



UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

Generalized System of Preferences

HANDBOOK ON THE SCHEME OF CANADA

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**UNCTAD Technical Cooperation Project on Market Access,
Trade Laws and Preferences**

HANDBOOK ON THE SCHEME OF CANADA**PREFACE**

This Handbook is intended to give, in a consolidated and concise form, information regarding the tariff advantages available to developing countries under the scheme of generalized preferences of Canada, and the conditions under which goods qualify for preferential treatment on importation into Canada. Some information about two other preferential concessions of interest to certain specified developing countries is provided, as well as a description of the special regime for handicraft products.

The Handbook has been prepared by the UNCTAD technical cooperation programme on market access, trade laws and preferences (INT/97/A06) primarily for use within the context of project activities.

It should be noted that the description of products is given in terms of the Harmonized Commodity Description and Coding System on which the Canadian Customs Tariff is based. The UNCTAD secretariat appreciates the assistance and cooperation of the Canadian Government in the preparation of this Handbook.

Although based on official texts, the Handbook cannot be regarded as a substitute for these texts. Further information may be obtained by writing to the:

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BACKGROUND

Canadian legislation implementing a system of tariff preferences in favour of developing countries was brought into effect on 1 July 1974, as part of a concerted international effort by industrialized countries to assist developing countries to expand their exports and thus increase their foreign exchange earnings.

The Canadian scheme, after an initial period of 10 years was renewed in 1984 with a number of improvements, including expanded coverage. Similarly, the scheme was again renewed in 1994 until 2004.

The General Preferential Tariff (GPT) rates and coverage were reviewed in 1995 to take into account the effect of erosion on the margin of preference of the Uruguay Round on Multilateral Trade Negotiations. The review resulted in an expansion of product coverage and lower GPT rates of duty. (The GPT is the Canadian designation of its GSP scheme.)

DEPTH OF TARIFF CUTS

GPT rates range from duty-free to reductions in the most-favoured-nations (MFN) rate.

PRODUCT COVERAGE

Canada grants preferences for goods, including selected agricultural products, of export interest to developing countries. Some products, such as certain textiles, footwear, products of the chemical, plastic and allied industries, specialty steels and electron tubes are excluded from the scheme. The list of covered agricultural products is contained in Annex II. Annex III covers both industrial and agricultural products which are not covered by the Canadian scheme. In order to determine GSP rates for covered industrial products, it is necessary to refer to the Canadian Custom Tariff.

SAFEGUARD MEASURES

In accordance with Article XIX of the General Agreement on

Tariffs and Trade (GATT-1994), Canada may take emergency action in respect of products that are imported in such quantities and under such conditions as to cause or threaten to cause serious injury to domestic producers of like or directly competitive products by withdrawing or modifying its preferential concession. Under the legislation, the Canadian International Trade Tribunal (CITT) may be directed by the Minister of Finance to conduct an inquiry into any complaint submitted by a Canadian producer claiming that he has suffered or may suffer injury as a result of factors connected with the Anti-Dumping Code and the Code on Subsidies and Countervailing Duties of the World Trade Organization (WTO) (GATT-1994). If it is satisfied that there is a *prima facie* case of injury and it judges the removal of the GPT concession would remove the injury, it will conduct a public inquiry and make recommendations to the Government. According to the recommendation of the CITT, the Government may withdraw the GPT concession or establish tariff rate quotas.

RULES OF ORIGIN

In order to be eligible for GPT rates, products must meet origin criteria and the rule of direct consignment prescribed by Canada. The origin of the goods must be supported by the prescribed documentary evidence.

Wholly obtained goods

The following goods shall be deemed to be *bona fide* the product of a beneficiary country and to have originated in the beneficiary country:

- (a) Mineral products extracted from the soil or sea-bed of the country;
- (b) Vegetable products harvested in the country;
- (c) Live animals born and raised in the country;
- (d) Products obtained in the country from live animals;
- (e) Products obtained by hunting or fishing in the country;
- (f) Products of sea fishing and other marine products taken from the sea by vessels of the country;

- (g) Products made on board factory ships of the country exclusively from products referred to in paragraph (f);
- (h) Waste and scrap resulting from manufacturing operations of the country;
- (I) Used articles of the country imported into Canada for use only for the recovery of raw materials; and
- (j) Goods produced in the country exclusively from the products referred to in paragraphs (a) to (h).

Goods with an import content

Products manufactured in a beneficiary country wholly or partly from materials, parts or components originating outside the country or of undetermined or unknown origin are deemed to be *bona fide* the growth, produce or manufacture of the beneficiary country if the value¹ of the import content amounts to not more than 40 per cent or, in the case of a least developed country, not more than 60 per cent of the ex-factory price² of the goods as packed for shipment to Canada (percentage criterion).

In calculating the value of the import content, any materials used in the manufacture or production of the goods, originating from any other beneficiary country (global cumulation) or from Canada (preference-giving country content rule) and any packing required for the transportation of the goods, but not including packing in which the goods are ordinarily sold for consumption in the beneficiary country, shall be deemed to have originated in the beneficiary country.

Examples for calculating the percentage of import content under global cumulation and the preference-giving country content rule

1. Radio sets manufactured in the Philippines, ex-factory price per unit C\$100 with the following imported materials, parts

¹ Value of imported inputs is defined as their customs value at the time of importation into the preference-receiving country or, in the case of inputs of undetermined origin, the earliest ascertainable price paid for them in that country.

² The ex-factory price is the total value of: (a) materials, (b) parts, © factory overhead, (d) labour, (e) any other reasonable cost incurred during the normal manufacturing process (e.g. duties and taxes paid on materials imported into a beneficiary country and not refunded when the goods were exported), and (f) a reasonable profit. Any costs incurred subsequent to the goods leaving the factory, such as freight, loading, temporary storage, are not included in the ex-factory price calculation.

and components:

- (I) Integrated circuits and diodes made in Japan, value per radio set C\$45; and,
- (II) Speakers made in Hong Kong, value per radio set C\$15.

The imported inputs in this case amount to C\$45 (integrated circuits and diodes) accounting for 45 per cent of the ex-factory price, whereas under global cumulation the speakers are considered as developing country input. However, the radio sets do not qualify as originating products, because the value of the import content exceeds 40 per cent of the ex-factory price. If the integrated circuits and diodes had been made in Canada, they would count as preference-giving country content, and the radio sets would qualify as originating products.

2. Radio sets manufactured in Bangladesh, ex-factory price per unit C\$100, with the following imported materials, parts and components:

- (I) Integrated circuits and diodes made in Japan, value per radio set C\$45; and,
- (ii) Speakers made in India, value per radio set C\$15.

The imported inputs in this case amount to C\$45 accounting for 45 per cent of the ex-factory price. Since Bangladesh is designated as a least developed country, the import content does not exceed the 60 per cent allowed and the product qualifies as an originating product.

Unit of qualification

For the purposes of determining the origin of goods, each article in a shipment shall be considered separately, except where a tariff item specifies that a group, set or assembly shall be considered to be one article. Furthermore, tools, parts and accessories imported with an article, that constitute the standard equipment customarily included in the sale of articles of that kind, and the price of which is included in that of the article and for which no separate charge is made, shall be considered as forming a whole with the article. An unassembled article that is imported in more than one shipment because it is not feasible for transport or production reasons to import it in one shipment shall be considered to be one article.

Direct consignment

The goods for which preferential treatment is claimed must be shipped directly from the preference-receiving country of origin to a Canadian consignee in Canada.

In the case of goods imported into Canada from a beneficiary country but passing in transit through the territory of an intermediate country, the goods will lose their GPT eligibility, unless:

- they remain under customs transit control in the intermediate country;
- they do not undergo any operations in the intermediate country other than unloading, reloading, splitting up of loads or operations required to keep the goods in good condition;
- they do not enter into the trade or consumption in the intermediate country;
- they do not remain in temporary storage in the intermediate country for a period exceeding six months.

Documentary evidence

The goods for which the GPT is claimed shall be invoiced separately from other goods and must be accompanied by a GSP Certificate of Origin Form A. The Form A must be signed by the exporter in the beneficiary country from which the goods were consigned to Canada. It must bear a full description of the goods and the marks and numbers of the package and must be cross-referenced to the customs invoice.

Form A is not required for GPT eligible goods of a value not exceeding C\$300 imported in a traveller's baggage or consigned from an individual in the beneficiary country to an individual in Canada and not intended for resale. In this case, a statement signed by the vendor of the goods in the beneficiary country indicating that the goods are the growth, produce or manufacture of the beneficiary country may be presented by the importer to customs in lieu of a Form A.

HANDICRAFT PRODUCTSGeneral

Canada grants duty-free entry for handicraft products

classified under Code 2955 of the Canadian Customs Tariff. This treatment is granted on condition that the products concerned:

- (I) Qualify for GPT treatment;
- (ii) Are listed in the schedule of handicraft goods;
- (iii) Meet the definition laid down for that purpose; and,
- (iv) Are covered by special documentary evidence.

The text of the regulation concerning the "Order Respecting the Designation of the Handicraft Goods for the Purpose of Code 2955" can be found in Appendix V.

Definition of handicraft products

Handicraft products claiming entry under this code must possess traditional or artistic characteristics that are typical of the geographical region in which they were produced. In addition, they must have acquired the traditional artistic characteristics by the handiwork of individual craftsmen. Handicraft articles are restricted to those goods listed in the following Schedule to the Regulations.

1. The following articles, if composed wholly of or in chief part by value of wood, namely puppets, musical instruments (other than guitars, viols, harpsichords or copies of antique instruments), gourds, and calabashes, incense burners, retables, fans, screens, lacquer ware, hand-carved picture frames, hand-carved figurines of animals, religious symbols and statuettes.
2. The following articles, if composed wholly or in chief part by value of bread dough, namely, ornaments, mirrors, figurines.
3. The following articles, if composed wholly or in chief part by value of clay, namely, hookahs, nargiles, candelabra, incense burners.
4. The following articles, if composed wholly or in chief part by weight of vegetable fibres or vegetable materials other than linen, cotton or corn husks, namely, figurines, fans, hats, musical instruments, toys, sitkas, greeting cards and wall hangings.

5. The following articles, if composed wholly or in chief part by value of paper or papier mâché, namely, figurines, masks, baskets, artistic cut-outs.
6. The following articles, if composed wholly or in chief part by value of leather or hide, namely, puppets, bellows, pouffes, bottle cases, wine or water bottles, jugs.
7. The following articles, if composed wholly or in chief part by value of coconut shell, namely figurines, costume jewellery, beads, belts, hair pins, button lamp bases, and key holders.
8. The following articles, if composed wholly or in chief part by value of mother of pearl, horn, shell including tortoise shell, or coral, namely, musical instruments, chimes, cobs, fans, buttons, lamp bases, and key holders.
9. The following articles, if composed wholly or in chief part by value of base metals, iron, steel, tin, copper, pewter, bronze, brass, namely, hookahs, nargiles, musical instruments, bells, gongs, incense burners, masks, adzes, mattocks, finger and keyhole plates, door handles and locks, hinges and latches, samovars, kukris, machetes.
10. The following articles, if composed wholly or in chief part by value of glass, namely, bracelets, nargiles, hookahs.
11. The following articles, if composed wholly or in chief part by weight of wool or cotton, namely, fabrics decorated with crewel embroidery, hand-woven semi-finished wall hangings on backstrap looms, reverse hand sewn appliqué wall hangings, and hurries.
12. The following articles, if composed wholly or in chief part by value of stone, namely, lanterns.

The following products are not accepted as handicrafts:

- (I) Utilitarian goods with no distinguishing form or decoration;
- (II) Copies, imitations, by whatever means, of traditional, decorative, artistic or indigenous products of any country other than the country of production; or
- (III) Products which were produced in large quantities

by sophisticated tools or by moulding.

The use of tools in the manufacture of handicraft products is admitted as long as the tools are held in the hand, or are not powered by machine other than those powered by hand or foot power. Products made from wood or from certain base metals as listed in the schedule are accepted as handmade if not more than their primary shape is attained by mechanically powered tools or machines. In the case of leather products listed in the schedule, the leather cannot be finished beyond tanning other than by individual craftsmen.

Documentary evidence

A claim for duty free entry of handicraft products is to be supported by a special Certificate of Handicraft Goods.³ In addition, it would be useful for importers to have on hand a GSP Certificate of Origin Form A required for GPT qualification; the products that do not qualify for entry as handicraft products under Code 2955 may be eligible for entry at GPT rates of duty. It is therefore recommended that exporters of handicraft articles complete both a special Certificate of Handicraft Goods and a GSP Certificate of Origin Form A.

SPECIAL TREATMENT FOR LEAST DEVELOPED COUNTRIES (LDCS)

Forty-eight countries designated as LDCs benefit from duty-free entry for all products eligible for GPT treatment. Furthermore, under the rules of origin (and also under the rules of global cumulation) the import content allowed for goods to qualify for GPT eligibility is raised to 60 per cent instead of the 40 per cent permitted for other developing countries (see "Goods with an import content"). Countries eligible for this treatment are listed in Appendix IV.

OTHER TARIFF TREATMENTS

In addition to the GPT and special duty rates for LDCs under the GPT scheme, Canada also offers two other preferential schemes of interest to certain specified developing countries. These

³ The Certificate of Handicraft Goods does not exist as an already printed form, and the certificate produced for this purpose must have the same lay-out and contain verbatim the same information as that shown in Appendix V. The Certifying authorities can be a governmental body of the beneficiary country or any other body approved by the Government of that country and recognized by the Minister of National Revenue for that purpose.

schemes are as follows:

British Preferential Tariff (BPT)

This treatment is offered to member countries of the British Commonwealth of Nations. It applies only to certain select goods which are indicated in the Canadian Tariff Schedule. With the introduction of the Harmonized System based Tariff in 1988, the product coverage of the BPT was substantially reduced since for the most part beneficiary countries were already eligible for the same rates under the GPT. The BPT may still be of interest to Commonwealth members since it provides reduced rates on certain textile and agricultural products which are not covered by the Canadian GPT.

In order to be eligible for the BPT, 50 per cent of the cost of production of the goods must be the growth, produce or manufacture of a British Commonwealth country. Cumulation is allowed among Commonwealth members and the goods must be shipped directly from the Commonwealth country in which they are finished to Canada. Transshipment through a non-Commonwealth port is not allowed. See Appendix IV for those countries eligible for BPT consideration.

Caribbean

Caribbean preferences are available to most Commonwealth Caribbean States. Qualifying goods are granted duty-free entry into Canada. Product coverage is similar to that provided by the GPT with a slightly broader product coverage for agricultural products and processed agricultural goods. Basic qualifications are the same as those provided by the GPT, except that cumulation is restricted to beneficiary members (Canadian content is allowed) and the goods must be shipped directly to Canada from a beneficiary country. See Appendix IV for Caribbean beneficiaries.

[Note for Internet users: The Annexes to this Handbook are available in hardcopy only and can be obtained, free of charge, from the UNCTAD Secretariat:

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