The following is intended for general information purposes only to help Donaldson's suppliers determine country of origin. Suppliers are responsible for providing accurate country of origin on their goods. Further information is available through various seminars and government web-based data; i.e., Rules of Origin, Title 19, Part 102, Code of Federal Regulations (19 CFR 102) available via http://ecfr.gpoaccess.gov.

In general, the country of origin for a good is the country in which the good is manufactured, produced or grown. Further work or material added to the good of another country must affect "substantial transformation" of the good in order to change the good’s country of origin. Substantial transformation is production that results in a new and different good, which then has a name, character, use, and tariff code different from those of its constituent materials. Following is an overview of rules that can help establish the origin of a good.

Rules of origin are used to determine the country of origin of a product for purposes of international trade. There are two common types of rules of origin, preferential and non-preferential (see link to 19 CFR 102 above for complete information). The exact rules vary from country to country.

Preferential rules of origin are part of a free trade area or preferential trade arrangement which includes tariff concessions. The rules of origin determine what products can benefit from the tariff concession or preference. NAFTA is an example of a trade agreement that offers tariff concession for goods that originate according to its rules.

Non-preferential rules of origin are used to determine the country of origin for purposes such as origin labeling, quotas, anti-dumping, anti-circumvention, and statistics. When a product is wholly obtained and produced in a single country, it is relatively easy to determine its origin. Difficulties arise in determining origin for goods manufactured in, assembled in, or using materials originating in, more than one country.

Typically, one of these four methods, or criteria, will establish the origin of a good that is manufactured in, assembled in, or using materials originating in, more than one country:

- Using the concept of substantial transformation as a rule;
- Using an ad valorem percentage test;
- Listing specific manufacturing or processing operations which confer or do not confer origin upon the goods; and
- Requiring a specified change in tariff classification.

Whichever method is employed to determine origin, the goal is to prevent simple assembly and packaging operations from conferring origin. Each of these four methods has its own pros and cons, and the following summaries are not intended to be complete discussions, but rather to provide a basis for the consideration of possible origin determination methods.

Substantial Transformation

The traditional substantial transformation rule states that a good originates in the last country where it emerged from a given process with a "distinctive name, character or use." The substantial transformation of a good requires more than just a change in the article -- it requires an article be transformed into a "new and different article" "having a distinctive name, character or use."

Substantial transformation captures the purpose of origin determination in a simple, concise manner: a good is a product of the country where it last underwent substantial transformation.
Value-Added Percentage Test

The value-added test defines the degree of transformation required to confer origin on the good in terms of a minimum percentage of value that must come from the originating country or a maximum amount of value that can come from the use of imported parts and materials. If the percentage does not fall within the accepted range, the last production process will not confer origin. If the determination is for non-preferential purposes, origin will be conferred on a prior country; if it is for preferential purposes, no further origin determination is necessary unless the prior county is also a beneficiary country under a preferential trading agreement with the importing county.

The value-added test can generate substantial compliance costs for companies. Further, it can generate substantial uncertainty because the test ignores exchange rate risk and fluctuations in the price of raw materials, the possible daily changes in status of goods as the currency values or price of raw materials fluctuate, and so forth.

Specified Processes

The specified process tests of origin, also referred to as technical tests, prescribe certain production or sourcing processes that may (positive test) or may not (negative test) confer originating status. The specified process test serves as a useful supplemental test because it is easily tailored to meet a specific situation in a clear, precise manner. However, it is not a satisfactory primary test of origin because it would be extremely difficult, if not impossible, to define a process test for an array of products made and then continually update these rules for new products and technological advances in production.

Change in Tariff Classification

The change in tariff classification method determines the origin of a good by specifying the change in tariff classification of the Harmonized System of Tariff Nomenclature ("Harmonized System") required to confer origin on a good. Because the Harmonized System has been adopted by countries representing 90% of the world's trade, it provides a uniform, hierarchical nomenclature to be used in defining origin determinations for all products in international trade.

The Harmonized System's hierarchical framework, and its nearly universal acceptance among trading nations, permit the drafters of rules of origin tremendous flexibility to define classification changes in a precise manner that sustains exceptions and special rules without sacrificing objectivity, certainty, or identity.

While the Harmonized System reflects the most sophisticated and refined tariff classification system, it is just that -- a system primarily designed for the dual purposes of commodity classification and compilation of statistics. Because it was not designed to be used for origin determination, changes in classification are not always an appropriate or effective test for determining origin. Therefore, an origin scheme based on change in tariff classification must be supplemented by a list of exceptions that describe (1) when a sufficient transformation has occurred despite the lack of a change in tariff classification, (2) when a change in classification is not sufficient, and (3) which processes are not sufficient to confer origin even though they lead to a change in tariff classification.

The change in tariff classification method of determining origin is conceptually simple and easy to apply, once the product is classified. Because the Harmonized System is already used to classify 90% of the goods in international trade, custom authorities, exporters, importers, and manufacturers are comfortable and familiar with it. However, the classification of the product can give rise to problems, because products are not always classified in a uniform manner despite the substantial efforts of the Harmonized System Committee to ensure that they are.