



Determining Origin
Tariff Shift and Regional Value Content Rule of Origin



Combination Tariff Shift/Regional Value Content

A U.S. -Chile Free Trade Agreement Example: Those familiar with the United States-Mexico-Canada FTA (USMCA) which replaced the North American Free Trade Agreement (NAFTA), will recognize some aspects of this agreement's Rules of Origin as the U.S. Chile FTA was largely modeled upon the NAFTA. There are however some important differences, which require the close attention of U.S. exporters. If you are new to this process, you are encouraged to read our overview articles describing Regional Value Content and Tariff Shift-based rules across all FTAs.

Here is an example of a rule of origin that employs "regional value content" and a "tariff shift" using the Harmonized System (HS):

Wooden Furniture (HS #9403.50)

- Chapter: 94
- Heading: 9403
- Subheading: 940350

- 1) "A change to **subheading** 9403.10 through 9403.80 from any other heading" [simple tariff shift rule]; or
- 2) "A change to **subheading** 9403.10 through 9403.80 from any other subheading, including another subheading within that group, provided there is a regional value content of not less than:
 - (a) 35 percent when the build-up method is used, or
 - (b) 45 percent when the build-down method is used." (combination of tariff shift and RVC-based rules)

Non-U.S. or Chilean input: Parts of furniture (classified under HS 9403.90), imported from Asia, but other parts originate from the United States.

Explanation:

- Wooden furniture can qualify for preferential tariff treatment in two different ways— through a tariff shift, or a combination of a tariff shift and regional value content requirement.
- Because the non-U.S. or Chilean input is classified in the same heading (9403) as the final product in this case; the good does not make the simple "tariff shift" in the first rule.

Therefore, let's try to apply the combination rule:

Moving down to the second rule though, the good can meet the tariff shift because the non-originating component is from a different subheading than the final product. For the good to qualify as originating, however, it must also pass the regional value content test.

Regional Value Content

The Regional Value Content test allows the good to qualify using either one of two methods. These are the build-down and build-up methods.

Build-down method:

Regional Value Content (RVC) = (Adjusted Value - Value of Non-Originating Materials)/ Adjusted Value) X 100

Buildup method:

Regional Value Content (RVC) = (Value of Originating Materials/Adjusted Value) X 100

Using the example above then:

We will assume that the adjusted value for the piece of furniture in question is \$1000.00.

The value of non-originating materials used in the production of the good excludes, according to Article 4.3:

- the costs of freight, insurance, packing, and all other costs incurred in transporting the material to the location of the producer;
- duties, taxes, and customs brokerage fees on the material paid in the territory of one or both Parties, other than duties and taxes that are waived, refunded, ;
- the cost of waste and spoilage resulting from the use of the material in the production of the good, less the value of renewable scrap or byproducts; and refundable, or otherwise recoverable, including credit against duty or tax paid or payable
- the cost of originating materials used in the production of the non-originating material in the territory of a Party

Our assumed Value of Non-originating Materials in this case is \$500.00.

Plugging this into the **bulldown formula**:

- Regional Value Content (RVC) = $(\$1000 - \$500)/\$1000 \times 100 = 50\%$
- We can see that the percentage is greater than the 45% required by the rule. Therefore, the good qualifies as originating.

If instead, we use the **buildup formula**:

- Regional Value Content (RVC) = $\$500/\$1000 \times 100 = 50\%$
- The Regional Value Content is again 50% and is greater than the 35% required by the rule. With either method, the good specified in this example qualifies as originating under the U.S.-Chile FTA.

In addition to the rules of origin, it is sometimes appropriate to consider other factors found in Chapter Four of the U.S.- Chile-FTA when determining the origin of a product.

Specific Rules Vary from FTA to FTA

The combination of both tariff shift and regional value content rules are present in most of the FTAs. The concepts are similar, but the specific rules vary from FTA to FTA. For example, a combination rule for Mexico will refer tariff shift and net cost and transaction value instead of net cost and build-up or build-down methods to calculate regional value content. They may also require different amount (expressed as a percent) of originating or non-originating content. The rules are unique and do not transfer from one FTA to another for the same product, so make sure you look at the correct FTA.

For additional information on various types of Rules of Origin and additional examples, see the below articles:

- [Regional Value Content](#)
- [Tariff Shift Rules](#)
- [Where to find and How to Read the Rules of Origin](#)