

CETA'S BENEFITS FOR CONSUMER GOODS



Introduction

CETA created great advantages for businesses involved in the production, exporting, importing and distribution of consumer goods, as most tariffs on products traded between Canada and the EU have been eliminated, creating opportunities for businesses and providing both more choices, and costs reductions for consumers.

Our guide's objectives

This guide details the CETA advantages for a whole range of consumer products, including garments, apparel, footwear, toys, furniture, accessories and more. In addition to the cost savings, we explain herein the conditions that must be met to take advantage of the preferential tariff treatment. These are called the product-specific rules of origin. They define the conditions products must meet in order to enjoy the preferential tariff treatment, both in the European Union and in Canada. They are technical but exporters need to understand them, in order to make informed sourcing and export development decisions. The purpose of the Rules of Origin is to allow products that have foreign content coming from outside the EU and/or Canada, to still get the reduced tariff.

CETA's Product-Specific Rules of Origin

As a reminder, Rules of Origin follow three principles:

- -the last transformation/treatment/processing of a product must take place either in the EU or Canada;
- Tariff Change Rule (TCR): a product made from raw materials/components/parts from a foreign country may qualify if the finished product has been transformed enough, i.e. providing the output is different from the input, illustrated by a change of Customs tariff number;
- Regional Value Content (RVC): this rule states the maximum foreign content a product can have and still qualify. Under the cumulation rule, both EU and Canadian contents of a finished product may be added together, in order to calculate the regional percentage.

The Origin Certification

The CETA Rules of Origin are found at the end of the text of the Agreement and are part of the "Protocol on rules of origin and origin procedures". The Protocol contains 7 annexes and the rules are in annex 5.

The exporter must first verify that the product meets the Rules of Origin, then issue the Origin Certification which will be necessary for the importer to claim the preferential tariff treatment upon entry into Canada (or the EU). For sales exceeding 6,000 euros, EU exporters must be registered under the REX system and show its registration number with their origin certification.

The Product Specific Rules of Origin for consumer products

In each product category, we will list:

1. the standard Canadian import tariff rate that would apply without CETA, identified as the MFN rate (MFN stands for Most Favoured Nation), to highlight and quantify the saving generated by the Free Trade Agreement
2. the CETA product-specific rule of origin applying to each product.

For most **footwear** (where the MFN tariff in Canada is 20%), Rule 64-01-64-05 states: a change from any other heading, except from assemblies of uppers affixed to inner soles or to other sole components of heading 64.06.

For **soccer, football, baseball or bowling footwear**, the rule is as above but the MFN tariff treatment in Canada is “only” 17.5%.

For wheeled **toys** designed for children, like tricycles and pedal cars (where the MFN rate in Canada is 8%), Rule 95-03-95-05 states: a change from any other heading; or a change from within any one of these headings, whether or not there is also a change from any other heading, provided that the value of non-originating materials classified in the same heading as the final product does not exceed 50% per cent of the transaction value or the ExWorks price of the product. (Note: ExWorks is an Incoterm® meaning that the product price does not include transportation and insurance costs).

For wooden **furniture** (MFN tariff in Canada 9.5%) Rule 94-01-94-06 states: a change from any other heading; or a change from within any one of these headings, whether or not there is also a change from any other heading, provided that the value of non-originating materials classified in the same heading as the final product does not exceed 50% of the value.

For most **jewelry** (MFN tariff 8%), Rule 71-16-71-17 states: a change from any other heading; or a change from within any one of these headings, whether or not there is also a change from any other heading, provided that the value of non-originating materials classified in the same heading as the final product does not exceed 50% of the value.

For **sails** (sporting goods), where the MFN tariff in Canada is 16%, Rule 63.06 calls for: extrusion of man-made fibres or use of natural fibres, in each case accompanied by any non-woven techniques including needle punching for non-wovens or for others, weaving accompanied by making-up (including cutting); or coating, provided that the value of the uncoated fabric used does not exceed 40% of the value, accompanied by making-up (including cutting).

Special considerations for textiles, garments and apparel

This brings us to the Rules of Origin for textiles, garments and apparel, which are quite specific and even contained in separate annexes. They are based on the standard EU approach, the double transformation principle. For garments to be considered as originating in the EU, either weaving and making up or making up preceded by printing (accompanied by at least two preparatory or finishing operations) must be carried out in the EU. For limited quantities of textiles and clothing, there are more flexible rules of origin, described in origin quotas. Tables C.3 and C.4 of Annex 5-A set out the origin quotas applicable to imports of EU textiles and clothing into Canada, in number of units by product category.

For **carpets** and other textile floor-coverings of wool (MFN tariff 13%), Rule 57-01-57-05 is complex and states: spinning of natural or man-made staple fibres or extrusion of man-made filament yarn, in each case accompanied by weaving; production from coir yarn, sisal yarn or jute yarn; flocking, accompanied by dyeing or printing; tufting, accompanied by dyeing or printing; or extrusion of man-made fibres accompanied by non-woven techniques including needle punching, however polypropylene filament of heading 54.02, polypropylene fibres of heading 55.03 or 55.06, or polypropylene filament tow of heading 55.01, of which the denomination in all cases of a single filament or fibre is less than 9 decitex, may be used, provided that their total value does not exceed 40% of the value.

For **women's and girls' suits**, ensembles, jackets, blazers, dresses, skirts, trousers and shorts (MFN tariff in Canada 18%), Rule 62.04 states: for embroidered, weaving accompanied by making up (including cutting); or production from unembroidered fabric, provided that the value of the unembroidered fabric used does not exceed 40% of the value; and for others, weaving accompanied by making up (including cutting); or making up preceded by printing accompanied by at least two preparatory or finishing operations (such as scouring, bleaching, mercerising, heat setting, raising, calendering, shrink resistance processing, permanent finishing, decatizing, impregnating, mending and burling), provided that the value of the unprinted fabric used does not exceed 47.5% per cent of the value. For men's items, both the tariff and the rules are identical but they are listed separately under a different HS code for statistical purposes.

Exceptions to the rules for textiles and quotas

In a positive development for manufacturers, the parties have agreed to derogate from the above product-specific rules of origin by providing limited, reciprocal origin quotas for textiles and apparel. These origin quotas are easier to meet and expressed in volumes by product categories: for example, square meters for fabrics and number of units for garments. These origin quotas consider dyeing as equivalent to printing for a limited range of product categories.

Table C.3 lists the annual quota allocation for textiles exported from the EU to Canada. For example, for woven fabric containing at least 85% by weight of silk or silk waste other than noil silk (HS Code 5007.20), the annual export quota is 83,000 square meters and the sufficient production is: weaving.

Table C.4 lists the annual quota allocation for apparel exported from the EU to Canada. For example, for men's or boys' shirts of cotton, knitted or crocheted (excluding night shirts, t-shirts, singlets and other vests), HS code 6105.10, the annual quota for exports from the EU to Canada is 46,000 units and the sufficient production is: cutting of fabric and making up.

These quotas are administered by Global Affairs Canada: for every incoming shipment, importers need to apply for a single-use import permit, which enables the government to keep track of the quantities imported. GAC publishes monthly CETA origin quota utilization tables, listing the quantities imported for each product covered by these quotas, identified and segregated by their HS codes.

Conclusion

To conclude this guide on CETA and consumer goods, we want to highlight that Canada is an excellent base for European companies to serve both the Canadian and the US markets via a Canadian distribution center. Most European products enter Canada duty-free thanks to CETA and they could also qualify for preferential tariff treatment in the US (and Mexico) under the Canada-United States-Mexico Free Trade Agreement (CUSMA in Canada and USMCA in the US), providing they meet the relevant CUSMA/USMCA Rules of Origin, through final assembly in Canada. Another factor is the high duty-free allowance of US\$800 enjoyed by American consumers, irrespective of the origin and of any Free Trade Agreement provisions. It makes it very advantageous for European e-commerce businesses to serve the US market efficiently from a Canadian fulfilment center.

More information here: <https://data.consilium.europa.eu/doc/document/ST-10973-2016-ADD-6/en/pdf#page=2>

Guide written in collaboration with



Christian Sivière

Following a 30 year career in international logistics in Europe and in Canada, Christian Sivière started a Montréal-based import-export consultancy in 2010, Solimpex, active in two areas:

- consulting to help SMEs grow internationally; and
- training on the Logistics, Customs and Regulatory aspects of International Trade, Importing, Exporting, Free Trade Agreements, Supply Chain Management and related issues.

Christian is subject-matter expert and lectures for CIFFA, the Canadian International Freight Forwarders Association in Toronto and FIATA, the World Federation of International Freight Forwarders in Zurich. He gives conferences for various trade organizations like the Montreal Chamber of Commerce, Invest in Ottawa, Supply Chain Canada and similar, and personalized training for importers and exporters. He publishes articles in Inside Logistics and Supply Professional.

E U | C | C A N

The Business Voice Of Europe

EU Chamber of Commerce in Canada - EUCCAN

5096 South Service Road, Suite 102
Burlington ON L7L 5H4 - Canada

www.euccan.com
info@euccan.com
advocacy@euccan.com



Co-funded by
the European Union

Follow us on Social Media

