

Annex 5.5: The Rules of Origin Determination

The Canadian Rules of Origin for Goods (Chapter 4 of the North American Free Trade Agreement) and Canadian Customs Tariff Harmonized System are used to determine if imported components that go into the production of an item for resale to the government are sufficiently altered or converted in Canada to be considered "Canadian."

The Harmonized Commodity Description and Coding System is a structured classification system for goods that has been adopted by Canada and most of the world's trading nations, for customs purposes.

For the purposes of this determination, the reference in the Rules of Origin to "territory", is to be replaced with "Canada".

Products containing imported components may be considered Canadian when they have undergone sufficient change in Canada in a manner that satisfies this amended definition. There are three basic steps to determine if any good that is partially or wholly constructed from imported components meets the Rules of Origin definition:

- (a) Locate the heading number in the Harmonized System that best reflects the final product for sale.
- (b) Find the appropriate heading number in the Harmonized System that identifies imported components used to construct the final product.
- (c) Look up the section in the Rules of Origin that defines whether the conversion that took place in Canada allows the goods to be defined as Canadian.

Example

For example, hats manufactured in Canada that use imported calves leather, would reflect the following calculation:

- (a) Look up hats in the index of the Canadian Customs Tariff Harmonized System (HS) and find the type that matches the kinds of hats to be sold: Hats and other headgear, plaited or made by assembling strips of any material, whether or not lined or trimmed. The HS number is 6504.00.00. The first two numbers indicate the good is listed in Chapter 65.
- (b) Look up leather, bovine in the index. Leather, bovine falls under HS heading 4104.
- (c) Finally, refer to the Rules of Origin which lists the conditions for transforming goods listed in the HS into Canadian goods (Chapter 65 is for Headgear and Parts Thereof and is listed in Section XII of the rules). The second rule for Chapter 65 applies: A change from 65.03 to 65.07 from any heading outside that group. As the leather is classified outside 65.03 to 65.07, the final product (the hats) for sale are considered to be sufficiently transformed and therefore the hats are deemed to be Canadian for the purposes of this policy.