



Regional Value Content

RVC rules require that a good include a certain percentage of FTA content. To benefit from an FTA, your product must have added value from the U.S. or FTA partner country(ies).



Regional Value Content

Customs Valuation is an extremely important concept to understand when using regional value content or 35% appraisement methods to qualify a good as originating. It also can be quite complicated to determine if the seller is selling to a related party or the buyer pays for additional items that are not included in the seller's price. We have provided additional references below, if any of these situations apply to your sale.

Transaction Value/Adjusted Value

The price actually paid or payable for the imported merchandise is the total payment, excluding international freight, insurance, and other C.I.F. charges, that the buyer makes to the seller.

Total Payment includes the following if not included in the price:

- The packing costs incurred by the buyer
- Any selling commission incurred by the buyer
- The value, apportioned as appropriate, of any assist
- Any royalty or license fee that the buyer is required to pay, directly or indirectly, as a condition of the sale
- The proceeds of any subsequent resale, disposal, or use of the imported merchandise that accrue, directly or indirectly, to the seller

Appraised Value

There are six different methods of appraisement, the preferred method of appraisement is transaction/adjusted value. The methods of appraisement are followed in order:

1. Transaction Value
2. Transaction Value of Identical Merchandise
3. Transaction Value of Similar Merchandise
4. Deductive Value
5. Computed Value
6. Values if Other Values Cannot be Determined (If none of the previous five values can be used to appraise the imported merchandise, then the customs value must be based on a value derived from one of the five previous methods, reasonably adjusted as necessary)

If you cannot use transaction/adjusted value due to not having accurate details to make the adjustments or if the seller is selling to a related party then the transaction value cannot be determined and the next basis of appraisement, in order of precedence, must be considered.

References for Customs Valuation

1. [World Trade Organization - Technical Information on Customs Valuation](#)
2. [CBP - What Every Member of the Trade Community Should Know About: Customs](#)
3. [History of GATT/WTO Valuation Agreement](#)

RVC-Based Examples

Let's assume you want to see if a hydraulic pump your company is making qualifies for an FTA. The sale of the hydraulic pump below is between two unrelated parties, and you are purchasing components from unrelated domestic or foreign suppliers. (However, if this is not the case for your company, please refer to language of the specific FTA final text - [USTR FTAs](#).)

Hydraulic Pump:

- Manufactured in USA - H.S. No. 8413.60
- Transaction Value (TV): \$30,500
- Value of Originating Materials (VOM): \$9,000
- Value of Non-Originating Materials (VNM): \$11,000
- Net Cost (NC): \$24,000

Depending on the FTA partner you are shipping to, you may be asked/allowed to use any of the four RVC-based formulas to calculate the US/FTA content: net cost, transaction value, build-down, or build-up:

Net Cost Method

The net cost method requires calculating RVC as a percentage of the net cost to produce the good. Net cost is defined in the FTA, and is generally the total cost minus costs for sales promotion, marketing, after-sales service, royalties, shipping and packing, and non-allowable interest costs. The FTA will define what is allowed in the NC calculation.

Example of a rule for hydraulic pump (to be shipped to Mexico or Canada):

“A change to subheadings 8413.11 through 8413.82 from subheadings 8413.91 through 8413.92, whether or not there is also a change from any other heading, provided there is a regional value content of not less than: [...]

- (1) 60 percent where the transaction value method is used, or
- (2) 50 percent where the net cost method is used.”

Calculate RVC using net cost method for a hydraulic pump:

- Manufactured in USA - H.S. No. 8413.60
- Net cost (NC): \$24,000
- Value of non-originating materials (VNM) acquired and used in production of the good: \$11,000

Net cost formula: $(NC - VNM) / NC \times 100 = RVC$

Result: $(24,000 - 11,000) / 24,000 \times 100 = 54.2\%$ RVC Product meets the 50% or more RVC under NC method - IT QUALIFIES!

Note: There are certain times when net cost must be used, but you must consult the specific FTA for instruction. It is often required for motor vehicle RVC, and in sales to related parties when sales between those related parties exceed a specified percentage of sales to that market. They may also be used for shipping other products to Mexico or Canada.

Transaction Value Method

Transaction value of the good is the amount paid or payable, (e.g. the selling price of the good minus international shipping/packing expenses incurred).

Example of the rule for hydraulic pump which may read as follows:

“A change to subheadings 8413.11 through 8413.82 from subheadings 8413.91 through 8413.92, whether or not there is also a change from any other heading, provided there is a regional value content of not less than...

- (1) 60 percent where the transaction value method is used, or
- (2) 50 percent where the net cost method is used.”

Calculate RVC using transaction value method formula for a hydraulic pump:

- Manufactured in USA - H.S. No. 8413.60
- Transaction value (TV): \$30,500
- Value of non-originating materials (VNM) acquired and used in production of the good: \$11,000

TV formula: $(TV - VNM)/TV \times 100 = RVC$

Result: $(30,500 - 11,000)/30,500 = 64\%$ RVC Product meets the 60% or higher RVC under TV method - IT QUALIFIES!

Build-Up Method

Example of an RVC rule which may read as follows:

“No change in tariff classification to subheading 8413.60 is required provided there is an RVC of not less than:

- 1) 35 percent under build up method, or
- 2) 45 percent under the build-down method.”

Calculate build-up formula for hydraulic pump:

- Manufactured in USA - H.S. No. 8413.60.
- Value of originating materials (VOM) acquired or self-produced and used by the producer in the production of the good: \$9,000
- Adjusted value (AV) is sales price minus international shipping costs and packing expenses incurred for shipping: \$30,500

Build-up formula: $(VOM/AV) \times 100 = RVC$

Result: $(9,000/30,500) \times 100 = 29.5\%$ RVC Product does NOT meet the 35% or higher RVC under build-up method - IT DOES NOT QUALIFY!

Build-Down Method

The build-up method didn't work on the above scenario. Using same example, let's see if the build-down method works here:

Example of a rule which may read as follows:

“No change in tariff classification to subheading 8413.60 is required provided that there is an RVC of not less than:

- 1) 35 percent under build up method, or
- 2) 45 percent under the build-down method.”

Calculate build-down formula for hydraulic pump:

- Manufactured in USA - H.S. No. 8413.60

- Adjusted value (AV) is sales price minus international shipping costs and packing expenses incurred for shipping: \$30,500
- Value of non-originating materials (VNM) acquired and used in production of the good: \$11,000

Formula: $(AV - VNM) / AV \times 100 = RVC$

Result: $(30,500 - 11,000) / AV \times 100 = 63.93\%$ RVC Product meets the 45% or higher RVC under build-down method -IT QUALIFIES!