

CHAPTER THREE

NATIONAL TREATMENT AND MARKET ACCESS FOR GOODS

Article 3.1: Scope of Coverage

This Chapter applies to trade in goods of a Party, including goods covered by Annex 3.1, except as otherwise provided in this Agreement.

Section A – Definitions

Article 3.2: Definitions

For the purposes of this Chapter:

advertising films means a recorded visual media, with or without a soundtrack, consisting essentially of images showing the nature or operation of a good or service offered for sale or lease by a person established or resident in the territory of a Party, provided that the film is:

- (a) of a kind suitable for exhibition to prospective customers but not for broadcast to the general public, and
- (b) imported in a packet that does not contain more than one copy of each film and that does not form part of a larger consignment;

Agreement on Agriculture means the *Agreement on Agriculture*, of the WTO Agreement;

Agreement on Import Licensing Procedures means the *Agreement on Import Licensing Procedures*, of the WTO Agreement;

agricultural good means a product listed in Annex 1 of the Agreement on Agriculture;

agricultural safeguard measure means an additional customs duty permitted under Article 3.15(1);

commercial sample of negligible value means a commercial sample having a value, individually or in the aggregate as shipped, of not more than 1 U.S. dollar, or the equivalent amount in the currency of a Party, or so marked, torn, perforated or otherwise treated so that it is unsuitable for sale or for use except as a commercial sample;

commercial sample means:

- (a) a good that is:
 - (i) representative of a particular category of good produced outside the territory of a Party, and
 - (ii) imported only for the purpose of being exhibited or demonstrated to solicit orders for a similar good to be supplied from outside the territory of a Party; or
- (b) a film, chart, projector, scale model or similar item, imported only for the purpose of illustrating a particular category of good produced outside the territory of a Party to solicit orders for a similar good to be supplied from outside the territory of a Party;

consumed means:

- (a) actually consumed, or
- (b) further processed or manufactured so as to result in a substantial change in value, form or use of the good or in the production of another good;

distilled spirits include distilled spirits and distilled spirit-containing beverages;

duty-free means free of customs duties;

export subsidies for agricultural goods means export subsidies as defined in Article 1(e) of the Agreement on Agriculture;

good imported for sports purposes means a sports good required for use in a sports contest, demonstration, or training in the territory of the Party into whose territory that good is imported;

good intended for display or demonstration includes its component parts, ancillary apparatus, and accessories;

printed advertising material means a good classified in Chapter 49 of the Harmonized System including a brochure, pamphlet, leaflet, trade catalogue, yearbook published by trade associations, tourist promotional material, and poster, that is:

- (a) used to promote, publicize, or advertise a good or service,
- (b) essentially intended to advertise a good or service, and
- (c) supplied free of charge;

year 1 means the year this Agreement enters into force as provided in Article 23.4 (Final provisions – Entry into Force); and

TRQ means a tariff rate quota described in Annex 3.4.2.

Section B - National Treatment

Article 3.3: National Treatment

1. Each Party shall accord national treatment to the goods of the other Party in accordance with Article III of the GATT 1994, and to this end Article III of the GATT 1994 is incorporated into and made part of this Agreement.

2. The treatment to be accorded by a Party under paragraph 1 means, with respect to a sub-national government, treatment no less favourable than the most favourable treatment accorded by that sub-national government to a like, directly competitive, or substitutable good of the Party of which it forms a part. For the purposes of this paragraph, “goods of a Party” includes goods produced in the territory of the sub-national government of that Party.
3. Paragraphs 1 and 2 do not apply to a measure set out in Annex 3.3.

Section C – Tariffs

Article 3.4: Tariff Elimination

1. Except as otherwise provided in this Agreement, a Party may not increase any existing customs duty, or adopt any customs duty, on an originating good.
2. Except as otherwise provided in this Agreement, each Party shall progressively eliminate its customs duties on originating goods in accordance with its Schedule to Annex 3.4.1.
3. Each Party shall apply to an originating good the lesser of:
 - (a) the customs duties rate established in accordance with its Schedule to Annex 3.4.1; or
 - (b) the existing rate pursuant to Article II of GATT 1994.
4. For greater certainty, a Party may:
 - (a) modify a tariff outside this Agreement on a good for which a tariff preference is not claimed under this Agreement;

- (b) raise a customs duty to the level applicable under its Schedule to Annex 3.4.1 following a unilateral reduction; or
- (c) maintain or increase a customs duty as authorized by a dispute settlement provision of the WTO Agreement.

5. At the request of a Party, the Parties shall discuss accelerating the elimination of customs duties set out in their Schedules or incorporating into a Party's Schedule to Annex 3.4.1 a good that is not subject to tariff elimination. An agreement between the Parties to accelerate the elimination of a customs duty on a good or to include a good in a Schedule to Annex 3.4.1 shall supersede a duty rate or staging category determined pursuant to that Schedule for that good when approved by each Party in accordance with its applicable legal procedures.

6. Except as otherwise provided in this Agreement, a Party shall establish a TRQ set out in Annex 3.4.2. A Party may adopt or maintain import measures to allocate in-quota imports made pursuant to a TRQ set out in Annex 3.4.2, provided that such measures comply with Article 3.16.

Article 3.5: Export Contingent Programs

The Parties agree that in their reciprocal trade they shall maintain their rights and obligations according to the *Agreement on Subsidies and Countervailing Measures* of the WTO Agreement.

Article 3.6: Temporary Admission of Goods

1. Each Party shall grant duty-free temporary admission for the following goods admitted from the territory of the other Party, regardless of their origin and regardless of whether a like, directly competitive, or substitutable good is available in the territory of the importing Party:

- (a) professional equipment necessary for carrying out the business activity, trade or profession of a business person who qualifies for temporary entry pursuant to Chapter Fourteen (Temporary Entry for Business Persons);

- (b) equipment for the press, equipment for sound or television broadcasting, and cinematographic equipment;
- (c) a good imported for sports purposes and a good intended for display or demonstration; and
- (d) a commercial sample and advertising films.

2. Except as otherwise provided in this Agreement, a Party may not impose a condition on the duty-free temporary admission of a good referred to in paragraph 1(a), (b) or (c), other than to require that the good:

- (a) be imported by a national or resident of the other Party who seeks temporary entry;
- (b) be used only by or under the personal supervision of that person in the exercise of the business activity, sport, trade, or profession of that person;
- (c) not be sold or leased while in its territory;
- (d) be accompanied by a bond in an amount no greater than 110% of the charges that would otherwise be owed on entry or final importation, or by another form of security, releasable on exportation of the good, except that a bond for customs duties shall not be required for an originating good;
- (e) be capable of identification when exported;
- (f) be exported on the departure of that person or within another period of time that is reasonably related to the purpose of the temporary importation; and
- (g) be imported in a quantity no greater than is reasonable for its intended use.

3. If another form of monetary security is used under sub-paragraph 2(d), it shall not be a more burdensome form of security than a bonding requirement referred to in that sub-paragraph. If a Party requires a non-monetary form of security, it shall not require a more burdensome form of security than existing forms of security used by that Party.

4. Except as otherwise provided in this Agreement, a Party may not impose a condition on the duty-free temporary admission of a good referred to in paragraph 1(d), other than to require that such good:
 - (a) be imported only for the solicitation of orders for a good or service provided from the territory of the other Party or a non-Party;
 - (b) not be sold, leased, or used for anything other than exhibition or demonstration while in its territory;
 - (c) be capable of identification when exported;
 - (d) be exported within a period that is reasonably related to the purpose of the temporary importation; and
 - (e) be imported in a quantity no greater than is reasonable for its intended use.

5. If a good is temporarily admitted duty-free under paragraph 1 and a condition that a Party imposes under paragraph 2 or 3 has not been fulfilled, that Party may impose:
 - (a) the customs duty and any other charge that would be owed on entry or final importation of the good; and
 - (b) any applicable criminal, civil, or administrative penalties that the circumstances may warrant.

6. Except as otherwise provided in this Agreement, a Party may not:
 - (a) prevent a vehicle or container used in international traffic that enters its territory from the territory of the other Party from exiting its territory on a route that is reasonably related to the economic and prompt departure of that vehicle or container;
 - (b) require a bond or impose a penalty or charge only because of a difference between the port of entry and the port of departure of a vehicle or container;

- (c) condition the release of an obligation, including a bond, based on the entry of a vehicle or container into its territory on exiting through a particular port of departure; and
- (d) require that a vehicle or carrier bringing a container from the territory of the other Party into its territory be the same vehicle or carrier that takes that container to the territory of the other Party.

7. For the purposes of paragraph 6, “vehicle” means a truck, a truck tractor, a tractor, a trailer unit, a trailer, a locomotive, a railway car, or other railroad equipment.

Article 3.7: Duty-Free Entry of Certain Commercial Samples of Negligible Value and Printed Advertising Materials

Each Party shall grant duty-free entry to a commercial sample of negligible value and to printed advertising material, imported from the territory of the other Party, regardless of origin, but may require that:

- (a) the commercial sample of negligible value be imported only for the solicitation of an order for a good or service provided from the territory of the other Party or a non-Party; or
- (b) the printed advertising materials be imported in packets containing no more than one copy of each such material and that neither such materials nor the packets form part of a larger consignment.

Article 3.8: Goods Re-Entered after Repair or Alteration

1. A Party may not apply a customs duty to a good, regardless of its origin, that re-enters its territory after that good has been exported from its territory to the territory of the other Party for repair or alteration, regardless of whether the repair or alteration could be performed in its territory.

2. A Party may not apply a customs duty to a good, regardless of its origin, imported temporarily from the territory of the other Party for repair or alteration.

3. For the purposes of this Article, repair or alteration does not include an operation or process that:
 - (a) destroys the essential characteristics of a good or creates a new or commercially different good; or
 - (b) transforms an unfinished good into a finished good.
4. Paragraph 1 does not apply to a good imported in bond, into foreign trade zones, or in similar status, that is exported for repair and is not re-imported in bond, into foreign trade zones, or in similar status.

Section D – Non-Tariff Measures

Article 3.9: Import and Export Restrictions

1. Except as otherwise provided in this Agreement, a Party may not adopt or maintain a prohibition or restriction on the importation of a good of the other Party or on the exportation or sale for export of a good to the territory of the other Party, except in accordance with Article XI of the GATT 1994, and to this end Article XI of the GATT 1994 is incorporated into and made a part of this Agreement.
2. The Parties understand that the rights and obligations of the GATT 1994 incorporated by paragraph 1 prohibit, in a circumstance in which any other form of restriction is prohibited:
 - (a) an export price requirement; and
 - (b) an import price requirement, except as permitted in enforcement of countervailing and anti-dumping orders and undertakings.

3. If a Party adopts or maintains a prohibition or restriction on the importation from or exportation to a non-Party of a good, this Agreement does not prevent that Party from:

- (a) prohibiting or restricting the importation from the territory of the other Party of that good of that non-Party; or
- (b) requiring as a condition of export of that good of that Party to the territory of the other Party that the good not be re-exported to the non-Party, directly or indirectly, without being consumed in the territory of the other Party.

4. If a Party adopts or maintains a prohibition or restriction on the importation of a good from a non-Party, the Parties, at the request of the other Party, shall discuss how to avoid undue interference with or distortion of pricing, marketing, and distribution arrangements in the other Party.

5. Paragraphs 1 through 4 do not apply to a measure set out in Annex 3.3.

Article 3.10: Distilled Spirits

A Party may not adopt or maintain a measure requiring that distilled spirits imported from the territory of the other Party for bottling be blended with distilled spirits of the Party.

Article 3.11: Export Taxes

A Party may not adopt or maintain a duty, tax, or other charge on the export of a good to the territory of the other Party unless the duty, tax, or charge is adopted or maintained on the good if it is destined for domestic consumption.

Article 3.12: Customs Fees and Similar Charges

1. A Party may not adopt or maintain any customs fee or other similar charge in connection with the importation of a good of the other Party that is not commensurate with the cost of services rendered.
2. Nothing in this Article modifies Article VIII of GATT 1994 as it applies to the Parties.

Article 3.13: Export Subsidies for Agricultural Goods

1. The Parties share the objective of the multilateral elimination of agricultural export subsidies and shall work towards an agreement in the WTO to eliminate those subsidies and avoid their reintroduction in any form.
2. Notwithstanding any other provisions of this Agreement, each Party shall eliminate, as of the date of entry into force of this Agreement, any form of export subsidies for agricultural goods exported to the other Party, and shall not reintroduce such subsidies in any form.

Article 3.14: Domestic Support for Agricultural Goods

1. The Parties recognize that domestic support measures can be of crucial importance to their agricultural sectors, but may also have distorting effects on the production or trade of agricultural goods.
2. The Parties shall cooperate in the WTO agricultural negotiations in order to achieve a substantial reduction of production and trade-distorting domestic support measures.

3. Pending the elimination of trade-distorting domestic support measures, if a Party maintains, introduces or re-introduces such a measure that the other Party considers to be distortive of bilateral trade covered under this Agreement or its internal market, the Party applying the measure shall, at the request of the other Party, consult with a view to making a best efforts endeavour to eliminate such distortion or avoid nullification or impairment of concessions granted under this Agreement. Such consultations shall be deemed to satisfy the requirements of Article 21.8 (Institutional Arrangements and Dispute Settlement Procedures – Consultations).

Article 3.15: Agricultural Safeguard Measures

1. Notwithstanding Article 3.4, Honduras may apply an additional customs duty on an originating agricultural good listed in Annex 3.15, if the volume of imports into Honduras of the originating agricultural good during a calendar year exceeds the quantity of the good, set out in Annex 3.15, for that year.

2. Honduras shall not apply a customs duty on a good, including the additional customs duty referred to in paragraph 1, which exceeds the lesser of the applied most favoured nation duty rate for that good:

- (a) at the time the measure is adopted; or
- (b) applied on the day immediately preceding the entry into force of this Agreement.

3. Honduras may maintain an agricultural safeguard measure until the end of the calendar year in which it was imposed.

4. Honduras may not impose an agricultural safeguard measure on an originating agricultural good in connection with the same good:

- (a) if the good is subject to a TRQ and the agricultural safeguard measure increases an in-quota duty;
- (b) after the expiration of the tariff elimination period for that good set out in Honduras' schedule to Annex 3.4.1; or

- (c) at the same time as Honduras applies to that good:
 - (i) an emergency action, under Chapter Nine (Emergency Action), or
 - (ii) a safeguard under Article XIX of GATT 1994 and the Agreement on Safeguards.

5. For greater certainty:

- (a) sub-paragraph 4(a) does not limit Honduras from applying an agricultural safeguard measure on imports above the volumes specified in the Annex 3.4.2 for that good; and
- (b) an agricultural safeguard measure is not subject to compensation.

6. Honduras shall apply an agricultural safeguard measure in a transparent manner. Honduras shall inform Canada in writing within 30 days of the application of that measure, and shall provide all relevant data. At the request of Canada, Honduras shall facilitate discussions with Canada on the conditions for the application of that agricultural safeguard measure.

Article 3.16: Administration and Implementation of Tariff Rate Quotas

1. Each Party shall implement and administer its TRQs in accordance with Article XIII of the GATT 1994, and the Agreement on Import Licensing Procedures.

2. Each Party shall ensure that:

- (a) its procedures for administering its TRQs are transparent, made available to the public, timely, non-discriminatory, responsive to market conditions, and are designed to minimize any burden on trade;

- (b) subject to subparagraph (c), a person of a Party that fulfills that Party's legal and administrative requirements for TRQs shall be eligible to apply, and to be considered, for an import license or an in-quota quantity allocation under the Party's TRQs;
- (c) it does not, under its TRQs:
 - (i) allocate a portion of an in-quota quantity to a producer or a producer's group,
 - (ii) make access to an in-quota quantity conditional on purchase of domestic production, or
 - (iii) limit access to an in-quota quantity only to processors or to distributors;
- (d) its national government, sub-national governments, or state enterprises administer its TRQs and that the administration is not delegated to another person; and
- (e) it allocates in-quota quantities under its TRQs in commercially viable shipping quantities and, to the extent possible, in the amounts that importers request.

3. Each Party shall make every effort to administer its TRQs in a manner that allows importers to fully utilize them.

4. A Party may not impose a condition on the application for or use of an in-quota quantity allocation under a TRQ on the re-export of an agricultural good.

5. A Party may not count food aid or other non-commercial shipments in determining whether an in-quota quantity under a TRQ has been filled.

6. At the request of the exporting Party, the importing Party shall consult with the exporting Party regarding the administration of the importing Party's TRQs and licenses. Those consultations shall be deemed to satisfy the requirements of Article 21.8 (Institutional Arrangements and Dispute Settlement Procedures – Consultations).

7. The in-quota quantities set out in Annex 3.4.2 correspond to calendar years, except as otherwise indicated. If this Agreement enters into force after January 31 of year 1, a Party shall pro-rate the in-quota quantity of that year for the remainder of the calendar year.

Article 3.17: Country of Origin Marking

1. Each Party shall apply, when applicable, its country of origin marking rules to a good of the other Party in accordance with Article IX of the GATT 1994. To this end, Article IX of the GATT 1994 is incorporated into and made part of this Agreement.

2. Each Party shall accord to the goods of the other Party, treatment no less favourable than that which it accords to the goods of a non-Party country with respect to the application of its country of origin marking rules in accordance with Article IX of the GATT 1994.

3. Each Party shall, in adopting, maintaining and applying a measure relating to country of origin marking, minimize the difficulties, costs and inconveniences that the measure may cause to the commerce and industry of the other Party. A Party shall permit the country of origin marking of a good of the other Party to be indicated in English, French, or Spanish. A Party may, however, as part of its general consumer information measures, require that an imported good be marked with its country of origin in the same manner as a good of that Party.

Article 3.18: Customs Valuation

The Customs Valuation Agreement governs the customs valuation rules applied by the Parties to their reciprocal trade. A Party may not make use, in that reciprocal trade, of the options and reservations permitted under Article 20 and paragraphs 2, 3, and 4 of Annex III of the Customs Valuation Agreement.

Section E – Institutional Provisions

Article 3.19: Committee on Trade in Goods and Rules of Origin

1. The Parties hereby establish a Committee on Trade in Goods and Rules of Origin, composed of representatives of each Party.
2. The Committee shall meet periodically, and at any other time at the request of either Party, or the Commission, to ensure the effective implementation and administration of this Chapter, Chapter Four (Rules of Origin), Chapter Five (Customs Procedures), Chapter Six (Trade Facilitation), Chapter Nine (Emergency Action), and the Uniform Regulations. In this regard, the Committee shall:
 - (a) monitor the implementation and administration by the Parties of this Chapter, Chapter Four (Rules of Origin), Chapter Five (Customs Procedures), Chapter Six (Trade Facilitation), Chapter Nine (Emergency Action), and the Uniform Regulations, to ensure their uniform interpretation;
 - (b) at the request of either Party, review a proposed modification of or addition to this Chapter, Chapter Four (Rules of Origin), Chapter Five (Customs Procedures), Chapter Six (Trade Facilitation), Chapter Nine (Emergency Action), or the Uniform Regulations;

- (c) recommend to the Commission any modification of or addition to this Chapter, Chapter Four (Rules of Origin), Chapter Five (Customs Procedures), Chapter Six (Trade Facilitation), Chapter Nine (Emergency Action), the Uniform Regulations, or any other provision of this Agreement, which may be required to conform with a change to the Harmonized System; and
- (d) consider any other matter relating to the Parties' implementation and administration of this Chapter, Chapter Four (Rules of Origin), Chapter Five (Customs Procedures), Chapter Six (Trade Facilitation), Chapter Nine (Emergency Action), and the Uniform Regulations referred to it by:
 - (i) a Party,
 - (ii) the Customs Procedures Sub-Committee established under Article 5.14 (Customs Procedures - The Customs Procedures Sub-Committee), or
 - (iii) the Sub-Committee on Agriculture established under paragraph 4.

3. If the Committee fails to resolve a matter referred to it pursuant to sub-paragraph 2 (b) or (d) within 30 days of that referral, either Party may request a meeting of the Commission under Article 21.1 (Institutional Arrangements and Dispute Settlement Procedures – Free Trade Commission).

4. The Parties hereby establish a Sub-Committee on Agriculture, composed of representatives of each Party, that:

- (a) shall provide a forum for the Parties to discuss issues relating to market access for agricultural goods;

- (b) shall monitor the implementation and administration of this Chapter, Chapter Four (Rules of Origin), Chapter Six (Trade Facilitation), Chapter Nine (Emergency Action), and the Uniform Regulations as they affect agricultural goods;
- (c) shall meet periodically, or whenever so requested by either Party;
- (d) shall refer to the Committee on Trade in Goods and Rules of Origin any matter under sub-paragraph (b) on which it has been unable to reach a decision;
- (e) shall submit to the Committee on Trade in Goods and Rules of Origin for its consideration any decision reached under this paragraph;
- (f) shall report to the Committee on Trade in Goods and Rules of Origin;
- (g) shall follow-up and promote cooperation in matters relating to agricultural goods; and
- (h) may review the overall operation of the agricultural special safeguard mechanism in Article 3.15.

5. Each Party, to the extent possible, shall take the measures necessary to implement any modification of or addition to this Chapter, Chapter Four (Rules of Origin), Chapter Five (Customs Procedures), Chapter Six (Trade Facilitation), Chapter Nine (Emergency Action), and the Uniform Regulations within 180 days of the date on which the Commission approves the modification or addition.

6. The Parties shall convene at the request of either Party a meeting of their officials responsible for customs, immigration, inspection of food and agricultural products, border inspection facilities, or regulation of transportation, to address issues related to movement of goods through a Party's port of entry.

7. This Chapter does not preclude a Party from issuing a determination of origin or an advance ruling relating to a matter under consideration by the Committee on Trade in Goods and Rules of Origin, or from taking other action it considers necessary, pending a resolution of the matter under this Agreement.

Annex 3.1

Textile and Apparel Goods

Section 1: Scope and Coverage

This Annex applies to the textile and apparel goods set out in the Section XI: Textiles and Textile Articles (Chapters 50 through 63) and subheading 9404.90 of the Harmonized System.

Section 2: Definitions

For the purposes of this Annex:

competent investigating authority means the “competent investigating authority” of a Party as defined in Article 9.1 (Emergency Action – Definitions);

exporting Party means the Party from whose territory a textile or apparel good is exported;

importing Party means the Party into whose territory a textile or apparel good is imported;

square metres equivalent (SME) means that unit of measurement that results from the application of the conversion factors set out in Schedule 1 (Conversion Factors) to a primary unit of measure such as unit, dozen or kilogram;

tariff preference level (TPL) means a mechanism that provides for the application of a customs duty at a preferential rate to imports of a particular good up to a specified quantity, and at a different rate to imports of that good that exceed that quantity;

textile and apparel transition period means the 5 year period beginning on the date of entry into force of this Agreement.

Section 3: Bilateral Emergency Actions (Tariff Actions)

1. A Party may adopt an action described in paragraph 2 if, as a result of the reduction or elimination of a duty provided for in this Agreement, a textile or apparel good benefiting from preferential tariff treatment under this Agreement is being imported into the Party's territory in such increased quantities, in absolute terms or relative to the domestic market for that good, and under such conditions as to cause serious damage, or actual threat of serious damage, to a domestic industry producing a like or directly competitive good.

2. If the conditions set out in paragraphs 1, and 3 through 6 are met, a Party may, to the extent necessary to remedy the serious damage, or actual threat thereof:

- (a) suspend the further reduction of a rate of duty provided for under this Agreement on the good; or
- (b) increase the rate of duty on the good to a level not exceeding the lesser of the most favoured nation (MFN) applied rate of duty in effect:
 - (i) at the time the action is taken, and
 - (ii) on the day immediately preceding the date of entry into force of this Agreement.

3. In determining serious damage, or actual threat thereof, the Party:

- (a) shall examine the effect of increased imports on the particular industry, as reflected in changes in such relevant economic variables as output, productivity, utilization of capacity, inventories, market share, exports, wages, employment, domestic prices, profits, and investment, none of which is necessarily decisive; and

- (b) may not consider changes in technology or consumer preference as factors supporting a determination of serious damage or actual threat of serious damage.
- 4. The importing Party may apply an action described in paragraph 2 only following an investigation by its competent investigating authority.
- 5. A Party shall deliver without delay to the other Party written notice of its intent to take an action described in paragraph 2, and on request shall enter into consultations with that Party.
- 6. A Party may not maintain an action described in paragraph 2:
 - (a) for a period exceeding 3 years, unless the Party whose good is subject to the action consents; or
 - (b) beyond the expiration of the textile and apparel transition period.
- 7. A Party may not apply an action described in paragraph 2 to the same good more than once.
- 8. On termination of an action described in paragraph 2, the rate of duty shall not exceed the rate that, according to the Party's Schedule to Annex 3.4.1 for the staged elimination of the tariff, would have been in effect 1 year after the adoption of the action. Beginning on January 1 of the year after the termination of the action, the Party that has taken the action shall:
 - (a) set the rate of duty at the rate that would have been in effect, but for the action, according to its Schedule to Annex 3.4.1 for the staged elimination of the tariff; or
 - (b) eliminate the tariff in equal annual stages ending on the date determined by Annex 3.4.1 for the elimination of the tariff.

9. A Party that applies an action under paragraph 2 shall provide to the other Party mutually accepted trade liberalizing compensation in the form of concessions with substantially equivalent trade effects or with a value equivalent to the value of the additional duties expected to result from the action. Those concessions shall be limited to the textile and apparel goods set out in Section 1, unless the Parties decide otherwise. If the Parties are unable to decide on compensation, the Party against whose good the action is taken may take tariff action with trade effects substantially equivalent to the action taken under this Section against any goods imported from the other Party. The Party taking the tariff action shall only apply the action for the period necessary to achieve the substantially equivalent effects.

10. A Party may not apply, with respect to the same good at the same time, an action under paragraph 2 and:

- (a) an emergency action under Chapter Nine (Emergency Action); or
- (b) a measure under Article XIX of GATT 1994 and the Agreement on Safeguards.

Section 4: Short Supply

1. For the purposes of this Section, “short-supply allowance” means temporarily considering a yarn or fabric from non-Parties as originating for the purpose of determining whether a good of Chapters 50 through 63 of the Harmonized System is originating.

2. The Party shall implement a short-supply allowance following a request from the other Party, based on information it considers necessary, if it determines that the yarn or fabric is not available in commercial quantities in a timely manner in the territory of either Party.

3. The Party receiving a request from the other Party shall, to the extent possible, make a short-supply determination within 45 days of receiving the request.

4. A person of a Party may request a short supply determination from that Party. The Party receiving that request shall notify the other Party of the request to the extent possible within 10 days of receiving the request.

5. A Party shall implement a short-supply allowance in accordance with its legal procedures.

6. A Party may decline to implement a short-supply allowance if the other Party does not implement a short-supply allowance for the same yarn or fabric.

7. Soon after the entry into force of this Agreement, the Parties shall commence work towards establishing procedures to guide the administration of the short-supply determinations and allowances referred to in this Section.

Section 5: Tariff Preference Levels

Apparel

1. Each Party shall apply the rate of duty applicable to originating goods set out in its Schedule to Annex 3.4.1, up to an annual quantity of 4 million SME, to apparel goods provided for in Chapters 61 and 62 of the Harmonized System, that are both cut (or knit to shape) and sewn or otherwise assembled in the territory of a Party from fabric or yarn produced or obtained outside the territory of the Parties, and that meet other applicable conditions for preferential tariff treatment under this Agreement.

Fabric and Made-Up Goods

2. Each Party shall apply the rate of duty applicable to originating goods set out in its Schedule to Annex 3.4.1, up to an annual quantity of 1 million SME, to the following goods that meet other applicable conditions for preferential tariff treatment under this Agreement:

- (a) fabric and made-up textile goods provided for in Chapters 51 through 55, 58, 60 and 63 of the Harmonized System, that are:
 - (i) woven or knit in a Party from yarn produced or obtained outside the territory of the Parties, or
 - (ii) knit in a Party from yarn spun in a Party from fiber or filaments produced or obtained outside the territory of the Parties; or
- (b) goods of subheading 9404.90 that are finished and cut and sewn or otherwise assembled in the territory of a Party from fabric or yarn produced or obtained outside the territory of the Parties.

3. The SME quantities specified in paragraphs 1 and 2 are determined in accordance with the conversion factors in Schedule 1 (Conversion Factors).

4. Textile or apparel goods that enter the territory of a Party under paragraphs 1 or 2 are not considered to be originating goods.

Section 6: Certification and Verification Requirements

Before a non-originating good may benefit from preferential tariff treatment under Section 5, the Parties must:

- (a) establish the documentation or certification requirements for the importation of the goods for which the preferential tariff treatment may be claimed; and
- (b) notify each other in writing of the way eligibility of the goods for that preferential tariff treatment will be verified by the exporting Party.

Schedule 1 to Annex 3.1

(Textiles and Apparel Goods)

Conversion Factors

1. The conversion factor for the primary units of measure of kilograms, numbers and pairs is one-to-one SME, unless otherwise specified in this Schedule.
2. For the purposes of this Schedule only, reference to the sub-heading code is based on the 2012 Harmonized Commodity Description and Coding System (HS).
3. For the following HS codes, with kilograms as the primary unit of measure, the conversion factors are as follows:

HS Code	Kilograms/SME
511119	1.9
551323	1.1
580110	2.8
580300	1.9
580410	13.6
580421	13.6
580429	13.6
580430	13.6
580500	9.7
580610	2.8
580620	13.6
580631	13.6
580632	13.6
580639	11.1
580640	13.5
580710	12.0
580790	11.4
580810	13.6
580890	12.5

HS Code	Kilograms/SME
580900	13.6
581010	12.5
581091	13.6
581092	13.6
581099	12.5
581100	13.6
600110	6.0
600121	6.0
600122	6.0
600129	6.0
600191	6.0
600192	6.0
600199	6.0
600240	6.0
600290	6.0
600310	2.8
600320	6.0
600330	6.0
600340	6.0
600390	6.0
600410	6.0
600490	6.0
600521	6.0
600522	6.0
600523	6.0
600524	6.0
600531	6.0
600532	6.0
600533	6.0
600534	6.0
600541	6.0
600542	6.0
600543	6.0
600544	6.0
600590	6.0
600610	2.8

HS Code	Kilograms/SME
600621	6.0
600622	6.0
600623	6.0
600624	6.0
600631	6.0
600632	6.0
600633	6.0
600634	6.0
600641	6.0
600642	6.0
600643	6.0
600644	6.0
600690	6.0
611090	2.6
611120	6.3
611130	6.3
611190	6.3
611220	10.3
611231	14.4
611239	12.1
611241	14.4
611249	12.1
611490	12.5
611510	9.3
611521	14.4
611522	14.4
611780	9.5
611790	10.3
620920	6.3
620930	6.3
620990	6.3
621010	13.9
621111	12.1
621112	12.5
621120	10.3
621410	14.4

HS Code	Kilograms/SME
621420	3.7
621430	14.4
621440	14.4
621510	14.4
621520	14.4
621590	8.2
621710	9.8
621790	10.3
630120	2.4
630130	8.5
630140	5.5
630190	5.5
630229	3.7
630239	3.7
630240	12.4
630251	8.5
630253	14.4
630259	14.4
630291	8.5
630293	14.4
630312	14.4
630319	12.4
630391	8.5
630392	14.4
630399	14.4
630491	8.9
630492	8.5
630493	14.4
630499	9.0
630510	14.4
630520	8.5
630532	14.4
630533	14.4
630539	14.4
630590	14.4
630612	14.4

HS Code	Kilograms/SME
630619	12.4
630622	12.4
630629	12.4
630630	12.4
630691	8.5
630699	14.4
630710	11.4
630720	11.4
630790	11.4
630800	10.8
630900	8.5

4. For the following HS Codes, with units as the primary unit of measure, the conversion factors are as follows:

HS Code	Units/SME
610120	2.9
610130	2.9
610190	3.2
610210	3.8
610220	2.9
610230	2.9
610290	2.9
610310	3.8
610322	3.5
610323	3.5
610329	3.5
610331	2.5
610332	2.5
610333	2.5
610339	2.5
610341	2.1
610342	3.7
610343	5.6
610349	5.2

HS Code	Units/SME
610413	3.8
610419	3.8
610422	3.5
610423	3.5
610429	3.5
610431	3.8
610432	2.9
610433	2.9
610439	2.9
610441	3.4
610442	3.2
610443	3.2
610444	3.2
610449	3.2
610451	1.3
610452	1.2
610453	1.2
610459	1.2
610461	2.1
610462	3.7
610463	5.6
610469	5.2
610510	0.5
610520	1.3
610590	1.0
610610	0.5
610620	1.0
610690	1.0
610711	0.7
610712	1.1
610719	1.0
610721	3.6
610722	3.6
610729	3.7
610791	3.5
610799	3.6

HS Code	Units/SME
610811	1.1
610819	0.9
610821	0.8
610822	1.1
610829	0.9
610831	3.6
610832	3.6
610839	3.7
610891	3.5
610892	3.5
610899	3.6
610910	0.6
610990	1.4
611011	1.0
611012	1.0
611019	1.0
611020	1.5
611030	1.9
611211	3.5
611212	3.5
611219	3.5
611300	12.6
611420	6.1
611430	10.4
611710	8.1
620111	3.8
620112	2.9
620113	2.9
620119	2.9
620191	3.8
620192	2.9
620193	2.9
620199	2.9
620211	3.8
620212	2.9
620213	2.9

HS Code	Units/SME
620219	2.9
620291	3.8
620292	2.9
620293	2.9
620299	2.9
620311	3.8
620312	3.8
620319	3.8
620322	3.5
620323	3.5
620329	3.5
620331	2.5
620332	2.5
620333	2.5
620339	2.5
620341	2.2
620342	4.1
620343	7.8
620349	4.5
620411	3.8
620412	3.8
620413	3.8
620419	3.8
620421	3.5
620422	3.5
620423	3.5
620429	3.5
620431	3.8
620432	2.9
620433	2.9
620439	2.9
620441	3.4
620442	3.2
620443	3.2
620444	3.2
620449	3.2

HS Code	Units/SME
620451	1.3
620452	1.2
620453	1.2
620459	1.2
620461	2.2
620462	4.1
620463	6.5
620469	4.5
620520	1.6
620530	1.6
620590	1.4
620610	1.7
620620	1.6
620630	1.0
620640	1.0
620690	1.4
620711	0.8
620719	1.1
620721	3.6
620722	3.6
620729	3.7
620791	1.7
620799	2.4
620811	1.1
620819	0.9
620821	3.6
620822	3.6
620829	3.7
620891	1.5
620892	1.7
620899	2.3
621020	2.9
621030	2.9
621040	11.1
621050	11.1
621132	6.2

HS Code	Units/SME
621133	10.0
621139	6.9
621141	3.3
621142	5.7
621143	8.8
621149	9.3
621210	7.6
621220	7.6
621230	7.6
621290	12.5
621490	12.5
630110	5.5
630210	5.7
630221	4.3
630222	4.0
630231	4.3
630232	4.0
630260	5.3
630299	11.1
630411	5.7
630419	5.5
630640	14.4

5. For the following HS Codes, with pairs as the primary unit of measure, the conversion factors are as follows:

HS Code	Pairs/SME
611529	8.2
611530	0.3
611594	0.2
611595	0.3
611596	0.3
611599	0.3
611610	0.2
611691	0.2

HS Code	Pairs/SME
611692	0.2
611693	0.2
611699	0.2
621600	0.2

6. For the following HS Codes, with dozens as the primary unit of measure, the conversion factors are as follows:

HS Code	Dozens/SME
621320	1.4
621390	6.9

Annex 3.3

Exceptions to Articles 3.3 and 3.9

Section I – Canadian Measures

Notwithstanding Articles 3.3 and 3.9, Canada may adopt or maintain:

- (a) a measure, including that measure's continuation, prompt renewal, or amendment, in respect of the following:
 - (i) the export of logs of all species,
 - (ii) the export of unprocessed fish pursuant to applicable provincial legislation,
 - (iii) the importation of goods of the prohibited provisions of tariff items 9897.00.00, 9898.00.00, and 9899.00.00 referred to in the Schedule of the *Customs Tariff*,
 - (iv) Canadian excise duties on absolute alcohol used in manufacturing under the existing provisions of the *Excise Act, 2001*, S.C. 2002, c.22, as amended,
 - (v) the use of ships in the coasting trade of Canada, or
 - (vi) the internal sale and distribution of wine and distilled spirits; or
- (b) an action authorized by the Dispute Settlement Body of the WTO in a dispute between the Parties under the WTO Agreement.

Section II – Honduras Measures

Notwithstanding Articles 3.3 and 3.9, Honduras may adopt or maintain:

- (a) a measure, including that measure's continuation, prompt renewal, or amendment, in respect of the following:
 - (i) controls on the exportation of wood from broadleaved forests pursuant to Decree No. 323-98 of December 29, 1998,
 - (ii) controls on the importation of arms and ammunitions pursuant to Article 292 of Decree No. 131 of January 11, 1982, or
 - (iii) controls on the importation of motor vehicles older than 7 years and buses older than 10 years pursuant to Article 7 of Decree No. 194-2002 of May 15, 2002, which do not apply to remanufactured goods; or
- (b) an action authorized by the Dispute Settlement Body of the WTO.

Annex 3.4.1

Tariff Elimination

1. For the purposes of eliminating customs duties in accordance with Article 3.4, interim staged rates shall be rounded down, except as set out in each Party's Schedule to this Annex, at least to the nearest tenth of a percentage point or, if the rate of duty is expressed in monetary units, at least to the nearest 0.001 of the official monetary unit of the Party.

2. Except as otherwise provided in a Party's Schedule to this Annex, the following staging categories apply to the elimination of customs duties by each Party pursuant to Article 3.4:
 - (a) duties on originating goods shall be eliminated entirely and those goods shall be duty-free on the date this Agreement enters into force:
 - (i) for Honduras, for goods provided for in the items in staging category A in the Schedule of Honduras, and
 - (ii) for Canada, for goods of Chapters 1 through 97 that are not listed in the Schedule of Canada;

 - (b) duties on originating goods provided for in the items in staging category B in a Party's Schedule shall be removed in 3 equal annual stages beginning on the date this Agreement enters into force, and such goods shall be duty-free, effective January 1 of year 3;

 - (c) duties on originating goods provided for in the items in staging category C in a Party's Schedule shall be removed in 5 equal annual stages beginning on the date this Agreement enters into force, and such goods shall be duty-free, effective January 1 of year 5;

- (d) duties on originating goods provided for in the items in staging category D in a Party's Schedule shall be removed in 7 equal annual stages beginning on the date this Agreement enters into force, and such goods shall be duty-free, effective January 1 of year 7;
- (e) duties on originating goods provided for in the items in staging category F in a Party's Schedule shall be removed in 10 equal annual stages beginning on the date this Agreement enters into force, and such goods shall be duty-free, effective January 1 of year 10;
- (f) duties on originating goods provided for in the items in staging category F1 shall be removed in 10 stages. On the date this Agreement enters into force, duties shall be reduced by 2% of the base rate, and by an additional 2% of the base rate on January 1 of year 2. On January 1 of year 3 duties shall be reduced by an additional 8% of the base rate, and by an additional 8% of the base rate each year thereafter through year 6. On January 1 of year 7, duties shall be reduced by an additional 16% of the base rate, and by an additional 16% of the base rate each year thereafter through year 9, and such goods shall be duty-free effective January 1 of year 10;
- (g) duties on originating goods provided for in the items in staging category G in a Party's Schedule shall be removed in 12 equal annual stages beginning on the date this Agreement enters into force, and such goods shall be duty-free, effective January 1 of year 12;
- (h) duties on originating goods provided for in the items in staging category H in a Party's Schedule shall be removed in 15 equal annual stages beginning on the date this Agreement enters into force, and such goods shall be duty-free, effective January 1 of year 15;

- (i) duties on originating goods provided for in the items in staging category H1 shall remain at base rates for years 1 through 6. Beginning January 1 of year 7, duties shall be reduced by 8% of the base rate, and by an additional 8% of the base rate each year thereafter through year 11. On January 1 of year 12, duties shall be reduced by an additional 15% of the base rate, and by an additional 15% of the base rate each year thereafter through year 14, and such goods shall be duty-free effective January 1 of year 15;
- (j) goods provided for in the items in staging category E in a Party's Schedule shall continue to receive most-favoured-nation treatment.

3. The base rate of customs duty and staging category for determining the interim rate of customs duty at each stage of reduction for an item is specified in a Party's Schedule to this Annex.

4. For the purposes of this Annex and a Party's Schedule to this Annex, beginning in year 2, each annual stage of tariff reduction shall take effect on January 1 of the relevant year.

5. The Parties agree that:

- (a) Canada's Schedule is authentic in the English and French languages; and
- (b) Honduras' Schedule is authentic in the Spanish language.

Schedule of Canada

(TARIFF SCHEDULE ATTACHED AS SEPARATE VOLUME)

Schedule of Honduras

(TARIFF SCHEDULE ATTACHED AS SEPARATE VOLUME)

Annex 3.4.2

Tariff Rate Quotas

Schedule of Honduras

1. For the purposes of this Schedule, “Prime”, “AAA”, “AA” and “A” beef means “Canada Prime”, “Canada AAA”, “Canada AA” and “Canada A” grades of beef as defined in the Canadian *Livestock and Poultry Carcass Grading Regulations* (SOR/92-541), as amended.

Prime and AAA Beef

2. Honduras shall eliminate customs duties on originating goods provided in the items listed below, in accordance with staging category H, described in paragraph 2(h) of Annex 3.4.1. Honduras shall also provide duty free access for originating goods in the calendar years specified below, up to the quantity specified below for that year:

Sistema Arancelario Centroamericano (SAC)	Year	Quantity (Metric Tonnes)
02012000A 02013000A 02022000A 02023000A	1	300
	2	315
	3	330
	4	345
	5	360
	6	375
	7	390
	8	405
	9	420
	10	435
	11	450
	12	465
	13	480
	14	495
	15	Unlimited

AA and A Beef

3. Honduras shall eliminate customs duties on originating goods provided in the items listed below, in accordance with staging category H1, described in paragraph 2(i) of Annex 3.4.1. Honduras shall also provide duty free access for originating goods in the calendar years specified below, up to the quantity specified below for that year:

Sistema Arancelario Centroamericano (SAC)	Year	Quantity (Metric Tonnes)
02012000B 02013000B 02022000B 02023000B	1	200
	2	210
	3	220
	4	230
	5	240
	6	250
	7	260
	8	270
	9	280
	10	290
	11	300
	12	310
	13	320
	14	330
	15	Unlimited

Pork

4. Honduras shall eliminate customs duties on originating goods provided in the items listed below, in accordance with staging category H1, described in paragraph 2(i) of Annex 3.4.1. Honduras shall also provide duty free access for originating goods in the calendar years specified below, up to the quantity specified below for that year:

Sistema Arancelario Centroamericano (SAC)	Year	Quantity (Metric Tonnes)
02031100 02031200 02031900 02032100 02032200 02032900	1	1,644
	2	1,726
	3	1,808
	4	1,890
	5	1,972
	6	2,054
	7	2,136
	8	2,218
	9	2,300
	10	2,382
	11	2,464
	12	2,546
	13	2,628
	14	2,710
	15	Unlimited

Sugar – with net exporter condition

5. Customs duties on originating goods provided for in the items listed below are exempt from tariff elimination in accordance with staging category “E”, described in paragraph 2(j) of Annex 3.4.1. Nevertheless, provided that Canada meets the “net exporter” condition, the following aggregate quantities shall be free of customs duty in a calendar year specified below, and shall not exceed the quantity specified below for Canada in each such year.

For purpose of this section, in any given year the “net exporter” condition for a good classified under subheadings: HS1701.91 and HS1701.99, will have been met if during the previous 3 years, the average Canadian production of refined beet sugar exceeds the average consumption of Canadian refined beet sugar over the same period. In order to export under this paragraph, Canada shall provide Honduras with official statistics to sufficiently demonstrate compliance under this paragraph.

Sistema Arancelario Centroamericano (SAC)	Year	Aggregate Quantity (Metric Tonnes)
1701.91.00 1701.99.00	1	1,000
	2	1,107
	3	1,214
	4	1,321
	5	1,428
	6	1,535
	7	1,642
	8	1,749
	9	1,856
	10	1,963
	11	2,070
	12	2,177
	13	2,284
	14	2,392
	15 and following	2,500

Schedule of Canada

Sugar

Customs duties on originating goods provided for in the items listed below are exempt from tariff elimination in accordance with staging category E, described in paragraph 2(j) of Annex 3.4.1. Nevertheless, Canada shall provide duty-free access for originating goods in the calendar years specified below, up to the quantity specified below for that year:

Tariff Items	Year	Aggregate Quantity (Metric Tonnes)
	1	2,500
1701.91.00	2	2,678
1701.99.00	3	2,857
1702.90.11	4	3,035
1702.90.12	5	3,214
1702.90.13	6	3,392
1702.90.14	7	3,571
1702.90.15	8	3,749
1702.90.16	9	3,928
1702.90.17	10	4,106
1702.90.18	11	4,285
1702.90.20	12	4,463
1702.90.30	13	4,642
1702.90.60	14	4,821
	15 and following	5,000

Annex 3.15

Agricultural Safeguard Measures

The quantity of a good for the purposes of Article 3.15(1) is determined as follows:

- (a) for pork listed below, for a year it is the amount set out in the Trigger Level column; and
- (b) for the other goods listed below, the quantity during year 1 is the amount set out in the Trigger Level column, and increases cumulatively in each subsequent year by an amount equal to the figure in the column for Annual Trigger Growth Rate.

Good	Tariff Classification	Trigger Level	Annual Trigger Growth Rate
Pork	0203.11.00 0203.12.00 0203.19.00 0203.21.00 0203.22.00 0203.29.00	130% of the amount in Annex 3.4.2	Not applicable
Other dairy products	2202.90.90	90 MT	5 MT
Onions	0703.10.11 0703.10.12	260 MT	26 MT
Vegetable oil	1507.90.00 1512.19.00 1512.29.00 1515.29.00 1516.20.90 1517.10.00 1517.90.10 1517.90.90	320 MT	32 MT