







## FTA Provisions for 35% Appraised Value Method

If a product does NOT qualify for preferential treatment by being wholly grown, produced or manufactured in a party, then it can qualify by substantial transformation, with a value-added content.



# FTA Provisions for 35% Appraised Value Method

For simplicity, we assume in the examples below that the sale is between two un-related parties and that you are purchasing components from un-related domestic or foreign suppliers. However, if this is not the case for your company, please refer to the language of the specific trade agreement found in final text of each of the agreements - USTR FTAs.

## 35% Appraised Value (Israel, Jordan)

If an article does NOT qualify for preferential treatment by being wholly grown/produced/manufactured in a party, then it can qualify by substantial transformation, with a value-added content.

The good is originating if:

- (a) that article is wholly the growth, product or manufacture of a Party or is a new or different article of commerce that has been grown, produced, or manufactured in a Party;
- (b) that article is imported directly from one Party into the other Party; and
- (c) the sum of
  - (i) the cost or value of the materials produced in the exporting Party, plus
  - (ii) the direct costs of processing operations performed in the exporting Party is not less than 35 percent of the appraised value of the article at the time it is entered into the other Party.

$$\frac{(\text{VOM} + \text{DCP})}{\text{AV}} * 100 \geq 35\%$$

AV - appraised value of the good;

VOM - value of a material produced in the exporting Party

DCP - direct cost of processing operations

### Example

Let's assume that the pump is being exported from the U.S. directly to Israel.  
Hydraulic Pump:

- Manufactured in USA - H.S. No. 8413.60.
- AV: \$27,450
- VOM: \$11,200
- DCP: \$2,805

$$\frac{(\$11,200 + \$2,805)}{\$27,450} * 100 = 51\%$$



Product meets the 35% Domestic Content Requirement. IT QUALIFIES!

Appraised value See [Regional Value Content](#)

Note, the cost or value of materials which are used in the production of an article in one Party, and which are products of the other Party, may be counted in an amount up to 15 percent of the appraised value of the article. (Israel and Jordan)

### **Value of Materials Produced:**

1. The manufacturer's actual cost for the materials,
2. When not included in the manufacturer's actual cost for the materials, the freight, insurance, packing, and all other costs incurred in transporting materials to the manufacturer's plant.
3. The actual cost of waste or spoilage (material list), less the value of recoverable scrap, and
4. Taxes and/or duties imposed on the materials by a Party, provided they are not remitted upon exportation.

### **Direct Costs of Processing Operations**

1. All actual labor costs involved in the growth, production, manufacture, or assembly, of the specific article, including fringe benefits, on-the-job training, and the cost of engineering, supervisory, quality control, and similar personnel;
2. dies, molds, tooling and depreciation on machinery and equipment which are allocable to the specific article;
3. research, development, design, engineering, and blueprint costs insofar as they are allocable to the specific article; and
4. costs of inspecting and testing the specific article.

NOT Included: Those items that are not included as direct costs of processing operations are those which are not directly attributable to the articles or are not costs of manufacturing the product. These include, but, are not limited to: (i) profit; and (ii) general expenses of doing business which are either not allocable to the specific article or are not related to the growth, production, manufacture, or assembly of the article, such as administrative salaries, casualty and liability insurance, advertising, and salesmen's salaries, commissions, or expenses.

### **35% Appraised Value (Bahrain, Morocco and Oman)**

Note, while the language appears to be the same as in the language found in the Israel and Jordan FTAs, Bahrain, Morocco and Oman FTAs, allow for adding value of materials and direct cost of processing operations from one or both of the parties. Hence, they do not have an VOM allowance of the amount up to 15% of the appraised value from the other Party.

These agreements also have specific rules or origin for some goods: A good is originating if it is imported directly from the territory of one Party into the territory of other Party, and,

- (a) it is a good wholly the growth, product, or manufacture of one or both of the Parties; or
- (b) the good is a new or different article of commerce that has been grown, produced, or manufactured in the territory of one or both of the Parties; and the sum of
  - (i) the value of materials produced in the territory of one or both of the Parties, plus
  - (ii) the direct costs of processing operations performed in the territory of one or both of the Parties is not less than 35 percent of the appraised value of the good at time it is imported into the territory of a Party, or
- (c) for goods covered by the rules in Bahrain and Oman (Annex 3-A or Annex 4-A); Morocco (Annex 4-A or

Annex 5-A), the good has satisfied the requirements specified in the Annex.

## **Appraised value See Regional Value Content**

### **Value of Materials**

1. the price actually paid or payable by the producer of the good for the material;
2. when not included in the price actually paid or payable by the producer of the good for the material, the freight, insurance, packing, and all other costs incurred in transporting the material to the producer's plant;
3. the cost of waste or spoilage, less the value of recoverable scrap; and
4. taxes or customs duties imposed on the material by one or both of the Parties, provided the taxes or customs duties are not remitted upon exportation.

### **Direct Costs of Processing Operations**

1. all actual labor costs involved in the growth, production, or manufacture of the specific good, including fringe benefits, on-the-job training, and the cost of engineering, supervisory, quality control, and similar personnel;
2. tools, dies, molds, and other indirect materials, and depreciation on machinery and equipment that are allocable to the specific good;
3. research, development, design, engineering, and blueprint costs to the extent that they are allocable to the specific good;
4. costs of inspecting and testing the specific good; and
5. costs of packaging the specific good for export to the territory of the other Party.

NOT Included: (a) profit; and (b) general expenses of doing business that are either not allocable to the specific good or are not related to the growth, production, or manufacture of the good, such as administrative salaries, casualty and liability insurance, advertising, and salesmen's salaries, commissions, or expenses.