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NAFTA: ENTREPRENEURS

The North America Free Trade Agreement (“NAFTA”) opened new markets for entrepreneurs in Canada, Mexico and the United States. NAFTA eliminated virtually all of the tariffs and duties on goods moving throughout North America provided that the goods originated in one of the three NAFTA countries. This requirement appears easy to meet on its face, but can be difficult to demonstrate particularly when an item is manufactured from products that could easily have been procured from outside the free trade zone of North America. For example, apparel manufactured in one of the NAFTA countries for distribution in the others may contain buttons, zippers and hooks that were manufactured in a non-NAFTA county and thus, the country of origin requirement may not be met.

One of the keys to obtaining the full benefits intended by NAFTA is to main impeccable records of all items related to the manufacture of goods. The key document is the Certificate of Origin which must be available to the manufacturer at the time goods are declared at the applicable Custom Office. Obtaining the appropriate Certificates of Origin from each supplier can be time consuming and costly, but is mandatory. To meet Mexico requirements, the Certificate of Origin must be kept for ten years, while the United States requires retention for five years and Canada for six years.

Goods of “low value” are exempt from the declaration requirement. Each of the NAFTA countries defines the low value differently. Mexico defines it as anything that is valued at more than \$1,000 in any of the applicable currencies, Canada characterizes goods to be of low value if less than \$1,600 Canadian currency and the U.S. has set the bar for low value at \$2,500 United States currency.

For companies beginning business in a NAFTA country for the first time, careful consideration must be given as to how to keep and maintain proper certification other records and the cost of additional record keeping needs to be built into all of your pricing models. Issues that must be addressed go far beyond the few highlighted in this article and the use of seasoned professionals is strongly recommended during all of the stages of expanding your business beyond your home border.