



Ottawa, March 26, 2007

MEMORANDUM D11-5-4

In Brief

CANADA-CHILE FREE TRADE AGREEMENT (CCFTA) RULES OF ORIGIN REGULATIONS

1. This Memorandum contains all sections of the *Canada-Chile Free Trade Agreement (CCFTA) Rule of Origin Regulations*, except those for Schedule 1 – Specific Rules of Origin, which are set out in Memorandum D11-5-5, *Schedule 1 to the CCFTA Rules of Origin Regulations – Specific Rules of Origin*.
2. This Memorandum contains the recent technical rectifications to the *CCFTA Rules of Origin Regulations* that came into force January 1, 2005. For the official copy of these amendments, refer to SOR/2004-298 in Part II of the *Canada Gazette*.
3. This Memorandum replaces the previous version of the *CCFTA Rules of Origin Regulations* as found in Customs Notice N-145, dated July 8, 1997.



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Ottawa, March 26, 2007

MEMORANDUM D11-5-4

CANADA-CHILE FREE TRADE AGREEMENT (CCFTA) RULES OF ORIGIN REGULATIONS

1. This memorandum contains the *CCFTA Rules of Origin Regulations* to be used in the determination of the origin of goods for the purposes of the CCFTA tariff treatment, enacted pursuant to subsection 16(2) of the *Customs Tariff*.
2. This memorandum contains the recent technical rectifications to the *CCFTA Rules of Origin Regulations* that came into force January 1, 2005. For the official copy of these amendments, refer to SOR/2004-298 in Part II of the *Canada Gazette*.
3. The regulatory excerpts provided below are intended solely for the convenience of reference of any person involved in the importation of goods. To interpret and apply the terms and conditions of legislation or regulations, refer to the official copy in the *Canada Gazette*, Part II.

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REGULATIONS RESPECTING THE UNIFORM INTERPRETATION, APPLICATION AND ADMINISTRATION OF THE RULES OF ORIGIN UNDER THE CANADA-CHILE FREE TRADE AGREEMENT

SHORT TITLE

1. These Regulations may be cited as the *CCFTA Rules of Origin Regulations*.

PART I GENERAL

Definitions and Interpretation

2. (1) For purposes of these Regulations,
 - “accessories, spare parts or tools that are delivered with a good and form part of the good’s standard accessories, spare parts or tools” means goods that are delivered with a good, whether or not they are physically affixed to that good, and that are used for the transport, protection, maintenance or cleaning of the good, for instruction in the assembly, repair or use of that good, or as replacements for consumable or interchangeable parts of that good; (accessoires, pièces de rechange ou outils qui sont livrés avec le produit et qui en font normalement partie)
 - “adjusted to an F.O.B. basis” means, with respect to a good, adjusted by
 - (a) deducting
 - (i) the costs of transporting the good after it is shipped from the point of direct shipment,
 - (ii) the costs of loading, unloading, handling and insurance that are associated with that transportation, and
 - (iii) the cost of packing materials and containers, where those costs are included in the transaction value of the good, and
 - (b) adding
 - (i) the costs of transporting the good from the place of production to the point of direct shipment,

(ii) the costs of loading, unloading, handling and insurance that are associated with that transportation, and

(iii) the costs of loading the good for shipment at the point of direct shipment,

where those costs are not included in the transaction value of the good; (rajusté en fonction d'une base FAB)

“after-market parts” means goods that are not for use as original equipment in the production of motor vehicles and that are goods of a tariff provision listed in Schedule IV; (pièces destinées au marché du service après-vente)

“Agreement” means the Canada-Chile Free Trade Agreement; (Accord)

“applicable change in tariff classification” means, with respect to a non-originating material used in the production of a good, a change in tariff classification specified in a rule set out in Schedule I for the tariff provision under which the good is classified; (changement de classement tarifaire applicable)

“CCFTA country” means Canada or Chile; (pays ALÉCC)

“costs incurred in packing” means, with respect to a good or material, the value of the packing materials and containers in which the good or material is packed for shipment and the labour costs incurred in packing it for shipment, but does not include the costs of preparing and packaging it for retail sale; (frais engagés pour emballer)

“days” means calendar days, and includes weekends and holidays; (jours)

“direct labour costs” means costs, including fringe benefits, that are associated with employees who are directly involved in the production of a good; (coûts de la main-d'oeuvre directe)

“direct material costs” means the value of materials, other than indirect materials and packing materials and containers, that are used in the production of a good; (coûts des matières directes)

“direct overhead” means costs, other than direct material costs and direct labour costs, that are directly associated with the production of a good; (frais généraux directs)

“enterprise” means any entity constituted or organized under applicable laws, whether or not for profit and whether privately owned or governmentally owned, including any corporation, trust, partnership, sole proprietorship, joint venture or other association; (entreprise)

“excluded costs” means sales promotion, marketing and after-sales service costs, royalties, shipping and packing costs and non-allowable interest costs; (coûts exclus)

“fiscal year” means

(a) in the case of Canada, the period for which the annual financial statements of an enterprise are prepared that is not greater than

(i) twelve consecutive months,

(ii) 52 consecutive weeks with one extra day added to the last week, or

(iii) 52 or 53 consecutive weeks, and

(b) in the case of Chile, the period beginning on January 1 and ending on December 31 of the same year, except in the following cases:

(i) where an enterprise is authorized by the Servicio de Impuestos Internos to initiate activities after January 1 in a year, the period beginning on the date on which the certificate to initiate activities is issued by the Servicio de Impuestos Internos and ending on December 31 in that year, and

(ii) where an enterprise terminates its activities before December 31, the period beginning on January 1 in that year and ending on the date on which a notice to terminate activities is filed with the Servicio de Impuestos Internos; (exercice)

“fit only for the recovery of raw materials” means, with respect to waste and scrap, neither fit for nor capable of being restored to the use for which it, or any of its parts, was originally produced; (ne peut servir qu'à la récupération de matières premières)

“fungible goods” means goods that are interchangeable for commercial purposes and the properties of which are essentially identical; (produits fongibles)

“fungible materials” means materials that are interchangeable for commercial purposes and the properties of which are essentially identical; (matières fongibles)

“Harmonized System” means the Harmonized Commodity Description and Coding System, including its General Rules of Interpretation, Section Notes and Chapter Notes, as set out in

(a) in the case of Canada, the Customs Tariff, and

(b) in the case of Chile, the Arancel Aduanero; (Système harmonisé)

“identical goods” means, with respect to a good, goods that

(a) are the same as that good in all respects, including physical characteristics, quality and reputation but excluding minor differences in appearance,

(b) were produced in the same country as that good, and

(c) were produced

(i) by the producer of that good, or

(ii) by another producer, where no goods that satisfy the requirements of paragraphs (a) and (b) were produced by the producer of that good; (produits identiques)

“identical materials” means, with respect to a material, materials that

(a) are the same as that material in all respects, including physical characteristics, quality and reputation but excluding minor differences in appearance,

(b) were produced in the same country as that material, and

(c) were produced

(i) by the producer of that material, or

(ii) by another producer, where no materials that satisfy the requirements of paragraphs (a) and (b) were produced by the producer of that material; (matières identiques)

“indirect material” means a good used in the production, testing or inspection of a good but not physically incorporated into the good, or a good used in the maintenance of buildings or the operation of equipment associated with the production of a good, and includes

(a) fuel and energy;

(b) tools, dies and moulds;

(c) spare parts and materials used in the maintenance of equipment and buildings;

(d) lubricants, greases, compounding materials and other materials used in production or used to operate equipment and buildings;

(e) gloves, glasses, footwear, clothing, safety equipment and supplies;

(f) equipment, devices and supplies used for testing or inspecting the other goods;

(g) catalysts and solvents; and

(h) any other goods that are not incorporated into the good but the use of which in the production of the good can reasonably be demonstrated to be part of that production; (matière indirecte)

“interest costs” means all costs paid or payable by a person to whom credit is, or is to be advanced, for the advancement of credit or the obligation to advance credit; (frais d’intérêt)

“intermediate material” means a self-produced material that is used in the production of a good and is designated as an intermediate material under subsection 7(4); (matière intermédiaire)

“location of the producer” means

(a) where the warehouse or other receiving station at which a producer receives materials for use by the producer in the production of a good is located within a radius of 75 km from the place at which the producer produces the good, the location of that warehouse or other receiving station, and

(b) in any other case, the place at which the producer produces the good in which a material is to be used; (emplacement du producteur)

“material” means a good that is used in the production of another good, and includes a part or ingredient; (matière)

“month” means a calendar month; (mois)

“motor vehicle” means a motor vehicle of any of headings 87.01 and 87.02, subheadings 8703.21 through 8703.90 and headings 87.04 and 87.05; (véhicule automobile)

“motor vehicle assembler” means a producer of motor vehicles and any related person with whom, or joint venture in which, the producer participates with respect to the production of motor vehicles; (monteur de véhicules automobiles)

“national” has the same meaning as in Article B-01 of the Agreement; (ressortissant)

“national government” means

(a) with respect to Canada, the Government of Canada, and

(b) with respect to Chile, the Government of the Republic of Chile; (gouvernement national)

“net cost method” means the method of calculating the regional value content of a good that is set out in subsection 6(3); (méthode du coût net)

“non-allowable interest costs” means interest costs incurred by a producer on the producer’s debt obligations that are more than 700 basis points above the yield on debt obligations of comparable maturities issued by the national government of the country in which the producer is located; (frais d’intérêt non admissibles)

- “non-originating good” means a good that does not qualify as originating under these Regulations; (produit non originaire)
- “non-originating material” means a material that does not qualify as originating under these Regulations; (matière non originaire)
- “original equipment” means a material that is incorporated into a motor vehicle before the first transfer of title or consignment of the motor vehicle to a person who is not a motor vehicle assembler, and that is a good of a tariff provision listed in Schedule IV; (élément d’origine)
- “originating good” means a good that qualifies as originating under these Regulations; (produit originaire)
- “originating material” means a material that qualifies as originating under these Regulations; (matière originaire)
- “other costs” means, with respect to total cost, all costs that are not product costs or period costs; (autres coûts)
- “packaging materials and containers” means materials and containers in which a good is packaged for retail sale; (matières de conditionnement et contenants)
- “packing materials and containers” means materials and containers that are used to protect a good during transportation, but does not include packaging materials and containers; (matières d’emballage et contenants)
- “payments” means, with respect to royalties and sales promotion, marketing and after-sales service costs, the costs expensed on the books of a producer, whether or not an actual payment is made; (paiements)
- “period costs” means costs, other than product costs, that are expensed in the period in which they are incurred; (coûts non incorporables)
- “person” means a natural person or an enterprise; (personne)
- “person of a CCFTA country” has the same meaning as “person of a Party” in Article B-01 of the Agreement; (personne d’un pays ALÉCC)
- “point of direct shipment” means the location from which a producer of a good normally ships that good to the buyer of the good; (point d’expédition directe)
- “producer” means a person who grows, mines, harvests, fishes, traps, hunts, manufactures, processes or assembles a good; (producteur)
- “product costs” means costs that are associated with the production of a good, and includes the value of materials, direct labour costs and direct overhead; (coûts incorporables)
- “production” means growing, mining, harvesting, fishing, trapping, hunting, manufacturing, processing or assembling a good; (production)
- “related person” means a person related to another person on the basis that
- (a) they are officers or directors of one another’s businesses,
 - (b) they are legally recognized partners in business,
 - (c) they are employer and employee,
 - (d) any person directly or indirectly owns, controls or holds 25 per cent or more of the outstanding voting stock or shares of each of them,
 - (e) one of them directly or indirectly controls the other,
 - (f) both of them are directly or indirectly controlled by a third person, or
 - (g) they are members of the same family (members of the same family are natural or adopted children, brothers, sisters, parents, grandparents or spouses); (personne liée)
- “reusable scrap or by-product” means waste and spoilage that is generated by the producer of a good and that is used in the production of a good or sold by that producer; (déchets récupérables ou sous-produits)
- “right to use”, for purposes of the definition of royalties, includes the right to sell or distribute a good; (droit d’utiliser)
- “royalties” means payments of any kind, including payments under technical assistance agreements or similar agreements, made as consideration for the use of, or right to use, any copyright, literary, artistic, or scientific work, patent, trademark, design, model, plan, secret formula or process, excluding those payments under technical assistance agreements or similar agreements that can be related to specific services such as
- (a) personnel training, without regard to where performed, and
 - (b) if performed in the territory of one or both of the CCFTA countries, engineering, tooling, die-setting, software design and similar computer services, or other services; (redevances)
- “sales promotion, marketing and after-sales service costs” means the following costs related to sales promotion, marketing and after-sales service:
- (a) sales and marketing promotion; media advertising; advertising and market research; promotional and demonstration materials; exhibits; sales conferences,

trade shows and conventions; banners; marketing displays; free samples; sales, marketing and after-sales service literature (product brochures, catalogues, technical literature, price lists, service manuals, sales aid information); establishment and protection of logos and trademarks; sponsorships; wholesale and retail restocking charges; entertainment;

(b) sales and marketing incentives; consumer, retailer or wholesaler rebates; merchandise incentives;

(c) salaries and wages, sales commissions, bonuses, benefits (for example, medical, insurance, pension), travelling and living expenses, membership and professional fees, for sales promotion, marketing and after-sales service personnel;

(d) recruiting and training of sales promotion, marketing and after-sales service personnel, and after-sales training of customers' employees, where such costs are identified separately for sales promotion, marketing and after-sales service of goods on the financial statements or cost accounts of the producer;

(e) product liability insurance;

(f) office supplies for sales promotion, marketing and after-sales service of goods, where such costs are identified separately for sales promotion, marketing and after-sales service of goods on the financial statements or cost accounts of the producer;

(g) telephone, mail and other communications, where such costs are identified separately for sales promotion, marketing and after-sales service of goods on the financial statements or cost accounts of the producer;

(h) rent and depreciation of sales promotion, marketing and after-sales service offices and distribution centres;

(i) property insurance premiums, taxes, cost of utilities, and repair and maintenance of sales promotion, marketing and after-sales service offices and distribution centres, where such costs are identified separately for sales promotion, marketing and after-sales service of goods on the financial statements or cost accounts of the producer; and

(j) payments by the producer to other persons for warranty repairs; (frais de promotion des ventes, de commercialisation et de service après-vente)

“self-produced material” means a material that is produced by the producer of a good and used in the production of that good; (matière auto-produite)

“shipping and packing costs” means the costs incurred in packing a good for shipment and shipping the good from the point of direct shipment to the buyer,

excluding the costs of preparing and packaging the good for retail sale; (frais d'expédition et d'emballage)

“similar goods” means, with respect to a good, goods that

(a) although not alike in all respects to that good, have similar characteristics and component materials that enable the goods to perform the same functions and to be commercially interchangeable with that good,

(b) were produced in the same country as that good, and

(c) were produced

(i) by the producer of that good, or

(ii) by another producer, where no goods that satisfy the requirements of paragraphs (a) and (b) were produced by the producer of that good; (produits similaires)

“similar materials” means, with respect to a material, materials that

(a) although not alike in all respects to that material, have similar characteristics and component materials that enable the materials to perform the same functions and to be commercially interchangeable with that material,

(b) were produced in the same country as that material, and

(c) were produced

(i) by the producer of that material, or

(ii) by another producer, where no materials that satisfy the requirements of paragraphs (a) and (b) were produced by the producer of that material; (matières similaires)

“subject to a regional value-content requirement” means, with respect to a good, that the provisions of these Regulations that are applied to determine whether the good is an originating good include a regional value-content requirement; (assujetti à une prescription de teneur en valeur régionale)

“tariff provision” means a heading, subheading or tariff item; (poste tarifaire)

“territory” means, with respect to

(a) Canada, the territory to which its customs laws apply, including any areas beyond the territorial seas of Canada within which, in accordance with international law and its domestic law, Canada may exercise rights with respect to the seabed and subsoil and their natural resources, and

(b) Chile, the land, maritime and air space under its sovereignty, and the exclusive economic zone and the continental shelf over which it exercises sovereign rights and jurisdiction in accordance with international law and its domestic law; (territoire)

“total cost” means the total of all product costs, period costs and other costs incurred in the territory of one or both of the CCFTA countries; (coût total)

“transaction value method” means the method of calculating the regional value content of a good that is set out in subsection 6(2); (méthode de la valeur transactionnelle)

“used” means employed, utilized or consumed in the production of a good; (utilisé)

“verification of origin” means a verification of origin of goods under

(a) in the case of Canada, paragraph 42.1(1)(a) of the *Customs Act*, and

(b) in the case of Chile, Article E-06 of the Agreement. (vérification de l’origine)

(2) For purposes of the definitions “similar goods” and “similar materials”, the quality of the goods or materials, their reputation and the existence of a trademark are among the factors to be considered in determining whether goods or materials are similar.

(3) In these Regulations,

(a) “chapter”, unless otherwise indicated, refers to a chapter of the Harmonized System;

(b) “heading” refers to any four-digit number in the Harmonized System;

(c) “subheading” refers to any six-digit number in the Harmonized System;

(d) “tariff item” refers to any eight-digit number

(i) in the case of Canada, in the Harmonized System, and

(ii) in the case of Chile, in the Harmonized System or in the table of “Tariff Items for Canada-Chile Free Trade Agreement” following Section II of Annex D-01 of the Agreement;

(e) any reference to a tariff item in Chapter D of the Agreement that includes letters shall be reflected as the appropriate eight-digit number

(i) in the case of Canada, in the Harmonized System, and

(ii) in the case of Chile, in the table of “Tariff Items for Canada-Chile Free Trade Agreement” following Section II of Annex D-01 of the Agreement;

(f) “books” refers to,

(i) with respect to the books of a person who is located in a CCFTA country,

(A) books and other documents that support the recording of revenues, expenses, costs, assets and liabilities and that are maintained in accordance with Generally Accepted Accounting Principles set out in the publications listed in Schedule XI with respect to the territory of the CCFTA country in which the person is located, and

(B) financial statements, including note disclosures, that are prepared in accordance with Generally Accepted Accounting Principles set out in the publications listed in Schedule XI with respect to the territory of the CCFTA country in which the person is located, and

(ii) with respect to the books of a person who is located outside the territories of the CCFTA countries,

(A) books and other documents that support the recording of revenues, expenses, costs, assets and liabilities and that are maintained in accordance with generally accepted accounting principles applied in that location or, where there are no such principles, in accordance with the International Accounting Standards, and

(B) financial statements, including note disclosures, that are prepared in accordance with generally accepted accounting principles applied in that location or, where there are no such principles, in accordance with the International Accounting Standards; and

(g) “incorporated” refers to the physical incorporation of a material into a good, and includes the physical incorporation of a material into another material before that other material or any subsequently produced material is used in the production of the good.

(4) Where an example, referred to as an “Example”, is set out in these Regulations, the example is for purposes of illustrating the application of a provision, and where there is any inconsistency between the example and the provision, the provision prevails to the extent of the inconsistency.

(5) Except as otherwise provided, references in these Regulations to domestic laws of the CCFTA countries apply to those laws as they are currently in effect and as they may be amended or superseded.

(6) For purposes of subsections 5(8), 6(11) and 7(6),

(a) total cost consists of all product costs, period costs and other costs that are recorded, except as otherwise provided in subparagraphs (b)(i) and (ii), on the books of the producer without regard to the location of the persons to whom payments with respect to those costs are made;

(b) in calculating total cost,

(i) the value of materials, other than intermediate materials, indirect materials and packing materials and containers, shall be the value determined in accordance with subsections 7(1) and (2),

(ii) the value of intermediate materials used in the production of the good or material with respect to which total cost is being calculated shall be calculated in accordance with subsection 7(6),

(iii) the value of indirect materials and the value of packing materials and containers shall be the costs that are recorded on the books of the producer for those materials, and

(iv) product costs, period costs and other costs, other than costs referred to in subparagraphs (i) and (ii), shall be the costs thereof that are recorded on the books of the producer for those costs;

(c) total cost does not include profits that are earned by the producer, regardless of whether they are retained by the producer or paid out to other persons as dividends, or taxes paid on those profits, including capital gains taxes;

(d) all currency conversion gains and losses related to the production of the good shall be taken into account in calculating total cost; and

(e) the value of materials with respect to which production is accumulated under section 12 shall be determined in accordance with that section.

(7) For purposes of calculating total cost under subsections 5(8) and 7(6),

(a) where the regional value content of the good is calculated on the basis of the net cost method and the producer has elected under subsection 6(15), 10(1), (3) or (6) or 11(1) to calculate the regional value content over a period, the total cost shall be calculated over that period; and

(b) in any other case, the producer may elect that the total cost be calculated over

(i) a month,

(ii) any of the four quarters that fall within the fiscal year of the producer of the good,

(iii) either of the two periods of six consecutive months that fall within the fiscal year of the producer of the good, or

(iv) the fiscal year of the producer of the good.

(8) An election made under paragraph (7)(b) may not be rescinded or modified with respect to the good or material, or the period, with respect to which the election is made.

(9) Where a producer chooses a month, a quarter or a six month period under paragraph (7)(b) with respect to a good or material, the producer shall be considered to have chosen under that paragraph a period or periods of the same duration for the remainder of the producer's fiscal year with respect to that good or material.

(10) With respect to a good exported to a CCFTA country, an election to average is considered to have been made

(a) in the case of an election referred to in subsection 10(1), (3) or (6), if the election is received by the customs administration of that CCFTA country; and

(b) in the case of an election referred to in subsection (7), 6(15) or 11(1), if the customs administration of that CCFTA country is informed in writing during the course of a verification of the origin of the good that the election has been made.

Currency Conversion

3. (1) Where the value of a good or a material is expressed in a currency other than the currency of the country in which the producer of the good is located, that value shall be converted to the currency of the country in which that producer is located on the basis of

(a) in the case of the sale of that good or the purchase of that material, the rate of exchange used by the producer for purposes of recording that sale or purchase, as the case may be; and

(b) in the case of a material that is acquired by the producer other than by a purchase,

(i) where the producer used a rate of exchange for purposes of recording another transaction in that other currency that occurred within the period of 30 days before or after the date on which the producer acquired the material, that rate, and

(ii) in any other case,

(A) with respect to a producer located in Canada, the rate of exchange referred to in section 5 of the Currency Exchange for Customs Valuation Regulations for the date on

which the material was shipped directly to the producer, and

(B) with respect to a producer located in Chile, the rate of exchange established under the second paragraph of section 44 contained in the first section of the Ley 18.840 (Ley Organica Constitucional del Banco Central de Chile) for the date on which the material was shipped directly to the producer.

(2) Where a producer of a good has a statement referred to in section 12 that includes information in a currency other than the currency of the country in which that producer is located, the currency shall be converted to the currency of the country in which the producer is located on the basis of

(a) if the material was purchased by the producer in the same currency as the currency in which the information in the statement is provided, the rate of exchange used by the producer for purposes of recording the purchase;

(b) if the material was purchased by the producer in a currency other than the currency in which the information in the statement is provided,

(i) where the producer used a rate of exchange for purposes of recording a transaction in that other currency that occurred within the period of 30 days before or after the date on which the producer acquired the material, that rate, and

(ii) in any other case, the rate of exchange referred to in clause (1)(b)(ii)(A) or (B); and

(c) if the material was acquired by the producer other than by a purchase,

(i) where the producer used a rate of exchange for purposes of recording a transaction in that other currency that occurred within the period of 30 days before or after the date on which the producer acquired the material, that rate, and

(ii) in any other case, the rate of exchange referred to in clause (1)(b)(ii)(A) or (B).

PART II ORIGINATING GOODS

General

4. (1) A good originates in the territory of a CCFTA country where the good is

(a) a mineral good extracted in the territory of one or both of the CCFTA countries;

(b) a vegetable or other good harvested in the territory of one or both of the CCFTA countries;

(c) a live animal born and raised in the territory of one or both of the CCFTA countries;

(d) a good obtained from hunting, trapping or fishing in the territory of one or both of the CCFTA countries;

(e) fish, shellfish or other marine life taken from the sea by a vessel registered or recorded with a CCFTA country and flying its flag;

(f) a good produced on board a factory ship from a good referred to in paragraph (e), where the factory ship is registered or recorded with the same CCFTA country as the vessel that took that good and flies that country's flag;

(g) a good taken by a CCFTA country or a person of a CCFTA country from or beneath the seabed outside the territorial waters of that country, where a CCFTA country has the right to exploit that seabed;

(h) a good taken from outer space, where the good is obtained by a CCFTA country or a person of a CCFTA country and is not processed outside the territories of the CCFTA countries;

(i) waste and scrap derived from production in the territory of one or both of the CCFTA countries;

(j) waste and scrap derived from used goods collected in the territory of one or both of the CCFTA countries, where that waste and scrap is fit only for the recovery of raw materials; or

(k) a good produced in the territory of one or both of the CCFTA countries exclusively from a good referred to in any of paragraphs (a) through (j), or from the derivatives of such a good, at any stage of production.

(2) A good originates in the territory of a CCFTA country where

(a) each of the non-originating materials used in the production of the good undergoes the applicable change in tariff classification as a result of production that occurs entirely in the territory of one or both of the CCFTA countries, where the applicable rule in Schedule I for the tariff provision under which the good is classified specifies only a change in tariff classification, and the good satisfies all other applicable requirements of these Regulations;

(b) each of the non-originating materials used in the production of the good undergoes the applicable change in tariff classification as a result of production that occurs entirely in the territory of one or both of the CCFTA countries and the good satisfies the applicable regional value-content requirement, where the applicable rule in Schedule I for the tariff provision under which the good is classified specifies both a change in tariff classification and a regional value-

content requirement, and the good satisfies all other applicable requirements of these Regulations; or

(c) the good satisfies the applicable regional value-content requirement, where the applicable rule in Schedule I for the tariff provision under which the good is classified specifies only a regional value-content requirement, and the good satisfies all other applicable requirements of these Regulations.

(3) A good originates in the territory of a CCFTA country where the good is produced entirely in the territory of one or both of the CCFTA countries exclusively from originating materials.

(4) A good originates in the territory of a CCFTA country where

(a) except in the case of a good of any of Chapters 61 through 63,

(i) the good is produced entirely in the territory of one or both of the CCFTA countries,

(ii) one or more of the non-originating materials used in the production of the good do not undergo an applicable change in tariff classification because the materials were imported together, whether or not with originating materials, into the territory of a CCFTA country as an unassembled or disassembled good, and were classified as an assembled good pursuant to Rule 2 (a) of the General Rules for the Interpretation of the Harmonized System,

(iii) the regional value content of the good, calculated in accordance with section 6, is not less than 35 per cent where the transaction value method is used, or is not less than 25 per cent where the net cost method is used, unless the applicable rule in Schedule I for the tariff provision under which the good is classified specifies a different regional value-content requirement, in which case that regional value-content requirement shall apply, and

(iv) the good satisfies all other applicable requirements of these Regulations; or

(b) except in the case of a good of any of Chapters 61 through 63,

(i) the good is produced entirely in the territory of one or both of the CCFTA countries,

(ii) one or more of the non-originating materials used in the production of the good do not undergo an applicable change in tariff classification because

(A) those materials are provided for under the Harmonized System as parts of the good, and

(B) the heading for the good provides for both the good and its parts and is not further subdivided into subheadings, or the subheading for the good provides for both the good and its parts,

(iii) the non-originating materials that do not undergo a change in tariff classification in the circumstances described in subparagraph (ii) and the good are not both classified as parts of goods under the heading or subheading referred to in clause (ii)(B),

(iv) each of the non-originating materials that is used in the production of the good and is not referred to in subparagraph (iii) undergoes an applicable change in tariff classification or satisfies any other applicable requirement set out in Schedule I,

(v) the regional value content of the good, calculated in accordance with section 6, is not less than 35 per cent where the transaction value method is used, or is not less than 25 per cent where the net cost method is used, unless the applicable rule in Schedule I for the tariff provision under which the good is classified specifies a different regional value-content requirement, in which case that regional value-content requirement shall apply, and

(vi) the good satisfies all other applicable requirements of these Regulations.

(5) For purposes of paragraph (4)(b),

(a) the determination of whether a heading or subheading provides for a good and its parts shall be made on the basis of the nomenclature of the heading or subheading and the relevant Section Notes or Chapter Notes, in accordance with the General Rules for the Interpretation of the Harmonized System; and

(b) where, in accordance with the Harmonized System, a heading includes parts of goods by application of a Section Note or Chapter Note of the Harmonized System and the subheadings under that heading do not include a subheading designated "Parts," a subheading designated "Other" under that heading shall be considered to cover only the goods and parts of the goods that are themselves classified under that subheading.

(6) For purposes of subsection (2), where Schedule I sets out two or more alternative rules for the tariff provision under which a good is classified, if the good satisfies the requirements of one of those rules, it need not satisfy the requirements of another of the rules in order to qualify as an originating good.

(7) For purposes of determining whether non-originating materials undergo an applicable change in tariff classification, a self-produced material may, at the choice of the producer of that material, be considered as a material used in the production of a good into which the self-produced material is incorporated.

(8) The following example is an “Example” as referred to in subsection 2(4).

Example: Self-produced Materials as Materials for Purposes of Determining Whether Non-originating Materials Undergo an Applicable Change in Tariff Classification

Producer A, located in a CCFTA country, produces Good A. In the production process, Producer A uses originating Material X and non-originating Material Y to produce Material Z. Material Z is a self-produced material that will be used to produce Good A.

The rule set out in Schedule I for the heading under which Good A is classified specifies a change in tariff classification from any other heading. In this case, both Good A and the non-originating Material Y are of the same heading. However, the self-produced Material Z is of a heading different than that of Good A.

For purposes of determining whether the non-originating materials that are used in the production of Good A undergo the applicable change in tariff classification, Producer A has the option to consider the self-produced Material Z as the material that must undergo a change in tariff classification. As Material Z is of a heading different than that of Good A, Material Z satisfies the applicable change in tariff classification and Good A would qualify as an originating good.

De Minimis

5. (1) A good shall be considered to originate in the territory of a CCFTA country where the value of all non-originating materials that are used in the production of the good and that do not undergo an applicable change in tariff classification as a result of production occurring entirely in the territory of one or both of the CCFTA countries is not more than nine per cent of the transaction value of the good determined in accordance with Schedule II with respect to the transaction in which the producer of the good sold the good, adjusted to an F.O.B. basis, or of the total cost of the good, where there is no transaction value for the good under subsection 2(1) of Schedule III or the transaction value of the good is unacceptable under subsection 2(2) of that Schedule, provided that,

(a) if, under the rule in which the applicable change in tariff classification is specified, the good is also subject to a regional value-content requirement, the value of those non-originating materials shall be taken into account in calculating the regional value content of the

good in accordance with the method set out for that good, and

(b) the good satisfies all other applicable requirements of these Regulations.

(2) For purposes of subsection (1), where

(a) Schedule I sets out two or more alternative rules for the tariff provision under which the good is classified, and

(b) the good, in accordance with subsection (1), is considered to originate under one of those rules,

(c) the good is not required to satisfy the requirements specified in any alternative rule referred to in paragraph (a).

(3) Subsections (1) and (2) do not apply to

(a) a non-originating material of Chapter 4 or any of tariff item Nos. 1901.90.31, 1901.90.32, 1901.90.33, 1901.90.34, 1901.90.39, 1901.90.51, 1901.90.52, 1901.90.53, 1901.90.54 and 1901.90.59 that is used in the production of a good of Chapter 4;

(b) a non-originating material of Chapter 4 or any of tariff item Nos. 1901.90.31, 1901.90.32, 1901.90.33, 1901.90.34, 1901.90.39, 1901.90.51, 1901.90.52, 1901.90.53, 1901.90.54 and 1901.90.59 that is used in the production of a good of any of tariff item Nos. 1901.10.20, 1901.20.11, 1901.20.12, 1901.20.21, 1901.20.22, 1901.90.31, 1901.90.32, 1901.90.33, 1901.90.34, 1901.90.39, 1901.90.51, 1901.90.52, 1901.90.53, 1901.90.54 and 1901.90.59, heading 21.05 and tariff item Nos. 2106.90.31, 2106.90.32, 2106.90.33, 2106.90.34, 2106.90.35, 2106.90.93, 2106.90.94, 2106.90.95, 2202.90.41, 2202.90.42, 2202.90.43, 2202.90.49, 2309.90.31, 2309.90.32, 2309.90.33, 2309.90.35 and 2309.90.36;

(c) a non-originating material of Chapter 15 that is used in the production of a good of any of heading 15.01 through 15.08, 15.12, 15.14 and 15.15;

(d) a non-originating material of heading 17.01 that is used in the production of a good of any of heading 17.01 through 17.03;

(e) a non-originating material of Chapter 17 or heading 18.05 that is used in the production of a good of subheading 1806.10;

(f) a non-originating material of any of heading 22.03 through 22.07 that is used in the production of a good of any of heading 22.03 through 22.07 and subheading 2208.20;

(g) a non-originating material that is used in the production of a good of any of tariff item No. 7321.11.10, subheadings 8415.10, 8415.20 through

8415.83, 8418.10 through 8418.21, 8418.29 through 8418.40, 8421.12, 8422.11, 8450.11 through 8450.20 and 8451.21 through 8451.29, headings 84.56 through 84.63 and 84.77, tariff item No. 8516.60.20 and subheading 8526.10;

(h) a non-originating material of tariff item No. 8548.10.10 that is used in the production of a good of any of heading 85.06 and 85.07;

(i) a printed circuit assembly, including a part that incorporates a printed circuit assembly, that is a non-originating material used in the production of a good where the applicable change in tariff classification for the good, as set out in Schedule I, places restrictions on the use of such non-originating material;

(j) a non-originating material that is a single juice ingredient of heading 20.09 that is used in the production of a good of any of tariff item 2106.90.92 and 2202.90.32; or

(k) a non-originating material that is used in the production of a good of any of Chapters 1 through 21, unless the non-originating material is of a different subheading than the good for which origin is being determined under this section.

(4) A good that is subject to a regional value-content requirement shall be considered to originate in the territory of a CCFTA country and shall not be required to satisfy that requirement where

(a) the value of all non-originating materials used in the production of the good is not more than nine per cent

(i) of the transaction value of the good determined in accordance with Schedule II with respect to the transaction in which the producer of the good sold the good, adjusted to an F.O.B. basis, or

(ii) of the total cost of the good, where there is no transaction value for the good under subsection 2(1) of Schedule III or the transaction value of the good is unacceptable under subsection 2(2) of that Schedule; and

(b) the good satisfies all other applicable requirements of these Regulations.

(5) A good of any of Chapters 50 through 63 that does not originate in the territory of a CCFTA country because certain fibres or yarns that are used in the production of the component of the good that determines the tariff classification of the good do not undergo an applicable change in tariff classification as a result of production occurring entirely in the territory of one or both of the CCFTA countries shall be considered to originate in the territory of a CCFTA country if

(a) the total weight of all those fibres or yarns is not more than nine per cent of the total weight of that component; and

(b) the good satisfies all other applicable requirements of these Regulations.

(6) For purposes of subsection (5),

(a) the component of a good that determines the tariff classification of that good shall be identified in accordance with the General Rules for the Interpretation of the Harmonized System; and

(b) where the component of the good that determines the tariff classification of the good is a blend of two or more yarns or fibres, all yarns and fibres used in the production of the component shall be taken into account in determining the weight of fibres and yarns in that component.

(7) For purposes of subsections (1) and (4), the value of non-originating materials shall be determined in accordance with subsections 7(1) through (3), (6) and (7).

(8) For purposes of subsection (1) and subparagraph (4)(a)(ii), the total cost of a good shall be, at the choice of the producer of the good,

(a) the total cost incurred with respect to all goods produced by the producer that can be reasonably allocated to that good in accordance with Schedule VI; or

(b) the aggregate of each cost that forms part of the total cost incurred with respect to that good that can be reasonably allocated to that good in accordance with Schedule VI.

(9) Total cost under subsection (8) consists of the costs referred to in subsection 2(6), and is calculated in accordance with that subsection and subsection 2(7).

(10) For purposes of determining the value under subsection (1) of non-originating materials that do not undergo an applicable change in tariff classification, where Schedule IX is not being used to determine the value of those non-originating materials,

(a) if the value of those non-originating materials is being determined as a percentage of the transaction value of the good and the producer chooses under subsection 6(10) that one of the methods set out in Schedule VIII be used to determine the value of those non-originating materials for purposes of calculating the regional value content of the good, the value of those non-originating materials shall be determined in accordance with that method;

(b) if

(i) the value of those non-originating materials is being determined as a percentage of the total cost of the good,

(ii) under the rule in which the applicable change in tariff classification is specified, the good is also subject to a regional value-content requirement and paragraph (4)(a) does not apply with respect to that good,

(iii) the regional value content of the good is calculated on the basis of the net cost method, and

(iv) the producer elects under subsection 6(15), 10(1), (3) or (6) or 11(1) that the regional value content of the good be calculated over a period, the value of those non-originating materials shall be the sum of the values of non-originating materials determined in accordance with that election, divided by the number of units of the goods with respect to which the election is made;

(c) if

(i) the value of those non-originating materials is being determined as a percentage of the total cost of the good,

(ii) under the rule in which the applicable change in tariff classification is specified, the good is not also subject to a regional value-content requirement or paragraph (4)(a) applies with respect to that good, and

(iii) the producer elects under paragraph 2(7)(b) that, for purposes of subsection (8), the total cost of the good be calculated over a period, the value of those non-originating materials shall be the sum of the values of non-originating materials divided by the number of units produced during that period; and

(d) in any other case, the value of those non-originating materials may, at the choice of the producer, be determined in accordance with one of the methods set out in Schedule VIII.

(11) For purposes of subsection (4), the value of the non-originating materials used in the production of the good may, at the choice of the producer, be determined in accordance with one of the methods set out in Schedule VIII.

(12) Each of the following examples is an “Example” as referred to in subsection 2(4).

Example 1: Subsection 5(1)

Producer A, located in a CCFTA country, uses originating materials and non-originating materials in the production

of copper anodes of heading 74.02. The rule set out in Schedule I for heading 74.02 specifies a change in tariff classification from any other chapter. There is no applicable regional value-content requirement for this heading. Therefore, in order for the copper anode to qualify as an originating good under the rule set out in Schedule I, Producer A may not use in the production of the copper anode any non-originating material of Chapter 74.

All of the materials used in the production of the copper anode are originating materials, with the exception of a small amount of copper scrap of heading 74.04, that is in the same chapter as the copper anode. Under subsection 5(1), if the value of the non-originating copper scrap does not exceed nine per cent of the transaction value of the copper anode or the total cost of the copper anode, whichever is applicable, the copper anode would be considered an originating good.

Example 2: Subsection 5(2)

Producer A, located in a CCFTA country, uses originating materials and non-originating materials in the production of ceiling fans of subheading 8414.51. There are two alternative rules set out in Schedule I for subheading 8414.51, one of which specifies a change in tariff classification from any other heading. The other rule specifies both a change in tariff classification from the subheading under which parts of the ceiling fans are classified and a regional value-content requirement. Therefore, in order for the ceiling fan to qualify as an originating good under the first of the alternative rules, all of the materials that are classified under the subheading for parts of ceiling fans and used in the production of the completed ceiling fan must be originating materials.

In this case, all of the non-originating materials used in the production of the ceiling fan satisfy the change in tariff classification set out in the rule that specifies a change in tariff classification from any other heading, with the exception of one non-originating material that is classified under the subheading for parts of ceiling fans. Under subsection 5(1), if the value of the non-originating material that does not satisfy the change in tariff classification specified in the first rule does not exceed nine per cent of the transaction value of the ceiling fan or the total cost of the ceiling fan, whichever is applicable, the ceiling fan would be considered an originating good. Therefore, under subsection 5(2), the ceiling fan would not be required to satisfy the alternative rule that specifies both a change in tariff classification and a regional value-content requirement.

Example 3: Subsection 5(2)

Producer A, located in a CCFTA country, uses originating materials and non-originating materials in the production of plastic bags of subheading 3923.29. The rule set out in Schedule I for subheading 3923.29 specifies both a change

in tariff classification from any other heading, except from subheading 3920.20 or 3920.71, under which certain plastic materials are classified, and a regional value-content requirement. Therefore, with respect to that part of the rule that specifies a change in tariff classification, in order for the plastic bag to qualify as an originating good, any plastic materials that are classified under subheading 3920.20 or 3920.71 and that are used in the production of the plastic bag must be originating materials.

In this case, all of the non-originating materials used in the production of the plastic bag satisfy the specified change in tariff classification, with the exception of a small amount of plastic materials classified under subheading 3920.71. Subsection 5(1) provides that the plastic bag can be considered an originating good if the value of the non-originating plastic materials that do not satisfy the specified change in tariff classification does not exceed nine per cent of the transaction value of the plastic bag or the total cost of the plastic bag, whichever is applicable. In this case, the value of those non-originating materials that do not satisfy the specified change in tariff classification does not exceed the nine per cent limit.

However, the rule set out in Schedule I for subheading 3923.29 specifies both a change in tariff classification and a regional value-content requirement. Therefore, under paragraph 5(1)(a), in order to be considered an originating good, the plastic bag must also, except as otherwise provided in subsection 5(4), satisfy the regional value-content requirement specified in that rule. As provided in paragraph 5(1)(a), the value of the non-originating materials that do not satisfy the specified change in tariff classification, together with the value of all other non-originating materials used in the production of the plastic bag, will be taken into account in calculating the regional value content of the plastic bag.

Example 4: Subsection 5(4)

Producer A, located in a CCFTA country, primarily uses originating materials in the production of shoes of heading 64.05. The rule set out in Schedule I for heading 64.05 specifies both a change in tariff classification from any subheading other than subheading 6406.10 and a regional value-content requirement.

With the exception of a small amount of materials of Chapter 39, all of the materials used in the production of the shoes are originating materials.

Under subsection 5(4), if the value of all of the non-originating materials used in the production of the shoes does not exceed nine per cent of the transaction value of the shoes or the total cost of the shoes, whichever is applicable, the shoes are not required to satisfy the regional value-content requirement specified in the rule set out in Schedule I in order to be considered originating goods.

Example 5: Subsection 5(4)

Producer A, located in a CCFTA country, produces barbers' chairs of subheading 9402.10. The rule set out in Schedule I for goods of heading 94.02 specifies a change in tariff classification from any other chapter. All of the materials used in the production of these chairs are originating materials, with the exception of a small quantity of non-originating materials that are classified as parts of barbers' chairs. These parts undergo no change in tariff classification because subheading 9402.10 provides for both barbers' chairs and their parts.

Although Producer A's barbers' chairs do not qualify as originating goods under the rule set out in Schedule I, paragraph 4(4)(b) provides, among other things, that, where there is no change in tariff classification from the non-originating materials to the goods because the subheading under which the goods are classified provides for both the goods and their parts, the goods shall qualify as originating goods if they satisfy a specified regional value-content requirement.

However, under subsection 5(4), if the value of the non-originating materials does not exceed nine per cent of the transaction value of the barbers' chairs or the total cost of the barbers' chairs, whichever is applicable, the barbers' chairs will be considered originating goods and are not required to satisfy the regional value-content requirement set out in subparagraph 4(4)(b)(v).

Example 6: Subsections 5(5) and (6)

Producer A, located in a CCFTA country, produces women's dresses of subheading 6204.41 from fine wool fabric of heading 51.12. This fine wool fabric, also produced by Producer A, is the component of the dress that determines its tariff classification under subheading 6204.41.

The rule set out in Schedule I for subheading 6204.41, under which the dress is classified, specifies both a change in tariff classification from any other chapter, except from those headings and chapters under which certain yarns and fabrics, including combed wool yarn and wool fabric, are classified, and a requirement that the good be cut and sewn or otherwise assembled in the territory of one or both of the CCFTA countries.

Therefore, with respect to that part of the rule that specifies a change in tariff classification, in order for the dress to qualify as an originating good, the combed wool yarn and the fine wool fabric made therefrom that are used by Producer A in the production of the dress must be originating materials.

At one point Producer A uses a small quantity of non-originating combed wool yarn in the production of the fine wool fabric. Under subsection 5(5), if the total weight of the non-originating combed wool yarn does not exceed nine per

cent of the total weight of all the yarn used in the production of the component of the dress that determines its tariff classification, that is, the wool fabric, the dress would be considered an originating good.

PART III
REGIONAL VALUE CONTENT

6. (1) Except as otherwise provided in subsection (6), the regional value content of a good shall be calculated, at the choice of the exporter or producer of the good, on the basis of either the transaction value method or the net cost method.

(2) The transaction value method for calculating the regional value content of a good is as follows:

$$RVC = \frac{TV - VNM}{TV} \times 100$$

where

RVC is the regional value content of the good, expressed as a percentage;

TV is the transaction value of the good, determined in accordance with Schedule II with respect to the transaction in which the producer of the good sold the good, adjusted to an F.O.B. basis; and

VNM is the value of non-originating materials used by the producer in the production of the good, determined in accordance with section 7.

(3) The net cost method for calculating the regional value content of a good is as follows:

$$RVC = \frac{NC - VNM}{NC} \times 100$$

where

RVC is the regional value content of the good, expressed as a percentage;

NC is the net cost of the good, calculated in accordance with subsection (11); and

VNM is the value of non-originating materials used by the producer in the production of the good, determined in accordance with section 7.

(4) For purposes of calculating the regional value content of a good under subsection (2) or (3), the value of non-originating materials used by a producer in the production of the good shall not include

- (a) the value of any non-originating materials used by another producer in the production of originating materials that are subsequently acquired and used by the producer of the good in the production of that good;
- or

(b) the value of any non-originating materials used by the producer in the production of a self-produced material that is an originating material and is designated as an intermediate material.

(5) For purposes of subsection (4),

(a) in the case of any self-produced material that is not designated as an intermediate material, only the value of any non-originating materials used in the production of the self-produced material shall be included in the value of non-originating materials used in the production of the good; and

(b) where a self-produced material that is designated as an intermediate material and is an originating material is used by the producer of the good with non-originating materials (whether or not those non-originating materials are produced by that producer) in the production of the good, the value of those non-originating materials shall be included in the value of non-originating materials.

(6) The regional value content of a good shall be calculated only on the basis of the net cost method where

(a) there is no transaction value for the good under subsection 2(1) of Schedule III;

(b) the transaction value of the good is unacceptable under subsection 2(2) of Schedule III;

(c) the good is sold by the producer to a related person and the volume, by units of quantity, of sales by that producer of identical goods or similar goods, or any combination thereof, to related persons during the six month period immediately preceding the month in which the good is sold exceeds 85 per cent of the producer's total sales to all persons, whether or not related and regardless of location, of identical goods or similar goods, or any combination thereof, during that period;

(d) the good is

(i) a motor vehicle,

(ii) a good of a tariff provision listed in Schedule IV and is for use in a motor vehicle, either as original equipment or as an after-market part, or

(iii) a good of any of subheadings 6401.10 through 6406.10;

(e) the exporter or producer chooses to accumulate with respect to the good in accordance with section 12; or

(f) the good is an intermediate material and is subject to a regional value-content requirement.

(7) If the exporter or producer of a good calculates the regional value content of the good on the basis of the transaction value method and the customs administration of a CCFTA country subsequently notifies that exporter or producer in writing, during the course of a verification of origin, that

(a) the transaction value of the good, as determined by the exporter or producer, is required to be adjusted under section 4 of Schedule II or is unacceptable under subsection 2(2) of Schedule III, there is no transaction value for the good under subsection 2(1) of Schedule III or the transaction value method may not be used because of the application of paragraph (6)(c), or

(b) the value of any material used in the production of the good, as determined by the exporter or producer, is required to be adjusted under section 5 of Schedule VII or is unacceptable under subsection 2(3) of Schedule VII, or there is no transaction value for the material under subsection 2(2) of Schedule VII or the transaction value method may not be used to calculate the regional value content of the material because of the application of paragraph (6)(c), the exporter or producer may choose that the regional value content of the good be calculated on the basis of the net cost method, in which case the calculation must be made within 60 days after the producer receives the notification, or such longer period as that customs administration specifies.

(8) If the exporter or producer of a good chooses that the regional value content of the good be calculated on the basis of the net cost method and the customs administration of a CCFTA country subsequently notifies that exporter or producer in writing, during the course of a verification of origin, that the good does not satisfy the applicable regional value-content requirement, the exporter or producer of the good may not recalculate the regional value content of the good that is the subject of the verification of origin on the basis of the transaction value method.

(9) Nothing in subsection (7) shall be construed as preventing any review and appeal under sections 57.1 through 70 of the Customs Act, of an adjustment to or a rejection of

(a) the transaction value of the good; or

(b) the value of any material used in the production of the good.

(10) For purposes of the transaction value method, where non-originating materials that are the same as one another in all respects, including physical characteristics, quality and reputation but excluding minor differences in appearance, are used in the production of a good, the value of those non-originating materials may, at the choice of the

producer of the good, be determined in accordance with one of the methods set out in Schedule VIII.

(11) For purposes of subsection (3), the net cost of a good may be calculated, at the choice of the producer of the good, by

(a) calculating the total cost incurred with respect to all goods produced by that producer, subtracting any excluded costs that are included in that total cost, and reasonably allocating, in accordance with Schedule VI, the remainder to the good;

(b) calculating the total cost incurred with respect to all goods produced by that producer, reasonably allocating, in accordance with Schedule VI, that total cost to the good, and subtracting any excluded costs that are included in the amount allocated to that good; or

(c) reasonably allocating, in accordance with Schedule VI, each cost that forms part of the total cost incurred with respect to the good so that the aggregate of those costs does not include any excluded costs.

(12) Total cost under subsection (11) consists of the costs referred to in subsection 2(6), and is calculated in accordance with that subsection.

(13) For purposes of calculating net cost under subsection (11),

(a) excluded costs shall be the excluded costs that are recorded on the books of the producer of the good;

(b) excluded costs that are included in the value of a material that is used in the production of the good shall not be subtracted from or otherwise excluded from the total cost; and

(c) excluded costs do not include any amount paid for research and development services performed in the territory of a CCFTA country.

(14) For purposes of calculating non-allowable interest costs, the determination of whether interest costs incurred by a producer are more than 700 basis points above the yield on debt obligations of comparable maturities issued by the national government of the country in which the producer is located shall be made in accordance with Schedule X.

(15) For purposes of the net cost method, the regional value content of the good, other than a good with respect to which an election to average may be made under subsection 10(1), (3) or (6) or 11(1), may be calculated, where the producer elects to do so, by

(a) calculating the sum of the net costs incurred and the sum of the values of non-originating materials used by the producer of the good with respect to the good

and identical goods or similar goods, or any combination thereof, produced in a single plant by the producer over

- (i) a month,
- (ii) any one of the four quarters that fall within the fiscal year of the producer of the good,
- (iii) either of the two periods of six consecutive months that fall within the fiscal year of the producer of the good, or
- (iv) the fiscal year of the producer of the good; and

(b) using the sums referred to in paragraph (a) as the net cost and the value of non-originating materials, respectively.

(16) The calculation made under subsection (15) shall apply with respect to all units of the good produced during the period chosen by the producer under paragraph (15)(a).

(17) An election made under subsection (15) may not be rescinded or modified with respect to the goods or the period with respect to which the election is made.

(18) Where a producer chooses a month, a quarter or a six month period under subsection (15) with respect to goods, the producer shall be considered to have chosen under that subsection a period or periods of the same duration for the remainder of the producer's fiscal year with respect to those goods.

(19) Where the net cost method is required to be used or has been chosen and an election has been made under subsection (15), the regional value content of the good shall be calculated on the basis of the net cost method over the period chosen under that subsection and for the remainder of the producer's fiscal year.

(20) Except as otherwise provided in subsections 10(10) and 11(9), the producer of a good may calculate the regional value content of the good under the net cost method over the period chosen under paragraph (15)(a) on the basis of estimated costs, including standard costs, budgeted forecasts or other similar estimating procedures.

(21) Where the producer calculates the regional value content of a good in accordance with subsection (20), the producer shall conduct an analysis at the end of the producer's fiscal year of the actual costs incurred over the period with respect to the production of the good and, if the good does not satisfy the regional value-content requirement on the basis of the actual costs during that period, immediately inform any person to whom the producer has provided a Certificate of Origin for the good, or a written statement that the good is an originating good, that the good is a non-originating good.

(22) For purposes of calculating the regional value content of a good, the producer of that good may choose to treat any material used in the production of that good as a non-originating material.

(23) Each of the following examples is an "Example" as referred to in subsection 2(4).

Example 1: Subsection 6(3), Net Cost Method

A producer located in CCFTA country A sells Good A that is subject to a regional value-content requirement to a buyer located in CCFTA country B. The producer of Good A chooses that the regional value content of that good be calculated using the net cost method. All applicable requirements of these Regulations, other than the regional value-content requirement, have been met. The applicable regional value-content requirement is 50 per cent.

In order to calculate the regional value content of Good A, the producer first calculates the net cost of Good A. Under paragraph 6(11)(a), the net cost is the total cost of Good A (the aggregate of the product costs, period costs and other costs) per unit, minus the excluded costs (the aggregate of the sales promotion, marketing and after-sales service costs, royalties, shipping and packing costs and non-allowable interest costs) per unit. The producer uses the following figures to calculate the net cost:

Product costs:

<i>Value of originating materials</i>	<i>\$30.00</i>
<i>Value of non-originating materials</i>	<i>\$40.00</i>
<i>Other product costs</i>	<i>\$20.00</i>
<i>Period costs:</i>	<i>\$10.00</i>
<i>Other costs:</i>	<i>\$0.00</i>
<i>Total cost of Good A, per unit:</i>	<i>\$100.00</i>

Excluded costs:

<i>Sales promotion, marketing and after-sales service costs</i>	<i>\$5.00</i>
<i>Royalties</i>	<i>\$2.50</i>
<i>Shipping and packing costs</i>	<i>\$3.00</i>
<i>Non-allowable interest costs</i>	<i>\$1.50</i>
<i>Total excluded costs:</i>	<i>\$12.00</i>

The net cost is the total cost of Good A, per unit, minus the excluded costs.

<i>Total cost of Good A, per unit:</i>	<i>\$100.00</i>
<i>Excluded costs:</i>	<i>– \$12.00</i>
<i>Net cost of Good A, per unit:</i>	<i>\$88.00</i>

The value for net cost (\$88) and the value of non-originating materials (\$40) are needed in order to calculate the regional value content. The producer calculates the regional value content of Good A under the net cost method in the following manner:

$$\begin{aligned}
 RVC &= \frac{NC - VNM}{NC} \times 100 \\
 &= (88 - 40) / 88 \times 100 \\
 &= 54.5\%
 \end{aligned}$$

Therefore, under the net cost method, Good A qualifies as an originating good, with a regional value content of 54.5 per cent.

Example 2: Paragraph 6(6)(c), Net Cost Method Required for Certain Sales to Related Persons

On June 15, 1997, a producer located in CCFTA country A sells 1,000 units of Good A to a related person, located in CCFTA country B. During the six month period beginning on December 1, 1996 and ending on May 31, 1997, the producer sold 90,000 units of identical goods and similar goods to related persons from various countries, including that buyer. The producer's total sales of those identical goods and similar goods to all persons from all countries during that six month period were 100,000 units.

The total quantity of identical goods and similar goods sold by the producer to related persons during that six month period was 90 per cent of the producer's total sales of those identical goods and similar goods to all persons. Under paragraph 6(6)(c), the producer must use the net cost method to calculate the regional value content of Good A sold in June 1997, because the 85 per cent limit was exceeded.

Example 3: Paragraph 6(11)(a)

A producer in a CCFTA country produces Good A and Good B during the producer's fiscal year.

The producer uses the following figures, which are recorded on the producer's books and represent all of the costs incurred with respect to both Good A and Good B, to calculate the net cost of those goods:

Product costs:

Value of originating materials	\$2,000
Value of non-originating materials	\$1,000
Other product costs	\$2,400
Period costs (including \$1,200 of excluded costs):	\$3,200
<u>Other costs:</u>	<u>\$400</u>
Total cost of Good A and Good B:	\$9,000

The net cost is the total cost of Good A and Good B, minus the excluded costs incurred with respect to those goods.

Total cost of Good A and Good B:	\$9,000
<u>Excluded costs:</u>	<u>-\$1,200</u>
Net cost of Good A and Good B:	\$7,800

The net cost must then be reasonably allocated, in accordance with Schedule VI, to Good A and Good B.

Example 4: Paragraph 6(11)(b)

A producer located in a CCFTA country produces Good A and Good B during the producer's fiscal year. In order to calculate the regional value content of Good A and Good B, the producer uses the following figures that are recorded on

the producer's books and incurred with respect to those goods:

Product costs:

Value of originating materials	\$2,000
Value of non-originating materials	\$1,000
Other product costs	\$2,400
Period costs (including \$1,200 of excluded costs):	\$3,200
<u>Other costs:</u>	<u>\$400</u>
Total cost of Good A and Good B:	\$9,000

Under paragraph 6(11)(b), the total cost of Good A and Good B is then reasonably allocated, in accordance with Schedule VI, to those goods. The costs are allocated in the following manner:

Allocated to Good A: \$5,220
 Allocated to Good B: \$3,780
 Total cost (\$9,000 for both Good A and Good B):

The excluded costs (\$1,200) that are included in total cost allocated to Good A and Good B, in accordance with Schedule VI, are subtracted from that amount.

	Total Excluded Cost	Good A	Good B
Sales promotion, marketing and after-sale service costs:	\$500	\$290	\$210
Royalties:	\$200	\$116	\$84
Shipping and packing costs:	\$500	\$290	\$210
Net cost (total cost minus minus excluded costs):		\$4,524	\$3,276
The net cost of Good A is thus \$4,524, and the net cost of Good B is \$3,276.			

Example 5: Paragraph 6(11)(c)

A producer located in a CCFTA country produces Good C and Good D. The following costs are recorded on the producer's books for the months of January, February and March, and each cost that forms part of the total cost is reasonably allocated, in accordance with Schedule VI, to Good C and Good D.

	Total cost Good C and Good D	Allocated to Good C	Allocated to Good D
<i>(all amounts are in thousands of dollars)</i>			
Product costs:			
Value of originating materials	100	0	100
Value of non-originating materials	900	800	100
Other product costs	500	300	200
Period costs (including \$420 of excluded costs):	5,679	3,036	2,643
Minus excluded costs:	420	300	120
Other costs:	0	0	0
Total cost (aggregate of			

<i>product costs, period costs and other costs):</i>	6,759	3,836	2,923
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Example 6: Subsection 6(12)

Producer A, located in a CCFTA country, produces Good A that is subject to a regional value-content requirement. The producer chooses that the regional value content of that good be calculated using the net cost method and averages the calculation over the producer's fiscal year under subsection 6(15). Producer A determines that during that fiscal year Producer A incurred a gain on currency conversion of \$10,000 and a loss on currency conversion of \$8,000, resulting in a net gain of \$2,000. Producer A also determines that \$7,000 of the gain on currency conversion and \$6,000 of the loss on currency conversion are related to the purchase of non-originating materials used in the production of Good A, and \$3,000 of the gain on currency conversion and \$2,000 of the loss on currency conversion are not related to the production of Good A. The producer determines that the total cost of Good A is \$45,000 before taking into account the \$1,000 net gain on currency conversion related to the production of Good A. The total cost of Good A is therefore \$44,000. That \$1,000 net gain is not included in the value of non-originating materials under subsections 7(1) and (2).

Example 7: Subsection 6(12)

Given the same facts as in example 6, except that Producer A determines that \$6,000 of the gain on currency conversion and \$7,000 of the loss on currency conversion are related to the purchase of non-originating materials used in the production of Good A. The total cost of Good A is \$45,000, before taking into account the \$1,000 net loss on currency conversion related to the production of Good A. The total cost of Good A is therefore \$46,000. The \$1,000 net loss is not included in the value of non-originating materials under subsections 7(1) and (2).

PART IV
MATERIALS

General

7. (1) Except in the case of indirect materials, intermediate materials and packing materials and containers, for purposes of calculating the regional value content of a good and for purposes of subsections 5(1) and (4), the value of a material that is used in the production of the good shall be

- (a) the transaction value, determined in accordance with subsection 2(1) of Schedule VII, with respect to the transaction in which the producer acquired the material; or
- (b) the value determined in accordance with sections 6 through 11 of Schedule VII, where, with respect to the

transaction in which the producer acquired the material, there is no transaction value under subsection 2(2) of that Schedule or the transaction value is unacceptable under subsection 2(3) of that Schedule.

(2) The value of a material referred to in subsection (1) shall include the following costs if they are not included under paragraph (1)(a) or (b):

- (a) the costs of freight, insurance and packing and all other costs incurred in transporting the material to the location of the producer;
- (b) duties and taxes paid or payable with respect to the material in the territory of one or both of the CCFTA countries, other than duties and taxes that are waived, refunded, refundable or otherwise recoverable, including credit against duty or tax paid or payable;
- (c) customs brokerage fees, including the cost of in-house customs brokerage services, incurred with respect to the material in the territory of one or both of the CCFTA countries; and
- (d) the cost of waste and spoilage resulting from the use of the material in the production of the good, minus the value of any reusable scrap or by-product.

(3) The costs referred to in paragraphs (2)(a) through (d) shall be the costs referred to in those paragraphs that are recorded on the books of the producer of the good.

Intermediate Materials

(4) For purposes of calculating the regional value content of a good, the producer of the good may designate as an intermediate material any self-produced material that is used in the production of the good, provided that, where an intermediate material is subject to a regional value-content requirement, no other self-produced material that is incorporated into that intermediate material and that is also subject to a regional value-content requirement is also designated by the producer as an intermediate material.

(5) For purposes of subsection (4),

- (a) in order to qualify as an originating material, a self-produced material that is designated as an intermediate material must qualify as an originating material under these Regulations;
- (b) the designation of a self-produced material as an intermediate material shall be made solely at the choice of the producer of that self-produced material; and
- (c) except as otherwise provided in subsection 12(4), the proviso set out in subsection (4) does not apply with respect to an intermediate material used by another producer in the production of a material that is subsequently acquired and used in the production of a good by the producer referred to in subsection (4).

(6) The value of an intermediate material shall be, at the choice of the producer of the good,

(a) the total cost incurred with respect to all goods produced by the producer that can be reasonably allocated to that intermediate material in accordance with Schedule VI; or

(b) the aggregate of each cost that forms part of the total cost incurred with respect to that intermediate material that can be reasonably allocated to that intermediate material in accordance with Schedule VI.

(7) Total cost under subsection (6) consists of the costs referred to in subsection 2(6), and is calculated in accordance with that subsection and subsection 2(7).

(8) Where a producer of a good designates a self-produced material as an intermediate material under subsection (4) and the customs administration of a CCFTA country into which the good is imported determines during a verification of origin of the good that the intermediate material is a non-originating material and notifies the producer of this in writing before the written determination of whether the good qualifies as an originating good, the producer may rescind the designation, and the regional value content of the good shall be calculated as though the self-produced material were not so designated.

(9) A producer of a good who rescinds a designation under subsection (8)

(a) shall retain any rights of review and appeal under sections 57.1 through 70 of the *Customs Act* with respect to the determination of the origin of the intermediate material as though the producer did not rescind the designation; and

(b) may, not later than 30 days after the customs administration referred to in subsection (8) notifies the producer in writing that the self-produced material referred to in paragraph (a) is a non-originating material, designate as an intermediate material another self-produced material that is incorporated into the good, subject to the proviso set out in subsection (4).

(10) Where a producer of a good designates another self-produced material as an intermediate material under paragraph (9)(b) and the customs administration referred to in subsection (8) determines during the verification of origin of the good that that self-produced material is a non-originating material,

(a) the producer may rescind the designation, and the regional value content of the good shall be calculated as though the self-produced material were not so designated;

(b) the producer shall retain any rights of review and appeal under sections 57.1 through 70 of the *Customs Act* with respect to the determination of the origin of

the intermediate material as though the producer did not rescind the designation; and

(c) the producer may not designate another self-produced material that is incorporated into the good as an intermediate material.

Indirect Materials

(11) For purposes of determining whether a good is an originating good, an indirect material that is used in the production of the good

(a) shall be considered to be an originating material, regardless of where that indirect material is produced; and

(b) if the good is subject to a regional value-content requirement, for purposes of calculating the net cost under the net cost method, the value of the indirect material shall be the costs of that material that are recorded on the books of the producer of the good.

Packaging Materials and Containers

(12) Packaging materials and containers, if classified under the Harmonized System with the good that is packaged therein, shall be disregarded for purposes of

(a) determining whether all of the non-originating materials used in the production of the good undergo an applicable change in tariff classification; and

(b) determining under subsection 5(1) the value of non-originating materials that do not undergo an applicable change in tariff classification.

(13) Where packaging materials and containers are classified under the Harmonized System with the good that is packaged therein and that good is subject to a regional value-content requirement, the value of those packaging materials and containers shall be taken into account as originating materials or non-originating materials, as the case may be, for purposes of calculating the regional value content of the good.

(14) For purposes of subsection (13), where packaging materials and containers are self-produced materials, the producer may choose to designate those materials as intermediate materials under subsection (4).

Packing Materials and Containers

(15) For purposes of determining whether a good is an originating good, packing materials and containers in which the good is packed

(a) shall be disregarded for purposes of determining whether

(i) the non-originating materials used in the production of the good undergo an applicable change in tariff classification, and

(ii) the good satisfies a regional value-content requirement; and

(b) if the good is subject to a regional value-content requirement, the value of the packing materials and containers shall be the costs thereof that are recorded on the books of the producer of the good.

Fungible Goods and Fungible Materials

(16) For purposes of determining whether a good is an originating good,

(a) where originating materials and non-originating materials that are fungible materials are used in the production of the good, the determination of whether the materials are originating materials may, at the choice of the producer of the good or the person from whom the producer acquired the materials, be made on the basis of any of the applicable inventory management methods set out in Schedule IX; and

(b) where originating goods and non-originating goods that are fungible goods are physically combined or mixed in inventory and prior to exportation do not undergo production or any other operation in the territory of the CCFTA country in which they were physically combined or mixed in inventory, other than unloading, reloading or any other operation necessary to preserve the goods in good condition or to transport the goods for exportation to the territory of the other CCFTA country, the determination of whether the good is an originating good may, at the choice of the exporter of the good or the person from whom the exporter acquired the good, be made on the basis of any of the applicable inventory management methods set out in Schedule IX.

Accessories, Spare Parts and Tools

(17) Accessories, spare parts or tools that are delivered with a good and form part of the good's standard accessories, spare parts or tools are originating materials if the good is an originating good, and shall be disregarded for purposes of determining whether all the non-originating materials used in the production of the good undergo an applicable change in tariff classification or determining under subsection 5(1) the value of non-originating materials that do not undergo an applicable change in tariff classification, provided that

(a) the accessories, spare parts or tools are not invoiced separately from the good; and

(b) the quantities and value of the accessories, spare parts or tools are customary for the good, within the industry that produces the good.

(18) Where a good is subject to a regional value-content requirement, the value of accessories, spare parts or tools that are delivered with that good and form part of the

good's standard accessories, spare parts or tools shall be taken into account as originating materials or non-originating materials, as the case may be, in calculating the regional value content of the good.

(19) For purposes of subsection (18), where accessories, spare parts and tools are self-produced materials, the producer may choose to designate those materials as intermediate materials under subsection (4).

(20) Each of the following examples is an "Example" as referred to in subsection 2(4).

Example 1: Subsection 7(5), Value of Intermediate Materials

A producer located in a CCFTA country produces Good B, which is subject to a regional value-content requirement under paragraph 4(2)(b). The producer also produces Material A, which is used in the production of Good B. Both originating materials and non-originating materials are used in the production of Material A. Material A is subject to a change in tariff classification requirement under paragraph 4(2)(a). The costs to produce Material A are the following:

Product costs:

<i>Value of originating materials</i>	<i>\$1.00</i>
<i>Value of non-originating materials</i>	<i>\$7.50</i>
<i>Other product costs</i>	<i>\$1.50</i>
<i>Period costs (including \$0.30 of royalties):</i>	<i>\$0.50</i>
<i>Other costs:</i>	<i>\$0.10</i>
<i>Total cost of Material A:</i>	<i>\$10.60</i>

The producer designates Material A as an intermediate material and determines that, because all of the non-originating materials that are used in the production of Material A undergo an applicable change in tariff classification set out in Schedule I, Material A would, under paragraph 4(2)(a), qualify as an originating material. The cost of the non-originating materials used in the production of Material A is therefore not included in the value of non-originating materials that are used in the production of Good B for the purpose of determining the regional value content of Good B. Because Material A has been designated as an intermediate material, the total cost of Material A, which is \$10.60, is treated as the cost of originating materials for the purpose of calculating the regional value content of Good B. The total cost of Good B is determined in accordance with the following figures:

Product costs:

<i>Value of originating materials</i>	
<i>-intermediate materials</i>	<i>\$10.60</i>
<i>-other materials</i>	<i>\$3.00</i>
<i>Value of non-originating materials</i>	<i>\$5.50</i>
<i>Other product costs</i>	<i>\$6.50</i>
<i>Period costs:</i>	<i>\$2.50</i>

<i>Other costs:</i>	<u>\$0.10</u>
<i>Total cost of Good B:</i>	\$28.20

Example 2: Subsection 7(5), Effects of the Designation of Self-produced Materials on Net Cost

The ability to designate intermediate materials helps to put the vertically integrated producer who is self-producing materials that are used in the production of a good on par with a producer who is purchasing materials and valuing those materials in accordance with subsections 7(1) and (2). The following situations demonstrate how this is achieved.

Situation 1

A producer located in a CCFTA country produces Good B, which is subject to a regional value-content requirement of 50 per cent under the net cost method. Good B satisfies all other applicable requirements of these Regulations. The producer purchases Material A, which is used in the production of Good B, from a supplier located in a CCFTA country. The value of Material A determined in accordance with subsections 7(1) and (2) is \$11.00. Material A is an originating material. All other materials used in the production of Good B are non-originating materials. The net cost of Good B is determined as follows:

<i>Product costs:</i>	
<i>Value of originating materials (Material A)</i>	\$11.00
<i>Value of non-originating materials</i>	\$5.50
<i>Other product costs</i>	\$6.50
<i>Period costs (including \$0.20 of excluded costs):</i>	\$0.50
<u><i>Other costs:</i></u>	<u>\$0.10</u>
<i>Total cost of Good B:</i>	\$23.60
<u><i>Excluded costs (included in period costs):</i></u>	<u>\$0.20</u>
<i>Net cost of Good B:</i>	\$23.40

The regional value content of Good B is calculated as follows:

$$\begin{aligned}
 RVC &= (NC - VNM / NC) \times 100 \\
 &= (\$23.40 - \$5.50) / \$23.40 \times 100 \\
 &= 76.5\%
 \end{aligned}$$

The regional value content of Good B is 76.5 per cent, and Good B, therefore, qualifies as an originating good.

Situation 2

A producer located in a CCFTA country produces Good B, which is subject to a regional value-content requirement of 50 per cent under the net cost method. Good B satisfies all other applicable requirements of these Regulations. The producer self-produces Material A which is used in the production of Good B. The costs to produce Material A are the following:

<i>Product costs:</i>	
<i>Value of originating materials</i>	\$1.00
<i>Value of non-originating materials</i>	\$7.50
<i>Other product costs</i>	\$1.50
<i>Period costs (including \$0.20 of excluded costs)</i>	\$0.50
<u><i>Other costs:</i></u>	<u>\$0.10</u>
<i>Total cost of Material A:</i>	\$10.60

Additional costs to produce Good B are the following:

<i>Product costs:</i>	
<i>Value of originating materials</i>	\$0.00
<i>Value of non-originating materials</i>	\$5.50
<i>Other product costs</i>	\$6.50
<i>Period costs (including \$0.20 of excluded costs):</i>	\$0.50
<u><i>Other costs:</i></u>	<u>\$0.10</u>
<i>Total additional costs:</i>	\$12.60

The producer does not designate Material A as an intermediate material under subsection 7(4). The net cost of Good B is calculated as follows:

	<i>Cost of Material A (not designated as an intermediate material)</i>	<i>Additional Cost to Produce Good B</i>	<i>Total</i>
<i>Product costs:</i>			
<i>Value of originating materials</i>	\$1.00	0	\$1.00
<i>Value of non-originating materials</i>	\$7.50	\$5.50	\$13.00
<i>Other product costs</i>	\$1.50	\$6.50	\$8.00
<i>Period costs (including \$0.20 of excluded costs):</i>	\$0.50	\$0.50	\$1.00
<u><i>Other costs:</i></u>	<u>\$0.10</u>	<u>\$0.10</u>	<u>\$0.20</u>
<i>Total cost of Good B</i>	\$10.60	\$12.60	\$23.20
<i>Excluded costs (in period costs)</i>	\$0.20	\$0.20	\$0.40
<i>Net cost of Good B (total cost minus excluded costs)</i>			\$22.80

The regional value content of Good B is calculated as follows:

$$\begin{aligned}
 RVC &= (NC - VNM / NC) \times 100 \\
 &= (\$22.80 - \$13.00) / \$22.80 \times 100 \\
 &= 42.9\%
 \end{aligned}$$

The regional value content of Good B is 42.9 per cent, and Good B, therefore, does not qualify as an originating good.

Situation 3

A producer located in a CCFTA country produces Good B, which is subject to a regional value-content requirement of 50 per cent under the net cost method. Good B satisfies all other applicable requirements of these Regulations. The producer self-produces Material A, which is used in the production of Good B. The costs to produce Material A are the following:

Product costs:	
Value of originating materials	\$1.00
Value of non-originating materials	\$7.50
Other product costs	\$1.50
Period costs (including \$0.20 of excluded costs):	\$0.50
<u>Other costs:</u>	<u>\$0.10</u>
Total cost of Material A:	\$10.60

Additional costs to produce Good B are the following:

Product costs:	
Value of originating materials	\$0.00
Value of non-originating materials	\$5.50
Other product costs	\$6.50
Period costs (including \$0.20 of excluded costs):	\$0.50
<u>Other costs:</u>	<u>\$0.10</u>
Total additional costs:	\$12.60

The producer designates Material A as an intermediate material under subsection 7(4). Material A qualifies as an originating material under paragraph 4(2)(a). Therefore, the value of non-originating materials used in the production of Material A is not included in the value of non-originating materials for the purposes of calculating the regional value content of Good B. The net cost of Good B is calculated as follows:

	Cost of Material A (not designated as an intermediate material)	Additional Cost to Produce Good B	Total
Product costs:			
Value of originating materials	\$16.60	0	\$10.60
Value of non-originating materials		\$5.50	\$5.50
Other product costs		\$6.50	\$6.50
Period costs (including \$0.20 of excluded costs):		\$0.50	\$0.50
<u>Other costs:</u>		<u>\$0.10</u>	<u>\$0.10</u>
Total cost of Good B		\$12.60	\$23.20
Excluded costs (in period costs)		\$0.20	\$0.20
Net cost of Good B (total cost minus excluded costs)			\$23.00

The regional value content of Good B is calculated as follows:

$$\begin{aligned} RVC &= (NC - VNM / NC) \times 100 \\ &= (\$23.00 - \$5.50) / \$23.00 \times 100 \\ &= 76.1\% \end{aligned}$$

The regional value content of Good B is 76.1 per cent, and Good B, therefore, qualifies as an originating good.

Example 3: Originating Materials Acquired from a Producer Who Produced Them Using Intermediate Materials

Producer A, located in CCFTA country A, produces switches. In order for the switches to qualify as originating goods, Producer A designates subassemblies of the switches as intermediate materials. The subassemblies are subject to a regional value-content requirement. They satisfy that requirement, and qualify as originating materials. The switches are also subject to a regional value-content requirement, and, with the subassemblies designated as intermediate materials, are determined to satisfy their regional value content under the net cost method.

Producer A sells the switches to Producer B, located in CCFTA country B, who uses them to produce switch assemblies that are used in the production of Good B. The switch assemblies are subject to a regional value-content requirement. Producers A and B are not accumulating their production within the meaning of section 12. Producer B is therefore able, under subsection 7(4), to designate the switch assemblies as intermediate materials.

If Producers A and B were accumulating their production within the meaning of section 12, Producer B would be unable to designate the switch assemblies as intermediate materials, because the production of both producers would be considered to be the production of one producer.

Example 4: Single Producer and Successive Designations of Materials Subject to a Regional Value-Content Requirement as Intermediate Materials

Producer A, located in a CCFTA country, produces Material X and uses Material X in the production of Good B. Material X qualifies as an originating material because it satisfies the applicable regional value-content requirement. Producer A designates Material X as an intermediate material.

Producer A uses Material X in the production of Material Y, which is also used in the production of Good B. Material Y is also subject to a regional value-content requirement. Under the proviso set out in subsection 7(4), Producer A cannot designate Material Y as an intermediate material, even if Material Y satisfies the applicable regional value-content requirement, because Material X was already designated by Producer A as an intermediate material.

Example 5: Single Producer and Multiple Designations of Materials as Intermediate Materials

Producer X, who is located in CCFTA country X, uses non-originating materials in the production of self-produced materials A, B, and C. None of the self-produced materials are used in the production of any of the other self-produced materials.

Producer X uses the self-produced materials in the production of Good O, which is exported to CCFTA country Y. Materials A, B and C qualify as originating materials because they satisfy the applicable regional value-content requirements.

Because none of the self-produced materials are used in the production of any of the other self-produced materials, then even though each self-produced material is subject to a regional value-content requirement, Producer X may, under subsection 7(4), designate all of the self-produced materials as intermediate materials. The proviso set out in subsection 7(4) only applies where self-produced materials are used in the production of other self-produced materials and both are subject to a regional value-content requirement.

Example 6: Subsection 7(17)

The following are examples of accessories, spare parts or tools that are delivered with a good and form part of the good's standard accessories, spare parts or tools:

- (a) consumables that must be replaced at regular intervals, such as dust collectors for an air-conditioning system,*
- (b) a carrying case for equipment,*
- (c) a dust cover for a machine,*
- (d) an operational manual for a vehicle,*
- (e) brackets to attach equipment to a wall,*
- (f) a bicycle tool kit or a car jack,*
- (g) a set of wrenches to change the bit on a chuck,*
- (h) a brush or other tool to clean out a machine, and*
- (i) electrical cords and power bars for use with electronic goods.*

Example 7: Value of Indirect Materials That Are Assists

Producer A, located in a CCFTA country, produces Good A that is subject to a regional value-content requirement. The producer chooses that the regional value content of that good be calculated using the net cost method. Producer A buys Material X from Producer B, located in a CCFTA country, and uses it in the production of Good A. Producer A provides to Producer B, at no charge, tools to be used in the production of Material X. The tools have a value of \$100 which is expensed in the current year by Producer A.

Material X is subject to a regional value-content requirement which Producer B chooses to calculate using the net cost method. For purposes of determining the value of non-originating materials in order to calculate the regional value content of Material X, the tools are considered to be an originating material because they are an indirect material. However, pursuant to subsection 7(11) they have a value of nil because the cost of the tools with respect to Material X is not recorded on the books of Producer B.

It is determined that Material X is a non-originating material. The cost of the tools that is recorded on the books of Producer A is expensed in the current year. Pursuant to section 5 of Schedule VII, the value of the tools (see subparagraph 5(1)(b)(ii) of Schedule VII) must be included in the value of Material X by Producer A when calculating the regional value content of Good A. The cost of the tools, although recorded on the books of Producer A, cannot be included as a separate cost in the net cost of Good A because it is already included in the value of Material X. The entire cost of Material X, which includes the cost of the tools, is included in the value of non-originating materials for purposes of the regional value content of Good A.

PART V
AUTOMOTIVE GOODS

Definitions and Interpretation

8. For purposes of this Part,

“class of motor vehicles” means any one of the following categories of motor vehicles:

- (a) motor vehicles of any of subheading 8701.20, tariff item Nos. 8702.10.10 and 8702.90.10, subheadings 8704.10, 8704.22, 8704.23, 8704.32 and 8704.90 and heading 87.05,*
- (b) motor vehicles of any of subheadings 8701.10 and 8701.30 through 8701.90,*
- (c) motor vehicles of any of tariff item Nos. 8702.10.20 and 8702.90.20 and subheadings 8704.21 and 8704.31, and*
- (d) motor vehicles of any of subheadings 8703.21 through 8703.90; (catégorie de véhicules automobiles)*

“model line” means a group of motor vehicles having the same platform or model name; (modèle)

“model name” means the word, group of words, letter, number or similar designation assigned to a motor vehicle by a marketing division of a motor vehicle assembler

- (a) to differentiate the motor vehicle from other motor vehicles that use the same platform design,*

(b) to associate the motor vehicle with other motor vehicles that use different platform designs, or

(c) to denote a platform design; (nom de modèle)

“plant” means a building, or buildings in close proximity but not necessarily contiguous, machinery, apparatus and fixtures that are under the control of a producer and are used in the production of any of the following:

(a) motor vehicles, and

(b) goods of a tariff provision listed in Schedule IV; (usine)

“platform” means the primary load-bearing structural assembly of a motor vehicle that determines the basic size of the motor vehicle, and is the structural base that supports the driveline and links the suspension components of the motor vehicle for various types of frames, such as the body-on-frame or space-frame, and monocoques. (plate-forme)

Regional Value-Content Requirement for Automotive Goods

9. Notwithstanding the regional value-content requirement specified in an applicable rule in Schedule I for the tariff provision under which a good is classified, a good shall be an originating good where

(a) where the good is of a tariff provision listed in Schedule IV;

(b) the good is for use in a motor vehicle;

(c) each of the non-originating materials used in the production of the good undergoes the applicable change in tariff classification;

(d) the regional value content of that good is not less than 30 per cent under the net cost method; and

(e) the good satisfies all other applicable requirements of these Regulations.

Calculating the Regional Value Content of Motor Vehicles Over a Period of Time (Motor Vehicle Averaging)

10. (1) For purposes of calculating the regional value content of motor vehicles, the producer of those motor vehicles may elect that

(a) the sum of the net costs incurred and the sum of the values of non-originating materials used by the producer be calculated over the producer’s fiscal year with respect to the motor vehicles that are in any one of the categories set out in subsection (5) that is chosen by the producer; and

(b) the sums referred to in paragraph (a) be used in the calculation referred to in subsection 6(3) as the net cost and the value of non-originating materials, respectively.

(2) An election made under subsection (1) shall

(a) state the category chosen by the producer, and

(i) where the category referred to in paragraph (5)(a) is chosen, state the model line, model name, class of motor vehicle and tariff classification of the motor vehicles in that category, and the location of the plant at which the motor vehicles are produced,

(ii) where the category referred to in paragraph (5)(b) is chosen, state the model name, class of motor vehicle and tariff classification of the motor vehicles in that category, and the location of the plant at which the motor vehicles are produced, and

(iii) where the category referred to in paragraph (5)(c) is chosen, state the model line, model name, class of motor vehicle and tariff classification of the motor vehicles in that category, and the locations of the plants at which the motor vehicles are produced;

(b) state the basis of the calculation described in subsection (9);

(c) state the producer’s name and address;

(d) state the period with respect to which the election is made, including the starting and ending dates;

(e) state the estimated regional value content of motor vehicles in the category on the basis stated under paragraph (b);

(f) be dated and signed by an authorized officer of the producer; and

(g) except where the producer has elected under subsection (3), be filed with the customs administration of the CCFTA country to which vehicles in that category are to be exported during the period covered by the election,

(i) in the case of a producer that exports vehicles to the other CCFTA country for the first time after the entry into force of the Agreement and provides a Certificate of Origin with respect to those vehicles, at least 10 days before the first of those vehicles are exported to the other CCFTA country or such shorter period as that customs administration may accept, and

(ii) in any other case, at least 10 days before the first day of the producer's fiscal year or such shorter period as that customs administration may accept.

(3) Where the fiscal year of a producer begins after the date of the entry into force of the Agreement but before one year after that date, the producer may elect that the calculation of regional value content referred to in subsection (1) or (6) be made under that subsection over the period beginning on the date of the entry into force of the Agreement and ending at the end of that fiscal year.

(4) The election referred to in subsection (3) shall be filed with the customs administration of the CCFTA country to which vehicles are to be exported during the period covered by the election not later than 30 days after the entry into force of the Agreement or such longer period as that customs administration may accept.

(5) The categories referred to in subsection (1) are the following:

- (a) the same model line of motor vehicles in the same class of motor vehicles produced in the same plant in the territory of a CCFTA country;
- (b) the same class of motor vehicles produced in the same plant in the territory of a CCFTA country; and
- (c) the same model line of motor vehicles produced in the territory of a CCFTA country.

(6) Where applicable, a producer of a motor vehicle may elect that the calculation of the regional value content of that motor vehicle be made in accordance with Schedule V.

(7) Subject to subsection 4(4) of Schedule V, the election referred to in subsection (6) shall be filed with the customs administration of the CCFTA country to which vehicles referred to in that schedule are to be exported, at least 10 days before the first day of the producer's fiscal year with respect to which that election is to apply or such shorter period as that customs administration may accept.

(8) An election filed for the period referred to in subsection (1) or (3) may not be

- (a) rescinded; or
- (b) modified with respect to the category or basis of calculation.

(9) For purposes of this section, where a producer files an election under subsection (1) or (3), the net costs incurred and the values of non-originating materials used by the producer, with respect to

- (a) all motor vehicles that fall within the category chosen by the producer and that are produced during the fiscal year or, in the case of an election filed under

subsection (3), during the period with respect to which the election is made, or

(b) those motor vehicles to be exported to the territory of a CCFTA country that fall within the category chosen by the producer and that are produced during the fiscal year or, in the case of an election filed under subsection (3), during the period with respect to which the election is made shall be included in the calculation of the regional value content under any of the categories set out in subsection (5).

(10) The producer of a motor vehicle may calculate the regional value content of the motor vehicle over the producer's fiscal year on the basis of estimated costs, including standard costs, budgeted forecasts or other similar estimating procedures.

(11) Where the producer calculates the regional value content of a motor vehicle in accordance with subsection (10), the producer shall conduct an analysis at the end of the producer's fiscal year of the actual costs incurred over the period with respect to the production of the motor vehicle and, if the motor vehicle does not satisfy the regional value-content requirement on the basis of the actual costs during that period, immediately inform any person to whom the producer has provided a Certificate of Origin for the motor vehicle, or a written statement that the motor vehicle is an originating good, that the motor vehicle is a non-originating good.

(12) The following example is an "Example" as referred to in subsection 2(4).

A motor vehicle producer located in CCFTA country A produces vehicles that fall within a category set out in subsection 10(5) that is chosen by the producer. The motor vehicles are to be sold in CCFTA countries A and B, as well as in country C, which is not a CCFTA country. Under subsection 10(1), the motor vehicle producer may elect that the sum of the net costs incurred and the sum of the values of non-originating materials used by the producer be calculated over the producer's fiscal year. The producer may state in the election the basis of the calculation as described in paragraph in which case the calculation would be on the basis of all the motor vehicles produced regardless of where they are destined. Alternatively, the producer may state in the election the basis of the calculation as described in paragraph 10(9)(b). In this case, the producer would also need to state that the calculation is on the basis of the motor vehicles produced that are for export to only CCFTA country B.

The calculation would be on the basis as described in the election.

Automotive Parts Averaging

11. (1) The regional value content of any or all goods that are of the same tariff provision listed in Schedule IV,

produced in the same plant, may, where the producer of those goods elects to do so, be determined by

(a) calculating the sum of the net costs incurred and the sum of the values of non-originating materials used by the producer of the goods over the period set out in subsection (5) that is chosen by the producer with respect to any or all of those goods in any one of the categories set out in subsection (4) that is chosen by the producer; and

(b) using the sums referred to in paragraph (a) in the calculation referred to in subsection 6(3) as the net cost and the value of non-originating materials, respectively.

(2) The calculation of the regional value content made under subsection (1) shall apply with respect to each unit of the goods in the category set out in subsection (4) that is chosen by the producer and produced during the period chosen by the producer under subsection (5).

(3) The value of non-originating materials of each unit of the goods

(a) in the category set out in subsection (4) chosen by the producer, and

(b) produced during the period chosen by the producer under subsection (5),

shall be the sum of the values of non-originating materials referred to in paragraph (1)(a) divided by the number of units of the goods in that category and produced during that period.

(4) The categories referred to in paragraph (1)(a) are the following:

(a) original equipment for use in the production of motor vehicles;

(b) after-market parts;

(c) any combination of goods referred to in paragraph (a) or (b);

(d) goods that are in a category set out in any of paragraphs (a) through (c) and are sold to one or more motor vehicle producers; and

(e) goods that are in a category set out in any of paragraphs (a) through (d) and are exported to the territory of a CCFTA country.

(5) The period referred to in paragraph (1)(a) is

(a) a month;

(b) any one of the four quarters that fall within the fiscal year of the producer of the good;

(c) the fiscal year of the producer of the good; or

(d) the fiscal year of the motor vehicle producer to whom the goods are sold.

(6) An election made under subsection (1) may not be rescinded or modified with respect to the goods or the period with respect to which the election is made.

(7) Where a producer of goods chooses a month or a quarter under subsection (5), that producer shall be considered to have chosen under that subsection a period or periods of the same duration for

(a) the remainder of the fiscal year of the motor vehicle producer to whom those goods are sold, where the producer chooses under subsection (8) the fiscal year of that motor vehicle producer; and

(b) the remainder of the fiscal year of the producer of those goods, where the producer does not choose under subsection (8) the fiscal year of the motor vehicle producer to whom the goods are sold.

(8) Where a producer of goods chooses a month or a quarter under subsection (5) with respect to the goods, the producer may, at the end of the producer's fiscal year or the fiscal year of the motor vehicle producer to whom those goods are sold, as the case may be, choose the producer's fiscal year or the fiscal year of that motor vehicle producer.

(9) The producer of a good may calculate the regional value content of the good over the period chosen under subsection (1) on the basis of estimated costs, including standard costs, budgeted forecasts or other similar estimating procedures.

(10) Where the producer calculates the regional value content of a good in accordance with subsection (9), the producer shall conduct an analysis at the end of the producer's fiscal year of the actual costs incurred over the period with respect to the production of the good and, if the good does not satisfy the regional value-content requirement on the basis of the actual costs during that period, immediately inform any person to whom the producer has provided a Certificate of Origin for the good, or a written statement that the good is an originating good, that the good is a non-originating good.

PART VI OTHER PROVISIONS

Accumulation

12. (1) Subject to subsections (2) and (4), for purposes of determining whether a good is an originating good, an exporter or producer of a good may choose to accumulate the production, by one or more producers in the territory of one or both of the CCFTA countries, of materials that are incorporated into that good so that the production of the materials shall be considered to have been performed by that exporter or producer.

(2) Where a good is subject to a regional value-content requirement and an exporter or producer of the good has a statement signed by a producer of a material that is used in the production of the good that

(a) states the net cost incurred and the value of non-originating materials used by the producer of the material in the production of that material,

(i) the net cost incurred by the producer of the good with respect to the material shall be the net cost incurred by the producer of the material plus, where not included in the net cost incurred by the producer of the material, the costs referred to in paragraphs 7(2)(a) through (c), and

(ii) the value of non-originating materials used by the producer of the good with respect to the material shall be the value of non-originating materials used by the producer of the material; or

(b) states any amount that is part of the net cost incurred by the producer of the material in the production of that material, but that does not include any of the value of non-originating materials,

(i) the net cost incurred by the producer of the good with respect to the material shall be the value of the material, determined in accordance with subsections 7(1) and (2), and

(ii) the value of non-originating materials used by the producer of the good with respect to the material shall be the value of the material, determined in accordance with subsections 7(1) and (2), minus the amount stated in the statement.

(3) For purposes of the statement referred to in subsection (2), the net cost incurred and the value of non-originating materials used by the producer of the material in the production of that material may be calculated by the producer of the material by dividing

(a) the sum of the net costs incurred and the sum of the values of non-originating materials used by the producer of the material in the production of that material and identical materials or similar materials, or any combination thereof, produced in a single plant by the producer of the material over

(i) a month,

(ii) any one of the four quarters that fall within the fiscal year of the producer of the good,

(iii) either of the two periods of six consecutive months that fall within the fiscal year of the producer of the good, or

(iv) the fiscal year of the producer of the good, by

(b) the number of units of those materials produced in that plant over that period.

(4) For purposes of subsection 7(4), where a producer of the good chooses to accumulate the production of materials under subsection (1), that production shall be considered to be the production of the producer of the good.

(5) For purposes of this section,

(a) in order to accumulate the production of a material,

(i) where the good is subject to a regional value-content requirement, the producer of the good must have a statement described in subsection (2) that is signed by the producer of the material, and

(ii) where an applicable change in tariff classification is applied to determine whether the good is an originating good, the producer of the good must have a statement signed by the producer of the material that states the tariff classification of all non-originating materials used by that producer in the production of that material and that the production of the material took place entirely in the territory of one or both of the CCFTA countries;

(b) a producer of a good who chooses to accumulate is not required to accumulate the production of all materials that are incorporated into the good; and

(c) any information set out in a statement referred to in subsection (2) that concerns the value of materials or costs shall be in the same currency as the currency of the country in which the person who provided the statement is located.

(6) Each of the following examples is an "Example" as referred to in subsection 2(4).

Example 1: Subsection 12(1)

Producer A, located in CCFTA country A, imports unfinished bearing rings of subheading 8482.99 into CCFTA country A from outside the territories of the CCFTA countries. Producer A further processes the unfinished bearing rings into finished bearing rings of the same subheading. The finished bearing rings of Producer A do not satisfy an applicable change in tariff classification and therefore do not qualify as originating goods. The net cost of the finished bearing rings is \$1.40 per unit and the value of non-originating materials used in their production is \$0.75 per unit.

Producer A then sells the finished bearing rings to Producer B who is located in CCFTA country A for \$2.25 per unit.

Producer B further processes the finished bearing rings into bearings of subheading 8482.10, and intends to export the bearings to CCFTA country B. Although the bearings

satisfy the applicable change in tariff classification, the bearings are subject to a regional value-content requirement of 35 per cent under the transaction value method and 25 per cent under the net cost method.

Situation A — Without Accumulation:

Producer B does not choose to accumulate costs incurred by Producer A with respect to the finished bearing rings used in the production of the bearings and therefore receives no statement from Producer A.

Based on its production and the costs recorded on its books, Producer B determines that the net cost of the bearings is \$2.85 per unit and the value of non-originating materials is \$2.25 per unit (i.e. the transaction value of the finished bearing rings purchased from Producer A).

Under the net cost method, the regional value content of the bearings is

$$\begin{aligned} RVC &= (NC - VNM / NC) \times 100 \\ &= (\$2.85 - \$2.25) / \$2.85 \times 100 \\ &= 21.1\% \end{aligned}$$

Therefore, the bearings are non-originating goods.

Situation B — Accumulation with Statement Referred to in Paragraph 12(2)(a):

Producer B chooses to accumulate costs incurred by Producer A with respect to the finished bearing rings used in the production of the bearings. Producer A provides a statement described in paragraph 12(2)(a) to Producer B which states that the net cost of the finished bearing rings is \$1.40 per unit and the value of non-originating materials used in their production is \$0.75 per unit.

Producer B recalculates the regional value content of the bearings by adjusting the value of non-originating materials and the net cost based on the information provided in the statement from Producer A.

Because Producer B has been provided by Producer A with the statement referred to above, the value of non-originating materials is no longer the transaction value of the finished bearing rings acquired from Producer A (\$2.25), but rather is the value of non-originating materials set out in the statement provided by Producer A (\$0.75).

Similarly, in adjusting the net cost of the bearings, Producer B no longer uses the transaction value of the finished bearing rings as acquired from Producer A, but rather uses the net cost as set out in the statement provided by Producer A (\$1.40). Producer B adjusts the net cost of the bearings as follows:

Net cost of the bearings, per unit, (from Situation A - without accumulation) \$2.85

Less:

Transaction value, per unit, of finished bearing rings purchased from Producer A \$2.25

Add:

Net cost of finished bearing rings, per unit, as set out in the statement of Producer A \$1.40

Net cost of the bearings, per unit \$2.00

Under the net cost method, the regional value content of the bearings is

$$\begin{aligned} RVC &= (NC - VNM / NC) \times 100 \\ &= (\$2.00 - \$0.75) / \$2.00 \times 100 \\ &= 62.5\% \end{aligned}$$

Therefore, the bearings are originating goods.

Situation C — Accumulation with Statement Referred to in Paragraph 12(2)(b)

Producer B chooses to accumulate costs incurred by Producer A with respect to the finished bearing rings used in the production of the bearings. Because of commercial sensitivities associated with disclosing the net cost of the finished bearing rings, Producer A chooses to provide Producer B with a statement described in paragraph 12(2)(b) that specifies an amount of \$0.65 per unit. Producer A calculates this amount by subtracting from the net cost of the finished bearing rings the value of non-originating materials used to produce the finished bearing rings (\$1.40 - \$0.75 = \$0.65).

Producer B may consider the \$0.65 as originating costs and therefore recalculates the regional value content of the bearings by adjusting the value of non-originating materials accordingly. Because Producer B has been provided by Producer A with the statement referred to above, the value of non-originating materials is no longer the transaction value of the finished bearing rings acquired from Producer A (\$2.25), but rather is reduced by the amount set out in the statement (\$2.25 - \$0.65 = \$1.60).

Because Producer A does not specify the net cost of the finished bearing rings in the statement, the cost of the finished bearing rings supplied to Producer B continues to be their transaction value (\$2.25). As a result, the net cost of the bearings remains unchanged at \$2.85 as calculated without accumulation.

Under the net cost method, the regional value content of the bearings is

$$\begin{aligned} RVC &= (NC - VNM / NC) \times 100 \\ &= (\$2.85 - \$1.60) / \$2.85 \times 100 \\ &= 43.9\% \end{aligned}$$

Therefore, the bearings are originating goods.

Situation D — Accumulation with Statement Referred to in Paragraph 12(2)(b)

In reviewing the regional value content of the bearings as calculated without accumulation, Producer B realizes that an additional \$0.1125 per unit of originating costs is needed to satisfy the 25 per cent regional value-content requirement under the net cost method. Producer B requests from Producer A a statement described in paragraph 12(2)(b) with respect to the finished bearing rings used in the production of the bearings that states an amount of at least \$0.1125 per unit. In response to Producer B's request, Producer A reviews the costs of producing the finished bearing rings and decides that it is possible to provide Producer B with a statement that specifies an amount of \$0.1125 per unit, which represents a portion of Producer A's originating costs. Producer A provides that statement to Producer B.

Producer B may consider the \$0.1125 as an originating cost and therefore recalculates the regional value content of the bearings by adjusting the value of non-originating materials accordingly. Because Producer B has been provided by Producer A with the statement referred to above, the value of non-originating materials is no longer the transaction value of the finished bearing rings acquired from Producer A (\$2.25), but rather is reduced by the amount set out in the statement (\$2.25 - \$0.1125 = \$2.1375).

Because Producer A does not specify the net cost of the finished bearing rings in the statement, the cost of the finished bearing rings supplied to Producer B continues to be their transaction value as acquired from Producer A (\$2.25). As a result, the net cost of the bearings remains unchanged at \$2.85 as calculated without accumulation.

Under the net cost method, the regional value content of the bearings is

$$\begin{aligned} RVC &= (NC - VNM / NC) \times 100 \\ &= (\$2.85 - \$2.1375) / \$2.85 \times 100 \\ &= 25\% \end{aligned}$$

Therefore, the bearings are originating goods.

Example 2: Subsection 12(1)

Producer A, located in CCFTA country A, imports non-originating cotton, carded or combed, of heading 52.03 for use in the production of cotton yarn of heading 52.05. Because the change from cotton, carded or combed, to cotton yarn is a change within the same chapter, the cotton does not satisfy the applicable change in tariff classification for heading 52.05, which is a change from any other chapter, with certain exceptions. Therefore, the cotton yarn that Producer A produces from non-originating cotton is a non-originating good.

Producer A then sells the non-originating cotton yarn to Producer B, also located in CCFTA country A, who uses the

cotton yarn in the production of woven fabric of cotton of heading 52.08. The change from non-originating cotton yarn to woven fabric of cotton is insufficient to satisfy the applicable change in tariff classification for heading 52.08, which is a change from any heading outside headings 52.08 through 52.12, except from certain headings, under which various yarns, including cotton yarn of heading 52.05, are classified. Therefore, the woven fabric of cotton that Producer B produces from non-originating cotton yarn produced by Producer A is a non-originating good.

However, under subsection 12(1), if Producer B chooses to accumulate the production of Producer A, the production of Producer A would be considered to have been performed by Producer B. The rule for heading 52.08, under which the cotton fabric is classified, does not exclude a change from heading 52.03, under which carded or combed cotton is classified. Therefore, under subsection 12(1), the change from carded or combed cotton of heading 52.03 to the woven fabric of cotton of heading 52.08 would satisfy the applicable change of tariff classification for heading 52.08. The woven fabric of cotton would be considered as an originating good.

Producer B, in order to choose to accumulate Producer A's production, must have a statement described in subparagraph 12(5)(a)(ii).

Inability to Provide Sufficient Information

13. (1) Where, during a verification of origin of a good, the person from whom a producer of the good acquired a material used in the production of that good is unable to provide the customs administration that is conducting the verification with sufficient information to substantiate that the material is an originating material or that the value of the material declared for purpose of calculating the regional value content of the good is accurate, and the inability of that person to provide the information is due to reasons beyond the control of that person, the customs administration shall, before making a determination as to the origin or value of the material, consider, where relevant, the following:

(a) whether the customs administration of the CCFTA country into the territory of which the good was imported issued an advance ruling under section 43.1 of the *Customs Act*, with respect to that material that concluded that the material is an originating material or that the value of the material declared for purposes of calculating the regional value content of the good is accurate;

(b) whether an independent auditor has confirmed the accuracy of

(i) any signed statement referred to in these Regulations with respect to the material,

(ii) the information that was used by the person from whom the producer acquired the material to substantiate whether the material is an originating material, or

(iii) the information submitted by the producer of the material with an application for an advance ruling where, on the basis of that information, the customs administration concluded that the material is an originating material or that the value declared for the purpose of calculating the regional value content of the good is accurate;

(c) whether the customs administration has, before the start of the origin verification of the good, conducted a verification of origin of identical materials or similar materials produced by the producer of the material and determined that

(i) the identical materials or similar materials are originating materials, or

(ii) any signed statement referred to in these Regulations with respect to those identical materials or similar materials is accurate;

(d) whether the producer of the good has exercised due diligence to ensure that any signed statement that is referred to in these Regulations with respect to the material and that was provided by the person from whom the producer acquired the material is accurate;

(e) where the customs administration has access only to partial records of the person from whom the producer acquired the material, whether the records provide sufficient evidence to substantiate that the material is an originating material or that the value of the material declared for purposes of calculating the regional value content of the good is accurate;

(f) whether the customs administration can obtain, subject to sections 107 and 108 of the *Customs Act*, by means other than those referred to in paragraphs (a) through (e), relevant information regarding the determination of the origin or value of the material from the customs administration of the CCFTA country in the territory of which the person from whom the producer acquired the material was located; and

(g) whether the producer of the good, the person from whom the producer acquired the material or a representative of that person or producer agrees to bear the expenses incurred in providing the customs administration with the assistance that it may require for determining the origin or value of the material.

(2) For purposes of subsection (1), “reasons beyond the control” of the person from whom the producer of the good acquired the material includes

(a) the bankruptcy of the person from whom the producer acquired the material or any other financial distress situation or business reorganization that resulted in that person or a related person having lost control of the records containing the information that substantiate that the material is an originating material or the value of the material declared for the purpose of calculating the regional value content of the good; and

(b) any other reason that results in partial or complete loss of records of that producer that the producer could not reasonably have been expected to foresee, including, for example, loss of records due to fire, flooding or other natural cause.

(3) Where, during a verification of origin of a good, the exporter or producer of the good is unable to provide the customs administration conducting the verification with sufficient information to substantiate that the good is an originating good, and the inability of that person to provide the information is due to reasons beyond the control of that person, the customs administration shall, before making a determination as to the origin of the good, consider, where relevant, the following:

(a) whether the customs administration of the CCFTA country into the territory of which the good was imported issued an advance ruling under section 43.1 of the *Customs Act*, with respect to that good that concluded that the good is an originating good;

(b) whether an independent auditor has confirmed the accuracy of an origin statement with respect to the good;

(c) whether the customs administration has, before the start of the origin verification of the good, conducted a verification of origin of identical goods or similar goods produced by the producer of the good and determined that the identical goods or similar goods are originating goods;

(d) whether the exporter or producer of the good has exercised due diligence to ensure that the information provided to substantiate that the good is an originating good is sufficient;

(e) where the customs administration has access only to partial records of the exporter or producer of the good, whether the records provide sufficient evidence to substantiate that the good is an originating good;

(f) whether the customs administration can obtain, subject to sections 107 and 108 of the *Customs Act*, by means other than those referred to in paragraphs (a) through (e), relevant information regarding the determination of the origin of the good from the customs administration of the CCFTA country in the territory of which the exporter or producer of the good was located; and

(g) whether the exporter or producer of the good or an authorized representative of that person agrees to bear the expenses incurred in providing the customs administration with the assistance that it may require for determining the origin or value of the good.

(4) For purposes of subsection (3), “reasons beyond the control” of the exporter or producer of the good includes

(a) the bankruptcy of the exporter or producer or any other financial distress situation or business reorganization that resulted in that person or a related person having lost control of the records containing the information that substantiate that the good is an originating good; and

(b) any other reason that results in partial or complete loss of records of that exporter or producer that that person could not reasonably have been expected to foresee, including, for example, loss of records due to fire, flooding or other natural cause.

Transshipment

14. (1) A good is not an originating good by reason of having undergone production that occurs entirely in the territory of one or both of the CCFTA countries that would enable the good to qualify as an originating good if subsequent to that production

(a) the good is withdrawn from customs control outside the territories of the CCFTA countries; or

(b) the good undergoes further production or any other operation outside the territories of the CCFTA countries, other than unloading, reloading or any other operation necessary to preserve the good in good condition, such as inspection, removal of dust that accumulates during shipment, ventilation, spreading out or drying, chilling, replacing salt, sulphur dioxide or other aqueous solutions, replacing damaged packing materials and containers and removal of units of the good that are spoiled or damaged and present a danger to the remaining units of the good, or to transport the good to the territory of a CCFTA country.

(2) A good that is a non-originating good by application of subsection (1) is considered to be entirely non-originating for purposes of these Regulations.

(3) Subsection (1) does not apply with respect to a good of any of subheadings 8541.10 through 8541.60 and 8542.10 through 8542.70 where any further production of other operation that that good undergoes outside the territories of the CCFTA countries does not result in a change in the tariff classification of the good to a subheading outside subheadings 8541.10 through 8542.90.

Non-qualifying Operations

15. A good is not an originating good merely by reason of

(a) mere dilution with water or another substance that does not materially alter the characteristics of the good; or

(b) any production or pricing practice with respect to which it may be demonstrated, on the basis of a preponderance of evidence, that the object was to circumvent these Regulations.

Coming Into Force

16. These Regulations come into force on the day on which subsection 66(2) of the Canada-Chile Free Trade Agreement Implementation Act, chapter 14 of the Statutes of Canada, 1997, comes into force.

SCHEDULE I SPECIFIC RULES OF ORIGIN

[Schedule I, *Specific Rules of Origin*, may be found in D11-5-5 *CCFTA Rules of Origin Regulations – Schedule I Specific Rules of Origin*]

SCHEDULE II VALUE OF GOODS

1. For purposes of this Schedule, unless otherwise stated, “buyer” refers to a person who purchases a good from the producer; (acheteur)

“buying commissions” means fees paid by a buyer to that buyer’s agent for the agent’s services in representing the buyer in the purchase of a good; (commission d’achat)

“producer” refers to the producer of the good being valued. (producteur)

2. For purposes of subsection 6(2) of these Regulations, the transaction value of a good shall be the price actually paid or payable for the good, determined in accordance with section 3 and adjusted in accordance with section 4.

3. (1) The price actually paid or payable is the total payment made or to be made by the buyer to or for the benefit of the producer. The payment need not necessarily take the form of a transfer of money; it may be made by letters of credit or negotiable instruments. The payment may be made directly or indirectly to the producer. For an illustration of this, the settlement by the buyer, whether in whole or in part, of a debt owed by the producer is an indirect payment.

(2) Activities undertaken by the buyer on the buyer’s own account, other than those for which an adjustment is provided in section 4, shall not be considered to be an indirect payment, even though the activities might be regarded as being for the benefit of the producer. For an

illustration of this, the buyer, by agreement with the producer, undertakes activities relating to the marketing of the good. The costs of such activities shall not be added to the price actually paid or payable.

(3) The transaction value shall not include the following charges or costs, provided that they are distinguished from the price actually paid or payable:

- (a) charges for construction, erection, assembly, maintenance or technical assistance related to the good undertaken after the good has been sold to the buyer; or
- (b) duties and taxes paid in the country in which the buyer is located with respect to the good.

(4) The flow of dividends or other payments from the buyer to the producer that do not relate to the purchase of the good are not part of the transaction value.

4. (1) In determining the transaction value of a good, the following shall be added to the price actually paid or payable:

(a) to the extent that they are incurred by the buyer, or by a related person on behalf of the buyer, with respect to the good being valued and are not included in the price actually paid or payable,

(i) commissions and brokerage fees, except buying commissions,

(ii) the costs of transporting the good to the producer's point of direct shipment, the costs of loading, unloading, handling and insurance that are associated with that transportation and the costs of loading the good for shipment at that point, and

(iii) where the packaging materials and containers in which the good is packaged for retail sale are classified with the good under the Harmonized System, the value of the packaging materials and containers;

(b) the value, reasonably allocated in accordance with subsection (12), of the following elements where they are supplied directly or indirectly to the producer by the buyer, free of charge or at reduced cost for use in connection with the production and sale of the good, to the extent that the value is not included in the price actually paid or payable:

(i) a material, other than an indirect material, used in the production of the good,

(ii) tools, dies, moulds and similar indirect materials used in the production of the good,

(iii) an indirect material, other than those referred to in subparagraph (ii) or in paragraphs (c), (e) or (f) of the definition "indirect material" set out in

subsection 2(1) of these Regulations, used in the production of the good, and

(iv) engineering, development, artwork, design work, and plans and sketches necessary for the production of the good, regardless of where performed;

(c) the royalties related to the good, other than charges with respect to the right to reproduce the good in the territory of one or both of the CCFTA countries, that the buyer must pay directly or indirectly as a condition of sale of the good, to the extent that such royalties are not included in the price actually paid or payable; and

(d) the value of any part of the proceeds of any subsequent resale, disposal or use of the good that accrues directly or indirectly to the producer.

(2) The additions referred to in subsection (1) shall be made to the price actually paid or payable under this section only on the basis of objective and quantifiable data.

(3) Where objective and quantifiable data do not exist with regard to the additions required to be made to the price actually paid or payable under subsection (1), the transaction value cannot be determined under section 2.

(4) No additions shall be made to the price actually paid or payable for the purpose of determining the transaction value except as provided in this section.

(5) The amounts to be added under subparagraphs (1)(a)(i) and (ii) shall be

(a) those amounts that are recorded on the books of the buyer; or

(b) where those amounts are costs incurred by a related person on behalf of the buyer and are not recorded on the books of the buyer, those amounts that are recorded on the books of that related person.

(6) The value of the packaging materials and containers referred to in subparagraph (1)(a)(iii) and the value of the elements referred to in subparagraph (1)(b)(i) shall be

(a) where the buyer, or a related person on behalf of the buyer, purchases the packaging materials and containers or the elements from an unrelated person, the price actually paid or payable for the packaging materials and containers or the elements,

(b) where the buyer, or a related person on behalf of the buyer, acquires the packaging materials and containers or the elements from an unrelated person other than through a purchase, the value of the consideration related to the acquisition of the packaging materials and containers or the elements, based on the cost of the consideration that is recorded on the books of the buyer or the related person, or

(c) where the packaging materials and containers or the elements are produced by the buyer, or by a related person, the total cost of the packaging materials and containers or the elements, determined in accordance with subsection (7), and shall include the following costs that are recorded on the books of the buyer or the related person supplying the packaging materials and containers or the elements on behalf of the buyer, to the extent that such costs are not included under paragraphs (a) through (c):

(d) the costs of freight, insurance, packing, and all other costs incurred in transporting the packaging materials and containers or the elements to the location of the producer,

(e) duties and taxes paid or payable with respect to the packaging materials and containers or the elements, other than duties and taxes that are waived, refunded, refundable or otherwise recoverable, including credit against duty or tax paid or payable,

(f) customs brokerage fees, including the cost of in-house customs brokerage services, incurred with respect to the packaging materials and containers or the elements, and

(g) the cost of waste and spoilage resulting from the use of the packaging materials and containers or the elements in the production of the good, less the value of reusable scrap or by-product.

(7) For purposes of paragraph (6)(c), the total cost of the packaging materials and containers referred to in subparagraph (1)(a)(iii) or the elements referred to in subparagraph (1)(b)(i) shall be

(a) where the packaging materials and containers or the elements are produced by the buyer, at the choice of the buyer,

(i) the total cost incurred with respect to all goods produced by the buyer, calculated on the basis of the costs that are recorded on the books of the buyer, that can be reasonably allocated to the packaging materials and containers or the elements in accordance with Schedule VI, or

(ii) the aggregate of each cost incurred by the buyer that forms part of the total cost incurred with respect to the packaging materials and containers or the elements, calculated on the basis of the costs that are recorded on the books of the buyer, that can be reasonably allocated to the packaging materials and containers or the elements in accordance with Schedule VI; and

(b) where the packaging materials and containers or the elements are produced by a person who is related to the buyer, at the choice of the buyer,

(i) the total cost incurred with respect to all goods produced by that related person, calculated on the basis of the costs that are recorded on the books of that person, that can be reasonably allocated to the packaging materials and containers or the elements in accordance with Schedule VI, or

(ii) the aggregate of each cost incurred by that related person that forms part of the total cost incurred with respect to the packaging materials and containers or the elements, calculated on the basis of the costs that are recorded on the books of that person, that can be reasonably allocated to the packaging materials and containers or the elements in accordance with Schedule VI.

(8) Except as provided in subsections (10) and (11), the value of the elements referred to in subparagraphs (1)(b)(ii) through (iv) shall be

(a) the cost of those elements that is recorded on the books of the buyer; or

(b) where such elements are provided by another person on behalf of the buyer and the cost is not recorded on the books of the buyer, the cost of those elements that is recorded on the books of that other person.

(9) Where the elements referred to in subparagraphs (1)(b)(ii) through (iv) were previously used by or on behalf of the buyer, the value of the elements shall be adjusted downward to reflect that use.

(10) Where the elements referred to in subparagraphs (1)(b)(ii) and (iii) were leased by the buyer or a person related to the buyer, the value of the elements shall be the cost of the lease as recorded on the books of the buyer or that related person.

(11) No addition shall be made to the price actually paid or payable for the elements referred to in subparagraph (1)(b)(iv) that are available in the public domain, other than the cost of obtaining copies of them.

(12) The producer shall choose the method of allocating to the good the value of the elements referred to in subparagraphs (1)(b)(ii) through (iv), provided that the value is reasonably allocated to the good in a manner appropriate to the circumstances. The methods the producer may choose to allocate the value include allocating the value over the number of units produced up to the time of the first shipment or allocating the value over the entire anticipated production where contracts or firm commitments exist for that production. For an illustration of this, a buyer provides the producer with a mould to be used in the production of the good and contracts with the producer to buy 10,000 units of that good. By the time the first shipment of 1,000 units arrives, the producer has already produced 4,000 units. In these circumstances, the

producer may choose to allocate the value of the mould over 4,000 units or 10,000 units but shall not choose to allocate the value of the elements to the first shipment of 1,000 units. The producer may choose to allocate the entire value of the elements to a single shipment of a good only where that single shipment comprises all of the units of the good acquired by the buyer under the contract or commitment for that number of units of the good between the producer and the buyer.

(13) The addition for the royalties referred to in paragraph (1)(c) shall be the payment for the royalties that is recorded on the books of the buyer, or where the payment for the royalties is recorded on the books of another person, the payment for the royalties that is recorded on the books of that other person.

(14) The value of the proceeds referred to in paragraph (1)(d) shall be the amount that is recorded for such proceeds on the books of the buyer or the producer.

SCHEDULE III UNACCEPTABLE TRANSACTION VALUE

1. For purposes of this Schedule, unless otherwise stated,

“buyer” refers to a person who purchases a good from the producer; (acheteur)

“customs administration” refers to the customs administration of the CCFTA country into whose territory the good being valued is imported; (administration douanière)

“producer” refers to the producer of the good being valued. (producteur)

2. (1) There is no transaction value for a good where the good is not the subject of a sale.

(2) The transaction value of a good is unacceptable where

- (a) there are restrictions on the disposition or use of the good by the buyer, other than restrictions that
 - (i) are imposed or required by law or by the public authorities in the territory of the CCFTA country in which the buyer is located,
 - (ii) limit the geographical area in which the good may be resold, or
 - (iii) do not substantially affect the value of the good;
- (b) the sale or price actually paid or payable is subject to a condition or consideration for which a value cannot be determined with respect to the good;
- (c) part of the proceeds of any subsequent resale, disposal or use of the good by the buyer will accrue

directly or indirectly to the producer, and an appropriate addition to the price actually paid or payable cannot be made in accordance with paragraph 4(1)(d) of Schedule II; or

(d) except as provided in section 3, the producer and the buyer are related persons and the relationship between them influenced the price actually paid or payable for the good.

(3) The conditions or considerations referred to in paragraph (2)(b) include the following circumstances:

(a) the producer establishes the price actually paid or payable for the good on condition that the buyer will also buy other goods in specified quantities;

(b) the price actually paid or payable for the good is dependent on the price or prices at which the buyer sells other goods to the producer of the good; and

(c) the price actually paid or payable is established on the basis of a form of payment extraneous to the good, such as where the good is a semi-finished good that has been provided by the producer to the buyer on condition that the producer will receive a specified quantity of the finished good from the buyer.

(4) For purposes of paragraph (2)(b), conditions or considerations relating to the production or marketing of the good shall not render the transaction value unacceptable, such as where the buyer undertakes on the buyer’s own account, even though by agreement with the producer, activities relating to the marketing of the good.

(5) Where objective and quantifiable data do not exist with regard to the additions required to be made to the price actually paid or payable under subsection 4(1) of Schedule II, the transaction value cannot be determined under section 2 of that Schedule. For an illustration of this, a royalty is paid on the basis of the price actually paid or payable in a sale of a litre of a particular good that was purchased by the kilogram and made up into a solution. If the royalty is based partially on the purchased good and partially on other factors that have nothing to do with that good, such as when the purchased good is mixed with other ingredients and is no longer separately identifiable, or when the royalty cannot be distinguished from special financial arrangements between the producer and the buyer, it would be inappropriate to add the royalty and the transaction value of the good could not be determined. However, if the amount of the royalty is based only on the purchased good and can be readily quantified, an addition to the price actually paid or payable can be made and the transaction value can be determined.

3. (1) In determining whether the transaction value is unacceptable under paragraph 2(2)(d), the fact that the producer and the buyer are related persons shall not in itself be grounds for the customs administration to render the

transaction value unacceptable. In such cases, the circumstances surrounding the sale shall be examined and the transaction value shall be accepted provided that the relationship between the producer and the buyer did not influence the price actually paid or payable. Where the customs administration has reasonable grounds for considering that the relationship between the producer and the buyer influenced the price, the customs administration shall communicate the grounds to the producer, and that producer shall be given a reasonable opportunity to respond to the grounds communicated by the customs administration. If that producer so requests, the customs administration shall communicate in writing the grounds on which it considers that the relationship between the producer and the buyer influenced the price actually paid or payable.

(2) Subsection (1) provides that, where the producer and the buyer are related persons, the circumstances surrounding the sale shall be examined and the transaction value shall be accepted as the value provided that the relationship between the producer and the buyer did not influence the price actually paid or payable. It is not intended under subsection (1) that there should be an examination of the circumstances in all cases where the producer and the buyer are related persons. Such an examination will only be required where the customs administration has doubts that the price actually paid or payable is acceptable because of the relationship between the producer and the buyer. Where the customs administration does not have doubts that the price actually paid or payable is acceptable, it shall accept that price without requesting further information. For an illustration of this, the customs administration may have previously examined the relationship between the producer and the buyer, or it may already have detailed information concerning the relationship between the producer and the buyer, and may already be satisfied from that examination or information that the relationship between them did not influence the price actually paid or payable.

(3) In applying subsection (1), where the producer and the buyer are related persons and the customs administration has doubts that the transaction value is acceptable without further inquiry, the customs administration shall give the producer an opportunity to supply such further information as may be necessary to enable it to examine the circumstances surrounding the sale. In such a case, the customs administration shall examine the relevant aspects of the sale, including the way in which the producer and the buyer organize their commercial relations and the way in which the price actually paid or payable for the good being valued was arrived at, in order to determine whether the relationship between the producer and the buyer influenced that price actually paid or payable. Where it can be shown that the producer and the buyer buy from and sell to each other as if they were not related persons, the price actually

paid or payable shall be considered as not having been influenced by the relationship between them. For an illustration of this, if the price actually paid or payable for the good had been settled in a manner consistent with the normal pricing practices of the industry in question or with the way in which the producer settles prices for sales to unrelated buyers, the price actually paid or payable shall be considered as not having been influenced by the relationship between the buyer and the producer. As another illustration, where it is shown that the price actually paid or payable for the good is adequate to ensure recovery of the total cost of producing the good plus a profit that is representative of the producer's overall profit realized over a representative period of time, such as on an annual basis, in sales of goods of the same class or kind, the price actually paid or payable shall be considered as not having been influenced by the relationship between the producer and the buyer.

(4) In a sale between a producer and a buyer who are related persons, the transaction value shall be accepted and determined in accordance with section 2 of Schedule II wherever the producer demonstrates that the transaction value of the good in that sale closely approximates a test value referred to in subsection (5).

(5) The value to be used as a test value shall be the transaction value of identical goods or similar goods sold at or about the same time as the good being valued is sold to an unrelated buyer who is located in the territory of the CCFTA country in which the buyer is located.

(6) In applying a test value referred to in subsection (4), due account shall be taken of demonstrated differences in commercial levels, quantity levels, the value of the elements specified in paragraph 4(1)(b) of Schedule II and the costs incurred by the producer in sales to unrelated buyers that are not incurred by the producer in sales to a related person.

(7) The application of the test value referred to in subsection (4) shall be used at the initiative of the producer and shall be used only for comparison purposes to determine whether the transaction value of the good is acceptable. The test value shall not be used as the transaction value of that good.

(8) Subsection (4) provides an opportunity for the producer to demonstrate that the transaction value closely approximates a test value previously accepted by the customs administration, and is therefore acceptable under subsections (1) and (4). Where the application of a test value under subsection (4) demonstrates that the transaction value of the good being valued is acceptable, the customs administration shall not examine the question of influence in regard to the relationship between the producer and the buyer under subsection (1). Where the customs administration already has sufficient information available, without further inquiries, that the transaction value closely approximates a test value referred to in subsection (4), the

producer is not required to apply a test value to demonstrate that the transaction value is acceptable under that subsection.

(9) A number of factors must be taken into consideration for the purpose of determining whether the transaction value of the identical goods or similar goods closely approximates the transaction value of the good being valued. These factors include the nature of the good, the nature of the industry itself, the season in which the good is sold, and whether the difference in values is commercially significant. Since these factors may vary from case to case, it would be impossible to apply an acceptable standardized difference such as a fixed amount or fixed percentage difference in each case. For an illustration of this, a small difference in value in a case involving one type of good could be unacceptable, while a large difference in a case involving another type of good might be acceptable for the purposes of determining whether the transaction value closely approximates a test value set out in subsection (4).

SCHEDULE IV
LIST OF TARIFF PROVISIONS FOR PURPOSES
OF SECTION 9

4009.12, 4009.22, 4009.32 and 4009.42	8483.30.00
4016.99.30	8483.40
8301.20.10 and 8301.20.90	8483.50.20
8407.33.10 and 8407.33.90	8483.60.90
8407.34	8501.10
8408.20	8501.20
8409.91	8501.31
8409.99	8501.32
8413.30.00	8507.10.00
8413.60.10 and 8413.60.90	8507.20
8414.59.00	8507.30
8414.80.10	8507.40
8415.20	8507.80
8421.23.10, 8421.23.20 and 8421.23.90	8511.10.00
8421.31.90	8511.20.00
8421.39.20	8511.30.00
8425.39.00	8511.40.90
8425.42.00	8511.50.00
8425.49.00	8511.80.90
8431.10.00	8512.20.10 and 8512.20.90
8481.20.00	8512.30.10 and 8512.30.90
8481.30.00	8512.40.00
8481.80.00	8516.10.20
8482.10	8536.41.20
8482.20	8536.50.12
8482.30.00	8536.50.92
8482.40.00	8536.90.92
8482.50.00	8537.10.21
8482.80.10	8539.10.10
8483.10.00	8539.21.00
8483.20.00	8539.29.99
	8544.30
	8544.41.90
	87.06
	87.07
	8708.10.10
	8708.29.11 and 8708.29.19
	8708.29.20
	8708.29.30
	8708.29.40
	8708.29.60, 8708.29.91 and 8708.29.99
	8708.50.20
	8708.60.20
	8708.70.11 and 8708.70.19
	8708.80.11 and 8708.80.19
	8708.93.11 and 8708.93.19
	8708.99.11, 8708.99.12 and 8708.99.13
	8708.99.17, 8708.99.18 and 8708.99.19
	8708.99.21, 8708.99.22 and 8708.99.29
	8708.99.31, 8708.99.32, 8708.99.33 and 8708.99.39
	8708.99.41, 8708.99.42 and 8708.99.49
	8708.99.51, 8708.99.52 and 8708.99.59
	8708.99.92, 8708.99.93 and 8708.99.99
	9017.80
	9026.10
	9031.80

9032.10
 9032.20.00
 9032.89
 9104.00.00
 9401.20.00

SCHEDULE V
 REGIONAL VALUE-CONTENT CALCULATION FOR
 RELATED MOTOR VEHICLE PRODUCERS

1. For purposes of this Schedule,

“closed” means, with respect to a plant, a closure

- (a) for purposes of re-tooling for a change in model line, or
- (b) as a result of any event or circumstance (other than the imposition of antidumping duties or countervailing duties, or an interruption of operations resulting from a labour strike, lock-out, labour dispute, picketing or boycott of or by employees of the producer or the related producer) that the producer or the related producer could not reasonably have been expected to avert by corrective action or by exercise of due care and diligence, including a shortage of materials, failure of utilities, or inability to obtain or a delay in obtaining raw materials, parts, fuel or utilities; (fermée)

“marque” means a trade name used by a marketing division of a motor vehicle assembler that is separate from any other marketing division of that motor vehicle assembler; (marque)

“producer” means a motor vehicle producer; (producteur)

“related group” means a related producer and any subsidiary directly or indirectly owned by it or by any combination thereof; (groupe lié)

“related producer” means, with respect to a producer, a producer that owns 50 per cent or more of the common voting stock of that producer at the beginning of that producer’s fiscal year. (producteur lié)

2. For purposes of an election under subsection 10(6) of these Regulations, the regional value content, in a fiscal year, of a motor vehicle of a class of motor vehicles or a model line produced by a producer in the territory of a CCFTA country and imported into the territory of the other CCFTA country is determined by

- (a) calculating the sum of
 - (i) the net cost incurred by the producer, during that fiscal year, in the production of motor vehicles of that class of motor vehicles or model line for sale in the territory of the other CCFTA country, and

- (ii) the net cost incurred by a related producer, during the fiscal year that corresponds most closely to the producer’s fiscal year, in the production in the territory of the CCFTA country in which the motor vehicles were produced of a corresponding class of motor vehicles or model line,

(b) calculating the sum of

- (i) the value of the non-originating materials that are used by the producer, during that fiscal year, in the production of motor vehicles of that class of motor vehicles or model line for sale in the territory of the other CCFTA country, and

- (ii) the value of the non-originating materials that are used by a related producer, during the fiscal year that corresponds most closely to the producer’s fiscal year, in the production in the territory of the CCFTA country in which the motor vehicles were produced of a corresponding class of motor vehicles or model line, and

(c) using the sums referred to in paragraphs (a) and (b) as the net cost and the value of non-originating materials, respectively, in the calculation referred to in subsection 6(3) of these Regulations,

provided that

(d) the producer and the related producer both produced motor vehicles in the territory of the same CCFTA country at any time up to two years after the date of the entry into force of the Agreement and notice of such qualification has been provided by that CCFTA country to the other CCFTA country no later than two years after the date of the entry into force of the Agreement, and

(e) a related group acquires 75 per cent or more by unit of quantity of the class of motor vehicles or model line, as the case may be, that the producer produced in the territory of a CCFTA country in the producer’s fiscal year for sale in the territory of the other CCFTA country.

3. Where the related group does not satisfy the requirement set out in paragraph 2(e), the producer may choose that the regional value content be calculated in accordance with section 2 only for those motor vehicles that are acquired by the related group for distribution under the producer’s marque or a marque of the related group.

4. (1) The producer may choose that the calculation referred to in section 2 be made over a period of two fiscal years where

- (a) any plant operated by the producer or by the related producer is closed for more than two consecutive months; and

(b) the motor vehicles with respect to which the producer elects that the regional value content be calculated in accordance with section 2 are produced in that plant.

(2) Subject to subsection (3), the period of two fiscal years referred to in subsection (1) corresponds to the fiscal year in which the plant is closed and, at the choice of the producer, the preceding or the subsequent fiscal year.

(3) Where the plant is closed for a period that spans two fiscal years, the calculation referred to in section 2 may be made only over those two fiscal years.

(4) Where the producer has elected that the regional value content be calculated over two fiscal years under this section, the election referred to in subsection 10(6) of these Regulations shall be filed not later than 10 days after the end of the period during which the plant is closed, or such longer period as the customs administration may accept.

5. For purposes of this Schedule, a producer shall be deemed to be the related group where, as a result of an amalgamation, reorganization, division or similar transaction, that producer

(a) acquires all or substantially all of the assets used by the related group; and

(b) directly or indirectly controls, or is controlled by, the related group, or both that producer and the related group are controlled by the same person.

SCHEDULE VI

REASONABLE ALLOCATION OF COSTS

Definitions and Interpretation

1. For purposes of this Schedule,

“business segment” means a distinguishable component of an enterprise the activities of which represent a line of business significant to the enterprise as a whole or are directed to a particular class of customer significant to the enterprise as a whole, where the activities, assets and results of operations of that component are distinguishable from other activities, assets and results of operation of the enterprise; (unité d’exploitation)

“costs” means any costs that are included in total cost and that need to be allocated pursuant to subsections 5(8), 6(11) and 7(6) of these Regulations, subsection 4(7) of Schedule II and subsections 5(7) and 10(2) of Schedule VII; (coûts)

“discontinued operations” means the operations of a business segment that has been sold, abandoned, shut down or otherwise disposed of, or that is the subject of a formal plan of disposal; (activités abandonnées)

“disposal date” means the effective date of sale if the disposal is by sale, or the date that operations cease if the disposal is by other means; (date de cession ou de fermeture)

“formal plan of disposal” means an approved plan for the disposal of a business segment that includes at least the following information:

- (a) the major assets to be disposed of,
- (b) the expected method of disposal,
- (c) the period expected for completion of the disposal,
- (d) details of an active program to find a buyer, if the disposal is to be by sale,
- (e) the estimated results of operations of the segment from the measurement date to the expected disposal date, and
- (f) the expected proceeds or salvage value; (plan de cession ou de fermeture bien arrêté)

“indirect overhead” means period costs and other costs; (frais généraux indirects)

“internal management purpose” means any purpose relating to tax reporting, financial reporting, financial planning, decision-making, pricing, cost recovery, cost control management or performance measurement; (fins de gestion interne)

“measurement date” means the date on which the management of an enterprise adopts a formal plan of disposal or, where there is no formal plan of disposal, the disposal date; (date de mesure)

“overhead” means costs, other than direct material costs and direct labour costs. (frais généraux)

2. (1) In this Schedule, reference to “producer” shall, for purposes of subsection 4(7) of Schedule II, be read as a reference to “buyer”.

(2) In this Schedule, reference to “good” shall,

- (a) for purposes of subsection 6(15) of these Regulations, be read as a reference to “identical goods or similar goods, or any combination thereof”;
- (b) for purposes of subsection 7(6) of these Regulations, be read as a reference to “intermediate material”;
- (c) for purposes of section 10 of these Regulations, be read as a reference to “category of vehicles that is chosen pursuant to subsection 10(1) of these Regulations”;
- (d) for purposes of section 11 of these Regulations, be read as a reference to “category of goods chosen pursuant to subsection 11(1) of these Regulations”;

(e) for purposes of subsection 4(7) of Schedule II, be read as a reference to “packaging materials and containers or the elements”; and

(f) for purposes of subsection 5(7) of Schedule VIII, be read as a reference to “elements”.

Methods to Reasonably Allocate Costs

3. (1) Where a producer of a good is using, for an internal management purpose, a cost allocation method to allocate to the good direct material costs, or part thereof, and that method reasonably reflects the direct material used in the production of the good based on the criterion of benefit, cause or ability to bear, that method shall be used to reasonably allocate the costs to the good.

(2) Where a producer of a good is using, for an internal management purpose, a cost allocation method to allocate to the good direct labour costs, or part thereof, and that method reasonably reflects the direct labour used in the production of the good based on the criterion of benefit, cause or ability to bear, that method shall be used to reasonably allocate the costs to the good.

(3) Where a producer of a good is using, for an internal management purpose, a cost allocation method to allocate to the good overhead, or part thereof, and that method is based on the criterion of benefit, cause or ability to bear, that method shall be used to reasonably allocate the costs to the good.

4. Where costs are not reasonably allocated to a good under section 3, those costs are reasonably allocated to the good if they are allocated,

(a) with respect to direct material costs, on the basis of any method that reasonably reflects the direct material used in the production of the good based on the criterion of benefit, cause or ability to bear;

(b) with respect to direct labour costs, on the basis of any method that reasonably reflects the direct labour used in the production of the good based on the criterion of benefit, cause or ability to bear; and

(c) with respect to overhead, on the basis of any of the following methods:

(i) the method set out in Appendix A, Appendix B or Appendix C,

(ii) a method based on a combination of the methods set out in Appendices A and B or Appendices A and C, and

(iii) a cost allocation method based on the criterion of benefit, cause or ability to bear.

5. Any cost allocation method referred to in section 3 or 4 that is used by a producer for the purposes of these Regulations shall be used throughout the producer’s fiscal year.

Costs Not Reasonably Allocated

6. The allocation to a good of any of the following is considered not to be reasonably allocated to the good:

(a) costs of a service provided by a producer of a good to another person where the service is not related to the good;

(b) gains or losses resulting from the disposition of a discontinued operation;

(c) cumulative effects of accounting changes reported in accordance with a specific requirement of the applicable Generally Accepted Accounting Principles; and

(d) gains or losses resulting from the sale of a capital asset of the producer.

7. Any costs allocated under section 3 on the basis of a cost allocation method that is used for an internal management purpose that is solely for the purpose of qualifying a good as an originating good are considered not to be reasonably allocated.

APPENDIX A COST RATIO METHOD

Calculation of Cost Ratio

For the overhead to be allocated, the producer may choose one or more allocation bases that reflect a relationship between the overhead and the good based on the criterion of benefit, cause or ability to bear.

With respect to each allocation base that is chosen by the producer for allocating overhead, a cost ratio is calculated for each good produced by the producer in accordance with the following formula:

$$CR = (AB / TAB)$$

where

CR is the cost ratio with respect to the good;

AB is the allocation base for the good; and

TAB is the total allocation base for all the goods produced by the producer.

Allocation to a Good of Costs included in Overhead

The costs with respect to which an allocation base is chosen are allocated to a good in accordance with the following formula:

$$\text{CAG} = \text{CA} \times \text{CR}$$

where

CAG is the costs allocated to the good;

CA is the costs to be allocated; and

CR is the cost ratio with respect to the good.

Excluded Costs

Under paragraph 6(11)(b) of these Regulations, where excluded costs are included in costs to be allocated to a good, the cost ratio used to allocate that cost to the good is used to determine the amount of excluded costs to be subtracted from the costs allocated to the good.

Allocation Bases for Costs

The following is a non-exhaustive list of allocation bases that may be used by the producer to calculate cost ratios:

- Direct Labour Hours
- Direct Labour Costs
- Units Produced
- Machine-hours
- Sales Dollars or Pesos
- Floor Space

“Examples”

The following examples illustrate the application of the cost ratio method to costs included in overhead.

Example 1: Direct Labour Hours

A producer who produces Good A and Good B may allocate overhead on the basis of direct labour hours spent to produce Good A and Good B. A total of 8,000 direct labour hours have been spent to produce Good A and Good B: 5,000 hours with respect to Good A and 3,000 hours with respect to Good B. The amount of overhead to be allocated is \$6,000,000.

Calculation of the Ratios:

$$\text{Good A: } 5,000 \text{ hours}/8,000 \text{ hours} = .625$$

$$\text{Good B: } 3,000 \text{ hours}/8,000 \text{ hours} = .375$$

Allocation of overhead to Good A and Good B:

$$\text{Good A: } \$6,000,000 \times .625 = \$3,750,000$$

$$\text{Good B: } \$6,000,000 \times .375 = \$2,250,000$$

Example 2: Direct Labour Costs

A producer who produces Good A and Good B may allocate overhead on the basis of direct labour costs incurred in the production of Good A and Good B. The total direct labour

costs incurred in the production of Good A and Good B is \$60,000: \$50,000 with respect to Good A and \$10,000 with respect to Good B. The amount of overhead to be allocated is \$6,000,000.

Calculation of the Ratios:

$$\text{Good A: } \$50,000/\$60,000 = .833$$

$$\text{Good B: } \$10,000/\$60,000 = .167$$

Allocation of Overhead to Good A and Good B:

$$\text{Good A: } \$6,000,000 \times .833 = \$4,998,000$$

$$\text{Good B: } \$6,000,000 \times .167 = \$1,002,000$$

Example 3: Units Produced

A producer of Good A and Good B may allocate overhead on the basis of units produced. The total units of Good A and Good B produced is 150,000: 100,000 units of Good A and 50,000 units of Good B. The amount of overhead to be allocated is \$6,000,000.

Calculation of the Ratios:

$$\text{Good A: } 100,000 \text{ units}/150,000 \text{ units} = .667$$

$$\text{Good B: } 50,000 \text{ units}/150,000 \text{ units} = .333$$

Allocation of Overhead to Good A and Good B:

$$\text{Good A: } \$6,000,000 \times .667 = \$4,002,000$$

$$\text{Good B: } \$6,000,000 \times .333 = \$1,998,000$$

Example 4: Machine-hours

A producer who produces Good A and Good B may allocate machine-related overhead on the basis of machine-hours utilized in the production of Good A and Good B. The total machine-hours utilized for the production of Good A and Good B is 3,000 hours: 1,200 hours with respect to Good A and 1,800 hours with respect to Good B. The amount of machine-related overhead to be allocated is \$6,000,000.

Calculation of the Ratios:

$$\text{Good A: } 1,200 \text{ machine-hours}/3,000 \text{ machine-hours} = .40$$

$$\text{Good B: } 1,800 \text{ machine-hours}/3,000 \text{ machine-hours} = .60$$

Allocation of Machine-Related Overhead to Good A and Good B:

$$\text{Good A: } \$6,000,000 \times .40 = \$2,400,000$$

$$\text{Good B: } \$6,000,000 \times .60 = \$3,600,000$$

Example 5: Sales Dollars or Pesos

A producer who produces Good A and Good B may allocate overhead on the basis of sales dollars. The producer sold 2,000 units of Good A at \$4,000 and 200 units of Good B at \$3,000. The amount of overhead to be allocated is \$6,000,000.

Total Sales Dollars for Good A and Good B:

$$\text{Good A: } \$4,000 \times 2,000 = \$8,000,000$$

$$\text{Good B: } \$3,000 \times 200 = \$600,000$$

$$\text{Total Sales Dollars: } \$8,000,000 + \$600,000 = \$8,600,000$$

Calculation of the Ratios:

Good A: $\$8,000,000/\$8,600,000 = .93$

Good B: $\$600,000/\$8,600,000 = .07$

Allocation of Overhead to Good A and Good B:

Good A: $\$6,000,000 \times .93 = \$5,580,000$

Good B: $\$6,000,000 \times .07 = \$420,000$

Example 6: Floor Space

A producer who produces Good A and Good B may allocate overhead relating to utilities (heat, water and electricity) on the basis of floor space used in the production and storage of Good A and Good B. The total floor space used in the production and storage of Good A and Good B is 100,000 square feet: 40,000 square feet with respect to Good A and 60,000 square feet with respect to Good B. The amount of overhead to be allocated is \$6,000,000.

Calculation of the Ratios:

Good A: $40,000 \text{ square feet}/100,000 \text{ square feet} = .40$

Good B: $60,000 \text{ square feet}/100,000 \text{ square feet} = .60$

Allocation of Overhead (Utilities) to Good A and Good B:

Good A: $\$6,000,000 \times .40 = \$2,400,000$

Good B: $\$6,000,000 \times .60 = \$3,600,000$

**APPENDIX B
DIRECT LABOUR AND DIRECT MATERIAL
RATIO METHOD**

Calculation of Direct Labour and Direct Material Ratio

For each good produced by the producer, a direct labour and direct material ratio is calculated in accordance with the following formula:

$$\text{DLDMR} = (\text{DLC} + \text{DMC} / \text{TDLC} + \text{TDMC})$$

where

DLDMR is the direct labour and direct material ratio for the good;

DLC is the direct labour costs of the good;

DMC is the direct material costs of the good;

TDLC is the total direct labour costs of all goods produced by the producer; and

TDMC is the total direct material costs of all goods produced by the producer.

Allocation of Overhead to a Good

Overhead is allocated to a good in accordance with the following formula:

$$\text{OAG} = \text{O} \times \text{DLDMR}$$

where

OAG is the overhead allocated to the good;

O is the overhead to be allocated; and

DLDMR is the direct labour and direct material ratio for the good.

Excluded Costs

Under paragraph 6(11)(b) of these Regulations, where excluded costs are included in overhead to be allocated to a good, the direct labour and direct material ratio used to allocate overhead to the good is used to determine the amount of excluded costs to be subtracted from the overhead allocated to the good.

“Examples”

Example 1

The following example illustrates the application of the direct labour and direct material ratio method used by a producer of a good to allocate overhead where the producer chooses to calculate the net cost of the good in accordance with paragraph 6(11)(a) of these Regulations.

A producer produces Good A and Good B. Overhead (O) minus excluded costs (EC) is \$30 and the other relevant costs are set out in the following table:

	Good A	Good B	Total
<i>Direct labour costs (DLC)</i>	\$5	\$5	\$0
<i>Direct material costs (DMC)</i>	<u>\$10</u>	<u>\$5</u>	<u>\$15</u>
<i>Totals</i>	\$15	\$10	\$25

Overhead Allocated to Good A

$$\text{OAG (Good A)} = \text{O} (\$30) \times \text{DLDMR} (\$15/\$25)$$

$$\text{OAG (Good A)} = \$18.00$$

Overhead Allocated to Good B

$$\text{OAG (Good B)} = \text{O} (\$30) \times \text{DLDMR} (\$10/\$25)$$

$$\text{OAG (Good B)} = \$12.00$$

Example 2

The following example illustrates the application of the direct labour and direct material ratio method used by a producer of a good to allocate overhead where the producer chooses to calculate the net cost of the good in accordance with paragraph 6(11)(b) of these Regulations and where excluded costs are included in overhead.

A producer produces Good A and Good B. Overhead (O) is \$50 (including excluded costs (EC) of \$20). The other relevant costs are set out in the table to Example 1.

Overhead Allocated to Good A

$$\text{OAG (Good A)} = [\text{O} (\$50) \times \text{DLDMR} (\$15/\$25)] - [\text{EC} (\$20) \times \text{DLDMR} (\$15/\$25)]$$

$$\text{OAG (Good A)} = \$18.00$$

Overhead Allocated to Good B

$$\text{OAG (Good B)} = [\text{O} (\$50) \times \text{DLDMR} (\$10/\$25)] - [\text{EC} (\$20) \times \text{DLDMR} (\$10/\$25)]$$

$$\text{OAG (Good B)} = \$12.00$$

APPENDIX C
DIRECT COST RATIO METHOD

Direct Overhead

Direct overhead is allocated to a good on the basis of a method based on the criterion of benefit, cause or ability to bear.

Indirect Overhead

Indirect overhead is allocated on the basis of a direct cost ratio.

Calculation of Direct Cost Ratio

For each good produced by the producer, a direct cost ratio is calculated in accordance with the following formula:

$$\text{DCR} = \frac{\text{DLC} + \text{DMC} + \text{DO}}{\text{TDLC} + \text{TDMC} + \text{TDO}}$$

where

DCR is the direct cost ratio for the good;

DLC is the direct labour costs of the good;

DMC is the direct material costs of the good;

DO is the direct overhead of the good;

TDLC is the total direct labour costs of all goods produced by the producer;

TDMC is the total direct material costs of all goods produced by the producer; and

TDO is the total direct overhead of all goods produced by the producer.

Allocation of Indirect Overhead to a Good

Indirect overhead is allocated to a good in accordance with the following formula:

$$\text{IOAG} = \text{IO} \times \text{DCR}$$

where

IOAG is the indirect overhead allocated to the good;

IO is the indirect overhead of all goods produced by the producer; and

DCR is the direct cost ratio of the good.

Excluded Costs

Under paragraph 6(11)(b) of these Regulations, where excluded costs are included in

- (a) direct overhead to be allocated to a good, those excluded costs are subtracted from the direct overhead allocated to the good; and

(b) indirect overhead to be allocated to a good, the direct cost ratio used to allocate indirect overhead to the good is used to determine the amount of excluded costs to be subtracted from the indirect overhead allocated to the good.

“Examples”

Example 1

The following example illustrates the application of the direct cost ratio method used by a producer of a good to allocate indirect overhead where the producer chooses to calculate the net cost of the good in accordance with paragraph 6(11)(a) of these Regulations.

A producer produces Good A and Good B. Indirect overhead (IO) minus excluded costs (EC) is \$30. The other relevant costs are set out in the following table:

	Good A	Good B	Total
<i>Direct labour costs (DLC)</i>	\$5	\$5	\$10
<i>Direct material costs (DMC)</i>	10	5	15
<i>Direct overhead (DO)</i>	<u>8</u>	<u>2</u>	<u>10</u>
<i>Totals</i>	\$23	\$12	\$35

Indirect Overhead Allocated to Good A

$$\text{IOAG (Good A)} = \text{IO } (\$30) \times \text{DCR } (\$23/\$35)$$

$$\text{IOAG (Good A)} = \$19.71$$

Indirect Overhead Allocated to Good B

$$\text{IOAG (Good B)} = \text{IO } (\$30) \times \text{DCR } (\$12/\$35)$$

$$\text{IOAG (Good B)} = \$10.29$$

Example 2

The following example illustrates the application of the direct cost ratio method used by a producer of a good to allocate indirect overhead where the producer has chosen to calculate the net cost of the good in accordance with paragraph 6(11)(b) of these Regulations and where excluded costs are included in indirect overhead.

A producer produces Good A and Good B. The indirect overhead (IO) is \$50 (including excluded costs (EC) of \$20). The other relevant costs are set out in the table to Example 1.

Indirect Overhead Allocated to Good A

$$\text{IOAG (Good A)} = [\text{IO } (\$50) \times \text{DCR } (\$23/\$35)] - [\text{EC } (\$20) \times \text{DCR } (\$23/\$35)]$$

$$\text{IOAG (Good A)} = \$19.72$$

Indirect Overhead Allocated to Good B

$$\text{IOAG (Good B)} = [\text{IO } (\$50) \times \text{DCR } (\$12/\$35)] - [\text{EC } (\$20) \times \text{DCR } (\$12/\$35)]$$

$$\text{IOAG (Good B)} = \$10.28$$

SCHEDULE VII
VALUE OF MATERIALS

1. For purposes of this Schedule, unless otherwise stated,

“buying commissions” means fees paid by a producer to that producer’s agent for the agent’s services in representing the producer in the purchase of a material; (commission d’achat)

“customs administration” refers to the customs administration of the CCFTA country into whose territory the good, in the production of which the material being valued is used, is imported; (administration douanière)

“materials of the same class or kind” means, with respect to materials being valued, materials that are within a group or range of materials that

(a) is produced by a particular industry or industry sector, and

(b) includes identical materials or similar materials; (matières de la même nature ou de la même espèce)

“producer” refers to the producer who used the material in the production of a good that is subject to a regional value-content requirement; (producteur)

“seller” refers to a person who sells the material being valued to the producer. (vendeur)

2. (1) Except as provided under subsections (2) and (3), the transaction value of a material under paragraph 7(1)(a) of these Regulations shall be the price actually paid or payable for the material determined in accordance with section 4 and adjusted in accordance with section 5.

(2) There is no transaction value for a material where the material is not the subject of a sale.

(3) The transaction value of a material is unacceptable where

(a) there are restrictions on the disposition or use of the material by the producer, other than restrictions that

(i) are imposed or required by law or by the public authorities in the territory of the CCFTA country in which the producer of the good or the seller of the material is located,

(ii) limit the geographical area in which the material may be used, or

(iii) do not substantially affect the value of the material;

(b) the sale or price actually paid or payable is subject to a condition or consideration for which a value cannot be determined with respect to the material;

(c) part of the proceeds of any subsequent disposal or use of the material by the producer will accrue directly or indirectly to the seller and an appropriate addition to the price actually paid or payable cannot be made in accordance with paragraph 5(1)(d); or

(d) except as provided in section 3, the producer and the seller are related persons and the relationship between them influenced the price actually paid or payable for the material.

(4) The conditions or considerations referred to in paragraph (3)(b) include the following circumstances:

(a) the seller establishes the price actually paid or payable for the material on condition that the producer will also buy other materials or goods in specified quantities;

(b) the price actually paid or payable for the material is dependent on the price or prices at which the producer sells other materials or goods to the seller of the material; and

(c) the price actually paid or payable is established on the basis of a form of payment extraneous to the material, such as where the material is a semi-finished material that has been provided by the seller to the producer on condition that the seller will receive a specified quantity of the finished material from the producer.

(5) For purposes of paragraph (3)(b), conditions or considerations relating to the use of the material shall not render the transaction value unacceptable, such as where the producer undertakes on the producer’s own account, even though by agreement with the seller, activities relating to the warranty of the material used in the production of a good.

(6) Where objective and quantifiable data do not exist with regard to the additions required to be made to the price actually paid or payable under subsection 5(1), the transaction value cannot be determined under the provisions of subsection 2(1). For an illustration of this, a royalty is paid on the basis of the price actually paid or payable in a sale of a litre of a particular good that is produced by using a material that was purchased by the kilogram and made up into a solution. If the royalty is based partially on the purchased material and partially on other factors that have nothing to do with that material, such as when the purchased material is mixed with other ingredients and is no longer separately identifiable, or when the royalty cannot be distinguished from special financial arrangements between the seller and the producer, it would be inappropriate to add the royalty and the transaction value of the material could not be determined. However, if the amount of the royalty is based only on the purchased material and can be readily

quantified, an addition to the price actually paid or payable can be made and the transaction value can be determined.

3. (1) In determining whether the transaction value is unacceptable under paragraph 2(3)(d), the fact that the seller and the producer are related persons shall not in itself be grounds for the customs administration to render the transaction value unacceptable. In such cases, the circumstances surrounding the sale shall be examined and the transaction value shall be accepted provided that the relationship between the seller and the producer did not influence the price actually paid or payable. Where the customs administration has reasonable grounds for considering that the relationship between the seller and the producer influenced the price, the customs administration shall communicate the grounds to the producer, and that producer shall be given a reasonable opportunity to respond to the grounds communicated by the customs administration. If that producer so requests, the customs administration shall communicate in writing the grounds on which it considers that the relationship between the seller and the producer influenced the price actually paid or payable.

(2) Subsection (1) provides that, where the seller and the producer are related persons, the circumstances surrounding the sale shall be examined and the transaction value shall be accepted as the value provided that the relationship between the seller and the producer did not influence the price actually paid or payable. It is not intended under subsection (1) that there should be an examination of the circumstances in all cases where the seller and the producer are related persons. Such an examination will only be required where the customs administration has doubts that the price actually paid or payable is acceptable because of the relationship between the seller and the producer. Where the customs administration does not have doubts that the price actually paid or payable is acceptable, it shall accept that price without requesting further information. For an illustration of this, the customs administration may have previously examined the relationship between the seller and the producer, or it may already have detailed information concerning the relationship between the seller and the producer, and may already be satisfied from that examination or information that the relationship between them did not influence the price actually paid or payable.

(3) In applying subsection (1), where the seller and the producer are related persons and the customs administration has doubts that the transaction value is acceptable without further inquiry, the customs administration shall give the producer an opportunity to supply such further information as may be necessary to enable it to examine the circumstances surrounding the sale. In such a case, the customs administration shall examine the relevant aspects of the sale, including the way in which the seller and the

producer organize their commercial relations and the way in which the price actually paid or payable by that producer for the material being valued was arrived at, in order to determine whether the relationship between the seller and the producer influenced that price actually paid or payable. Where it can be shown that the seller and the producer buy from and sell to each other as if they were not related persons, the price actually paid or payable shall be considered as not having been influenced by the relationship between them. For an illustration of this, if the price actually paid or payable for the material had been settled in a manner consistent with the normal pricing practices of the industry in question or with the way in which the seller settles prices for sales to unrelated buyers, the price actually paid or payable shall be considered as not having been influenced by the relationship between the producer and the seller. For another illustration of this, where it is shown that the price actually paid or payable for the material is adequate to ensure recovery of the total cost of producing the material plus a profit that is representative of the seller's overall profit realized over a representative period of time, such as on an annual basis, in sales of materials of the same class or kind, the price actually paid or payable shall be considered as not having been influenced by the relationship between the seller and the producer.

(4) In a sale between a seller and a producer who are related persons, the transaction value shall be accepted and determined in accordance with subsection 2(1), wherever the seller or the producer demonstrates that the transaction value of the material in that sale closely approximates one of the following test values that occurs at or about the same time as the sale and is chosen by the seller or the producer:

- (a) the transaction value in sales to unrelated buyers of identical materials or similar materials, as determined in accordance with subsection 2(1);
- (b) the value of identical materials or similar materials, as determined in accordance with section 9; or
- (c) the value of identical materials or similar materials, as determined in accordance with section 10.

(5) In applying a test value referred to in subsection (4), due account shall be taken of demonstrated differences in commercial levels, quantity levels, the value of the elements specified in paragraph 5(1)(b) and the costs incurred by the seller in sales to unrelated buyers that are not incurred by the seller in sales by the seller to a related person.

(6) The application of a test value referred to in subsection (4) shall be used at the initiative of the seller, or at the initiative of the producer with the consent of the seller, and shall be used only for comparison purposes to determine whether the transaction value of the material is acceptable. The test value shall not be used as the transaction value of that material.

(7) Subsection (4) provides an opportunity for the seller or the producer to demonstrate that the transaction value closely approximates a test value previously accepted by the customs administration of the CCFTA country in which the producer is located, and is therefore acceptable under subsection (1). Where the application of a test value under subsection (4) demonstrates that the transaction value of the material being valued is acceptable, the customs administration shall not examine the question of influence in regard to the relationship between the seller and the producer under subsection (1). Where the customs administration already has sufficient information available, without further inquiries, that the transaction value closely approximates one of the test values determined under subsection (4), the seller or the producer is not required to apply a test value to demonstrate that the transaction value is acceptable under that subsection.

(8) A number of factors must be taken into consideration for the purpose of determining whether the transaction value of the identical materials or similar materials closely approximates the transaction value of the material being valued. These factors include the nature of the material, the nature of the industry itself, the season in which the material is sold, and whether the difference in values is commercially significant. Since these factors may vary from case to case, it would be impossible to apply an acceptable standardized difference such as a fixed amount or fixed percentage difference in each case. For an illustration of this, a small difference in value in a case involving one type of material could be unacceptable, while a large difference in a case involving another type of material might be acceptable for the purposes of determining whether the transaction value closely approximates a test value set out in subsection (4).

4. (1) The price actually paid or payable is the total payment made or to be made by the producer to or for the benefit of the seller of the material. The payment need not necessarily take the form of a transfer of money: it may be made by letters of credit or negotiable instruments. Payment may be made directly or indirectly to the seller. For an illustration of this, the settlement by the producer, whether in whole or in part, of a debt owed by the seller, is an indirect payment.

(2) Activities undertaken by the producer on the producer's own account, other than those for which an adjustment is provided in section 5, shall not be considered to be an indirect payment, even though the activities might be regarded as being for the benefit of the seller.

(3) The transaction value shall not include charges for construction, erection, assembly, maintenance or technical assistance related to the use of the material by the producer, provided that they are distinguished from the price actually paid or payable.

(4) The flow of dividends or other payments from the producer to the seller that do not relate to the purchase of the material are not part of the transaction value.

5. (1) In determining the transaction value of the material, the following shall be added to the price actually paid or payable:

(a) to the extent that they are incurred by the producer with respect to the material being valued and are not included in the price actually paid or payable,

(i) commissions and brokerage fees, except buying commissions, and

(ii) the costs of packaging materials and containers that, for customs purposes, are classified with the material under the Harmonized System;

(b) the value, reasonably allocated in accordance with subsection (12), of the following elements where they are supplied directly or indirectly to the seller by the producer free of charge or at reduced cost for use in connection with the production and sale of the material, to the extent that the value is not included in the price actually paid or payable:

(i) a material, other than an indirect material, used in the production of the material being valued,

(ii) tools, dies, moulds and similar indirect materials used in the production of the material being valued,

(iii) an indirect material, other than those referred to in subparagraph (ii) or in paragraphs (c), (e) or (f) of the definition "indirect material" in subsection 2(1) of these Regulations, used in the production of the material being valued, and

(iv) engineering, development, artwork, design work, and plans and sketches performed outside the territory of the CCFTA country in which the producer is located that are necessary for the production of the material being valued;

(c) the royalties related to the material, other than charges with respect to the right to reproduce the material in the territory of the CCFTA country in which the producer is located that the producer must pay directly or indirectly as a condition of sale of the material, to the extent that such royalties are not included in the price actually paid or payable; and

(d) the value of any part of the proceeds of any subsequent disposal or use of the material that accrues directly or indirectly to the seller.

(2) The additions referred to in subsection (1) shall be made to the price actually paid or payable under this section only on the basis of objective and quantifiable data.

(3) Where objective and quantifiable data do not exist with regard to the additions required to be made to the price actually paid or payable under subsection (1), the transaction value cannot be determined under subsection 2(1).

(4) No additions shall be made to the price actually paid or payable for the purpose of determining the transaction value except as provided in this section.

(5) The amounts to be added under paragraph (1)(a) shall be those amounts that are recorded on the books of the producer.

(6) The value of the elements referred to in subparagraph (1)(b)(i) shall be

(a) where the producer, or a related person on behalf of the producer, purchases the elements from an unrelated person, the price actually paid or payable for the elements,

(b) where the producer, or a related person on behalf of the producer, acquires the elements from an unrelated person other than through a purchase, the value of the consideration related to the acquisition of the elements, based on the cost of the consideration that is recorded on the books of the producer or the related person, or

(c) where the elements are produced by the producer, or by a related person, the total cost of the elements, determined in accordance with subsection (7), and shall include the following costs, that are recorded on the books of the producer or the related person supplying the elements on behalf of the producer, to the extent that such costs are not included under paragraphs (a) through (c):

(d) the costs of freight, insurance, packing, and all other costs incurred in transporting the elements to the location of the seller,

(e) duties and taxes paid or payable with respect to the elements, other than duties and taxes that are waived, refunded, refundable or otherwise recoverable, including credit against duty or tax paid or payable,

(f) customs brokerage fees, including the cost of in-house customs brokerage services, incurred with respect to the elements, and

(g) the cost of waste and spoilage resulting from the use of the elements in the production of the material, minus the value of reusable scrap or by-product.

(7) For the purposes of paragraph (6)(c), the total cost of the elements referred to in subparagraph (1)(b)(i) shall be

(a) where the elements are produced by the producer, at the choice of the producer,

(i) the total cost incurred with respect to all goods produced by the producer, calculated on the basis of the costs that are recorded on the books of the producer, that can be reasonably allocated to the elements in accordance with Schedule VI, or

(ii) the aggregate of each cost incurred by the producer that forms part of the total cost incurred with respect to the elements, calculated on the basis of the costs that are recorded on the books of the producer, that can be reasonably allocated to the elements in accordance with Schedule VI; and

(b) where the elements are produced by a person who is related to the producer, at the choice of the producer,

(i) the total cost incurred with respect to all goods produced by that related person, calculated on the basis of the costs that are recorded on the books of that person, that can be reasonably allocated to the elements in accordance with Schedule VI, or

(ii) the aggregate of each cost incurred by that related person that forms part of the total cost incurred with respect to the elements, calculated on the basis of the costs that are recorded on the books of that person, that can be reasonably allocated to the elements in accordance with Schedule VI.

(8) Except as provided in subsections (10) and (11), the value of the elements referred to in subparagraphs (1)(b)(ii) through (iv) shall be

(a) the cost of those elements that is recorded on the books of the producer; or

(b) where such elements are provided by another person on behalf of the producer and the cost is not recorded on the books of the producer, the cost of those elements that is recorded on the books of that other person.

(9) Where the elements referred to in subparagraphs (1)(b)(ii) through (iv) were previously used by or on behalf of the producer, the value of the elements shall be adjusted downward to reflect that use.

(10) Where the elements referred to in subparagraphs (1)(b)(ii) and (iii) were leased by the producer or a person related to the producer, the value of the elements shall be the cost of the lease that is recorded on the books of the producer or that related person.

(11) No addition shall be made to the price actually paid or payable for the elements referred to in subparagraph (1)(b)(iv) that are available in the public domain, other than the cost of obtaining copies of them.

(12) The producer shall choose the method of allocating to the material the value of the elements referred to in subparagraphs (1)(b)(ii) through (iv), provided that the

value is reasonably allocated to the material in a manner appropriate to the circumstances. The methods the producer may choose to allocate the value include allocating the value over the number of units produced up to the time of the first shipment or allocating the value over the entire anticipated production where contracts or firm commitments exist for that production. For an illustration of this, a producer provides the seller with a mould to be used in the production of the material and contracts with the seller to buy 10,000 units of that material. By the time the first shipment of 1,000 units arrives, the seller has already produced 4,000 units. In these circumstances, the producer may choose to allocate the value of the mould over 4,000 units or 10,000 units but shall not choose to allocate the value of the elements to the first shipment of 1,000 units. The producer may choose to allocate the entire value of the elements to a single shipment of material only where that single shipment comprises all of the units of the material acquired by the producer under the contract or commitment for that number of units of the material between the seller and the producer.

(13) The addition for the royalties referred to in paragraph (1)(c) shall be the payment for the royalties that is recorded on the books of the producer, or where the payment for the royalties is recorded on the books of another person, the payment for the royalties that is recorded on the books of that other person.

(14) The value of the proceeds referred to in paragraph (1)(d) shall be the amount that is recorded for such proceeds on the books of the producer or the seller.

6. (1) If there is no transaction value under subsection 2(2) or the transaction value is unacceptable under subsection 2(3), the value of the material, referred to in paragraph 7(1)(b) of these Regulations, shall be the transaction value of identical materials sold, at or about the same time as the material being valued was shipped to the producer, to a buyer located in the same country as the producer.

(2) In applying this section, the transaction value of identical materials in a sale at the same commercial level and in substantially the same quantity of materials as the material being valued shall be used to determine the value of the material. Where no such sale is found, the transaction value of identical materials sold at a different commercial level or in different quantities, adjusted to take into account the differences attributable to the commercial level or quantity, shall be used, provided that such adjustments can be made on the basis of evidence that clearly establishes that the adjustment is reasonable and accurate, whether the adjustment leads to an increase or a decrease in the value.

(3) A condition for adjustment under subsection (2) because of different commercial levels or different quantities is that such adjustment be made only on the basis

of evidence that clearly establishes that an adjustment is reasonable and accurate. For an illustration of this, a bona fide price list contains prices for different quantities. If the material being valued consists of a shipment of 10 units and the only identical materials for which a transaction value exists involved a sale of 500 units, and it is recognized that the seller grants quantity discounts, the required adjustment may be accomplished by resorting to the seller's bona fide price list and using the price applicable to a sale of 10 units. This does not require that sales had to have been made in quantities of 10 as long as the price list has been established as being bona fide through sales at other quantities. In the absence of such an objective measure, however, the determination of a value under this section is not appropriate.

(4) If more than one transaction value of identical materials is found, the lowest such value shall be used to determine the value of the material under this section.

7. (1) If there is no transaction value under subsection 2(2) or the transaction value is unacceptable under section 2(3), and the value of the material cannot be determined under section 6, the value of the material, referred to in paragraph 7(1)(b) of these Regulations, shall be the transaction value of similar materials sold, at or about the same time as the material being valued was shipped to the producer, to a buyer located in the same country as the producer.

(2) In applying this section, the transaction value of similar materials in a sale at the same commercial level and in substantially the same quantity of materials as the material being valued shall be used to determine the value of the material. Where no such sale is found, the transaction value of similar materials sold at a different commercial level or in different quantities, adjusted to take into account the differences attributable to the commercial level or quantity, shall be used, provided that such adjustments can be made on the basis of evidence that clearly establishes that the adjustment is reasonable and accurate, whether the adjustment leads to an increase or a decrease in the value.

(3) A condition for adjustment under subsection (2) because of different commercial levels or different quantities is that such adjustment be made only on the basis of evidence that clearly establishes that an adjustment is reasonable and accurate. For an illustration of this, a bona fide price list contains prices for different quantities. If the material being valued consists of a shipment of 10 units and the only similar materials for which a transaction value exists involved a sale of 500 units, and it is recognized that the seller grants quantity discounts, the required adjustment may be accomplished by resorting to the seller's bona fide price list and using the price applicable to a sale of 10 units. This does not require that sales had to have been made in quantities of 10 as long as the price list has been established as being bona fide through sales at other quantities. In the

absence of such an objective measure, however, the determination of a value under this section is not appropriate.

(4) If more than one transaction value of similar materials is found, the lowest such value shall be used to determine the value of the material under this section.

8. If there is no transaction value under subsection 2(2) or the transaction value is unacceptable under subsection 2(3), and the value of the material cannot be determined under section 6 or 7, the value of the material, referred to in paragraph 7(1)(b) of these Regulations, shall be determined under section 9 or, when the value cannot be determined under that section, under section 10 except that, at the request of the producer, the order of application of sections 9 and 10 shall be reversed.

9. (1) Under this section, if identical materials or similar materials are sold in the territory of the CCFTA country in which the producer is located, in the same condition as the material was in when received by the producer, the value of the material, referred to in paragraph 7(1)(b) of these Regulations, shall be based on the unit price at which those identical materials or similar materials are sold, in the greatest aggregate quantity by the producer or, where the producer does not sell those identical materials or similar materials, by a person at the same trade level as the producer, at or about the same time as the material being valued is received by the producer, to persons located in that territory who are not related to the seller, subject to deductions for the following:

(a) either the amount of commissions usually earned or the amount generally reflected for profit and general expenses, in connection with sales, in the territory of that CCFTA country, of materials of the same class or kind as the material being valued; and

(b) taxes, if included in the unit price, payable in the territory of that CCFTA country, which are either waived, refunded or recoverable by way of credit against taxes actually paid or payable.

(2) If neither identical materials nor similar materials are sold at or about the same time the material being valued is received by the producer, the value shall, subject to the deductions provided for under subsection (1), be based on the unit price at which identical materials or similar materials are sold in the territory of the CCFTA country in which the producer is located, in the same condition as the material was in when received by the producer, at the earliest date within 90 days after the date the material being valued was received by the producer.

(3) The expression "unit price at which those identical materials or similar materials are sold, in the greatest aggregate quantity" in subsection (1) means the price at which the greatest number of units is sold in sales between

unrelated persons. For an illustration of this, materials are sold from a price list which grants favourable unit prices for purchases made in larger quantities.

Sale Quantity	Unit Price	Number of Sales	Total Quantity Sold at each price
1-10 units	100	10 sales of 5 units 5 sales of 3 units	65
11-25 units	95	5 sales of 11 units	55
over 25 units	90	1 sale of 30 units 1 sale of 50 units	80

The greatest number of units sold at a particular price is 80; therefore, the unit price in the greatest aggregate quantity is 90.

As another illustration of this, two sales occur. In the first sale 500 units are sold at a price of 95 currency units each. In the second sale 400 units are sold at a price of 90 currency units each. In this illustration, the greatest number of units sold at a particular price is 500; therefore, the unit price in the greatest aggregate quantity is 95.

(4) Any sale to a person who supplies, directly or indirectly, free of charge or at reduced cost for use in connection with the production of the material, any of the elements specified in paragraph 5(1)(b), shall not be taken into account in establishing the unit price for the purposes of this section.

(5) The amount generally reflected for profit and general expenses referred to in paragraph (1)(a) shall be taken as a whole. The figure for the purposes of deducting an amount for profit and general expenses shall be determined on the basis of information supplied by or on behalf of the producer unless the figures provided by the producer are inconsistent with those usually reflected in sales, in the country in which the producer is located, of materials of the same class or kind as the material being valued. Where the figures provided by the producer are inconsistent with those figures, the amount for profit and general expenses shall be based on relevant information other than that supplied by or on behalf of the producer.

(6) For the purposes of this section, general expenses are the direct and indirect costs of marketing the material in question.

(7) In determining either the commissions usually earned or the amount generally reflected for profit and general expenses under this section, the question as to whether certain materials are materials of the same class or kind as the material being valued shall be determined on a case-by-case basis with reference to the circumstances involved. Sales in the country in which the producer is located of the narrowest group or range of materials of the same class or kind as the material being valued, for which the necessary information can be provided, shall be examined. For the purposes of this section, "materials of the

same class or kind” includes materials imported from the same country as the material being valued as well as materials imported from other countries or acquired within the territory of the CCFTA country in which the producer is located.

(8) For the purposes of subsection (2), the earliest date shall be the date by which sales of identical materials or similar materials are made, in sufficient quantity to establish the unit price, to other persons in the territory of the CCFTA country in which the producer is located.

10. (1) Under this section, the value of a material, referred to in paragraph 7(1)(b) of these Regulations, shall be the sum of

(a) the cost or value of the materials used in the production of the material being valued, as determined on the basis of the costs that are recorded on the books of the producer of the material,

(b) the cost of producing the material being valued, as determined on the basis of the costs that are recorded on the books of the producer of the material, and

(c) an amount for profit and general expenses equal to that usually reflected in sales

(i) where the material being valued is imported by the producer into the territory of the CCFTA country in which the producer is located, to persons located in the territory of the CCFTA country in which the producer is located by producers of materials of the same class or kind as the material being valued who are located in the country in which the material is produced, and

(ii) where the material being valued is acquired by the producer from another person located in the territory of the CCFTA country in which the producer is located, to persons located in the territory of the CCFTA country in which the producer is located by producers of materials of the same class or kind as the material being valued who are located in the country in which the producer is located,

and shall include, to the extent they are not already included under paragraph (a) or (b) and where the elements are supplied directly or indirectly to the producer of the material being valued by the producer free of charge or at a reduced cost for use in the production of that material,

(d) the value of elements referred to in subparagraph 5(1)(b)(i), determined in accordance with subsection 5(6), and

(e) the value of elements referred to in subparagraphs 5(1)(b)(ii) through (iv), determined in accordance with subsection 5(8) and reasonably

allocated to the material in accordance with subsection 5(12).

(2) For purposes of paragraphs (1)(a) and (b), where the costs recorded on the books of the producer of the material relate to the production of other goods and materials as well as to the production of the material being valued, the costs referred to in paragraphs (1)(a) and (b) with respect to the material being valued shall be those costs recorded on the books of the producer of the material that can be reasonably allocated to that material in accordance with Schedule VI.

(3) The amount for profit and general expenses referred to in paragraph (1)(c) shall be determined on the basis of information supplied by or on behalf of the producer of the material being valued unless the profit and general expenses figures that are supplied with that information are inconsistent with those usually reflected in sales by producers of materials of the same class or kind as the material being valued who are located in the country in which the material is produced or the producer is located, as the case may be. The information supplied shall be prepared in a manner consistent with generally accepted accounting principles of the country in which the material being valued is produced. Where the material is produced in the territory of a CCFTA country, the information shall be prepared in accordance with the Generally Accepted Accounting Principles set out in the authorities listed for that CCFTA country in Schedule XI.

(4) For purposes of paragraph (1)(c) and subsection (3), general expenses means the direct and indirect costs of producing and selling the material that are not included under paragraphs (1)(a) and (b).

(5) For purposes of subsection (3), the amount for profit and general expenses shall be taken as a whole. Where, in the information supplied by or on behalf of the producer of a material, the profit figure is low and the general expenses figure is high, the profit and general expense figures taken together may nevertheless be consistent with those usually reflected in sales of materials of the same class or kind as the material being valued. Where the producer of a material can demonstrate that it is taking a nil or low profit on its sales of the material because of particular commercial circumstances, its actual profit and general expense figures shall be taken into account, provided that the producer of the material has valid commercial reasons to justify them and its pricing policy reflects usual pricing policies in the branch of industry concerned. For an illustration of this, such a situation might occur where producers have been forced to lower prices temporarily because of an unforeseeable drop in demand, or where the producers sell the material to complement a range of materials and goods being produced in the country in which the material is sold and accept a low profit to maintain competitiveness. A further illustration is where a material was being launched

and the producer accepted a nil or low profit to offset high general expenses associated with the launch.

(6) Where the figures for the profit and general expenses supplied by or on behalf of the producer of the material are not consistent with those usually reflected in sales of materials of the same class or kind as the material being valued that are made by other producers in the country in which that material is sold, the amount for profit and general expenses may be based on relevant information other than that supplied by or on behalf of the producer of the material.

(7) Where a customs administration uses information other than that supplied by or on behalf of the producer of the material for the purposes of determining the value of a material under this section, the customs administration shall communicate to the producer, if that producer so requests, the source of such information, the data used and the calculations based on such data, subject to the provisions on confidentiality under sections 107 and 108 of the *Customs Act*.

(8) Whether certain materials are of the same class or kind as the material being valued shall be determined on a case-by-case basis with reference to the circumstances involved. For purposes of determining the amount for profit and general expenses usually reflected under the provisions of this section, sales of the narrowest group or range of materials of the same class or kind, which includes the material being valued, for which the necessary information can be provided, shall be examined. For the purposes of this section, the materials of the same class or kind must be from the same country as the material being valued.

11. (1) Where there is no transaction value under subsection 2(2) or the transaction value is unacceptable under subsection 2(3), and the value of the material cannot be determined under sections 6 through 10, the value of the material, referred to in paragraph 7(1)(b) of these Regulations, shall be determined under this section using reasonable means consistent with the principles and general provisions of this Schedule and on the basis of data available in the country in which the producer is located.

(2) The value of the material determined under this section shall not be determined on the basis of

- (a) a valuation system which provides for the acceptance of the higher of two alternative values;
- (b) a cost of production other than the value determined in accordance with section 10;
- (c) minimum values;
- (d) arbitrary or fictitious values;

(e) where the material is produced in the territory of the CCFTA country in which the producer is located, the price of the material for export from that territory; or

(f) where the material is imported, the price of the material for export to a country other than to the territory of the CCFTA country in which the producer is located.

(3) To the greatest extent possible, the value of the material determined under this section shall be based on the methods of valuation set out in sections 2 through 10, but a reasonable flexibility in the application of such methods would be in conformity with the aims and provisions of this section. For an illustration of this, under section 6, the requirement that the identical materials should be sold at or about the same time as the time the material being valued is shipped to the producer could be flexibly interpreted. Similarly, identical materials produced in a country other than the country in which the material is produced could be the basis for determining the value of the material, or the value of identical materials already determined under section 9 could be used. For another illustration, under section 7, the requirement that the similar materials should be sold at or about the same time as the material being valued are shipped to the producer could be flexibly interpreted. Likewise, similar materials produced in a country other than the country in which the material is produced could be the basis for determining the value of the material, or the value of similar materials already determined under the provisions of section 9 could be used. For a further illustration, under section 9, the 90 days requirement could be administered flexibly.

SCHEDULE VIII

METHODS FOR DETERMINING THE VALUE OF NON-ORIGINATING MATERIALS THAT ARE IDENTICAL MATERIALS AND THAT ARE USED IN THE PRODUCTION OF A GOOD FOR PURPOSES OF SUBSECTIONS 5(10), 5(11) AND 6(10) OF THESE REGULATIONS

Definitions and Interpretation

1. For purposes of this Schedule,

“FIFO method” means the method by which the value of non-originating materials first received in materials inventory, determined in accordance with section 7 of these Regulations, is considered to be the value of non-originating materials used in the production of the good first shipped to the buyer of the good; (méthode PEPS)

“identical materials” means, with respect to a material, materials that are the same as that material in all respects, including physical characteristics, quality and reputation but excluding minor differences in appearance; (matières identiques)

“LIFO method” means the method by which the value of non-originating materials last received in materials inventory, determined in accordance with section 7 of these Regulations, is considered to be the value of non-originating materials used in the production of the good first shipped to the buyer of the good; (méthode DEPS)

“materials inventory” means, with respect to a single plant of the producer of a good, an inventory of non-originating materials that are identical materials and that are used in the production of the good; (stock de matière)

“rolling average method” means the method by which the value of non-originating materials used in the production of a good that is shipped to the buyer of the good is based on the average value, calculated in accordance with section 4, of the non-originating materials in materials inventory. (méthode de la moyenne mobile)

General

2. For purposes of subsections 5(10) and (11) and 6(10) of these Regulations, the following are the methods for determining the value of non-originating materials that are identical materials and are used in the production of a good:

- (a) FIFO method;
- (b) LIFO method; and
- (c) rolling average method.

3. (1) Where a producer of a good chooses, with respect to non-originating materials that are identical materials, any of the methods referred to in section 2, the producer may not use another of those methods with respect to any other non-originating materials that are identical materials and that are used in the production of that good or in the production of any other good.

(2) Where a producer of a good produces the good in more than one plant, the method chosen by the producer shall be used with respect to all plants of the producer in which the good is produced.

(3) The method chosen by the producer to determine the value of non-originating materials may be chosen at any time during the producer’s fiscal year and may not be changed during that fiscal year.

Average Value for Rolling Average Method

4. (1) The average value of non-originating materials that are identical materials and that are used in the production of a good that is shipped to the buyer of the good is calculated by dividing

- (a) the total value of non-originating materials that are identical materials in materials inventory prior to the

shipment of the good, determined in accordance with section 7 of these Regulations,

by

- (b) the total units of those non-originating materials in materials inventory prior to the shipment of the good.

(2) The average value calculated under subsection (1) is applied to the remaining units of non-originating materials in materials inventory.

APPENDIX

“EXAMPLES” ILLUSTRATING THE APPLICATION OF THE METHODS FOR DETERMINING THE VALUE OF NON-ORIGINATING MATERIALS THAT ARE IDENTICAL MATERIALS AND THAT ARE USED IN THE PRODUCTION OF A GOOD

The following examples are based on the figures set out in the table below and on the following assumptions:

- (a) *Materials A are non-originating materials that are identical materials that are used in the production of Good A;*
- (b) *one unit of Materials A is used to produce one unit of Good A;*
- (c) *all other materials used in the production of Good A are originating materials; and*
- (d) *Good A is produced in a single plant.*

MATERIALS INVENTORY (RECEIPTS OF MATERIALS A)			SALES (SHIPMENTS OF GOOD A)
DATE (M/D/Y)	QUANTITY (UNITS)	UNIT COST*	QUANTITY (UNITS)
01/01/98	200	\$1.05	
01/03/98	1,000	1.00	
01/05/98	1 000	1.10	
01/08/98			500
01/09/98			500
01/10/98	1,000	1.05	
01/14/98			1,500
01/16/98	2,000	1.10	
01/18/98			1,500

* Unit cost is determined in accordance with section 7 of these Regulations

Example 1: FIFO method

By applying the FIFO method:

(1) the 200 units of Materials A received on 01/01/98 and valued at \$1.05 per unit and 300 units of the 1,000 units of Material A received on 01/03/98 and valued at \$1.00 per unit are considered to have been used in the production of the 500 units of Good A shipped on 01/08/98; therefore, the

value of the non-originating materials used in the production of those goods is considered to be \$510 [(200 units × \$1.05) + (300 units × \$1.00)];

(2) 500 units of the remaining 700 units of Materials A received on 01/03/98 and valued at \$1.00 per unit are considered to have been used in the production of the 500 units of Good A shipped on 01/09/98; therefore, the value of the non-originating materials used in the production of those goods is considered to be \$500 (500 units × \$1.00);

(3) the remaining 200 units of the 1,000 units of Materials A received on 01/03/98 and valued at \$1.00 per unit, the 1,000 units of Materials A received on 01/05/98 and valued at \$1.10 per unit, and 300 units of the 1,000 units of Materials A received on 01/10/98 and valued at \$1.05 per unit are considered to have been used in the production of the 1,500 units of Good A shipped on 01/14/98; therefore, the value of non-originating materials used in the production of those goods is considered to be \$1,615 [(200 units × \$1.00) + (1,000 units × \$1.10) + (300 units × \$1.05)]; and

(4) the remaining 700 units of the 1,000 units of Materials A received on 01/10/98 and valued at \$1.05 per unit and 800 units of the 2,000 units of Materials A received on 01/16/98 and valued at \$1.10 per unit are considered to have been used in the production of the 1,500 units of Good A shipped on 01/18/98; therefore, the value of non-originating materials used in the production of those goods is considered to be \$1,615 [(700 units × \$1.05) + (800 units × \$1.10)].

Example 2: LIFO method

By applying the LIFO method:

(1) 500 units of the 1,000 units of Materials A received on 01/05/98 and valued at \$1.10 per unit are considered to have been used in the production of the 500 units of Good A shipped on 01/08/98; therefore, the value of the non-originating materials used in the production of those goods is considered to be \$550 (500 units × \$1.10);

(2) the remaining 500 units of the 1,000 units of Materials A received on 01/05/98 and valued at \$1.10 per unit are considered to have been used in the production of the 500 units of Good A shipped on 01/09/98; therefore, the value of non-originating materials used in the production of those goods is considered to be \$550 (500 units × \$1.10);

(3) the 1,000 units of Materials A received on 01/10/98 and valued at \$1.05 per unit and 500 units of the 1,000 units of Material A received on 01/03/98 and valued at \$1.00 per unit are considered to have been used in the production of the 1,500 units of Good A shipped on 01/14/98; therefore, the value of non-originating materials used in the production of those goods is considered to be \$1,550 [(1,000 units × \$1.05) + (500 units × \$1.00)]; and

(4) 1,500 units of the 2,000 units of Materials A received on 01/16/98 and valued at \$1.10 per unit are considered to have been used in the production of the 1,500 units of Good A shipped on 01/18/98; therefore, the value of non-originating materials used in the production of those goods is considered to be \$1,650 (1,500 units × \$1.10).

Example 3: Rolling average method

The following table identifies the average value of non-originating Materials A as determined under the rolling average method. For purposes of this example, a new average value of non-originating Materials A is calculated after each receipt.

MATERIALS INVENTORY				
	DATE (M/D/Y)	QUANTITY (UNITS)	UNIT COST*	TOTAL VALUE
Beginning Inventory	01/01/98	200	\$1.05	\$210
Receipt	01/03/98	1,000	1.00	1,000
AVERAGE VALUE		1,200	1.008	1,210
Receipt	01/05/98	1,000	1.10	1,100
AVERAGE VALUE		2,200	1.05	2,310
Shipment	01/08/98	500	1.05	525
AVERAGE VALUE		1,700	1.05	1,785
Shipment	01/09/98	500	1.05	525
AVERAGE VALUE		1,200	1.05	1,260
Receipt	01/16/98	2,000	1.10	2,200
AVERAGE VALUE		3,200	1.08	3,460

* Unit cost is determined in accordance with section 7 of these Regulations

By applying the rolling average method:

(1) the value of non-originating materials used in the production of the 500 units of Good A shipped on 01/08/98 is considered to be \$525 (500 units × \$1.05); and

(2) the value of non-originating materials used in the production of the 500 units of Good A shipped on 01/09/98 is considered to be \$525 (500 units × \$1.05).

SCHEDULE IX INVENTORY MANAGEMENT METHODS PART I FUNGIBLE MATERIALS

Definitions and Interpretation

1. For purposes of this Part,

“average method” means the method by which the origin of fungible materials withdrawn from materials inventory is based on the ratio, calculated under section 5, of originating materials and non-originating materials in materials inventory; (méthode de la moyenne)

“FIFO method” means the method by which the origin of fungible materials first received in materials inventory

is considered to be the origin of fungible materials first withdrawn from materials inventory; (méthode PEPS)

“LIFO method” means the method by which the origin of fungible materials last received in materials inventory is considered to be the origin of fungible materials first withdrawn from materials inventory; (méthode DEPS)

“materials inventory” means

(a) with respect to a producer of a good, an inventory of fungible materials that are used in the production of the good, and

(b) with respect to a person from whom the producer of the good acquired those fungible materials, an inventory from which fungible materials are sold or otherwise transferred to the producer of the good; (stock de matières)

“opening inventory” means the materials inventory at the time an inventory management method is chosen; (stock d’ouverture)

“origin identifier” means any mark that identifies fungible materials as originating materials or non-originating materials. (identificateur d’origine)

General

2. The inventory management methods for determining whether fungible materials referred to in paragraph 7(16)(a) of these Regulations are originating materials are the following:

- (a) specific identification method;
- (b) FIFO method;
- (c) LIFO method; and
- (d) average method.

3. Where a producer of a good or a person from whom the producer acquired the materials that are used in the production of the good chooses an inventory management method referred to in section 2, that method, including the averaging period chosen in the case of the average method, shall be used from the time the choice is made until the end of the fiscal year of the producer or person.

Specific Identification Method

4. (1) Except as otherwise provided under subsection (2), where the producer or person referred to in section 3 chooses the specific identification method, the producer or person shall physically segregate, in materials inventory, originating materials that are fungible materials from non-originating materials that are fungible materials.

(2) Where originating materials or non-originating materials that are fungible materials are marked with an origin identifier, the producer or person need not physically

segregate those materials under subsection (1) if the origin identifier remains visible throughout the production of the good.

Average Method

5. Where the producer or person referred to in section 3 chooses the average method, the origin of fungible materials withdrawn from materials inventory is determined on the basis of the ratio of originating materials and non-originating materials in materials inventory that is calculated under sections 6 through 8.

6. (1) Except as otherwise provided in sections 7 and 8, the ratio is calculated with respect to a one-month or three-month period, at the choice of the producer or person, by dividing

(a) the sum of

(i) the total units of originating materials or non-originating materials that are fungible materials and that were in materials inventory at the beginning of the preceding one-month or three-month period, and

(ii) the total units of originating materials or non-originating materials that are fungible materials and that were received in materials inventory during that preceding one-month or three-month period

by

(b) the sum of

(i) the total units of originating materials and non-originating materials that are fungible materials and that were in materials inventory at the beginning of the preceding one-month or three-month period, and

(ii) the total units of originating materials and non-originating materials that are fungible materials and that were received in materials inventory during that preceding one-month or three-month period.

(2) The ratio calculated with respect to a preceding one-month or three-month period under subsection (1) is applied to the fungible materials remaining in materials inventory at the end of the preceding one-month or three-month period.

7. (1) Where the good is subject to a regional value-content requirement and the regional value content is calculated under the net cost method and the producer or person chooses to average over a period under subsections 6(15), 10(1), (3) or (6) or 11(1) of these Regulations, the ratio is calculated with respect to that period by dividing

(a) the sum of

(i) the total units of originating materials or non-originating materials that are fungible materials and that were in materials inventory at the beginning of the period, and

(ii) the total units of originating materials or non-originating materials that are fungible materials and that were received in materials inventory during that period

by

(b) the sum of

(i) the total units of originating materials and non-originating materials that are fungible materials and that were in materials inventory at the beginning of the period, and

(ii) the total units of originating materials and non-originating materials that are fungible materials and that were received in materials inventory during that period.

(2) The ratio calculated with respect to a period under subsection (1) is applied to the fungible materials remaining in materials inventory at the end of the period.

8. (1) Where the good is subject to a regional value-content requirement and the regional value content of that good is calculated under the transaction value method or the net cost method, the ratio is calculated with respect to each shipment of the good by dividing

(a) the total units of originating materials or non-originating materials that are fungible materials and that were in materials inventory prior to the shipment
by

(b) the total units of originating materials and non-originating materials that are fungible materials and that were in materials inventory prior to the shipment.

(2) The ratio calculated with respect to a shipment of a good under subsection (1) is applied to the fungible materials remaining in materials inventory after the shipment.

Manner of Dealing with Opening Inventory

9. (1) Except as otherwise provided under subsections (2) and (3), where the producer or person referred to in section 3 has fungible materials in opening inventory, the origin of those fungible materials is determined by

(a) identifying, in the books of the producer or person, the latest receipts of fungible materials that add up to the amount of fungible materials in opening inventory;

(b) determining the origin of the fungible materials that make up those receipts; and

(c) considering the origin of those fungible materials to be the origin of the fungible materials in opening inventory.

(2) Where the producer or person chooses the specific identification method and has, in opening inventory, originating materials or non-originating materials that are fungible materials and that are marked with an origin identifier, the origin of those fungible materials is determined on the basis of the origin identifier.

(3) The producer or person may consider all fungible materials in opening inventory to be non-originating materials.

PART II FUNGIBLE GOODS

Definitions and Interpretation

10. For purposes of this Part,

“average method” means the method by which the origin of fungible goods withdrawn from finished goods inventory is based on the ratio, calculated under section 14, of originating goods and non-originating goods in finished goods inventory; (méthode de la moyenne)

“FIFO method” means the method by which the origin of fungible goods first received in finished goods inventory is considered to be the origin of fungible goods first withdrawn from finished goods inventory; (méthode PEPS)

“finished goods inventory” means an inventory from which fungible goods are sold or otherwise transferred to another person; (stock de produits finis)

“LIFO method” means the method by which the origin of fungible goods last received in finished goods inventory is considered to be the origin of fungible goods first withdrawn from finished goods inventory; (méthode DEPS)

“opening inventory” means the finished goods inventory at the time an inventory management method is chosen; (stock d’ouverture)

“origin identifier” means any mark that identifies fungible goods as originating goods or non-originating goods. (identificateur d’origine)

General

11. The inventory management methods for determining whether fungible goods referred to in paragraph 7(16)(b) of these Regulations are originating goods are the following:

(a) specific identification method;

(b) FIFO method;

- (c) LIFO method; and
- (d) average method.

12. Where an exporter of a good or a person from whom the exporter acquired the good chooses an inventory management method referred to in section 11, that method, including the averaging period chosen in the case of the average method, shall be used from the time the choice is made until the end of the fiscal year of the exporter or person.

Specific Identification Method

13. (1) Except as provided under subsection (2), where the exporter or person referred to in section 12 chooses the specific identification method, the exporter or person shall physically segregate, in finished goods inventory, originating goods that are fungible goods from non-originating goods that are fungible goods.

(2) Where originating goods or non-originating goods that are fungible goods are marked with an origin identifier, the exporter or person need not physically segregate those goods under subsection (1) if the origin identifier is visible on the fungible goods.

Average Method

14. (1) Where the exporter or person referred to in section 12 chooses the average method, the origin of each shipment of fungible goods withdrawn from finished goods inventory during a one-month or three-month period, at the choice of the exporter or person, is determined on the basis of the ratio of originating goods and non-originating goods in finished goods inventory for the preceding one-month or three-month period that is calculated by dividing

- (a) the sum of
 - (i) the total units of originating goods or non-originating goods that are fungible goods and that were in finished goods inventory at the beginning of the preceding one-month or three-month period, and
 - (ii) the total units of originating goods or non-originating goods that are fungible goods and that were received in finished goods inventory during that preceding one-month or three-month period
- by
- (b) the sum of
 - (i) the total units of originating goods and non-originating goods that are fungible goods and that were in finished goods inventory at the beginning of the preceding one-month or three-month period, and

- (ii) the total units of originating goods and non-originating goods that are fungible goods and that were received in finished goods inventory during that preceding one-month or three-month period.

(2) The ratio calculated with respect to a preceding one-month or three-month period under subsection (1) is applied to the fungible goods remaining in finished goods inventory at the end of the preceding one-month or three-month period.

Manner of Dealing with Opening Inventory

15. (1) Except as otherwise provided under subsections (2) and (3), where the exporter or person referred to in section 12 has fungible goods in opening inventory, the origin of those fungible goods is determined by

- (a) identifying, in the books of the exporter or person, the latest receipts of fungible goods that add up to the amount of fungible goods in opening inventory;
- (b) determining the origin of the fungible goods that make up those receipts; and
- (c) considering the origin of those fungible goods to be the origin of the fungible goods in opening inventory.

(2) Where the exporter or person chooses the specific identification method and has, in opening inventory, originating goods or non-originating goods that are fungible goods and that are marked with an origin identifier, the origin of those fungible goods is determined on the basis of the origin identifier.

(3) The exporter or person may consider all fungible goods in opening inventory to be non-originating goods.

APPENDIX A

“EXAMPLES” ILLUSTRATING THE APPLICATION OF THE INVENTORY MANAGEMENT METHODS TO DETERMINE THE ORIGIN OF FUNGIBLE MATERIALS

The following examples are based on the figures set out in the table below and on the following assumptions:

- (a) *originating Material A and non-originating Material A that are fungible materials are used in the production of Good A;*
- (b) *one unit of Material A is used to produce one unit of Good A;*
- (c) *Material A is only used in the production of Good A;*
- (d) *all other materials used in the production of Good A are originating materials; and*

(e) the producer of Good A exports all shipments of Good A to the territory of a CCFTA country.

MATERIALS INVENTORY (RECEIPTS OF MATERIAL A)			SALES (SHIPMENTS OF GOOD A)	
DATE (M/D/Y)	QUANTITY (UNITS)	UNIT COST*	TOTAL VALUE	QUANTITY (UNITS)
05/18/97	100 (O1)	\$1.00	\$100	
05/27/97	100 (N2)	1.10	110	
06/01/97	200 (O13)			
06/01/97	1,000 (O)	1.00	1,000	
06/05/97	1,000 (N)	1.10	1,100	
06/10/97				100
06/10/97	1,000 (O)	1.05	1,050	
06/15/97				700
06/16/97	2,000 (N)	1.10	2,200	
06/20/97				1,000
06/23/97				900

* unit cost is determined in accordance with section 7 of these Regulations

1 "O" denotes originating materials

2 "N" denotes non-originating materials

3 "OI" denotes opening inventory

Example 1: FIFO method

Good A is subject to a regional value-content requirement. Producer A is using the transaction value method to determine the regional value content of Good A.

By applying the FIFO method:

(1) the 100 units of originating Material A in opening inventory that were received in materials inventory on 05/18/97 are considered to have been used in the production of the 100 units of Good A shipped on 06/10/97; therefore, the value of non-originating materials used in the production of those goods is considered to be \$0;

(2) the 100 units of non-originating Material A in opening inventory that were received in materials inventory on 05/27/97 and 600 units of the 1,000 units of originating Material A that were received in materials inventory on 06/01/97 are considered to have been used in the production of the 700 units of Good A shipped on 06/15/97; therefore, the value of non-originating materials used in the production of those goods is considered to be \$110 (100 units × \$1.10);

(3) the remaining 400 units of the 1,000 units of originating Material A that were received in materials inventory on 06/01/97 and 600 units of the 1,000 units of non-originating Material A that were received in materials inventory on 06/05/97 are considered to have been used in the production of the 1,000 units of Good A shipped on

06/20/97; therefore, the value of non-originating materials used in the production of those goods is considered to be \$660 (600 units × \$1.10); and

(4) the remaining 400 units of the 1,000 units of non-originating Material A that were received in materials inventory on 06/05/97 and 500 units of the 1,000 units of originating Material A that were received in materials inventory on 06/10/97 are considered to have been used in the production of the 900 units of Good A shipped on 06/23/97; therefore, the value of non-originating materials used in the production of those goods is considered to be \$440 (400 units × \$1.10).

Example 2: LIFO method

Good A is subject to a change in tariff classification requirement and the non-originating Material A used in the production of Good A does not undergo the applicable change in tariff classification. Therefore, where originating Material A is used in the production of Good A, Good A is an originating good and, where non-originating Material A is used in the production of Good A, Good A is a non-originating good.

By applying the LIFO method:

(1) 100 units of the 1,000 units of non-originating Material A that were received in materials inventory on 06/05/97 are considered to have been used in the production of the 100 units of Good A shipped on 06/10/97;

(2) 700 units of the 1,000 units of originating Material A that were received in materials inventory on 06/10/97 are considered to have been used in the production of the 700 units of Good A shipped on 06/15/97;

(3) 1,000 units of the 2,000 units of non-originating Material A that were received in materials inventory on 06/16/97 are considered to have been used in the production of the 1,000 units of Good A shipped on 06/20/97; and

(4) 900 units of the remaining 1,000 units of non-originating Material A that were received in materials inventory on 06/16/97 are considered to have been used in the production of the 900 units of Good A shipped on 06/23/97.

Example 3: Average method

Good A is subject to an applicable regional value-content requirement. Producer A is using the transaction value method to determine the regional value content of Good A. Producer A determines the average value of non-originating Material A and the ratio of originating Material A to total value of originating Material A and non-originating Material A in the following table.

(Refer to EXAMPLE A on page 63)

By applying the average method:

(1) before the shipment of the 100 units of Material A on 06/10/97, the ratio of units of originating Material A to total units of Material A in materials inventory was .50 (1,100 units / 2,200 units) and the ratio of units of non-originating Material A to total units of Material A in materials inventory was .50 (1,100 units/2,200 units);

based on those ratios, 50 units (100 units \times .50) of originating Material A and 50 units (100 units \times .50) of non-originating Material A are considered to have been used in the production of the 100 units of Good A shipped on 06/10/97; therefore, the value of non-originating Material A used in the production of those goods is considered to be \$52.50 [100 units \times \$1.05 (average unit value) \times .50];

the ratios are applied to the units of Material A remaining in materials inventory after the shipment: 1,050 units (2,100 units \times .50) are considered to be originating materials and 1,050 units (2,100 units \times .50) are considered to be non-originating materials;

(2) before the shipment of the 700 units of Good A on 06/15/97, the ratio of units of originating Material A to total units of Material A in materials inventory was 66% (2,050 units / 3,100 units) and the ratio of units of non-originating Material A to total units of Material A in materials inventory was 34% (1,050 units/3,100 units);

based on those ratios, 462 units (700 units \times .66) of originating Material A and 238 units (700 units \times .34) of non-originating Material A are considered to have been used in the production of the 700 units of Good A shipped on 06/15/97; therefore, the value of non-originating Material A used in the production of those goods is considered to be \$249.90 [700 units \times \$1.05 (average unit value) \times 34%];

the ratios are applied to the units of Material A remaining in materials inventory after the shipment: 1,584 units (2,400 units \times .66) are considered to be originating materials and 816 units (2,400 units \times .34) are considered to be non-originating materials;

(3) before the shipment of the 1,000 units of Material A on 06/20/97, the ratio of units of originating Material A to total units of Material A in materials inventory was 36% (1,584 units / 4,400 units) and the ratio of units of non-originating Material A to total units of Material A in materials inventory was 64% (2,816 units / 4,400 units);

based on those ratios, 360 units (1,000 units \times .36) of originating Material A and 640 units (1,000 units \times .64) of non-originating Material A are considered to have been used in the production of the 1,000 units of Good A shipped on 06/20/97; therefore, the value of non-originating Material A used in the production of those goods is considered to be \$684.80 [1,000 units \times \$1.07 (average unit value) \times 64%];

those ratios are applied to the units of Material A remaining in materials inventory after the shipment: 1,224 units (3,400 units \times .36) are considered to be originating materials and 2,176 units (3,400 units \times .64) are considered to be non-originating materials;

(4) before the shipment of the 900 units of Good A on 06/23/97, the ratio of units of originating Material A to total units of Material A in materials inventory was 36% (1,224 units / 3,400 units) and the ratio of units of non-originating Material A to total units of Material A in materials inventory was 64% (2,176 units / 3,400 units);

based on those ratios, 324 units (900 units \times .36) of originating Material A and 576 units (900 units \times .64) of non-originating Material A are considered to have been used in the production of the 900 units of Good A shipped on 06/23/97; therefore, the value of non-originating Material A used in the production of those goods is considered to be \$616.32 [900 units \times \$1.07 (average unit value) \times 64%];

those ratios are applied to the units of Material A remaining in materials inventory after the shipment: 900 units (2,500 units \times .36) are considered to be originating materials and 1,600 units (2,500 units \times .64) are considered to be non-originating materials.

Example 4: Average method

Good A is subject to an applicable regional value-content requirement. Producer A is using the net cost method and is averaging over a period of one month under paragraph 6(15)(a) of these Regulations to determine the regional value content of Good A.

By applying the average method:

the ratio of units of originating Material A to total units of Material A in materials inventory for June 1997 is 40.4% (2,100 units / 5,200 units);

based on that ratio, 1,091 units (2,700 units \times .404) of originating Material A and 1,609 units (2,700 units - 1,091 units) of non-originating Material A are considered to have been used in the production of the 2,700 units of Good A shipped in June 1997; therefore, the value of non-originating materials used in the production of those goods is considered to be \$0.64 per unit [$\$5,560$ (total value of Material A in materials inventory)/5,200 (units of Material A in materials inventory) = \$1.07 (average unit value) \times (1 - .404)] or \$1,728 ($\$0.64 \times 2,700$ units); and

that ratio is applied to the units of Material A remaining in materials inventory on June 30, 1997: 1,010 units (2,500 units \times .404) are considered to be originating materials and 1,490 units (2,500 units - 1,010 units) are considered to be non-originating materials.

APPENDIX B

"EXAMPLES" ILLUSTRATING THE APPLICATION OF THE
INVENTORY MANAGEMENT METHODS TO DETERMINE
THE ORIGIN OF FUNGIBLE GOODS

The following examples are based on the figures set out in the table below and on the assumption that Exporter A acquires originating Good A and non-originating Good A that are fungible goods and physically combines or mixes Good A before exporting those goods to the buyer of those goods.

FINISHED GOODS INVENTORY (RECEIPTS OF GOOD A)		SALES (SHIPMENTS OF GOOD A)
DATE (M/D/Y)	QUANTITY (UNITS)	QUANTITY (UNITS)
05/18/97	100 (O1)	
05/27/97	100 (N2)	
06/01/97	200 (O13)	
06/01/97	1,000 (O)	
06/05/97	1 000 (N)	
06/10/97		100
06/10/97	1,000 (O)	
06/15/97		700
06/16/97	2,000 (N)	
06/20/97		1,000
06/23/97		900

1 "O" denotes originating goods

2 "N" denotes non-originating goods

3 "O1" denotes opening inventory

Example 1: FIFO method

By applying the FIFO method:

(1) the 100 units of originating Good A in opening inventory that were received in finished goods inventory on 05/18/97 are considered to be the 100 units of Good A shipped on 06/10/97;

(2) the 100 units of non-originating Good A in opening inventory that were received in finished goods inventory on 05/27/97 and 600 units of the 1,000 units of originating Good A that were received in finished goods inventory on 06/01/97 are considered to be the 700 units of Good A shipped on 06/15/97;

(3) the remaining 400 units of the 1,000 units of originating Good A that were received in finished goods inventory on 06/01/97 and 600 units of the 1,000 units of non-originating Good A that were received in finished goods inventory on 06/05/97 are considered to be the 1,000 units of Good A shipped on 06/20/97; and

(4) the remaining 400 units of the 1,000 units of non-originating Good A that were received in finished goods inventory on 06/05/97 and 500 units of the 1,000 units of

originating Good A that were received in finished goods inventory on 06/10/97 are considered to be the 900 units of Good A shipped on 06/23/97.

Example 2: LIFO method

By applying the LIFO method:

(1) 100 units of the 1,000 units of non-originating Good A that were received in finished goods inventory on 06/05/97 are considered to be the 100 units of Good A shipped on 06/10/97;

(2) 700 units of the 1,000 units of originating Good A that were received in finished goods inventory on 06/10/97 are considered to be the 700 units of Good A shipped on 06/15/97;

(3) 1,000 units of the 2,000 units of non-originating Good A that were received in finished goods inventory on 06/16/97 are considered to be the 1,000 units of Good A shipped on 06/20/97; and

(4) 900 units of the remaining 1,000 units of non-originating Good A that were received in finished goods inventory on 06/16/97 are considered to be the 900 units of Good A shipped on 06/23/97.

Example 3: Average method

Exporter A chooses to determine the origin of Good A on a monthly basis. Exporter A exported 3,000 units of Good A during the month of July 1997. The origin of the units of Good A exported during that month is determined on the basis of the preceding month, that is June 1997.

By applying the average method:

the ratio of originating goods to all goods in finished goods inventory for the month of June 1997 is 40.4% (2,100 units / 5,200 units);

based on that ratio, 1,212 units (3,000 units x .404) of Good A shipped in July 1997 are considered to be originating goods and 1,788 units (3,000 units - 1,212 units) of Good A are considered to be non-originating goods; and

that ratio is applied to the units of Good A remaining in finished goods inventory on June 30, 1997: 1,010 units (2,500 units x .404) are considered to be originating goods and 1,490 units (2,500 units - 1,010 units) are considered to be non-originating goods.

SCHEDULE X
METHODS OF COMPARISON FOR PURPOSES
OF SUBSECTION 6(14)
(NON-ALLOWABLE INTEREST COSTS)

PART I
PRODUCERS LOCATED IN CANADA

Definitions and Interpretation

1. For purposes of this Part,

“fixed-rate contract” means a loan contract, instalment purchase contract or other financing agreement in which the interest rate remains constant throughout the life of the contract or agreement; (contrat à taux fixe)

“linear interpolation” means, with respect to the yield on national government debt obligations, the application of the following mathematical formula:

$$A + \left[\frac{(B - A) \times (E - D)}{C - D} \right]$$

where

A is the yield on national government debt obligations that are nearest in maturity but of shorter maturity than the weighted average principal maturity of the payment schedule under the fixed-rate contract or variable-rate contract to which they are being compared,

B is the yield on national government debt obligations that are nearest in maturity but of greater maturity than the weighted average principal maturity of that payment schedule,

C is the maturity of national government debt obligations that are nearest in maturity but of greater maturity than the weighted average principal maturity of that payment schedule,

D is the maturity of national government debt obligations that are nearest in maturity but of shorter maturity than the weighted average principal maturity of that payment schedule, and

E is the weighted average principal maturity of that payment schedule;
(interpolation linéaire)

“payment schedule” means the schedule of payments, whether on a weekly, bi-weekly, monthly, yearly or other basis, of principal and interest, or any combination thereof, made by a producer to a lender in accordance with the terms of a fixed-rate contract or variable-rate contract; (échancier)

“variable-rate contract” means a loan contract, instalment purchase contract or other financing agreement in which the interest rate is adjusted at intervals during the life of the contract or agreement in accordance with its terms; (contrat à taux variable)

“weighted average principal maturity” means, with respect to fixed-rate contracts and variable-rate contracts, the number of years, or portion thereof, that is equal to the number obtained by

(a) dividing the sum of the weighted principal payments

(i) in the case of a fixed-rate contract, by the original amount of the loan, and

(ii) in the case of a variable-rate contract, by the principal balance at the beginning of the interest rate period for which the weighted principal payments were calculated, and

(b) rounding the amount determined under paragraph (a) to the nearest single decimal place and, where that amount is the midpoint between two such numbers, to the greater of those two numbers; (échéance moyenne pondérée applicable au principal)

“weighted principal payment” means

(a) with respect to fixed-rate contracts, the amount determined by multiplying each principal payment under the contract by the number of years, or portion thereof, between the date the producer entered into the contract and the date of that principal payment, and

(b) with respect to variable-rate contracts

(i) the amount determined by multiplying each principal payment made during the current interest rate period by the number of years, or portion thereof, between the beginning of that interest rate period and the date of that payment, and

(ii) the amount equal to the outstanding principal owing, but not necessarily due, at the end of the current interest rate period, multiplied by the number of years, or portion thereof, between the beginning and the end of that interest rate period; (paiement de principal pondéré)

“yield on national government debt obligations” means the yield for federal government debt obligations set out in the Bank of Canada’s Weekly Financial Statistics

(a) where the producer’s contract is expressed in pesos and there are national government debt obligations of the same maturity as that of the producer’s contract or, in the case of a variable-rate contract, as that of the interest rate adjustment period of the producer’s contract, the interest rate for *Pagaré Descontable del Banco Central* set out in *Sintesis Monetaria y Financiera* of the Banco Central de Chile, and

(b) in any other case, under the title “Selected Government of Canada benchmark bond yields”

for the week that the producer entered into the contract or the week of the most recent interest rate adjustment date, if any, under the contract. (rendement des titres d'emprunt du gouvernement national)

General

2. For purposes of calculating non-allowable interest costs for a producer located in Canada

(a) with respect to a fixed-rate contract, the interest rate under that contract shall be compared with the yield on national government debt obligations that have maturities of the same length as the weighted average principal maturity of the payment schedule under the contract (that yield determined by linear interpolation, where necessary);

(b) with respect to a variable-rate contract

(i) in which the interest rate is adjusted at intervals of less than or equal to one year, the interest rate under that contract shall be compared with the yield on national government debt obligations that have maturities closest in length to the interest rate adjustment period of the contract, and

(ii) in which the interest rate is adjusted at intervals of greater than one year, the interest rate under the contract shall be compared with the yield on national government debt obligations that have maturities of the same length as the weighted average principal maturity of the payment schedule under the contract (that yield determined by linear interpolation, where necessary); and

(c) with respect to a fixed-rate or variable-rate contract in which the weighted average principal maturity of the payment schedule under the contract is greater than the maturities offered on national government debt obligations, the interest rate under the contract shall be compared to the yield on national government debt obligations that have maturities closest in length to the weighted average principal maturity of the payment schedule under the contract.

PART II PRODUCERS LOCATED IN CHILE

Definitions and Interpretation

3. For purposes of this Part,

“fixed-rate contract” means a loan contract, instalment purchase contract or other financing agreement in which the interest rate remains constant throughout the life of the contract or agreement; (contrat à taux fixe)

“linear interpolation” means, with respect to the yield on national government debt obligations, the application of the following mathematical formula:

$$A + [(B - A) \times (E - D) / (C - D)]$$

where

A is the yield on national government debt obligations that are nearest in maturity but of shorter maturity than the fixed-rate contract or variable-rate contract to which they are being compared,

B is the yield on national government debt obligations that are nearest in maturity but of greater maturity than that contract,

C is the maturity of national government debt obligations that are nearest in maturity but of greater maturity than that contract,

D is the maturity of national government debt obligations that are nearest in maturity but of shorter maturity than that contract, and

E is the maturity of that contract;

(interpolation linéaire)

“variable-rate contract” means a loan contract, instalment purchase contract or other financing agreement in which the interest rate is adjusted at intervals during the life of the contract or agreement in accordance with its terms; (contrat à taux variable)

“yield on national government debt obligations” means

(a) where the producer’s contract is expressed in pesos and there are national government debt obligations of the same maturity as that of the producer’s contract or, in the case of a variable-rate contract, as that of the interest rate adjustment period of the producer’s contract, the interest rate for Pagaré Descontable del Banco Central set out in Sintesis Monetaria y Financiera of the Banco Central de Chile, and

(b) in any other case, the interest rate on national government debt obligations set out in Informe Economico y Financiero, published by the Banco Central de Chile, under the title Tasas de Interes de los Instrumentos del Banco Central de Chile

for the month that the producer entered into the contract or the month of the most recent interest rate adjustment date, if any, under the contract. (rendement des titres d'emprunt du gouvernement national)

General

4. Subject to section 5, for purposes of calculating non-allowable interest costs for a producer located in Chile

(a) with respect to a fixed-rate contract, the interest rate under that contract shall be compared with the

yield on national government debt obligations that have maturities of the same length as that of the contract (that yield determined by linear interpolation, where necessary);

(b) with respect to a variable-rate contract

(i) in which the interest rate is adjusted at intervals of less than or equal to one year, the interest rate under that contract shall be compared with the yield on national government debt obligations that have maturities closest in length to the interest rate adjustment period of the contract, and

(ii) in which the interest rate is adjusted at intervals of greater than one year, the interest rate under the contract shall be compared with the yield on national government debt obligations that have maturities of the same length as that of the contract (that yield determined by linear interpolation, where necessary); and

(c) with respect to a fixed-rate or variable-rate contract in which the maturity of the contract is greater than the maturities offered on national government debt obligations, the interest rate under the contract shall be compared to the yield on national government debt obligations that have maturities closest in length to the maturity of the contract.

5. For purposes of section 4, where the contract is expressed in pesos and there are no national government debt obligations of the same maturity that are expressed in pesos, the interest rate used for comparison purposes shall be the annual interest rate in the contract minus the annual rate of inflation determined on the basis of the annual Consumer Price Index set out in the Boletín Mensual del Banco Central de Chile for the year preceding the month in which the producer entered into the contract.

APPENDIX

“EXAMPLE” ILLUSTRATING THE APPLICATION OF THE METHOD FOR CALCULATING NON-ALLOWABLE INTEREST COSTS IN THE CASE OF A FIXED-RATE CONTRACT ENTERED INTO BY A PRODUCER LOCATED IN CANADA

The following example is based on the figures set out in the table below and on the following assumptions:

(a) a producer located in Canada borrows \$1,000,000 under a fixed-rate contract;

(b) under the terms of the contract, the loan is payable in 10 years with interest paid at the rate of 6 per cent per year on the declining principal balance; and

(c) the payment schedule calculated by the lender based on the terms of the contract requires the producer to make

annual payments of principal and interest of \$135,867.36 over the life of the contract.

(Refer to EXAMPLE B on page 64)

By applying the above method,

(1) the weighted average principal maturity of the contract is calculated by dividing the sum of the weighted principal payments by the original loan amount and rounding the amount determined to the nearest decimal place — $\$5,977,993.19 / \$1,000,000 = 5.977993$ or 6 years;

(2) there are no national government debt obligations that have maturities equal to the 6-year weighted average principal maturity of the contract;

(3) the national government debt obligations that are nearest in maturity to the weighted average principal maturity of the contract are of 5- and 7-year maturities, and the yields on them are 4.7 per cent and 5.0 per cent, respectively;

(4) the yields on the closest maturities for comparable national government debt obligations of 5 years and 7 years are 4.7 per cent and 5.0 per cent, respectively; therefore, using linear interpolation, the yield on a national government debt obligation that has a maturity equal to the weighted average principal maturity of the contract is 4.85 per cent. This number is calculated as follows:

$$\begin{aligned} & 4.7 + [(5.0 - 4.7) \times (6 - 5)] / (7 - 5)] \\ & = 4.7 + 0.15 \\ & = 4.85\%; \text{ and} \end{aligned}$$

(5) the producer's contract interest rate of 6 per cent is less than the yield on the comparable national government debt obligations plus 700 basis points (4.85 per cent + 7.00 per cent = 11.85 per cent); therefore, none of the producer's interest costs are considered to be non-allowable interest costs for purposes of the definition “non-allowable interest costs”.

“EXAMPLE” ILLUSTRATING THE APPLICATION OF THE METHOD FOR CALCULATING NON-ALLOWABLE INTEREST COSTS IN THE CASE OF A VARIABLE-RATE CONTRACT ENTERED INTO BY A PRODUCER LOCATED IN CANADA

The following example is based on the figures set out in the tables below and on the following assumptions:

(a) a producer located in Canada borrows \$1,000,000 from a person in Canada under a variable-rate contract;

(b) under the terms of the contract, the loan is payable in 10 years with interest paid at the rate of 6 per cent per year for the first two years and 8 per cent per year for the next two years on the principal balance, with rates adjusted each two years after that; and

(c) the payment schedule calculated by the lender based on the terms of the contract requires the producer to make annual payments of principal and interest of \$135,867.96 for the first two years of the loan, and of \$146,818.34 for the next two years of the loan.

(Refer to EXAMPLE C on page 65)

By applying the above method:

(1) the weighted average principal maturity of the payment schedule of the first two years of the contract is $\$1,924,132.04 / \$1,000,000 = 1.92413204$ or 1.9 years;

(2) there are no national government debt obligations that have maturities equal to the 1.9-year weighted average principal maturity of the first two years of the contract;

(3) the national government debt obligations that are nearest in maturity to the weighted average principal maturity of the contract are 1- and 2-year maturities, and the yields on them are 3.0 per cent and 3.5 per cent respectively;

(4) the yield on the closest maturities of national government debt obligations of 1 year and 2 years are 3.0 and 3.5 per cent, respectively; therefore, using linear interpolation, the yield on a national government debt obligation that has a maturity equal to the weighted average principal maturity of the payment schedule of the first two years of the contract is 3.45 per cent. This amount is calculated as follows:

$$\begin{aligned} & 3.0 + [(3.5 - 3.0) \times (1.9 - 1.0)] / (2.0 - 1.0) \\ & = 3.0 + 0.45 \\ & = 3.45\%; \text{ and} \end{aligned}$$

(5) the producer's contract rate of 6 per cent for the first two years of the loan is less than the yield on the comparable national government debt obligations plus 700 basis points (3.45 per cent + 7.00 per cent = 10.45 per cent); therefore, none of the producer's interest costs for the first two years of the loan are considered to be non-allowable interest costs for purposes of the definition "non-allowable interest costs".

(Refer to EXAMPLE D on page 65)

By applying the above method:

(1) the weighted average principal maturity of the payment schedule under the third and fourth years of the contract is $\$1,608,102.62 / \$843,712.01 = 1.905985$ or 1.9 years;

(2) there are no national government debt obligations that have maturities equal to the 1.9-year weighted average principal maturity of the third and fourth years of the contract;

(3) the national government debt obligations that are nearest in maturity to the weighted average principal maturity of the third and fourth years of the contract are

1- and 2-year maturities, and the yields on them are 3.0 per cent and 3.5 per cent respectively;

(4) the national government debt obligations that are nearest in maturities to the weighted average principal maturity of the third and fourth years of the contract are 1- and 2-year maturities, and the yields on them are 3.0 and 3.5 per cent, respectively; therefore, using linear interpolation, the yield on a national government debt obligation that has a maturity equal to the weighted average principal maturity of the payment schedule of the third and fourth years of the contract is 3.45 per cent. This amount is calculated as follows:

$$\begin{aligned} & 3.0 + [(3.5 - 3.0) \times (1.9 - 1.0)] / (2.0 - 1.0) \\ & = 3.0 + 0.45 \\ & = 3.45\%; \text{ and} \end{aligned}$$

(5) the producer's contract interest rate, for the third and fourth years of the loan, of 8 per cent is less than the yield on comparable national government debt obligations plus 700 basis points (3.45 per cent + 7.00 per cent = 10.45); therefore, none of the producer's interest costs for the third and fourth year are considered to be non-allowable interest costs for purposes of the definition "non-allowable interest costs".

SCHEDULE XI

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

1. Generally Accepted Accounting Principles means the recognized consensus or substantial authoritative support in the territory of a CCFTA country with respect to the recording of revenues, expenses, costs, assets and liabilities, disclosure of information and preparation of financial statements. These standards may be broad guidelines of general application as well as detailed standards, practices and procedures.

2. For purposes of Generally Accepted Accounting Principles, the recognized consensus or authoritative support are referred to or set out in the following publications:

(a) with respect to the territory of Canada, The Canadian Institute of Chartered Accountants Handbook, as updated from time to time; and

(b) with respect to the territory of Chile, El Boletín Técnico No. 1 del Colegio de Contadores de Chile, as updated from time to time.

EXAMPLE A*MATERIAL INVENTORY**SALES**(RECEIPTS OF MATERIAL A)**(NON-ORIGINATING MATERIAL)**(SHIPMENTS OF GOOD A)*

	<i>DATE (M/D/Y)</i>	<i>QUANTITY (UNITS)</i>	<i>TOTAL VALUE</i>	<i>UNIT COST*</i>	<i>QUANTITY (UNITS)</i>	<i>TOTAL VALUE</i>	<i>RATIO</i>	<i>QUANTITY (UNITS)</i>
<i>Receipt</i>	<i>05/18/97</i>	<i>100 (O1)</i>	<i>\$100</i>	<i>\$1.00</i>				
<i>Receipt</i>	<i>05/27/97</i>	<i>100 (N2)</i>	<i>110</i>	<i>1.10</i>	<i>100</i>	<i>\$110.00</i>		
<i>NEW AVG INV VALUE</i>		<i>200 (O13)</i>	<i>210</i>	<i>1.05</i>	<i>100</i>	<i>105.00</i>	<i>0.50</i>	
<i>Receipt</i>	<i>06/01/97</i>	<i>1,000 (O)</i>	<i>1,000</i>	<i>1.00</i>				
<i>NEW AVG INV VALUE</i>		<i>1,200</i>	<i>1,210</i>	<i>1.01</i>	<i>100</i>	<i>101.00</i>	<i>0.08</i>	
<i>Receipt</i>	<i>06/05/97</i>	<i>1,000 (N)</i>	<i>1,100</i>	<i>1.10</i>	<i>1,000</i>	<i>1,100.00</i>		
<i>NEW AVG INV VALUE</i>		<i>2,200</i>	<i>2,310</i>	<i>1.05</i>	<i>1,100</i>	<i>1,155.00</i>	<i>0.50</i>	
<i>Shipment</i>	<i>06/10/97</i>	<i>(100)</i>	<i>(105)</i>	<i>1.05</i>	<i>(50)</i>	<i>(52.50)</i>		<i>100</i>
<i>Receipt</i>	<i>06/10/97</i>	<i>1,000 (O)</i>	<i>1,050</i>	<i>1.05</i>				
<i>NEW AVG INV VALUE</i>		<i>3,100</i>	<i>3,255</i>	<i>1.05</i>	<i>1,050</i>	<i>1,102.50</i>	<i>0.34</i>	
<i>Shipment</i>	<i>06/15/97</i>	<i>(700)</i>	<i>(735)</i>	<i>1.05</i>	<i>(238)</i>	<i>(249.90)</i>		<i>700</i>
<i>Receipt</i>	<i>06/16/97</i>	<i>2,000 (N)</i>	<i>2,200</i>	<i>1.10</i>	<i>2,000</i>	<i>2,200.00</i>		
<i>NEW AVG INV VALUE</i>		<i>4,400</i>	<i>4,720</i>	<i>1.07</i>	<i>2,812</i>	<i>3,008.84</i>	<i>0.64</i>	
<i>Shipment</i>	<i>06/20/97</i>	<i>(1,000)</i>	<i>(1,070)</i>	<i>1.07</i>	<i>(640)</i>	<i>(684.80)</i>		<i>1,000</i>
<i>Shipment</i>	<i>06/23/97</i>	<i>(900)</i>	<i>(963)</i>	<i>1.07</i>	<i>(576)</i>	<i>(616.32)</i>		<i>900</i>
<i>NEW AVG INV VALUE</i>		<i>2,500</i>	<i>2,687</i>	<i>1.07</i>	<i>1,596</i>	<i>1,707.24</i>	<i>0.64</i>	

* unit cost is determined in accordance with section 7 of these Regulations

1 "O" denotes originating materials

2 "N" denotes non-originating materials

3 "OI" denotes opening inventory

EXAMPLE B

<i>Years of Loan</i>	<i>Principle Balance¹</i>	<i>Interest Payment²</i>	<i>Principal Payment³</i>	<i>Payment Schedule</i>	<i>Weighted Principal Payment⁴</i>
1	\$924,132.04	\$60,000.00	\$75,867.96	\$135,867.96	\$75,867.96
2	843,712.00	55,447.92	80,420.04	135,867.96	160,840.08
3	758,466.76	50,622.72	85,245.24	135,867.96	255,735.72
4	668,106.81	45,508.01	90,359.95	135,867.96	361,439.82
5	572,325.26	40,086.41	95,781.55	135,867.96	478,907.76
6	470,796.81	34,339.52	101,528.44	135,867.96	609,170.67
7	363,176.66	28,247.81	107,620.15	135,867.96	753,341.06
8	249,099.30	21,790.60	114,077.36	135,867.96	912,618.88
9	128,177.30	14,945.96	120,922.00	135,867.96	1,088,298.02
10	(0.00)	7,690.66	128,177.32	135,867.96	<u>1,281,773.22</u>
					\$5,977,993.19

1 the principal balance represents the loan balance at the end of each full year the loan is in effect and is calculated by subtracting the current year's principal payment from the prior year's ending loan balance

2 interest payments are calculated by multiplying the prior year's ending loan balance by the contract interest rate of 6 per cent

3 principal payments are calculated by subtracting the current year's interest payments from the annual payment schedule amount

4 the weighted principal payment is determined by, for each year of the loan, multiplying that year's principal payment by the number of years the loan had been in effect at the end of that year

EXAMPLE C

<i>Beginning of Year</i>	<i>Principal Balance</i>	<i>Interest Rate (%)</i>	<i>Interest Payment</i>	<i>Principal Payment</i>	<i>Payment Schedule</i>	<i>Weighted Principal Payment</i>
1	\$1,000,000.00	6.00	\$60,000.00	\$75,867.96	\$135,867.96	\$ 75,867.96
2	924,132.04	6.00	55,447.92	80,420.04	135,867.96	<u>1,848,264.08</u>
						\$1,924,132.04

EXAMPLE D

<i>Beginning of Year</i>	<i>Principal Balance</i>	<i>Interest Rate (%)</i>	<i>Interest Payment</i>	<i>Principal Payment</i>	<i>Payment Schedule</i>	<i>Weighted Principal Payment</i>
1	\$1,000,000.00	6.00	\$60,000.00	\$75,867.96	\$135,867.96	
2	924,132.04	6.00	55,447.92	80,420.04	135,867.96	
3	843,712.01	8.00	67,496.96	79,321.38	146,818.34	\$ 79,321.38
4	764,390.62	8.00	61,151.25	85,667.09	146,818.34	<u>1,528,781.24</u>
						\$1,608,102.62

REFERENCES

<p>ISSUING OFFICE –</p> <p>Origin and Valuation Division Trade Programs Directorate Admissibility Branch</p>	<p>HEADQUARTERS FILE –</p>
<p>LEGISLATIVE REFERENCES –</p> <p>Order in Council P.C. 1997-971, SOR/97-340, July 4, 1997 Order in Council P.C. 2001-376, SOR/2001-108, March 15, 2001 Order in Council P.C. 2004-1497, SOR/2004-298, December 7, 2004</p>	<p>OTHER REFERENCES –</p> <p><i>D11-5-5, CCFTA Rules of Origin Regulations – Amendments to Schedule I – Specific Rules of Origin</i></p>
<p>SUPERSEDED MEMORANDA “D” –</p> <p>N/A</p>	

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