

EXECUTIVE OFFICE OF THE PRESIDENT
THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON, D.C. 20508

JUL 31 2001

The Honorable Stephen Koplan
Chairman
U.S. International Trade Commission
500 E St., SW
Washington, DC 20436

Dear Chairman Koplan:

Chapter Four and Annexes 401 and 403 of the North American Free Trade Agreement set out rules of origin for applying the tariff provisions of the NAFTA.

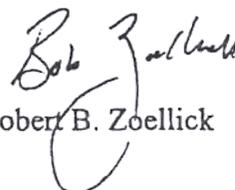
Section 202(q) of the North American Free Trade Agreement Implementation Act (the Act) authorizes the President, subject to the consultation and layover requirements of section 103 of the Act, to proclaim such modifications to the rules of origin as may from time to time be agreed to by the NAFTA countries. One of the requirements set out in section 103 is that the President obtain advice regarding the proposed modifications to Annexes 401 and 403 from the U.S. International Trade Commission.

Our negotiators have recently reached agreement in principle with representatives of the governments of Canada and Mexico on proposed modifications to Annex 401, which are reflected in the attached document.

Under authority delegated by the President, and pursuant to section 103 of the Act, I request that the Commission provide advice on the probable effect of the modifications reflected in the enclosed proposals on U.S. trade under the NAFTA and on domestic industries. I request that the Commission provide this advice at the earliest possible date, but not later than September 14, 2001. The Commission should issue, as soon as possible thereafter, a public version of its report with any business confidential information deleted.

The Commission's assistance in this matter is greatly appreciated.

Sincerely,



Robert B. Zoellick

Enclosure

NAFTA Working Group on Rules of Origin

Tentatively Agreed Rules of Origin Proposals

Alcoholic Beverages

Rules of origin for heading 22.03-22.09:

- 22.03-22.07 A change to heading 22.03 through 22.07 from any heading outside that group, except from tariff item 2106.90.ee or heading 22.08 through 22.09.
- 2208.20 A change to subheading 2208.20 from any other heading, except from tariff item 2106.90.ee or heading 22.03 through 22.07 or 22.09.
- 2208.30-2208.70 No required change in tariff classification to subheading 2208.30 through 2208.70, provided that the non-originating alcoholic ingredients constitute no more than 10 percent of the alcoholic content of the good by volume.
- 2208.90 A change to subheading 2208.90 from any other heading, except from tariff item 2106.90.ee or heading 22.03 through 22.07 or 22.09.
- 22.09 A change to heading 22.09 from any other heading, except from tariff item 2106.90.ee or heading 22.03 through 22.08.

Petroleum/Topped Crude

Rules of origin for heading 27.10 and 27.11-27.15:

- 27.10 A change to heading 27.10 from any other heading, except from heading 27.11 through 27.15; or
- Production of any good of heading 27.10 as the result of atmospheric distillation, vacuum distillation, hydroprocessing (hydrocracking), catalytic reforming, alkylation, catalytic cracking, thermal cracking or coking.
- 27.11-27.15 A change to heading 27.11 through 27.15 from any heading outside that group.

Chapter Note for Chapter 27:

Note: For the purposes of heading 27.10, the following processes confer origin:

- (a) *Atmospheric distillation - A separation process in which crude petroleum oils are converted, in a distillation tower, into fractions according to boiling point and the vapor then condensed into different liquefied fractions. Liquefied petroleum gas, naphtha, gasoline, kerosene, diesel/heating oil, light gas oils, and lubricating oil are produced from petroleum distillation;*
- (b) *Vacuum distillation - Distillation at a pressure below atmospheric but not so low that it would be classed as molecular distillation. Vacuum distillation is useful for distilling high-boiling and heat-sensitive materials such as heavy distillates in petroleum oils to produce light to heavy vacuum gas oils and residuum. In some refineries gas oils may be further processed into lubricating oils;*
- (c) *Catalytic Hydroprocessing (hydrocracking) - The cracking of petroleum or its products in the presence of hydrogen. Special catalysts are used, e.g., platinum on a solid base of mixed silica and alumina or zinc chloride. Usually those processes called hydrocracking operate on distilled feed, while those operating on residual materials are called hydroprocessing;*
- (d) *Reforming (catalytic reforming) - The rearrangement of molecules in a naphtha boiling range material to form higher octane aromatics (i.e., improved antiknock quality at the expense of gasoline yield). A main product is catalytic reformate, a blend component for gasoline. Hydrogen is another by-product;*
- (e) *Alkylation - A process whereby a high-octane blending component for gasolines is derived from catalytic combination of an isoparaffin and an olefin;*
- (f) *Cracking - A refining process involving decomposition and molecular recombination of organic compounds, especially hydrocarbons obtained by means of heat, to form molecules suitable for motor fuels, monomers, petrochemicals, etc.:*
 - (i) *Thermal cracking - Exposes the distillate to temperatures of approximately 540-650C (1000-1200F) for varying periods of time. Process produces modest yields of gasoline and higher yields of residual products for fuel oil blending,*
 - (ii) *Catalytic cracking - Hydrocarbon vapors are passed at approximately 400C (750F) over a metallic catalyst (e.g., silica-alumina or platinum); the complex recombinations (alkylation, polymerization, isomerization, etc.) occur within seconds to yield high-octane gasoline. Process yields less residual oils and light gases than thermal cracking; and*

- (g) *Coking - A thermal cracking process for the conversion of heavy low grade products, such as reduced crude, straight run pitch, cracked tars, and shale oil into solid coke (carbon) and lower boiling hydrocarbon products which are suitable as feed for other refinery units for conversion into lighter products.*

Esters of Glycerol

Rule of origin for subheading 2905.11-2907.30:

2905.11-2907.30 A change to subheading 2905.11 through 2907.30 from any other subheading, including another subheading within that group.

Pearl Jewelry

Rule of origin for heading 71.13-71.18:

71.13-71.18 A change to heading 71.13 through 71.18 from any heading outside that group.

Headphones with Microphones

Rule of origin for subheading 8518.30:

8518.30 A change to subheading 8518.30 from any other heading; or

A change to subheading 8518.30 from subheading 8518.10, 8518.29 or 8518.90, whether or not there is also a change from any other heading, provided there is a regional value content of not less than:

- (a) 60 percent where the transaction value method is used, or
- (b) 50 percent where the net cost method is used.

Chassis Fitted with Engines

Rules of origin for heading 87.06:

87.06

8706.00.aa A change to tariff item 8706.00.aa from any other heading, except from subheading 8708.50 or 8708.60, provided there is a regional value content of not less than 50 percent under the net cost method.

8706.00.bb A change to tariff item 8706.00.bb from any other heading, except from subheading 8708.50 or 8708.60, provided there is a regional value content of not less than 50 percent under the net cost method.