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Attention: Lorraine Hunt

The following comments are submitted on the Costs and Benefits of Federal Regulations. Vol. 69, No. 34. Federal Register. February 20, 2004

<<ProblemswiththeNorthAmeric1.doc>>

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**COMMENTS RE: NAFTA IN RESPONSE TO REQUEST FOR
COMMENTS ON DRAFT 2004 REPORT TO CONGRESS ON THE
COSTS AND BENEFITS OF FEDERAL REGULATIONS.
FEDERAL REGISTER. FEBRUARY 20, 2004**

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The North American Free Trade Agreement (NAFTA) was created to stimulate commerce between the United States, Canada and Mexico by allowing goods to move duty-free between these countries. In order to qualify for this preferential duty treatment, specific rules of origin must be satisfied. In many cases, the documentation required to satisfy the specific rule of origin creates an enormous burden for a domestic manufacturer. Consequently, the beneficial impact that “free trade” could produce has been dampened by the enormous administrative burden placed on manufacturers and their suppliers.

The specific rules of origin vary, depending on the type of good. In some cases, a tariff-shift only requirement applies. This means that the exporter must only demonstrate that the exported good was converted from a different type of good within the NAFTA countries in order to qualify. This requirement is manageable. However, for many other goods, more complex requirements apply. In addition to the tariff-shift requirement, many goods must also satisfy a regional value content requirement. More specifically, the exporter of such goods must be able to demonstrate that a certain percentage of the total cost of the exported good originates in the NAFTA countries.

The cost of a manufactured good is generally composed of raw materials, labor and overhead, and all of these components must be quantified in order to determine the regional value content of an exported good. The labor and overhead costs incurred within the NAFTA countries are not difficult to quantify, as they are generally already being measured by the manufacturer for accounting and internal management purposes. However, determination of the source of all of the raw materials that are used in the manufacturing process can be extremely difficult. This requires the manufacturer to obtain certified information from its suppliers, who may in turn need to seek it from lower tier suppliers, until the item is sourced back to the original manufacturer of a part. If a material is an assembled part that contains subcomponents, this documentation could branch back in several

directions until it reaches the actual manufacturers of each specific item used in the subcomponent.

The time and effort necessary to obtain these certifications for raw materials is significant. Further, many suppliers do not have the resources necessary to research, obtain and provide this information, so even if a material does originate in the NAFTA countries, the exporting manufacturer may not be able to include it in the regional value content calculations because it cannot obtain the necessary certification. In the case of our Company, a single manufactured good can contain over four thousand separate items. While our goods meet the NAFTA content requirements, it takes a significant amount of effort to obtain the information necessary to document it. Further, as products and suppliers change, this information must be regularly updated to maintain accurate information. This represents wasted time and resources that could be utilized on other, more productive, activities.

We suggest that the rules of origin under NAFTA be simplified to eliminate the regional value content requirements and allow the tariff-shift only method for all goods. Alternatively, if regional value content requirements are retained, these rules should be significantly modified to make compliance more reasonable. Some suggestions for simplification of the regional value content requirements might include:

1. Establishment of a labor/overhead percentage, where once satisfied, verification of the source of the raw materials would not be required. For example, if greater than 15% of the total cost of a manufactured good relates to labor and overhead incurred in the NAFTA countries, and the good undergoes a tariff-shift, then the good qualifies.
2. Creation of a de minimis allowance for materials incorporated into a product that can be assumed to be qualifying without having to obtain certification from the supplier. For example, if a material is less than 5% of the total cost of the manufactured good, then it will automatically be assumed to be originating for purposes of the regional value calculations. This would significantly limit the number of parts that a manufacturer, and the related suppliers, would have to certify.

NAFTA is a good concept, but the steps necessary to document the regional value content under the current rules are overly burdensome and impractical. Revision of the rules to allow a more reasonable basis for compliance will further enhance the economic growth initially envisioned when NAFTA was adopted.

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