | **Cancela la hoja "C" según decreto en el Diario Oficial de 11 de enero de 1989.**

Remesa 1-89

Código Sistema Armonizado	Descripción	Unidad de Cantidad	AD/ Valórem %
8708.99.29	Reconocibles como concebidas exclusivamente para amortiguadores	Kg.	15
8708.99.30	Tubos preformados, para sistemas de combustibles, aceites de evaporación del tanque de gasolina y de anticontaminantes, de hierro o acero, soldado por procedimiento Brazing, con diferentes tipos de recubrimiento, cuyo diámetro exterior sea igual o superior a 3.175 milímetros, sin exceder de 9.525 milímetros con sus terminales de conexión y resortes o adaptaciones	Kg.	15
8708.99.31	Tubos preformados, para combustibles, aceites, de evaporación del tanque de gasolina y de anticontaminantes, incluso con recubrimientos, cuyo diámetro exterior sea igual o superior a 3.175 milímetros, sin exceder de 63.500 milímetros y pared de 0.450 milímetros, sin exceder de 2.032 milímetros con sus terminales de conexión y resortes o adaptaciones	Kg.	15
8708.99.32	Reconocibles como concebidas exclusivamente para cajas de velocidades automáticas, excepto engranes	Kg.	10
8708.99.33	Terminales, (rótulas) y sus partes, coples, barras de acoplamiento y brazos auxiliares para el sistema de dirección. (0-1)	Kg.	10
8708.99.34	Partes de cajas de dirección hidráulica. (0-7)	Kg.	10
8708.99.35	Bujes para suspensión	Kg.	15
8708.99.36	Partes y piezas sueltas, reconocibles como concebidas exclusivamente para radiadores. (0-1-2)	Kg.	10
8708.99.37	Para lo comprendido exclusivamente en la fracción 8708.99.38. (0-2-7)	Kg.	10

Código Sistema Armonizado	Descripción	Unidad de Cantidad	AD/ Valórem %
8708.99.38	Bujes reconocibles para el sistema de tránsito de tractores de oruga, con diámetro exterior igual o superior a 4.5 cms. sin exceder de 8 cms. y longitud igual o superior a 11.5 cms. sin exceder de 21 cms. (1-7)	Kg.	10
8708.99.39	Rótulas, para el sistema de suspensión delantera.	Kg.	15
8708.99.40	Reconocibles como concebidas exclusivamente para lo comprendido en la fracción 8701.30.01. (0-2)	Kg.	15
8708.99.41	Para cajas de dirección mecánica. (0-2-4-6) ...	Kg.	10
8708.99.42	DEROGADA. (0-2)		
8708.99.43	DEROGADA. (0-2)		
8708.99.44	DEROGADA. (0-2)		
8708.99.45	DEROGADA. (0-2)		
8708.99.46	DEROGADA. (0-2)		
8708.99.47	DEROGADA. (0-2)		
8708.99.99	Los demás. (0-7)	Kg.	10
87.09	**Carretillas-automóvil sin dispositivo de elevación del tipo de las utilizadas en fábricas, almacenes, puertos o aeropuertos, para el transporte de mercancías a corta distancia; carretillas-tractor del tipo de las utilizadas en las estaciones; partes.** (0-1)		
	— Carretillas:		

APPENDIX H
HTS, CHAPTER 98, SUBCHAPTER II

U.S. Notes

1. This subchapter shall not apply to any article exported:

   (a) From continuous customs custody with remission, abatement or refund of duty;

   (b) With benefit of drawback;

   (c) To comply with any law of the United States or regulation of any Federal agency requiring exportation; or

   (d) After manufacture or production in the United States under heading 9813.00.05.

2. (a) Except as provided in paragraph (b), any product of the United States which is returned after having been advanced in value or improved in condition abroad by any process of manufacture or other means, or any imported article which has been assembled abroad in whole or in part of products of the United States, shall be treated for the purposes of this Act as a foreign article, and, if subject to a duty which is wholly or partly ad valorem, shall be dutiable, except as otherwise prescribed in this part, on its full value determined in accordance with section 402 of the Tariff Act of 1930, as amended. If such product or such article is dutiable at a rate dependent upon its value, the value for the purpose of determining the rate shall be its full value under the said section 402.

   (b) No article (except a textile article, apparel article, or petroleum, or any product derived from petroleum, provided for in heading 2709 or 2710) may be treated as a foreign article, or as subject to duty, if--

      (i) the article is--

         (A) assembled or processed in whole of fabricated components that are a product of the United States, or

         (B) processed in whole of ingredients (other than water) that are a product of the United States,

         in a beneficiary country; and

      (ii) neither the fabricated components, materials or ingredients, after exportation from the United States, nor the article itself, before importation into the United States, enters the commerce of any foreign country other than a beneficiary country.

   As used in this paragraph, the term "beneficiary country" means a country listed in general note 3(c)(v)(A).

3. Articles repaired, altered, processed or otherwise changed in condition abroad.--The following provisions apply only to subheadings 9802.00.40 through 9802.00.60, inclusive:

   (a) The value of repairs, alterations, processing or other change in condition outside the United States shall be:

      (i) The cost to the importer of such change; or

      (ii) If no charge is made, the value of such change,

      as set out in the invoice and entry papers; except that, if the appraiser concludes that the amount so set out does not represent a reasonable cost or value, then the value of the change shall be determined in accordance with section 402 of the Tariff Act of 1930, as amended.

   (b) No appraisement of the imported article in its changed condition shall be required unless necessary to a determination of the rate or rates of duty applicable to such article.

   (c) The duty upon the value of the change in condition shall be at the rate which would apply to the article itself, as an entirety without constructive separation of its components, in its condition as imported if it were not within the purview of this subchapter. If the article, as returned to the United States, is subject to a specific or compound rate of duty, such rate shall be converted to the ad valorem rate which when applied to the full value of such article determined in accordance with said section 402 would provide the same amount of duties as the specific or compound rate. In order to compute the duties due, the ad valorem rate so obtained shall be applied to the value of the change in condition made outside the United States.

   (d) For purposes of subheading 9802.00.60, the term "metal" covers (1) the base metals enumerated in additional U.S. note 1 to section XV; (2) arsenic, barium, boron, calcium, mercury, selenium, silicon, strontium, tellurium, thorium, uranium and the rare-earth elements; and (3) alloys of any of the foregoing.

4. Articles assembled abroad with components produced in the United States.--The following provisions apply only to heading 9802.00.80:

   (a) The value of the products of the United States assembled into the imported article shall be:

      (i) The cost of such products at the time of the last purchase; or

      (ii) If no charge is made, the value of such products at the time of the shipment for exportation,

      as set out in the invoice and entry papers; except that, if the appraiser concludes that the amount so set out does not represent a reasonable cost or value, then the value of such products shall be determined in accordance with section 402 of the Tariff Act of 1930, as amended.

(b) The duty on the imported article shall be at the rate which would apply to the imported article itself, as an entirety without constructive separation of its components, in its condition as imported if it were not within the purview of this subchapter. If the imported article is subject to a specific or compound rate of duty, the total duties shall be reduced in such proportion as the cost or value of such products of the United States bears to the full value of the imported article.

5. No imported article shall be accorded partial exemption from duty under more than one provision in this subchapter.

6. Notwithstanding the partial exemption from ordinary customs duties on the value of the metal product exported from the United States provided under subheading 9802.00.60, articles imported under subheading 9802.00.60 are subject to all other duties, and any other restrictions or limitations, imposed pursuant to title VII of the Tariff Act of 1930 (19 U.S.C. 1671 et seq.), or chapter 1 of title II or chapter 1 of title III of the Trade Act of 1974 (19 U.S.C. 2251 et seq., 19 U.S.C. 2411 et seq.).

Statistical Note

1. For articles admitted under statistical reporting number 9802.00.6000, 9802.00.8010 or 9802.00.8060 two values shall be reported--the first following the first statistical reporting number of the statistical citation (i.e., 9802.00.6000, 9802.00.8010 or 9802.00.8060) and the second following the statistical reporting number of the provision in chapters 1-97 from which the rate of duty is derived, as follows:

   (a) For statistical reporting number 9802.00.6000:

      (i) The total value of the article less the value of the foreign processing; and

      (ii) The dutiable value, i.e., the value of the foreign processing, respectively.

   (b) For statistical reporting number 9802.00.8010 or 9802.00.8060:

      (i) The value of the U.S. fabricated components; and

      (ii) The dutiable value, i.e., the total value of the articles less the value of the U.S. fabricated components, respectively.

   See general statistical note 1(a)(x) regarding the reporting of check digits on entry summary and withdrawal forms.

2. For articles for which duty free treatment is claimed under U.S. note 2(b) to subchapter II of this chapter, the citation to be used in statistical reporting shall be the 10-digit statistical reporting number provided in this subchapter followed by the reporting number of the provision in chapters 1 through 97 which would ordinarily apply to the articles. The unit of quantity reported hereunder for such articles shall be the same as the unit of quantity for the provision from chapters 1 through 97. See general statistical note 1(a)(x) regarding the reporting of check digits on entry summary and withdrawal forms.

   For articles admitted under statistical reporting numbers 9802.00.5010 and 9802.00.8040 two values shall be reported--the first following the first statistical reporting number of the statistical citation (i.e., 9802.00.5010 or 9802.00.8040) and the second following the statistical reporting number of the provision in chapters 1-97 which would ordinarily apply:

   (a) For statistical reporting number 9802.00.5010:

      (i) The total value of the article less the value of the foreign processing; and

      (ii) The dutiable value, i.e., the value of the foreign processing, respectively.

   (b) For statistical reporting number 9802.00.8040:

      (i) The value of the U.S. fabricated components or materials; and

      (ii) The dutiable value, i.e., the total value of the articles less the value of the U.S. fabricated components, respectively.

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty 1 General	Rates of Duty 1 Special	Rates of Duty 2
9802.00.20	00 7	Photographic films and dry plates manufactured in the United States (except motion-picture films to be used for commercial purposes) and exposed abroad, whether developed or not.....	X.....	Free		Free
		Articles returned to the United States after having been exported to be advanced in value or improved in condition by any process of manufacture or other means:				
9802.00.40		Articles exported for repairs or alterations: Repairs or alterations made pursuant to a warranty.....	.....	A duty upon the value of the repairs or alterations (see U.S. note 3 of this subchapter)	Free (B,C,CA)	A duty upon the value of the repairs or alterations (see U.S. note 3 of this subchapter)
	20 9 1/	Internal combustion engines.....dutiable value..	1/			
	40 5 1/	Other.....dutiable value..	1/			
9802.00.50		Other.....	.....	A duty upon the value of the repairs or alterations (see U.S. note 3 of this subchapter)	A duty upon the value of the repairs or alterations (see U.S note 3 of this subchapter) (B,C,CA)	A duty upon the value of the repairs or alterations (see U.S. note 3 of this subchapter)
	10 8 2/	Articles for which duty free treatment is claimed under U.S. note 2(b) to this subchapter.....	2/			
		Other:				
	30 4 1/	Internal combustion engines.....dutiable value..	1/			
	60 7 1/	Other.....dutiable value..	1/			
9802.00.60	00 8 1/	Any article of metal (as defined in U.S. note 3(d) of this subchapter) manufactured in the United States or subjected to a process of manufacture in the United States, if exported for further processing, and if the exported article as processed outside the United States, or the article which results from the processing outside the United States, is returned to the United States for further processing.....	1/ 3/	A duty upon the value of such processing outside the United States (see U.S. note 3 of this subchapter)	A duty upon the value of such processing outside the United States (see U.S. note 3 of this subchapter) (B,C,CA)	A duty upon the value of such processing outside the United States (see U.S. note 3 of this subchapter)

1/ See chapter 98 statistical note 2.
2/ See subchapter II statistical note 2.
3/ See subchapter II statistical note 1.

Heading/ Subheading	Stat. Suf. & cd		Article Description	Units of Quantity	Rates of Duty		
					1		2
					General	Special	
9802.00.80			Articles assembled abroad in whole or in part of fabricated components, the product of the United States, which (a) were exported in condition ready for assembly without further fabrication, (b) have not lost their physical identity in such articles by change in form, shape or otherwise, and (c) have not been advanced in value or improved in condition abroad except by being assembled and except by operations incidental to the assembly process such as cleaning, lubricating and painting.....	.....	A duty upon the full value of the imported article, less the cost or value of such products of the United States (see U.S. note 4 of this subchapter)	A duty upon the full value of the imported article, less the cost or value of such products of the United States (see U.S. note 4 of this subchapter) (B,C,CA)	A duty upon the full value of the imported article, less the cost or value of such products of the United States (see U.S. note 4 of this subchapter)
	10 1/	2	Articles eligible pursuant to bilateral textile agreements for entry under a Special Access Program or Special Regime, and entered in compliance with procedures established by the Committee for the Implementation of Textile Agreements (CITA)...	1/ 2/			
	40 3/	6	Articles for which duty free treatment is claimed under U.S. note 2(b) to this subchapter.....	3/			
	60	1	Other.....	1/ 2/			

1/ See chapter 98 statistical note 2.
2/ See subchapter II statistical note 1.
3/ See subchapter II statistical note 2.

APPENDIX I
CCT STATUTORY CONCESSIONARY PROVISIONS WITH RESPECT TO TRANSPORTATION

Code	Provision	Most-Favoured-Nation Tariff	General Preferential Tariff
	TRANSPORTATION		
2300	**Woven fabrics**, in the web or with fused edges, whether or not coated or covered on one or both sides with plastics, of subheading No. 3921.90 or of heading No. 54.07, 58.06 or 59.03, for use in the manufacture of sails for ships or boats	7.5%	Free
	The following for use in the manufacture of brake linings of subheading No. 6813.10 or clutch facings of subheading No. 6813.90:		
2305	**Yarn** with a basis of asbestos, of tariff item No. 6812.20.00	5.5%	3.5%
2306	**Woven fabrics** with a basis of asbestos, of tariff item No. 6812.40.00	8%	5%
	The following for use in the ships, boats or floating structures of Chapter 89:		
2310	**Flat-rolled products, angles, shapes** and **sections** of Chapter 72	Free	Free
2311	**Welded angles, shapes** and **sections** of heading No. 73.01	Free	Free
2312	**Masts** of heading No. 73.08	Free	Free
2313	**Cable chain** of heading No. 73.15	Free	Free
	The following for use in the manufacture, maintenance or repair of buoys or beacons for the Government of Canada:		
2315	**Flanged or dished steel boiler plate heads** of tariff item No. 7308.90.90, of a diameter exceeding 1.5 m	Free	Free
2316	**Electric motors** of heading No. 85.01 and **parts** thereof of heading No. 85.03	Free	Free
2317	**Low discharge electric accumulators** and **parts** thereof of heading No. 85.07	Free	Free
2318	**Lanterns, electric flashing lights, foghorns** and **other warning equipment** of tariff item No. 8530.80.00 and **parts** thereof of tariff item No. 8530.90.20	Free	Free
2319	**Marine radio beacon timing equipment** of tariff item No. 9107.00.90 and **parts** thereof of tariff item No. 9108.19.00 or 9109.19.90	Free	Free
	The following, when in the rough or when semi-manufactured, for use on railway locomotive or railway rolling stock:		
2325	**Cast bogie (truck) frames** of tariff item No. 8607.19.91 or 8607.19.93	4%	Free
2326	**Cast bolsters** of tariff item No. 8607.91.00 or 8607.99.20	4%	Free
2327	**Cast cradles** for the rear end of locomotive frames, of tariff item No. 8607.91.00	4%	Free
2328	**Locomotive frames** of tariff item No. 8607.91.00, cast in one piece	4%	Free
2329	**Platform castings** for passenger coaches, of tariff item No. 8607.99.20	4%	Free
2330	**Tender frames** of tariff item No. 8607.99.20, cast in one piece	4%	Free
	The following when belonging to railroads and imported temporarily into Canada for clearing obstructions, fighting fires or making emergency repairs on railway lines within Canada:		
2335	**Diesel-electric locomotives** of tariff item No. 8602.10.00	Free	Free
2336	**Railway coaches or cars** of tariff item No. 8603.90.00 or 8605.00.00	Free	Free
2337	**Railway maintenance or service vehicles** of tariff item No. 8604.00.90	Free	Free
2338	**Railway or tramway vehicles** of heading No. 86.01, 86.02, 86.03, 86.05 or 86.06, being the property or under the control of railway companies in the United States, running upon any line or road crossing the frontier, so		

• Pending approval of an Order in Council pursuant to the Customs Tariff, accounting documents for goods affected by the change to this Code will be accepted "subject to amendment".

Code	Provision	Most-Favoured-Nation Tariff	General Preferential Tariff
2338 Cont'd	long as Canadian locomotives and cars are imported free of customs duties under similar circumstances into the United States, under regulations made by the Minister	Free	Free
	If such locomotives and railway rolling stock are used temporarily in the transportation of goods from a place in Canada to another place in Canada they are not to be imported free of customs duties but are subject to customs duties on the rental value or charge made by the United States owner for their use in Canada, or equivalent thereof as determined by regulations made by the Minister.		
	Notwithstanding the foregoing, customs duties shall not be assessed against a railway company operating in Canada in respect of any particular class of foreign freight car in any calendar year when the total use of foreign cars of that class by such company on railway lines in Canada is less than the total use of Canadian cars of that class owned by such company on railway lines outside of Canada; should such use of foreign cars exceed such use of Canadian cars, customs duties shall not be assessed on a greater number of cars than is represented by the excess.		
2340	**Self-propelled railway cars** of tariff item No. 8603.90.00 and **parts** thereof of heading No. 86.07, for the transport of passengers, baggage, mail or express traffic	Free	Free
	The following for diesel-powered dumpers having a rated capacity by struck volume of 7.25 m^3 or more and by payload weight of 13.6 tonnes or more, of tariff item No. 8704.10.00, to be employed in mines, quarries, gravel or sand pits or at construction sites:		
2345	**AC generators** of tariff item No. 8501.62.20, 8501.63.00 or 8501.64.00 and **DC motors** of tariff item No. 8501.31.12 or 8501.31.29	9.2% BPT 5%	5%
2346	**Bearing housings** and **plain shaft bearings** of heading No. 84.83	9.2% BPT 5%	5%
2347	**Clutch facings** of tariff item No. 6813.90.10	9.2% BPT 5%	5%
	The following imported by societies for the saving of lives:		
2350	**Lifeboats** of tariff item No. 8903.10.00 or 8906.00.10	Free	Free
2351	**Liferafts** of tariff item No. 8907.10.00	Free	Free
2352	**Other lifesaving apparatus**	Free	Free
2355	**Oars** for racing shells, of tariff item No. 4421.90.90 or 6815.10.90, for use by amateur rowing clubs	Free	Free
2360	The following, of base metal, of Section XV, XVI, XVII, XVIII, XIX or XX, for use in the construction or equipment of ships, boats or floating structures of Chapter 89, under such regulations as the Minister may make:		
	Double **clutches** for power transmission, of a diameter exceeding 46 cm; Inboard-outboard **engine propulsion units**; **Jet drives** combined with engines; **Navigation lights** for vessels of a length exceeding 8 m; **Locks and bars** for boat doors; **Hydraulic engines**; **Hydraulic power transmission equipment**, including valves but excluding actuators of a torque less than 282.5 kNm; **Outboard racing motors**; **Power transmission power take-offs**; **Propellers**, of a diameter not exceeding 23 cm, for outboard or inboard-outboard motors; Bilge or water **pumps**; Rotary twin-screw power **pumps** of a capacity exceeding 303.1 l/s at a pressure of 3,447.4 kPa; **Alcohol stoves**, one/or two-burner, for vessels of a length exceeding 8 m; **V-engine blocks** for the marine engines of subheading No. 8407.29; **Parts of the outboard engines** of inboard-outboard vessels; Other goods, of a class or kind not made in Canada	Free	Free

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Code	Provision	Most-Favoured-Nation Tariff	General Preferential Tariff
	The following for use in the repair of street cars (excluding subway cars) with magnetic track brakes:		
2365	**Safety glass** of tariff item No. 7007.11.11 or 7007.21.11	Free	Free
2366	**Parts** of heading No. 86.07	Free	Free
	The following for use in the manufacture or repair of lorry (motor truck) bodies, motor bus bodies, electric trackless trolley bus bodies, fire fighting vehicles or hearses:		
2370	**Locks** of tariff item No. 8301.20.00	Free	Free
2371	**Lighting or visual signalling equipment** of tariff item No. 8512.20.00 and **parts** thereof of tariff item No. 8512.90.00	Free	Free
2372	**Switches** of tariff item No. 8536.50.90	Free	Free
	The following, of iron or steel, electroplated or containing nickel, for use in the manufacture of bicycles or tricycles:		
2375	**Frames, forks,** and **parts** thereof, of tariff item No. 8714.91.00	8%	Free
2376	**Wheel rims** and **spokes**, of tariff item No. 8714.92.00	8%	Free
2377	**Hubs, other than coaster braking hubs and hub brakes,** and **free-wheel sprocket-wheels**, of tariff item No. 8714.93.00	8%	Free
2378	**Brakes, including coaster braking hubs,** and **hub brakes,** and **parts** thereof of tariff item No. 8714.94.00	8%	Free
2379	**Pedals, crank gear,** and **parts** thereof of tariff item No. 8714.96.00	8%	Free
2380	**Parts** of tariff item No. 8714.99.20	8%	Free
	The following for use in the manufacture of bicycles:		
2385	**Tubular tires** of tariff item No. 4011.50.00	10.2%	Free
2386	**Pneumatic tires**, of a diameter not exceeding 45.72 cm, of tariff item No. 4011.50.00	10.2%	Free
2387	**Inner tubes** of tariff item No. 4013.20.00	10.2%	Free
2388	**Chain** of tariff item No. 7315.11.91	10.2%	Free
2389	**Frame lugs, bottom bracket shells, fork bearing assemblies, hydraulic shock absorbing cylinders** and **spring shock absorbers**, of tariff item No. 8714.91.00	10.2%	Free
2390	**Wheel rims**, of aluminum or magnesium alloy, of tariff item No. 8714.92.00	10.2%	Free
2391	**Hub assemblies and controls** (excluding cables) of tariff item No. 8714.93.00 or 8714.94.00	10.2%	Free
2392	**Brake assemblies and controls** (excluding cables) and **parts** thereof of tariff item No. 8714.94.00	10.2%	Free
2393	**Saddles** of tariff item No. 8714.95.00	10.2%	Free
2394	**Pedals, crank-gear assemblies** and **parts** thereof, of tariff item No. 8714.96.00	10.2%	Free
2395	**Derailleur sets** and **controls including cables** if presented therewith, **handlebars** and **seat posts** of aluminum or magnesium alloy, **handlebar stems** and **gear dusters**, of tariff item No. 8714.99.20	10.2%	Free
	The following for use in the manufacture of bicycles:		
2400	**Parts** of heading No. 87.14, other than those of Codes 2385, 2386, 2387, 2388, 2389, 2390, 2391, 2392, 2393, 2394 or 2395	12.5%	8%

Code	Provision	Most-Favoured-Nation Tariff	General Preferential Tariff
2405	**Tires** of tariff item No. 4011.50.00 or of subheading No. 4012.90, other than those of Codes 2385 or 2386	10.2%	8%
2410	**Compression-ignition internal combustion piston engines (diesel or semi-diesel engines)** of tariff item No. 8408.90.90 and **parts** thereof of tariff item No. 8409.99.93 for use in self-propelled track-laying bulldozers, front-end shovel loaders or pipelayers	Free	Free
2415	**Articles** for use as original equipment in the manufacture of snowmobiles (other than snowmobiles equipped for special services or functions) of tariff item No. 8703.10.10	Free	Free
2425	**Auxiliary driving control kits, equipment** and **parts** thereof of a kind for attachment to motor vehicles to facilitate their operation by a physically disabled person, of tariff item No. 8708.94.90 or 8708.99.99	Free	Free
2430	**Articles** and **materials**, other than seat covers of textile fabric or those goods eligible for the benefits of the Agreement on Trade in Civil Aircraft Provision, for use in aircraft, aircraft engines, airborne aircraft equipment or parts thereof	Free	Free
2435	**Goods** (other than those goods eligible for the benefits of Division III of Part II of this Act, the benefits of Code 2430 or the benefits of the Agreement on Trade in Civil Aircraft Provision) of Section XV or XVI or of Chapter 15, 25, 28, 32, 34, 37, 38, 39, 40, 68, 69, or 90, for the manufacture or repair of aircraft, aircraft engines or parts thereof	Free	Free
	The following under such regulations as the Minister may make with respect to proof of age:		
2440	**Motor vehicles** manufactured more than 25 years prior to the date of accounting, of heading No. 87.02, 87.03, 87.04 or 87.11 (other than those of subheading No. 8703.10 or 8704.10) or of subheading No. 8701.20 or 8705.30	Free	Free
2441	**Articles** for use solely or principally with the vehicles of Code 2440	Free	Free
2450	The following, of Section VII, XI, XIII, XV or XVI or of Chapter 48 or 87, for use in the manufacture or repair of road tractors of tariff item No. 8701.20.00, vehicles of heading No. 87.02, 87.03 or 87.04 or of tariff item No. 8705.30.00, or of parts thereof, under such regulations as the Minister may make: **Compressed asbestos** and **combinations of asbestos and synthetic rubber** for gaskets; **Distributor rotors** and **cam assemblies**; **Electric wiring terminals, sockets, fittings, connectors** or **combinations** thereof, including brackets and fittings permanently attached thereto, but excluding battery terminals; **Gaskets** of any material, except cork or felt; Steel **lock washers**, other than with internal or external teeth or helical spring lock washers of an internal diameter exceeding 38 mm; **Piston ring castings** in the rough, for motor vehicles with engines ranging in size from 1,245 cm^3 to 8,996 cm^3 in displacement; **Spring brakes**; Steel **bolts, studs, plugs, rivets** or **nuts**, capped with stainless steel; **Turn signal flasher units**; **Vulcanized fibre** in sheets, rods, strips and tubings; **Electric weld tubing**, of an external diameter not exceeding 9.525 mm and wall thickness not exceeding 0.711 mm, and double wall copper brazed **tubing** of an external diameter not exceeding 9.525 mm and wall thickness not exceeding 0.711 mm, for vacuum, hydraulic or air control assemblies; **Hydraulic brake hoses, hydraulic brake locks** or **hydraulic gear pumps** to operate hoists and other accessories, for hydraulic control assemblies; **Manual slack adjusters** for air brake systems; Nylon (polyamide) **air brake tubing**; **Parts** of the foregoing, other than spring locators, bulkheads, spring retainers and diaphragms for spring brakes	8%	5%
2455	The following, of Section VII, XI, XIII, XV or XVI or of Chapter 42, 45, 48, 70, 87 or 90, for use in the manufacture or repair of road tractors of tariff item No. 8701.20.00, vehicles of heading No. 87.02, 87.03 or 87.04 (other than for the manufacture of logging trucks of heading No. 87.04) or of tariff item No. 8705.30.00, or parts thereof, under such regulations as the Minister may make: **Clutch release bearings** with or without collar attached; Graphite **bearings**; Steel or bronze backed **bearings** with non-ferrous metal lining and materials therefor;		

Code	Provision	Most-Favoured-Nation Tariff	General Preferential Tariff
2455 Cont'd	**Steering knuckle thrust bearings**; Graphited or oil impregnated **bushings**; **Bushings or sleeve bearings** of bronze or powdered metal; **Crankshaft thrust collars**; **Commutator copper segments**; **Commutator insulating end rings**; **Air compressors**; **Diaphragms** for fuel or vacuum pumps; Tapered **discs** of hot-rolled steel, with or without centre hole, for disc wheels; **Door bumper shoes**; **Gasket materials**, other than compressed asbestos and combinations of asbestos and synthetic rubber; **Ignition contact points**; **Keys** for shafting; **Lenses** of glass for motor vehicle lamps or for light reflectors; Steel **lock washers** with internal or external teeth; Helical spring **lock washers** of steel, of an internal diameter exceeding 38 mm; Other metal **lock washers**, other than of steel; **Magnetic plugs**; **Metal frames** for convertible soft tops; Permanent mould **pistons** for brake master cylinders; **Piston ring castings** in the rough, other than for motor vehicles with engines ranging in size from 1,245 cm^3 to 8,996 cm^3; **Propeller shaft tubes** of steel bonded by rubber; **Rails of lock seam section, corners, locks** and **catches**, and **unplated ventilators**, of metal other than aluminum, for use in the manufacture of window sashes for bus bodies; Electric **shift control** for two speed rear axles; Steel **formed bottoms, metal grommets (flanges) or rings of steel, copper or brass**; **Blank layers of steel** for cylinder heads or manifold gaskets; **Spring locators, bulkheads, spring retainers** and **diaphragms** for spring brakes; **Switches, relays, circuit breakers** and **solenoids** and **combinations** thereof, including starter switch assemblies, other than automotive turn signal flasher units; **Synchronizing cones** or **blocking rings** for transmissions; **Timing gear blanks** of laminated composition plastics; **Vacuum, hydraulic or air control assemblies**, other than spring brakes; **Parts** of the foregoing, other than: Electric weld tubing, of an external diameter not exceeding 9.525 mm and wall thickness not exceeding 0.711 mm, and double wall copper brazed tubing, of an external diameter not exceeding 9.525 mm and wall thickness not exceeding 0.711 mm, for vacuum, hydraulic or air control assemblies; Hydraulic brake hoses and hydraulic brake locks; Hydraulic gear pumps to operate hoists and other accessories; Manual slack adjusters for air brake systems; Nylon (polyamide) air brake tubing	Free	Free
2460	The following, of Section VII, XI, XV or XVI or of Chapter 48, 70, 87 or 90, for use in the manufacture of road tractors of tariff item No. 8701.20.00, vehicles of heading No. 87.02, 87.03 or 87.04 or of tariff item No. 8705.30.00, or for use in the manufacture of original equipment parts thereof, under such regulations as the Minister may make: **Ammeters**; **Arm rests** and **wheel housing lining** of indurated fibre, pressed to shape; **Axle housings**, one piece welded; **Carburetors**; **Chassis frames** and steel **shapes** for the manufacture therefor; **Cigar** and **cigarette lighters**, whether in combination with a cigarette holder or not, including base; **Composite frame and floor structure** of metal in the rough; **Control ventilator gear box**; **Cylinder lock barrels**, with or without sleeves and keys therefor; **Dash heat indicators**; **Door opening weatherseal retainers**; **Engine speed governor units**; **External ornaments** unplated, including name plates, letters and numerals, but not including finish or decorative mouldings; **Fluid couplings** with or without drive plate assemblies; Gasoline, oil or air **gauges**;		

Code	Provision	Most-Favoured-Nation Tariff	General Preferential Tariff
2460 Cont'd	**Grilles** not plated, polished or not before assembly, and **parts thereof** not plated or polished after final forming, casting or piercing, not including finish or decorative mouldings; **Hinges**, for bodies; **Horns**; **Instrument bezel assemblies**; **Instrument board lamps**; **Instrument board panels** of moulded or laminated glass fibres and plastics; **Instrument panel, glove compartment, luggage compartment, hood compartment** and **door step lamps and wire assemblies**; **Locks**, electric ignition, steering gear, transmission, or combinations of such locks; **Mouldings** of metal, with nails or prongs set in position, lead filled or not; **Ornaments** or **identification plates** of metal, unplated, not including finish or decorative mouldings; **Pipe lines** of tubing, rigid, covered or not, with or without fittings; **Purifiers** for gasoline, including brackets and fittings therefor; **Radiator shells**, not plated nor metal finished in any degree; **Automatic radiator shutter assemblies**; **Radiator water gauges**; **Reclining seat mechanisms**; **Refill end discs**, **perforated filter refill oil board bodies** or **roll-seam perforated tubes**, for oil filters; **Bearing spring shackles**; **Speedometers**; **Spring covers** of metal and closing strips or shapes therefor; **Stampings**, **body**, **cowl**, **front end**, **hood**, **instrument board**, **shields** or **baffles**, of plain or coated metal, in the rough, trimmed or not, whether or not welded in any manner before final forming or piercing, but not metal finished in any degree, including stampings incorporating pierce or clinch nuts; **Steering wheels**, **rims** and **spiders** therefor; **Sun visor blanks** of gypsum weatherboard; **Swivel seat mechanisms**; **Tachometers**, with or without tachographs, both electric and gear driven; **Thermostatic controls**; **Throttle**, **spark**, **choke**, **and hood lock release assemblies**; **Torque converters**; **Auxiliary transmission overdrive units** and controls therefor; **Universal joint ball assemblies**; **Windshield or window wipers**; **Parts** of the foregoing	8%	5%
	The following of Section VII, XIII, XV or XVI or of Chapter 87, 90 or 94, under such regulations as the Minister may make: **Ammeters**; **Arm rests** or **wheel housing lining** of indurated fibre, pressed to shape, other than for the vehicles of heading No. 87.03 or 87.04; **Axle housings**, one piece welded; **Carburetors**; **Chassis frames** and steel **shapes** for the manufacture therefor; **Cigar** and **cigarette lighters**, whether in combination with a cigarette holder or not, including base; **Composite frame and floor structure** of metal in the rough; **Control ventilator gear box**; **Cylinder lock barrels**, with or without sleeves and keys therefor; **Dash heat indicators**; **Fluid couplings** with or without drive plate assemblies; Gasoline, oil or air **gauges**; **Grilles** not plated, polished or not before assembly, and **parts thereof** not plated or polished after final forming, casting or piercing, not including finish or decorative mouldings; **Hinges**, for bodies; **Horns**; **Instrument bezel assemblies**; **Instrument board lamps**; **Instrument panel, glove compartment, luggage compartment, hood compartment** or **door step lamps and wire assemblies**; **Locks**, electric ignition, steering gear, transmission, or combinations of such locks; **Mouldings** of metal, with nails or prongs set in position, lead filled or not; **Ornaments** or **identification plates** of metal, unplated, not including finish or decorative mouldings, other than for past models of the vehicles of heading No. 87.03 or 87.04; **Pipe lines** of tubing, rigid, covered or not, with or without fittings, other than for the vehicles of heading No. 87.03 or 87.04;		

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Code	Provision	Most-Favoured-Nation Tariff	General Preferential Tariff
	Automatic radiator shutter assemblies; **Radiator water gauges**; **Reclining seat mechanisms**; **Refill end discs** for oil filters; **Bearing spring shackles**; **Speedometers**; **Spring covers** of metal and closing strips or shapes therefor; **Stampings, body, cowl, fender, front end, hood, instrument board, shields or baffles**, of plain or coated metal, in the rough, trimmed or not, whether or not welded in any manner before final forming or piercing, but not metal finished in any degree, including such stampings incorporating pierce or clinch nuts, other than door pillars, shields and baffles for current models of the vehicles of heading No. 87.03 or 87.04; **Steering wheels, rims and spiders** therefor, other than for current models of the vehicles of heading No. 87.03 or 87.04; **Sun visor blanks** of gypsum weatherboard; **Swivel seat mechanisms**; **Tachometers**, with or without tachographs, both electric and gear driven; **Throttle, spark, choke or hood lock release assemblies**; **Torque converters**; **Auxiliary transmission overdrive units** and controls therefor; **Universal joint ball assemblies**, other than cross type; **Windshield or window wipers**; **Parts** of the foregoing, other than: blades and refills for windshield or window wipers of the vehicles of heading No. 87.03 or 87.04; power element cups, guides, pistons, pellets, valves, flanges, top frames, bottom frames and springs, for thermostatic controls; sintered powdered metal parts of auxiliary transmission overdrive units and controls therefor; speedometer cables and speedometer cable and housing assemblies:		
2465	For use as original equipment by a manufacturer of passenger automobiles of heading No. 87.03, whose total factory output, during the year in which importation is sought, does not exceed 10,000 such complete passenger automobiles, and if not less than 40% of the factory cost of production of such automobiles, not including duties, is incurred in a country entitled to the benefit of the British Preferential Tariff	Free	Free
2466	For use as original equipment by a manufacturer of passenger automobiles of heading No. 87.03, whose total factory output, during the year in which importation is sought, exceeds 10,000, but does not exceed 20,000 such complete passenger automobiles, and if not less than 50% of the factory cost of production of such automobiles, not including duties, is incurred in a country entitled to the benefit of the British Preferential Tariff	Free	Free
2467	For use as original equipment by a manufacturer of passenger automobiles of heading No. 87.03, whose total factory output, during the year in which importation is sought, exceeds 20,000 such complete passenger automobiles, and if not less than 60% of the factory cost of production of such automobiles, not including duties, is incurred in a country entitled to the benefit of the British Preferential Tariff	Free	Free
2468	For use as original equipment by a manufacturer of road tractors of tariff item No. 8701.20.00, vehicles of heading No. 87.02, ambulances and hearses of heading No. 87.03, vehicles of heading No. 87.04, vehicles of tariff item No. 8705.30.00 or chassis for the above of heading No. 87.06, whose total factory output of such vehicles during the year in which importation is sought, does not exceed 10,000 such vehicles, and if not less than 40% of the factory cost of production of such vehicles or chassis therefor, not including duties, is incurred in a country entitled to the benefit of the British Preferential Tariff	Free	Free
2469	For use as original equipment by a manufacturer of road tractors of tariff item No. 8701.20.00, vehicles of heading No. 87.02, ambulances and hearses of heading No. 87.03, vehicles of heading No. 87.04, vehicles of tariff item No. 8705.30.00 or chassis for the above of heading No. 87.06, whose total factory output of such vehicles during the year in which importation is sought, exceeds 10,000 such vehicles, and if not less than 50% of the factory cost of production of such vehicles or chassis therefor, not including duties, is incurred in a country entitled to the benefit of the British Preferential Tariff	Free	Free
2470	For use in the repair of road tractors of tariff item No. 8701.20.00, vehicles of heading No. 87.02, 87.03 or 87.04, vehicles of tariff item No. 8705.30.00 or chassis for the above of heading No. 87.06, or for use in the manufacture of repair parts therefor	Free	Free

Code	Provision	Most-Favoured-Nation Tariff	General Preferential Tariff
2475	The following, of Section VII, XV or XVI or of Chapter 48, 87 or 90, for use in the repair of road tractors of tariff item No. 8701.20.00, vehicles of heading No. 87.02, 87.03 or 87.04, vehicles of tariff item No. 8705.30.00 or chassis for the above of heading No. 87.06, or for use in the manufacture of repair parts thereof, under such regulations as the Minister may make: **Arm rests** and **wheel housing lining** of indurated fibre, pressed to shape, for the vehicles of heading No. 87.03 or 87.04; **Door opening weatherseal retainers**; **External ornaments** unplated, including name plates, letters and numerals, but not including finish or decorative mouldings; Engine speed **governor units**; **Instrument board panels** of moulded or laminated glass fibres and plastics; **Ornaments** and **identification plates** of metal, unplated, not including finish or decorative mouldings, for past models of the vehicles of heading No. 87.03 or 87.04; **Pipe lines** of tubing, rigid, covered or not, with or without fittings, for the vehicles of heading No. 87.03 or 87.04; **Power element cups, guides, pistons, pellets, valves, flanges, top frames, bottom frames and springs**, for thermostatic controls; **Purifiers** for gasoline, including brackets and fittings therefor; **Radiator shells** not plated nor metal finished in any degree; Perforated filter **refill oil board bodies** and **roll-seam perforated tubes** for oil filters; **Speedometer cables** or **speedometer cable and housing assemblies**; **Stampings, door pillars, shields and baffles**, of plain or coated metal, in the rough, trimmed or not, whether or not welded in any manner before final forming or piercing, but not metal finished in any degree, including stampings incorporating pierce or clinch nuts, for current models of the vehicles of heading No. 87.03 or 87.04; **Steering wheels, rims** and **spiders therefor**, for current models of the vehicles of heading No. 87.03 or 87.04; **Thermostatic controls**; **Sintered powdered metal parts of auxiliary transmission overdrive units and controls therefor**; Cross type **universal joint ball assemblies**; Windshield or window wiper **blades** and **refills**, for the vehicles of heading No. 87.03 or 87.04; **Parts** of the foregoing, other than parts of thermostatic controls not provided for in this Code	8%	5%
	The following, of Section XVI or of Chapter 87, under such regulations as the Minister may make: **Axles**, front and rear; **Bell or clutch housings** for vehicles having a g.v.w. exceeding 8.845 tonnes; **Brakes**, other than brakes ranging in size from 381 mm by 76.2 mm to 419.1 mm by 177.8 mm, and air and hydraulic brakes for current model service of vehicles having a capacity not exceeding 1.82 tonnes; **Brake drums**; **Clutches**, other than single plated clutches of a diameter not exceeding 330.2 mm; Continuous control or constant velocity half-shaft **drive shafts**; **Fuel pumps** for use on automotive engines with a piston displacement exceeding 4,949.8 cm^3, not electrically operated; **Hubs**; **Hydraulic or fluid couplings**, other than for the vehicles of heading No. 87.04; **Internal combustion engines** with a piston displacement exceeding 5,703.7 cm^3; **Linkages** and **controls** for use with clutches, transmission assemblies, power dividers or transfer cases; **Magnetos**; **Power dividers** or **transfer cases**; **Rims** for pneumatic tires exceeding 508 mm by 190.5 mm for tube type tires, or exceeding 571.5 mm by 171.45 mm for tubeless tires; Cast aluminum **road wheels** for tube type tires using rim sizes exceeding 508 mm by 203.2 mm or for tubeless type tires using rim sizes exceeding 571.5 mm by 209.55 mm; Steel **road wheels** of a diameter exceeding 622.3 mm; **Steering drag links** for vehicles having a g.v.w. of not less than 9.072 tonnes; **Steering gears**; **Tandem axle suspensions**, excluding springs, other than for current models of the vehicles of heading No. 87.04; **Transmission assemblies**; **Parts** of the foregoing, other than: Axle shafts for vehicles having a g.v.w. not exceeding 8.845 tonnes;		

Code	Provision	Most-Favoured-Nation Tariff	General Preferential Tariff
	Brake shoe assembly kits; Axle housings and sintered powdered metal parts, for transmission assemblies; Idler arms, tie rod assemblies and tie rod ends, for steering drag links of vehicles having a g.v.w. exceeding 9.072 tonnes; Intake and exhaust valves, excluding sodium or sodium and mercury filled valves, for internal combustion engines with a piston displacement exceeding 5,703.7 cm^3, excluding diesel; Timing chains for internal combustion engines with a piston displacement exceeding 5,703.7 cm^3:		
2480	For use in the manufacture of road tractors of tariff item No. 8701.20.00, vehicles of heading No. 87.02, ambulances and hearses of heading No. 87.03, vehicles of heading No. 87.04, vehicles of tariff item No. 8705.30.00 or chassis for the above of heading 87.06	8%	5%
2481	For use as original equipment for road tractors of tariff item No. 8701.20.00, vehicles of heading No. 87.02, ambulances and hearses of heading No. 87.03, vehicles of heading No. 87.04, vehicles of tariff item No. 8705.30.00 or chassis for the above of heading No. 87.06, by a manufacturer of the above, if not less than 40% of the factory cost of production of such vehicles or chassis therefor, not including duties, is incurred in a country entitled to the benefit of the British Preferential Tariff	Free	Free
2482	For use in the repair of road tractors of tariff item No. 8701.20.00, vehicles of heading No. 87.02, ambulances and hearses of heading No. 87.03, vehicles of heading No. 87.04, vehicles of tariff item No. 8705.30.00 or chassis for the above of heading No. 87.06, or for use in the manufacture of repair parts thereof	Free	Free
	The following for use in the manufacture of road tractors of tariff item No. 8701.20.00, vehicles of heading No. 87.02, ambulances or hearses of heading No. 87.03, vehicles of heading No. 87.04, vehicles of tariff item No. 8705.30.00, or chassis thereof of heading No. 87.06, under such regulations as the Minister may make:		
2485	**Spark-ignition reciprocating internal combustion piston engines** of a cylinder capacity not exceeding 5,703.7 cm^3, of tariff item No. 8407.34.00, and **articles** for use therewith, other than timing chains and intake and exhaust valves (excluding sodium or sodium and mercury filled valves)	8%	5%
2486	**Compression-ignition internal combustion piston engines (diesel or semi-diesel engines)** of a cylinder capacity not exceeding 5,703.7 cm^3, of tariff item No. 8408.20.90, and **articles** for use therewith, other than timing chains	8%	5%
	The following for use as original equipment for road tractors of tariff item No. 8701.20.00, vehicles of heading No. 87.02, ambulances or hearses of heading No. 87.03, vehicles of heading No. 87.04, vehicles of tariff item No. 8705.30.00, or chassis thereof of heading No. 87.06, by a manufacturer thereof, and when during the year in which importation is sought, not less than 40% of the factory cost of production of such vehicles or chassis therefor, not including duties, is incurred in a country entitled to the benefit of the British Preferential Tariff, under such regulations as the Minister may make:		
2490	**Spark-ignition reciprocating internal combustion piston engines** of a cylinder capacity not exceeding 5,703.7 cm^3, of tariff item No. 8407.34.00, and **articles** for use therewith, other than timing chains and intake and exhaust valves (excluding sodium or sodium and mercury filled valves)	5.5%	3.5%
2491	**Compression-ignition internal combustion piston engines (diesel or semi-diesel engines)** of a cylinder capacity not exceeding 5,703.7 cm^3, of tariff item No. 8408.20.90, and **articles** for use therewith other than timing chains	5.5%	3.5%
	The following for use in the repair of road tractors of tariff item No. 8701.20.00, vehicles of heading No. 87.02, ambulances or hearses of heading No. 87.03, vehicles of heading No. 87.04, vehicles of tariff item No. 8705.30.00, or chassis thereof of heading No. 87.06, or for use in the manufacture of repair parts thereof, under such regulations as the Minister may make:		
2495	**Spark-ignition reciprocating internal combustion piston engines** of a cylinder capacity not exceeding 5,703.7 cm^3, of tariff item No. 8407.34.00, and **articles** for use therewith, other than timing chains and intake and exhaust valves (excluding sodium or sodium and mercury filled valves)	5.5%	3.5%
2496	**Compression-ignition internal combustion piston engines (diesel or semi-diesel engines)** of a cylinder capacity not exceeding 5,703.7 cm^3, of tariff item No. 8408.20.90 and **articles** for use therewith other than timing chains	5.5%	3.5%

• Pending approval of an Order in Council pursuant to the Customs Tariff, accounting documents for goods affected by the change to this Code will be accepted "subject to amendment".

Code	Provision	Most-Favoured-Nation Tariff	General Preferential Tariff
	HEALTH		
2502	**Low protein or protein-free products** of heading No. 19.02 or 19.05 certified by the Department of National Health and Welfare as special low protein or protein-free dietary products	Free	X
2504	**Special dietary breads and biscuits** of subheading No. 1905.10, 1905.40 or 1905.90 under regulations of the Department of National Health and Welfare	Free	X
2505	**Vaccines** of subheading No. 3002.20 for parenteral administration in the prevention of diseases of man	Free	X
2506	**Biological products**, animal or vegetable, of heading No. 29.24, 30.02, 30.04 or 30.06, for parenteral administration in the diagnosis, prevention or treatment of diseases of animals, imported under permit of the Veterinary Director General	Free	Free
	The following for use in the manufacture of pharmaceutical or medicinal preparations:		
2508	**Animal glands** and **animal glandular organs** of tariff item No. 3001.10.00	Free	Free
2509	**Extracts of animal glands and animal glandular organs** of tariff item No. 3001.20.00	Free	Free
2510	**Chemical or biological preparations** of a kind not produced in Canada, including kits containing ancillary articles or materials, for medical diagnosis	Free	Free
2512	**Containers** and **parts** thereof (including expelling bulbs) of heading No. 39.23, 40.14, 40.16, 70.10 or 70.17 for vaccines, toxoids (anatoxins), bacterins, toxins, serums containing immune bodies including antitoxins, glandular extracts or antibiotics, to be employed in the manufacture of such products	Free	Free
	The following for use by any public hospital:		
2514	**Sensitized film** and **instant print film** of heading No. 37.01 or 37.02 for use with electrocardiographs	Free	Free
2515	**Infant or patient medical-alert or identification devices** of tariff item No. 3926.90.90	Free	Free
2516	**Sterilizers** of tariff item No. 8419.20.20 and **parts** thereof of tariff item No. 8419.90.80	Free	Free
2519	**Incontinent briefs, underpants, panties napkins (diapers), napkin (diaper) liners and similar sanitary articles** of heading No. 48.18, 56.01, 61.07, 61.08 or 63.07, designed to be worn by persons, excluding those of a kind for babies	Free	Free
2520	**Woven fabrics**, solely of cotton, not coloured, of a weight not exceeding 40 g/m², of tariff item No. 5208.21.00, for use in the manufacture of surgical bandages or slabs of textile fabrics specially coated with Plaster of Paris compound or of orthopedic casts, splints or similar supports	7.5%	5%
2521	**Articles of apparel** or **clothing accessories**, specially designed for incorporating breast prostheses, of Chapter 61 or 62	Free	Free
	The following for use of a disabled person or of a public hospital:		
2522	**Pressure-gradient elastic supports** of heading No. 61.15 made to order for an individual in accordance with the written prescription of a registered health professional	Free	Free
2523	**Canes** of tariff item No. 6602.00.00	Free	Free
2524	**Patient lifters** and **parts** thereof, **alternating pressure mattresses** of tariff item No. 9019.10.10 and **oscillating beds** of tariff item No. 9402.90.10	Free	Free
	The following for use by, for the training of, or for communicating by or with deaf persons:		
2526	**Hearing aid batteries** of heading No. 85.06	Free	Free
2527	**Communications devices** for use with the telephonic apparatus of tariff item No. 8517.81.00 or the telegraphic apparatus of tariff item No. 8517.82.90	Free	Free
2528	**Closed captioning devices** for television receivers, of heading No. 85.28	Free	Free

APPENDIX J
HTS HEADING 9905.00.00
AND
CCT AFTER-MARKET AUTOMOTIVE PARTS PROVISIONS

SUBCHAPTER V

TEMPORARY MODIFICATIONS ESTABLISHED PURSUANT TO THE
UNITED STATES-CANADA FREE TRADE AGREEMENT

U.S. Notes

1. This subchapter contains the temporary modifications of the provisions of the tariff schedule established pursuant to the United States-Canada Free-Trade Agreement. Unless the context otherwise requires, goods originating in the territory of Canada described in the provisions of this subchapter, for which a rate of duty followed by the symbol "(CA)" is herein provided, are subject to duty at the rate set forth in lieu of the rate provided therefor in chapters 1 through 98. No other preferential tariff treatment provided under general note 3(c) to the tariff schedule shall be afforded under the provisions of this subchapter. Unless otherwise provided, the provisions and notes of this subchapter are effective as to such goods, under general note 3(c)(vii) to the tariff schedule, through the close of December 31, 1998, on which date this subchapter shall be deleted from the tariff schedule and shall cease to apply to any goods entered after that date.

2. On or after January 1 of the following years, the percentage set forth in the "Special" subcolumn of rate of duty column 1 for heading 9905.00.00 which is applicable to goods originating in the territory of Canada shall be modified as follows:

1990	1991	1992
60 percent	40 percent	20 percent

3. On or after January 1 of each of the following years, the percentage set forth in the "Special" subcolumn of the rates of duty 1 column for subheading 9905.00.30 which is applicable to goods originating in the territory of Canada shall be modified as follows:

1991	1992
40 percent	20 percent

4. On and after January 1, 1993, the then-existing rate of duty set forth in the "Special" subcolumn of rate of duty column 1 for subheadings 9905.00.00 and 9905.00.30 which is applicable to goods originating in the territory of Canada shall be deleted and "Free" inserted in lieu thereof.

5. For the following subheadings, the percentage set forth in the "Special" subcolumn of rate of duty column 1 for heading 9905.00.00 which is applicable to goods originating in the territory of Canada shall be applied to the rate of duty set opposite such subheading instead of the column 1-general rate of duty --

7419.99.30	8.5%
8308.90.60	4.8%
8708.50.50	2.6%
8708.50.80	2.6%
8708.60.50	2.6%
8708.60.80	2.6%
8708.80.50	2.6%

6. On or after January 1 of each of the following years, the rates of duty in the Rates of Duty 1-Special subcolumn in HTS headings 9905.00.10 and 9905.00.20 that is followed by the symbol "CA" in parentheses is deleted and the following rates of duty are inserted in such subheadings in lieu thereof:

	1990	1991	1992	1993	1994	1995	1996	1997	1998
9905.00.10	1.7¢/kg + 1.3%	1.1¢/kg + 0.9%	0.5¢/kg + 0.4%	Free	Free	Free	Free	Free	Free
9905.00.20	2.3¢/kg + 1.8%	2¢/kg + 1.6%	1.7¢/kg + 1.3%	1.4¢/kg + 1.1%	1.1¢/kg + 0.9%	0.8¢/kg + 0.6%	0.5¢/kg + 0.4%	0.2¢/kg + 0.2%	Free

7. Whenever a fabric is entered under subheading 9905.00.30, the importer shall file with the appropriate Customs officer a written statement, accompanied by such supporting documentation as the Commissioner of Customs may require, stating that the imported fabric is intended for use as outer covering in the manufacture of upholstered furniture.

Heading/ Subheading	Stat. Suf. & cd	Article Description	Units of Quantity	Rates of Duty 1 General	Rates of Duty 1 Special	Rates of Duty 2
9905.00.00	1/	Goods originating in the territory of Canada under general note 3(c)(vii) of the tariff schedule: Equipment provided for in the following headings and subheadings intended for use in the repair or maintenance of motor vehicles of heading 8702, 8703, or 8704 (excluding electric trolley buses and three-wheeled vehicles) or of automobile truck tractors principally designed for the transportation of persons or goods: 3917.21 3917.23 3917.29 3917.31 3917.32 3917.39 3917.40 3921.12 3923.50 3926.30 3926.90 4009.10 4009.20 4009.30 4010.10 4016.91 4016.93 4016.99 4017.00 6813.10 6813.90 7006.00 7007.11 7007.21 7009.10 7009.91 7009.92 7307.91 7307.92 7307.99 7312.90 7318.11 7318.12 7318.14 7318.15 7318.16 7318.19 7318.21 7318.23 7318.24 7318.29 7320.10 7320.20 7320.90 7325.99 7326.19 7326.90 7412.20 7413.00 7415.21 7415.29 7415.31 7415.32 7415.39 7419.81 7419.99 7508.00 7614.90 7616.10 7616.90 8007.00 8301.20 8302.10 8302.30 8308.90 8310.00 8407.32 8407.33 8407.34 8409.91 8415.81 8415.90 8424.10 8482.10 8482.20 8504.31 8507.10 8507.20 8507.30 8507.90 8511.10 8511.20 8511.30 8511.40 8511.50 8511.80 8511.90 8512.30 8512.40 8512.90 8516.10 8516.90 8518.21 8518.91 8520.31 8522.90 8529.90 8536.10 8536.20 8536.30 8536.49 8536.50 8536.69 8536.90 8544.20 8544.41 8545.20 8546.90 8546.00 8708.10 8708.21 8708.29 8708.31 8708.39 8708.40 8708.50 8708.60 8708.70 8708.80 8708.91 8708.92 8708.93 8708.94 8708.99 9025.19 9025.90 9028.20 9029.90 9030.81 9030.89 9030.90 9031.80 9031.90 9032.81 9032.89 9032.90 9033.00 9606.10 9606.22.....	1/		40 percent of the column 1-general rate of duty (except as otherwise noted in U.S. note 5 to this subchapter) applicable under the respective listed heading or sub-heading (CA)	

1/ See chapter 99 statistical note 1.

Code	Provision	Most-Favoured-Nation Tariff	General Preferential Tariff
	AFTER-MARKET AUTOMOTIVE PARTS		
	The following, except tires, tubes and machines or other articles mounted on or attached to these machines, other than for loading or unloading specified commercial vehicles, for after-market use on automobiles, buses or specified commercial vehicles of subheading Nos.: 8701.20 8703.31 8704.23 8702.10 8703.32 8704.31 8702.90 8703.33 8704.32 8703.21 8703.90 8704.90 8703.22 8704.10 8705.20 8703.23 8704.21 8705.90 8703.24 8704.22		
9600	Goods of tariff item No. 9031.80.20 or 9031.90.30.		
	On and after the coming into force of section 25.2 of this Act	5.0% UST	
	On and after January 1, 1990	3.7% UST	
	On and after January 1, 1991	2.5% UST	
	On and after January 1, 1992	1.2% UST	
	On and after January 1, 1993	Free UST	
9601	Goods of tariff item No.: 7006.00.90 8507.90.13 7307.91.10 8511.20.10 7307.99.10 8511.90.10		
	On and after the coming into force of section 25.2 of this Act	5.4% UST	
	On and after January 1, 1990	4.0% UST	
	On and after January 1, 1991	2.7% UST	
	On and after January 1, 1992	1.3% UST	
	On and after January 1, 1993	Free UST	
9602	Goods of tariff item No.: 8522.90.20 9026.20.90 9030.89.99 8529.90.30 9029.20.99 9030.90.94 9025.19.90 9029.90.93 9031.80.99 9025.90.93 9030.81.99 9031.90.40		
	On and after the coming into force of section 25.2 of this Act	6.0% UST	
	On and after January 1, 1990	4.5% UST	
	On and after January 1, 1991	3.0% UST	
	On and after January 1, 1992	1.5% UST	

Code	Provision	Most-Favoured-Nation Tariff	General Preferential Tariff
9602 Cont'd	On and after January 1, 1993	Free UST	
9603	Goods of tariff item No.: 6813.10.90, 8519.91.00, 8520.31.90, 8522.90.30, 8522.90.40, 8529.90.20, 9026.10.99, 9026.80.90, 9026.90.93		
	On and after the coming into force of section 25.2 of this Act	6.4% UST	
	On and after January 1, 1990	4.8% UST	
	On and after January 1, 1991	3.2% UST	
	On and after January 1, 1992	1.6% UST	
	On and after January 1, 1993	Free UST	
9604	Goods of tariff item No. 9032.20.00, 9032.81.00 or 9032.89.90.		
	On and after the coming into force of section 25.2 of this Act	7.2% UST	
	On and after January 1, 1990	5.4% UST	
	On and after January 1, 1991	3.6% UST	
	On and after January 1, 1992	1.8% UST	
	On and after January 1, 1993	Free UST	
9605	Goods of tariff item No. 8483.40.00.		
	On and after the coming into force of section 25.2 of this Act	7.2% UST	
	On and after January 1, 1990	5.4% UST	
	On and after January 1, 1991	3.6% UST	
	On and after January 1, 1992	1.8% UST	
	On and after January 1, 1993	Free UST	
9606	Goods of tariff item No.: 6813.90.90, 7007.11.19, 7007.21.19, 7009.10.00, 7325.99.91, 8301.20.00, 8302.30.00, 8407.32.00, 8407.33.00, 8504.31.00, 8511.10.00, 8511.20.90, 8511.30.00, 8511.40.00, 8511.50.00, 8511.80.00, 8511.90.20, 8512.40.00, 8708.29.99, 8708.31.90, 8708.39.90, 8708.40.90, 8708.50.90, 8708.60.90, 8708.70.90, 8708.80.00, 8708.91.90, 9032.90.30		

Code	Provision	Most-Favoured-Nation Tariff	General Preferential Tariff
9606 Cont'd	8407.34.00 8501.31.19 8708.21.00 9031.90.50 8409.91.94 8512.90.00 8708.92.90 8415.81.00 8516.10.10 8708.93.90 8415.90.40 8539.10.10 8708.94.90 8482.10.10 8539.29.21 8708.99.99 8482.20.10 8546.90.00 9029.20.10 8501.31.11 8708.10.00 9029.90.91		
	On and after the coming into force of section 25.2 of this Act	7.3% UST	
	On and after January 1, 1990	5.5% UST	
	On and after January 1, 1991	3.6% UST	
	On and after January 1, 1992	1.8% UST	
	On and after January 1, 1993	Free UST	
9607	Goods of tariff item No. 8501.20.21, 8501.20.29 or 9033.00.00.		
	On and after the coming into force of section 25.2 of this Act	7.4% UST	
	On and after January 1, 1990	5.5% UST	
	On and after January 1, 1991	3.7% UST	
	On and after January 1, 1992	1.8% UST	
	On and after January 1, 1993	Free UST	
9608	Goods of tariff item No. 8522.90.50 or 8529.90.50.		
	On and after the coming into force of section 25.2 of this Act	7.6% UST	
	On and after January 1, 1990	5.7% UST	
	On and after January 1, 1991	3.8% UST	
	On and after January 1, 1992	1.9% UST	
	On and after January 1, 1993	Free UST	
9609	Goods of tariff item No. 7320.20.10 or 7320.20.90.		
	On and after the coming into force of section 25.2 of this Act	7.6% UST	
	On and after January 1, 1990	5.7% UST	
	On and after January 1, 1991	3.8% UST	

Code	Provision	Most-Favoured-Nation Tariff	General Preferential Tariff
9609 Cont'd	On and after January 1, 1992	1.9% UST	
	On and after January 1, 1993	Free UST	
9610	Goods of tariff item No. 8518.21.00.		
	On and after the coming into force of section 25.2 of this Act	7.8% UST	
	On and after January 1, 1990	5.8% UST	
	On and after January 1, 1991	3.9% UST	
	On and after January 1, 1992	1.9% UST	
	On and after January 1, 1993	Free UST	
9611	Goods of tariff item No. 7307.99.91 7318.29.00 7318.24.00 9032.10.00		
	On and after the coming into force of section 25.2 of this Act	8% UST	
	On and after January 1, 1990	6% UST	
	On and after January 1, 1991	4% UST	
	On and after January 1, 1992	2% UST	
	On and after January 1, 1993	Free UST	
9612	Goods of tariff item No. 7307.92.10		
	On and after the coming into force of section 25.2 of this Act	8% UST	
	On and after January 1, 1990	6% UST	
	On and after January 1, 1991	4% UST	
	On and after January 1, 1992	2% UST	
	On and after January 1, 1993	Free UST	
9613	Goods of tariff item No.: 7307.91.91 7312.90.00 7318.14.00 7318.15.00 7318.16.00 7318.19.00 7318.21.00 7318.23.00 7320.90.10		

Code	Provision	Most-Favoured-Nation Tariff	General Preferential Tariff
9613 Cont'd	7320.90.90 7325.99.99 7326.19.00 7326.90.90 7415.31.00 7508.00.90 7614.90.00 8007.00.00 8302.10.00 8424.10.00 8544.20.00 8545.20.00		
	On and after the coming into force of section 25.2 of this Act	8.1% UST	
	On and after January 1, 1990	6.1% UST	
	On and after January 1, 1991	4.0% UST	
	On and after January 1, 1992	2.0% UST	
	On and after January 1, 1993	Free UST	
9614	Goods of tariff item No.: 4016.93.00, 4016.99.00, 4017.00.90, 7412.20.00, 7413.00.00, 7415.21.00, 7415.29.00, 7415.32.00, 7415.39.00, 7416.00.00, 7419.91.90, 7419.99.90, 7616.10.00, 7616.90.90, 8512.30.00, 8516.10.90, 8522.90.90, 8536.10.00, 8536.20.00, 8536.30.00, 8536.41.00, 8536.49.00, 8536.50.90, 8536.69.00, 8536.90.90, 8544.41.00, 8548.00.00, 9025.19.10, 9025.90.10, 9025.90.92, 9026.10.10, 9026.90.10, 9026.90.92, 9029.90.10, 9030.39.10, 9030.40.10, 9030.90.10, 9031.80.10, 9031.90.10		
	On and after the coming into force of section 25.2 of this Act	8.2% UST	
	On and after January 1, 1990	6.1% UST	
	On and after January 1, 1991	4.1% UST	
	On and after January 1, 1992	2.0% UST	
	On and after January 1, 1993	Free UST	
9615	Goods of tariff item No. 8507.10.00, 8507.20.00, 8507.30.00 or 8507.90.90.		
	On and after the coming into force of section 25.2 of this Act	8.6% UST	
	On and after January 1, 1990	6.4% UST	
	On and after January 1, 1991	4.3% UST	

Code	Provision	Most-Favoured-Nation Tariff	General Preferential Tariff
9615 Cont'd	On and after January 1, 1992	2.1% UST	
	On and after January 1, 1993	Free UST	
9616	Goods of tariff item No. 8516.90.90 or 8536.90.10.		
	On and after the coming into force of section 25.2 of this Act	8.7% UST	
	On and after January 1, 1990	6.5% UST	
	On and after January 1, 1991	4.3% UST	
	On and after January 1, 1992	2.1% UST	
	On and after January 1, 1993	Free UST	
9617	Goods of tariff item No. 7508.00.20.		
	On and after the coming into force of section 25.2 of this Act	8.8% UST	
	On and after January 1, 1990	6.6% UST	
	On and after January 1, 1991	4.4% UST	
	On and after January 1, 1992	2.2% UST	
	On and after January 1, 1993	Free UST	
9618	Goods of tariff item No. 8308.90.00 or 8310.00.00.		
	On and after the coming into force of section 25.2 of this Act	8.9% UST	
	On and after January 1, 1990	6.7% UST	
	On and after January 1, 1991	4.4% UST	
	On and after January 1, 1992	2.2% UST	
	On and after January 1, 1993	Free UST	
9619	Goods of tariff item No.: 3926.90.40 4016.91.00 7009.91.00 4009.10.00 6813.10.10 7009.92.00 4009.20.00 6813.90.10 9606.10.00 4009.30.00		
	On and after the coming into force of section 25.2 of this Act	9.0% UST	
	On and after January 1, 1990	6.7% UST	

Code	Provision	Most-Favoured-Nation Tariff	General Preferential Tariff
9619 Cont'd	On and after January 1, 1991	4.5% UST	
	On and after January 1, 1992	2.2% UST	
	On and after January 1, 1993	Free UST	
9620	Goods of tariff item No. 8539.21.12.		
	On and after the coming into force of section 25.2 of this Act	9.1% UST	
	On and after January 1, 1990	6.8% UST	
	On and after January 1, 1991	4.5% UST	
	On and after January 1, 1992	2.2% UST	
	On and after January 1, 1993	Free UST	
9621	Goods of tariff item No. 8536.90.20.		
	On an after the coming into force of section 25.2 of this Act	9.2% UST	
	On and after January 1, 1990	6.9% UST	
	On and after January 1, 1991	4.6% UST	
	On and after January 1, 1992	2.3% UST	
	On and after January 1, 1993	Free UST	
9622	Goods of tariff item No. 8708.29.92.		
	On and after the coming into force of section 25.2 of this Act	9.5% UST	
	On and after January 1, 1990	7.1% UST	
	On and after January 1, 1991	4.7% UST	
	On and after January 1, 1992	2.3% UST	
	On and after January 1, 1993	Free UST	
9623	Goods of tariff item No. 7307.99.92.		
	On and after the coming into force of section 25.2 of this Act	9.6% UST	
	On and after January 1, 1990	7.2% UST	

Code	Provision	Most-Favoured-Nation Tariff	General Preferential Tariff
9623 Cont'd	On and after January 1, 1991	4.8% UST	
	On and after January 1, 1992	2.4% UST	
	On and after January 1, 1993	Free UST	
9624	Goods of tariff item No. 7307.91.92 or 7307.92.20.		
	On and after the coming into force of section 25.2 of this Act	9.6% UST	
	On and after January 1, 1990	7.2% UST	
	On and after January 1, 1991	4.8% UST	
	On and after January 1, 1992	2.4% UST	
	On and after January 1, 1993	Free UST	
9625	Goods of tariff item No.: 7318.11.00 8501.20.11 8501.31.21 7318.12.00 8501.20.19 8501.31.29		
	On and after the coming into force of section 25.2 of this Act	10% UST	
	On and after January 1, 1990	7.5% UST	
	On and after January 1, 1991	5% UST	
	On and after January 1, 1992	2.5% UST	
	On and after January 1, 1993	Free UST	
9626	Goods of tariff item No. 8539.21.90 or 8539.29.10.		
	On and after the coming into force of section 25.2 of this Act	10% UST	
	On and after January 1, 1990	7.5% UST	
	On and after January 1, 1991	5% UST	
	On and after January 1, 1992	2.5% UST	
	On and after January 1, 1993	Free UST	
9627	Goods of tariff item No. 9606.22.00.		
	On and after the coming into force of section 25.2 of this Act	10% and 4¢/gross UST	

Code	Provision	Most-Favoured-Nation Tariff	General Preferential Tariff
9627 Cont'd	On and after January 1, 1990	7.5% and 3¢/gross UST	
	On and after January 1, 1991	5% and 2¢/gross UST	
	On and after January 1, 1992	2.5% and 1¢/gross UST	
	On and after January 1, 1993	Free UST	
9628	Goods of tariff item No. 7320.10.00.		
	On and after the coming into force of section 25.2 of this Act	10.2% UST	
	On and after January 1, 1990	7.6% UST	
	On and after January 1, 1991	5.1% UST	
	On and after January 1, 1992	2.5% UST	
	On and after January 1, 1993	Free UST	
9629	Goods of tariff item No. 3921.12.00 or 8539.21.11.		
	On and after the coming into force of section 25.2 of this Act	10.8% UST	
	On and after January 1, 1990	8.1% UST	
	On and after January 1, 1991	5.4% UST	
	On and after January 1, 1992	2.7% UST	
	On and after January 1, 1993	Free UST	
9630	Goods of tariff item No.: 3917.21.00 3917.32.00 3926.30.00 3917.23.00 3917.39.00 3926.90.90 3917.29.00 3917.40.00 8708.29.94 3917.31.00 3923.50.90		
	On and after the coming into force of section 25.2 of this Act	10.8% UST	
	On and after January 1, 1990	8.1% UST	
	On and after January 1, 1991	5.4% UST	
	On and after January 1, 1992	2.7% UST	

Code	Provision	Most-Favoured-Nation Tariff	General Preferential Tariff
9630 Cont'd	On and after January 1, 1993	Free UST	
9631	Goods of tariff item No.: 4010.10.00 or 8708.29.93.		
	On and after the coming into force of section 25.2 of this Act	14% UST	
	On and after January 1, 1990	10.5% UST	
	On and after January 1, 1991	7% UST	
	On and after January 1, 1992	3.5% UST	
	On and after January 1, 1993	Free UST	
9632	Goods of tariff item No. 8708.29.95.		
	On and after the coming into force of section 25.2 of this Act	20% UST	
	On and after January 1, 1990	15% UST	
	On and after January 1, 1991	10% UST	
	On and after January 1, 1992	5% UST	
	On and after January 1, 1993	Free UST	
9633	Goods of tariff item No. 7006.00.10.		
	On and after the coming into force of section 25.2 of this Act	4.4% UST	
	On and after January 1, 1990	3.3% UST	
	On and after January 1, 1991	2.2% UST	
	On and after January 1, 1992	1.1% UST	
	On and after January 1, 1993	Free UST	

APPENDIX K
U.S. CUSTOMS RULING HQ 083222 REGARDING USE OF AN FTZ

DEPARTMENT OF THE TREASURY

U.S. CUSTOMS SERVICE

WASHINGTON D C

HQ 083222

25APR 1989

CLA-2 CO:R:CV:G: 083222 JLV

CATEGORY: Classification

TARIFF NO.:

Brian S. Goldstein, Esq.
Siegel, Mandell & Davidson, P.C.
One Whitehall Street
New York, New York 10004

RE: Classification of unassembled components at the time of application for privileged status in an Foreign Trade Zone (FTZ); incomplete or unfinished article having the essential character of the complete or finished article

Dear Mr. Goldstein:

In a letter of September 23, 1988, on behalf of your client, Subaru-Isuzu Automotive Inc. ("SIA"), you requested a ruling on the tariff classification of certain automotive parts which will be imported by SIA for assembly with other parts into a finished light duty pickup truck in a foreign trade subzone (FTZ). You presented multiple situations as proposed transactions. This ruling is our decision on the issues presented.

FACTS:

SIA proposes several transactions which are ultimately related to the production of a light duty pickup truck ("T.F.R.") in an FTZ in the United States. The merchandise involved in the transactions consists of components produced in Japan, components produced in the United States, and components produced in the FTZ. Although SIA intends to increase the domestic content of the components, you state that the listed parts will remain the same, with slight changes contemplated in the sourcing of certain parts.

You describe the parts as consisting of the following component categories: panel parts, frame, engine assembly, transmission assembly, trim parts, chassis parts (other than frame) and other miscellaneous parts. However, according to the list of parts, there are few assemblies or subassemblies of parts in these categories. With the exception of the

engine assembly, transmission assembly, various small motors (e.g., starter motor; blower; alternator), and a few other small assemblies, the parts as imported will consist of unassembled, discrete components for use in making various subassemblies, such as doors, frames, axles, cargo boxes, and bodies.

As shown in Exhibit A-1, the components imported from Japan will be grouped according to "trim parts," "chassis parts," "panel parts," and "other parts (engine and transmission assemblies, and nuts, bolts, washers, bushings, and similar miscellaneous fasteners and pins for various sections of the vehicle)." SIA initially proposes to ship these components, although grouped in this manner, on the same vessel and in unequal numbers, and to import them at the same port. No specific quantities, however, were proposed, nor did you indicate whether the components would be individually packaged, packaged in bulk (like items only), or packaged in kits for individual vehicles. The imported components will be put into inventory in the FTZ for eventual assembly with the U.S. components and the components produced in the FTZ.

In the alternative, SIA also proposes to ship these same groupings of parts on different vessels for importation at different ports and at different times. No specific information was given on this proposal. All the components, however, would ultimately be put into inventory in the FTZ for the same assembly operation.

Prior to the manipulation or manufacture of these components, SIA proposes to apply for privileged status of the components by specific groupings on separate days. Under Scheme I, the groupings would be as follows: Group A, consisting of panel parts, frames (sides only), and engine assemblies; Group B, consisting of transmission assemblies, trim parts, and chassis parts; and Group C, consisting of other parts. Under Scheme II, the groupings would be as follows: Group A, consisting of panel parts and sides of frames; Group B, consisting of engine assemblies, transmission assemblies, trim parts, and chassis parts, and Group C, consisting of other parts.

The FTZ subzone operation at the SIA facility will consist of four distinct stages: stamping, body assembly, painting, and final assembly. In the stamping operation, parts will be manufactured from plastic and steel materials. In the body assembly operation, the body components will be assembled. In the painting operation, the body parts will be

painted and coated in eight different steps. In the final assembly operation the painted bodies will be assembled, together with all the remaining components (approximately 1,500 to 1,800) on an assembly line.

With this overview of the operation and description of the condition of the unassembled components, you seek a determination that the unassembled components from Japan, if shipped on the same vessel and imported at the same time, do not constitute motor vehicles which, although incomplete, have the essential character of complete motor vehicles for purposes of GRI 2(a) under the Harmonized Tariff Schedule of the United States (HTS). You also seek a determination that, even if these unassembled components are incomplete and unassembled motor vehicles within the meaning of GRI 2(a), SIA may segregate or group shipments of unassembled components into different lots for purposes of claiming privileged status.

ISSUE:

1. Under the facts as given, do the unassembled components, shipped on the same vessel and imported on the same date, constitute unassembled incomplete motor vehicles classifiable as "completed" or "finished" motor vehicles within the meaning of GRI 2(a)?

2. For purposes of claiming privileged status under 19 U.S.C. 81c and 19 CFR 146.41 and 146.65 for components which are physically or constructively segregated out of a single shipment, does the application of GRI 2(a) preclude such claim if the shipment consists of components which constitute unassembled and incomplete foreign articles that are classifiable as the article?

LAW AND ANALYSIS:

Tariff classification of articles imported into the customs territory of the United States is governed under the HTS by the General Rules of Interpretation (GRI's) and any relevant section or chapter notes. GRI 2(a) provides as follows:

2(a). Any reference in a heading to an article shall be taken to include a reference to that article incomplete or unfinished, provided that, as presented, the incomplete or unfinished article has the essential character of the complete or finished article. It shall also be taken to include a reference to that article complete or finished (or falling to be classified as complete or finished by virtue of this rule), presented unassembled or disassembled.

Under the first sentence in GRI 2(a), an incomplete article having the essential character of the complete or finished article is classified under the heading for the complete article. The second sentence in GRI 2(a) extends this tariff treatment to the same article that is presented unassembled or disassembled. In this case, the articles are both incomplete and unassembled. The first question, therefore, is whether they have the essential character of the complete article, and the second question is whether they are "unassembled" as the term is used in GRI 2(a).

The Explanatory Notes (EN) to the Harmonized Commodity Description and Coding System are the official interpretation for the HTS at the international level. EN 2(a)(I), (V), and VII) provide some guidance on the intent of GRI 2(a):

(I) The first part of Rule 2 (a) extends the scope of any heading which refers to a particular article to cover not only the complete article but also that article incomplete or unfinished, <u>provided</u> that, as presented, it has the essential character of the complete or finished article. [underscoring added for emphasis]

* * * * * * * *

(V) The second part of Rule 2 (a) provides that complete or finished articles

> presented unassembled or disassembled are to be classified in the same heading as the assembled article. When goods are so presented, it is usually for reasons such as requirements or convenience of packing, handling or transport. [Underscoring added for emphasis]
>
> * * * * * * * *
>
> (VII) For the purposes of this Rule [2(a)], "articles presented unassembled or disassembled" means articles the components of which are to be assembled either by means of simple fixing devices (screws, nuts, bolts, etc.) or by riveting or welding, for example, provided only simple assembly operations are involved. [Underscoring added for emphasis]

EN (I) does not provide much instructive language on the GRI 2(a) requirement that an incomplete article must have the essential character of the complete article. However, it is reasonable to say that in order to have the essential character of a motor vehicle, the imported components must be advanced to the point that they are recognizable as a motor vehicle, i.e., having the essential features of a vehicle, whether assembled or unassembled. In this case we have some parts of the frame (side rails only), some parts of the body panels, the engine and transmission assemblies, and some of the suspension components. Except for the engines and transmissions, there are no identifiable subassemblies. There is no evidence that any of these components are intended to be assembled into a specific motor vehicle, nor is there any evidence that they constitute something other than discrete components intended for inventory for a manufacturing operation. Furthermore, each of the various possible subassemblies (body, chassis, cargo box) are so incomplete as to defy even partial assembly until additional significant structural components are added. We cannot, under the facts as presented, conclude that these components have the essential character of a pickup truck or of any other motor vehicle.

However, even if the components in the shipment were to constitute incomplete motor vehicles which had the essential character of vehicles under GRI 2(a), the shipment of components could not be classified under the heading for the vehicles because they are not "unassembled" within the limited scope of GRI 2(a).

If an incomplete (or complete) article is also unassembled, EN (V) and (VII) describe the usual circumstances surrounding the "unassembled" state at the time of presentation: (1) the article is usually presented unassembled for convenience or for requirements necessitated by considerations arising from packaging, transport, or handling, and (2) it is put together by simple assembly operations involving simple fixing devices.

Shipment of these components in an "unassembled" condition does not have any apparent relation to the requirements necessary to the packing, handling, or transport of motor vehicles. Nor does the condition of the components in the shipment have any apparent relation to convenience in the packing, handling, or transport of motor vehicles. The condition of the components is more readily identifiable as a shipment of inventory items for a manufacturing operation or as replacement parts.

Finally, the description of the assembly in the FTZ subzone precludes any consideration of the process as a "simple" assembly within the meaning of EN 2(a)(VI), even though the primary means of joining these components may be by "nuts and bolts and welding operations." With the exception of the motor and transmission assemblies, there are no significant body or chassis subassemblies that can be easily assembled into a finished or complete motor vehicle. These motor vehicles will be assembled in a special-purpose subzone that allows automobile and truck manufacturing.

Concerning the second issue, we need only address whether GRI 2(a) applies to articles shipped unassembled into an FTZ and for which privileged status is claimed on all or part of the unassembled articles. In prior decisions on the application of classification principles to foreign articles which are placed directly into an FTZ without entry or withdrawal from a warehouse for consumption, Customs has determined that these principles do not apply until a claim for privileged status is made or the articles are entered into the customs territory of the United States. C.S.D. 83-97.

Classification of articles in the tariff schedule are governed by the GRI's. Classification and rate of duty, as provided in the tariff schedule, apply to articles imported into the customs territory of the United States. General Note 1, HTS. The FTZ act establishes a distinction between the geographical territory of the United States and the customs territory of the United States, and the customs laws do not apply, unless a specific provision allows or requires otherwise, to articles placed in an FTZ. Hawaiian Independent Refinery v. United States, 460 F.Supp. 1249; 19 U.S.C. 81c(a). Therefore, GRI 2(a) would not apply to articles placed in an FTZ until such time as a claim for privileged status is made or the articles are transferred from the FTZ to the customs territory of the United States. Furthermore, GRI 2(a) would apply only to the condition (i.e., the specific grouping of components) of the articles at the time the claim for privileged status is made, or at the time the articles are transferred from the FTZ.

HOLDING:

The shipment of unassembled Japanese components for pickup trucks, as described in this letter, cannot be classified under GRI 2(a) as finished or complete pickup trucks because, as presented, (1) these components do not have the essential character of the complete vehicles, (2) their unassembled condition is not related to any identified special requirements or to any reasonable convenience in the packing, transport, or handling of pickup trucks, and (3) the required assembly process is a substantial manufacturing process.

Within the limitations of 19 U.S.C. 81c(a), unassembled components of a shipment may be segregated into distinct groups in order to claim privileged status for the components as individual parts. Classification principles, such as GRI 2(a), which apply at the time articles are entered, or withdrawn from warehouse for consumption, do not apply to articles placed in an FTZ, except when these principles must be applied to articles in an FTZ, such as in a claim for privileged status.

Sincerely,

John Durant, Director
Commercial Rulings Division

APPENDIX L
PRIVATE SECTOR PROPOSALS

PRIVATE SECTOR PROPOSALS

American Association of Importers and Exporters

In a brief submitted October 25, the American Association of Importers and Exporters (AAEI) described three principles which they support in this investigation. AAEI argues that rules of origin for NAFTA auto trade should be no more restrictive than those now applicable under the CFTA. AAEI also urges that the "U.S. automotive industry" not be disadvantaged by NAFTA origin rules and that such rules should be "flexible."

AAEI advocates a "clearly defined" direct cost of processing (DCP) criteria rather than "the current rule" and urges that value content tests should be based on this clearly-defined DCP. They believe that this change would more accurately reflect the realities of business including how "costs are carried on businesses' books."

Additionally, AAEI argues for a "*de minimis* provision" which would allow non-North American products or components to be used by North American automakers without certification (and, implicitly, without tariff penalties) if the cost or value[1] of the component were below the *de minimis* level. They believe that such a provision would recognize existing "business realities". They also believe that the CFTA has demonstrated that the cost of compliance with CFTA certification procedures for *de minimis* shipments exceeds the tariff benefits to be gained from compliance.

American International Automobile Dealers Association

As noted in the brief submitted by the AIADA on October 16, 1991, the objective of a NAFTA should be the elimination of both tariffs and other types of "restrictive, market-distorting restraints on commerce" among the parties. The resulting increased competition is seen as improving standards of living and reducing consumer prices, while promoting higher North American employment and wider choices of goods. The brief points toward a product-type rationalization in which Mexico would supply low-priced motor vehicles and Canada and the United States would produce larger autos and trucks, all of which would then be freely traded within the North American market.

The AIADA brief states that Customs' failure to provide regulatory guidance as to the CFTA rules "has created a situation of arbitrary enforcement and has the potential to inhibit future investment." Referring to the Honda audit, AIADA cites "incomplete and ambiguous" rules on the U.S. side and the inadequate protection of confidential business information as serious deficiencies.

AIADA suggests continuation of the existing 50-percent value-content requirement in NAFTA. It refers to Japanese investment in U.S. production, with resulting jobs and the potential for continuing increases in local content in the vehicles made in transplant facilities, and higher U.S. competitiveness as desirable goals advanced by the 50-percent requirement.

As a notable change, AIADA advocates the elimination of the CAFE two-fleet basis for measuring fuel economy. By allowing a fuel-inefficient car to be treated as "foreign" if it includes more than 25 percent foreign content, AIADA states, the U.S. manufacturers were encouraged to move production of small cars off-shore so that such models could be averaged in the "import fleet." The brief suggests that market distortions from producer manipulations can be ended, and transplant operations taken fully into account, only by abolishing this distinction in the CAFE law. AIADA indicates that the present scheme may deter Japanese transplants' efforts to raise the North American content of their production because, eventually, the vehicles involved shift from the import fleet to the domestic one. If, when part of the domestic fleet, the applicable CAFE standards are not met, penalties can result on each car and fuel economy is not improved. AIADA believes that this shift in "fleet" status, could induce the transplants to stop trying to increase local content levels in order to avoid incurring CAFE penalties.

[1] AAEI does not specify which would be applicable.

Auto Parts Manufacturers Association (Canada)

A brief article in *The Globe and Mail* of Toronto, Canada (Oct. 12, 1991) summarized the APMA's general view on rules of preference for NAFTA. The spokesman, Neil De Koker, indicated APMA's support for a 75-percent North American content criterion, and a 50-percent Canadian content requirement for vehicles sold in Canada. The article seems to assert APMA's opposition to the "roll-up" concept as currently utilized with the CFTA.

Big Three U.S. Producers

An extremely detailed recommendation jointly submitted to the United States Trade Representative by Chrysler, Ford, and GM, seeks a 15-year transition period as to tariffs. It also advocates noteworthy changes in the origin rules for NAFTA which would differ considerably from those now prevailing under the CFTA.[2] Citing the broader governmental interest in a three-party FTA, and Mexico's performance requirements and investment controls, these firms set forth three major goals in the negotiations. First, in view of the large market that has effectively been closed to U.S. firms for some time, they advocate increased Canadian and U.S. auto and truck exports to Mexico. Second, the companies want to "prevent Mexico from becoming an export platform for third country vehicle manufacturers to produce automobiles and trucks for the U.S. and Canadian markets." Third, they desire an "orderly transition" to integrate Mexico's auto industry with those of the other two parties.

To accomplish this set of objectives, the proposal first argues that a two-tiered set of rules should be developed, one for firms already assembling in Mexico on January 1, 1991[3] and another for all others. Such a system would operate much like the Canadian scheme for APTA, described *infra*. In addition, different tariff rates would apply to the two groups, with U.S. and Mexican tariffs on vehicles and parts immediately eliminated as to the "tier 1" (original) firms and, for "tier 2," a phase-out of tariffs in all three countries from year-5 through year-15 after the effective date of the agreement. Similar stages would apply with respect to the existing 36-percent Mexican content rule[4] and to Mexico's trade balancing/performance requirements contained in the Auto Decree. Investment restrictions would likewise be liberalized.

With respect to origin/preference criteria, the proposal advocates separate treatment of these two standards and sets forth five objectives:

1. Enlarge employment and enhance the competitiveness of the North American auto industry;
2. Limit benefits of "full NAFTA" to those "companies that have made meaningful manufacturing and research and development commitments in North America. There should be no opportunity to inflate content levels or manipulate compliance through accounting, cost allocation, or pricing practices."
3. Facilitate trade and documentation, as well as audits, and set up cost elements on a basis "easily obtainable from normal cost accounting sources."
4. Harmonize criteria of the NAFTA rule with those of the GATT Customs Valuation Code and with Generally Accepted Accounting Principles (GAAP).
5. "Create a stable rule that will not significantly change the way in which business transactions are accounted and reported in each of the three countries."

The proposal requests improvements in certain troublesome aspects of the CFTA rule, especially with regard to accounting practices.

In addition, Chrysler and Ford seek to raise the value-content level to 70 percent, while General Motors asks that it be increased to 60 percent, all applicable to trade not covered by the APTA (which would remain at 50 percent). The firms also want company-wide averaging of content and the elimination of "roll-up" of "non-North American materials and value in the various stages of manufacturing and assembly." Their stated objectives are the achievement of stability

[2] See *Inside U.S. Trade* (Sept. 23, 1991) for special report entitled "U.S. Automakers Press for Preferences During 15-Year NAFTA Transition."

[3] Namely, Chrysler, Ford, Nissan, GM, and Volkswagen.

[4] Tier 1 would see an immediate reduction of the content threshold to 25 percent, with a complete phase-out over 15 years. Tier 2 would retain the 36-percent standard until year-5, and then receive a 10-year phase-out.

and flexibility, and the continuation of the very large Auto Pact (APTA) trade. No changes are offered with regard to the maquiladora program or the CAFE standards. (This latter omission would mean that Mexican-produced vehicles would not be designated as "domestic" for CAFE purposes.) In addition, the "Big Three" make other suggestions for NAFTA that are outside the scope of this report.

Honda

In a brief submitted on October 25 by Honda,[5] Honda discusses its operations in North America and its experience under the CFTA, especially its experiences with audits by Revenue Canada and the U.S. Customs Service. In general, Honda favorably contrasts its experiences with implementation of the CFTA by Revenue Canada with comparable implementation procedures by U.S. Customs. Honda urges that any NAFTA include more stringent requirements and procedures for handling and safeguarding confidential business information based upon its experience with a recent audit by Customs.[6]

Specifically, Honda argues that the NAFTA "treaty" should include a comprehensive program to safeguard company confidential information with specific procedures to mark and identify such information, appoint custodians, limit access, and regulate copying of this information. Honda does not believe that current, more general, ad hoc procedures embodied in U.S. law provide sufficient deterrent to "leaks" or other unauthorized disclosure of this information. Honda advocates creation of a "trilateral commission" under the NAFTA to provide "authoritative and consistent" interpretation of the NAFTA and to conduct NAFTA audits, with its determinations to be binding on local customs administrations.

Honda notes its support for a value-based content standard, as opposed to change of tariff heading or substantial transformation, at least in the automotive sector of the NAFTA. Honda does not believe that a critical processes approach would be "workable." Honda finds "objectionable" the arbitrary exclusion of certain production-related "reasonably-allocated" costs from the CFTA definition of DCP; e.g., telephone, telefax, freight, postage, payroll services, etc. "These exceptions make no sense since many are clearly related and properly allocable to manufacturing."[7] Honda advocates use of the DCP approach in the NAFTA but minus these exceptions. Honda believes that *all* of the costs incurred by a "manufacturing" company (as distinct from those incurred by a "selling, marketing, or distribution" company) are properly includable in origin calculations. Such costs would include "computer and informational expenses, training, quality control and testing, and environmental health and safety expenses."

Honda describes "roll-up" and "roll-down"[8] in the context of the CFTA and the NAFTA. Honda suggests, but does not appear to explicitly advocate, a concept referred to as "actual value." In essence, this concept would count all of the "actual North American content" in parts and raw materials subsequently incorporated into automobiles without regard to whether this content was more or less than X percent of the value of the component (50 percent in the case of the CFTA).

Honda believes that the present numerical level, 50 percent, is adequate to prevent evasion or "export platform" operations. Honda recognizes that the *method* of calculation of the content level is of much greater significance than the actual numerical value of the level itself. Honda notes that the pre-1989 APTA required a 50 percent content level but permitted inclusion of "distribution and selling expenses" in that calculation. In their opinion, this is an easier standard to satisfy than the CFTA standard of 50 percent which does not permit inclusion of such costs in the calculation.

Honda advocates averaging by calendar year, fiscal year, or model year, at the company's election.[9] Honda also supports averaging by automotive parts *suppliers* in addition to the automakers themselves. It is opposed, however, to averaging by *company* rather than by product or class of vehicle. Honda notes that other preferential tariff programs (GSP, CBERA, Israel FTA, etc.) focus on the customs treatment of the imported *article* rather than the *company* in terms

[5] "Honda" refers to three entities joining in this brief: American Honda Motor Co., Inc., Honda of America Mfg., Inc., and Honda North America, Inc.

[6] Honda cites the "leak" of their business confidential information to the *N.Y. Times* as a consequence of the CFTA audit by Customs as a basis for requiring more stringent safeguards for such information in the NAFTA.

[7] Brief, at 19.

[8] Roll-down occurs where North American content is *excluded* from the origin determination because it is less than 50 percent of the total content.

[9] Honda also notes that questions relating to averaging of the "stub year" periods in CFTA, and NAFTA, are important and unresolved issues.

of qualification for benefits. Honda notes that such an approach would permit duty-free entry of vehicles containing little or no North American content if the company qualified, while vehicles containing much higher percentages of local content would not qualify based upon the lack of qualification of the corporate manufacturer.

Honda strongly opposes any requirement in NAFTA for a minimum level of research and development in North America to qualify for tariff preference. They note that none of the other preferential tariff regimes takes this approach. Finally, Honda believes that fluctuating exchange rates present a definitional problem and should be addressed in the NAFTA, perhaps along the lines of the EPA solution in the CAFE context.[10]

Motor and Equipment Manufacturers Association

In a brief submitted October 16, the Motor and Equipment Manufacturers Association (MEMA) state their strong support for adoption of a 75 percent NAFTA rule of origin for the automotive sector. MEMA believes that this standard should be based on both change of tariff classification and a value-content approach similar to that used in the CFTA

MEMA indicates that one approach would be to define the value-content standard in terms of "direct costs of processing and assembling plus material costs" incurred in North America. MEMA believes that such an approach would encourage greater use, by the automakers, of essential, high-value added parts and components in vehicles built in North America.

MEMA would define their version of DCP by reference to the "inventoriable costs including all direct labor, overhead and manufacturing burden (indirect labor and other overhead costs at the plant level), plus specific period costs related to product design and engineering as well as special tool amortization." In addition, MEMA advocates the elimination of "roll-up" in the calculation of North American content. MEMA believes this proposal would be consonant with GAAP as applied in the North American motor vehicle industry.

MEMA also believes that elimination of duty-drawback for automotive sector products is essential in the NAFTA. Failure to do so, MEMA believes, will encourage transshipment of non-qualifying parts and components and discourage investment in Canada and Mexico. MEMA also supports a "stand-still" on Mexican petitions for GSP eligibility for auto sector products until after a NAFTA agreement is reached and domestic implementing legislation is enacted.

As noted, MEMA advocates a 75 percent threshold for NAFTA and argues for a re-opening of the CFTA negotiations looking toward a 75 percent standard for that agreement as well. MEMA urges a rapid phaseout of tariffs for vehicles and parts which are not designated as "import sensitive" and a longer phaseout for those which are so designated. MEMA believes that the five-year staging in the CFTA should be left as is, but that the ten-year staging should be accelerated where possible.

MEMA advocates the phase-out of the local content and trade balancing requirements of the Mexican auto decrees. MEMA supports differential treatment for assemblers currently in Mexico (Chrysler, Ford, GM, Nissan and VW) as opposed to new market entrants in the Mexican market. These latter would be subjected, under MEMA's proposal, to the present local content requirements during a transition period while they are being phased-out for the present assemblers. The differential treatment date would be established for vehicle assemblers in Mexico as of January 1991.

With respect to the 50 percent threshold in CFTA, MEMA believes that the 35 percent threshold established in the GSP, CBERA and Israel FTA programs is not comparable since it was set at that level to encourage the "development of platforms for exporting to the United States." In support of a 75 percent threshold, MEMA cites an EC/EFTA origin rule requiring 60 percent local content for automotive products, the CAFE (75 percent) origin test, the 60 percent Canadian content requirement imposed under the APTA for duty-free entry into Canada, and "references" to an 80 percent content requirement for Nissans made in the UK and sent into the EC.

While MEMA does not advocate a critical processes test, MEMA does believe that the NAFTA threshold should be set at 75 percent (at least) in order to encourage (if not require) that some (or all) of the "critical components" (such as the drive train) be sourced in North America. At

[10] Honda cites 40 CFR 600.511-80(b)(1).

the same time, MEMA recognizes that this proposal could characterize other parts suppliers as "second class citizens" if their parts were not also considered "essential" to the vehicle.[11] Accordingly, they decline to specifically require the drive train to be manufactured in North America. Rather, they believe that a 75 percent threshold will have that result. In addition, MEMA argues that automakers require flexibility in sourcing decisions, even including the sourcing of parts or components of the drive train.

In summary, MEMA supports a 75 percent threshold in NAFTA coupled with retention of the DCP plus materials formula used in the CFTA with some modifications to the DCP formula, "but without changing [DCP's] essential character."[12]

Motor Vehicle Manufacturers Association

In a brief submitted October, the Motor Vehicle Manufacturers Association (MVMA) make several recommendations in connection with this investigation. They urge that origin determinations be based upon normally accepted accounting practices. MVMA believes that change of tariff classification and substantial transformation are inappropriate for certain products. MVMA[13] argues against inclusion of "roll up" in determining North American content. MVMA prefers a "mathematically simple formula" for value-based content determinations.

They recommend that U.S. negotiators look to the GATT Valuation Code and GAAP standards as sources of "objective criteria" for a NAFTA rule of origin. They argue that a NAFTA rule should allow for an aggregation of expenses by cost center, or by company, at the importer's election.[14] MVMA believes that a NAFTA rule should provide for annual self-certification and greater reliance on post-reporting audits. They believe that certificates of origin would be unnecessary under such a system.[15] Finally, MVMA urges that any NAFTA rule include explicit requirements for procedures to protect confidential business information.

MVMA notes current governmental interest in a process-based rule of origin and asserts their belief that this concept is seriously flawed. They do not agree, for example, with the presumption that a requirement of North American origin for the drive train is, necessarily, *the* "critical process" for automotive origin. They suggest that, if the engine were defined as the critical process, importers would bring vehicles into Mexico minus the power train, assemble an American engine into these vehicles, and import them duty-free into the United States under a proposed NAFTA.

MVMA does not agree that a value-based rule is inherently unworkable; they believe that the particular definitions used in the CFTA do not reflect normal accounting practices. It is this divergence from normal business practice in CFTA rules which has led to problems with administration in the CFTA and which, MVMA urges, should also be corrected in any NAFTA rule.

Toyota

In a brief submitted October 25, Toyota[16] described the extent of various production facilities in which Toyota has an interest in North America. It describes Toyota's goals of increasing local capabilities in the United States to encompass the entire automotive process—from basic research to manufacturing. The brief notes the increasing level of purchases of parts and components from North American suppliers. Toyota notes that it does not have any manufacturing facilities in Mexico and has no current plans to establish such activities.

Toyota notes what it describes as the "discriminatory" nature of the Canadian auto pact vis-a-vis non-auto-pact manufacturers in Canada. It believes that this discrimination would be

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[11] Brief: Discussion Paper, p. 10.

[12] Id at p. 13.

[13] The brief notes that one member, Honda, has separate views on "roll-up" and "roll-down" and a proposed "actual value" concept for NAFTA.

[14] The brief notes Honda's dissent from the MVMA position on company-wide averaging.

[15] Honda's dissent as to company-wide averaging is again noted.

[16] The brief was submitted by Toyota Motor Sales, U.S.A., a subsidiary of Toyota Motor Corporation. The brief also notes that Toyota Motor Manufacturing U.S.A. has a manufacturing plant at Georgetown, Kentucky; that Toyota has a joint venture with GM at Fremont, California (NUMMI); and that Toyota Motor Manufacturing, Inc., has a plant at Cambridge, Ontario. It is unclear whether, and to what extent, these other entities join in the submission of this brief.

paralleled in a proposal (which it attributes to the Big Three) to discriminate between existing automakers in Mexico and companies such as Toyota who manufacture in the United States or Canada. Toyota states that the "Big Three" plan for NAFTA would establish a more rapid phaseout of Mexican import tariffs and other performance requirements for those manufacturers already established in Mexico versus those wishing to export to Mexico from the United States or Canada. Toyota believes that this disparity would adversely affect its plants in Kentucky and Ontario. In general, Toyota believes that origin should be conferred on the basis of the content of the vehicle itself rather than on the nationality of the corporate manufacturer or its time of establishment in North America.[17]

Toyota also advocates the immediate elimination of Mexican export barriers to imports of used cars from the United States or Canada reasoning that this would stimulate new vehicle demand in the United States. Toyota also opposes a proposal (which it attributes to the Big three) to increase NAFTA content to 60-70 percent North American content. It believes that such an increase could jeopardize its plans to export to Canada from its U.S. production facility. Toyota favors the current 50 percent level.

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[17] A recent article suggests that a crankshaft fabricated from "American steel" entirely by companies located within the U.S. customs territory may not (or perhaps should not) qualify as "domestic [U.S.] content" for purposes of the CFTA because one or more of the companies involved are partly (or wholly) foreign-owned. "Honda: Is It An American Car?", *Business Week*, p. 105, p. 106 (Nov. 18, 1991). The rules of origin which were adopted for the CFTA, as well as all previous preferential tariff arrangements of which the Commission is aware, condition eligibility for tariff benefits upon an examination of the *goods* in their condition as imported. There is no U.S. tariff program which conditions benefits upon *ownership* of the importer or manufacturer by U.S. citizens. Nor, insofar as the Commission is aware, has any government tabled such a proposal in the ongoing NAFTA negotiations.