

# CETA'S BENEFITS FOR TRANSPORTATION SECTOR



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# Introduction

CETA has a number of provisions that liberalize trade in the transportation and mobility sectors, particularly the elimination of tariffs, either immediate or phased-in, for most products. CETA also helps to reduce trade barriers and improve efficiency, thanks to the Protocol on the mutual acceptance of the results of conformity assessments. Also, one of the key provisions in the transportation sector is the removal of restrictions on foreign ownership of airlines. EU airlines can now own up to 49% of Canadian airlines, and vice versa. This helps to increase competition and promote innovation in air transportation activities between the parties. Overall, CETA brings significant benefits to the transportation sectors, both in terms of increased market access and improved regulatory cooperation.

## Our guide's focus

This guide focuses on the advantages provided by CETA for the automotive, rail, urban transportation and marine sectors, focussing on the product-specific rules of origin. Like all Free Trade Agreements, CETA contains detailed product-specific rules of origin defining the conditions products must meet to enjoy the preferential tariff treatment, both in the European Union and in Canada. They are technical but exporters must learn to navigate through 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 preferential tariff treatment.

# 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 transportation equipment

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 **automobiles** (where the MFN tariff in Canada is 6.1%), the specific Rule of Origin 87.03 states: production in which the value of non-originating materials used does not exceed 50% 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 most **automotive parts** (where the MFN tariff in Canada varies between 0% and 6%), Rule 87.08 states: a change from any other heading or a change from within this heading, whether or not there is also a change from any other heading, provided that the value of non-originating materials of this heading does not exceed 50% of the value.

For **bicycles** and other cycles (MFN tariff in Canada 13%), Rule 87.12 calls for: a change from any other heading, except from 87.14; or a change from heading 87.14, whether or not there is also a change from any other heading, provided that the value of non-originating materials of heading 87.14 does not exceed 50% of the value.

For **buses** (MFN tariff in Canada 6.1%), Rule 87.02 states: production in which the value of all non-originating materials used does not exceed 45% of the value.

For most **trucks and trailers** (MFN tariff in Canada 6.1%), Rule 87.01 also states, like for buses: production in which the value of all non-originating materials used does not exceed 45% of the value.

For **special-purpose motor vehicles**, like fire-fighting vehicles, mobile cranes or concrete-mixers, (MFN tariff 6.1% except fire-fighting vehicles 6.7%), Rule 87.05 states: production in which the value of all non-originating materials used does not exceed 45% of the value.

For **camping trailers** of the caravan type (MFN tariff in Canada 6.5%), Rule 87-14-87-16 states: a change from any other heading; or a change from within any one of these headings, whether or not there is 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 **locomotives** (MFN tariff in Canada 9.5%) Rule 86-01-86-06 states: a change from any other heading, except from heading 86.07; or a change from heading 86.07, whether or not there is also a change from any other heading, provided that the value of non-originating materials of heading 86.07 does not exceed 50% of the value.

For **railway passenger and freight cars/coaches** (MFN tariff in Canada 11%), Rule 86-01-86-06 applies as well (same as for locomotives).

For **ferry-boats, excursion-boats and cruise-ships** (MFN tariff in Canada 25%), Rule 89-01-89-06 states: a change from any other chapter; or a change from within this chapter, whether or not there is also a change from any other chapter, provided that the value of non-originating materials of Chapter 89 does not exceed 40% of the value.

And for **sailboats** (MFN tariff in Canada 9.5%), the same Rule 89-01-89-06 mentioned above also applies.

### **Special situation for the aerospace industry**

Regarding the aerospace industry, most parts and components were already duty-free in both Canada and the EU before CETA, so there is no necessity to claim preferential treatment.

## Conclusion

In conclusion of this guide on CETA and mobility, we want to mention 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.

### *Guide written in collaboration with*



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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.

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