

Annex 4.5

Inventory Management Methods

Section I – Fungible Materials

Subsection 1: Definitions and Interpretation

For purposes of this Section:

First-in, first-out (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of fungible materials first received in materials inventory is considered to be the origin of fungible materials first withdrawn from materials inventory;

Last-in, first-out (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of fungible materials last received in materials inventory is considered to be the origin of fungible materials first withdrawn from materials inventory;

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 such fungible materials, an inventory from which fungible materials are sold or otherwise transferred to the producer of the good;

opening inventory means the materials inventory at the time an inventory management method is chosen;

origin identifier means any mark that identifies fungible materials as originating materials or non-originating materials; and

rolling average method means the method by which the origin of fungible materials withdrawn from materials inventory is based on the ratio, calculated under subsection 4, of originating materials and non-originating materials in materials inventory.

Subsection 2: General

1. The inventory management methods for determining whether fungible materials referred to in Article 4.6(a) are originating materials are the following:

- (a) specific identification method;
- (b) FIFO method;
- (c) LIFO method; and
- (d) rolling average method;

2. When 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 paragraph 1, that method shall be used from the time the choice is made until the end of the fiscal year of the producer or person.

Subsection 3: Specific Identification Method

1. Except as otherwise provided under paragraph 2, if the producer or person referred to in subsection 2(2) 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. If 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 paragraph 1 if the origin identifier remains visible throughout the production of the good.

Subsection 4: Rolling Average Method

1. If the producer or person referred to in subsection 2(2) chooses the rolling 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 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 withdrawal of materials from that inventory;

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 withdrawal of materials from that inventory.

2. The ratio calculated under paragraph 1 is applied to the fungible materials remaining in materials inventory.

Subsection 5: Manner of Dealing with Opening Inventory

1. Except as otherwise provided under paragraphs 2 and 3, when the producer or person referred to in subsection 2(2) 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. If 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.

Section II – Fungible Goods

Subsection 6: Definitions and Interpretation

For purposes of this Section:

First-in, first-out (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;

finished goods inventory means an inventory from which fungible goods are sold or otherwise transferred to another person;

Last-in, first-out (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;

opening inventory means the finished goods inventory at the time an inventory management method is chosen;

origin identifier means any mark that identifies fungible goods as originating goods or non-originating goods; and

rolling average method means the method by which the origin of fungible goods withdrawn from finished goods inventory is based on the ratio, calculated under subsection 9, of originating goods and non-originating goods in finished goods inventory.

Subsection 7: General

1. The inventory management methods for determining whether fungible goods referred to in Article 4.6(b) are originating goods are the following:

- (a) specific identification method;
- (b) FIFO method;

- (c) LIFO method; and
- (d) rolling average method.

2. When an exporter of a good or a person from whom the exporter acquired the good chooses an inventory management method referred to in paragraph 1, that method shall be used from the time the choice is made until the end of the fiscal year of the exporter or person.

Subsection 8: Specific Identification Method

1. Except as provided under paragraph 2, if the exporter or person referred to in subsection 7(2) 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. If 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 paragraph 1 if the origin identifier is visible on the fungible goods.

Subsection 9: Rolling Average Method

1. If the exporter or person referred to in subsection 7(2) chooses the rolling average method, the origin of each shipment of fungible goods withdrawn from finished goods inventory is determined on the basis of the ratio of originating goods and non-originating goods in finished goods inventory by dividing:

- (a) the total units of originating goods or non-originating goods that are fungible goods and that were in finished goods inventory before the shipment of the goods;

by:

- (b) the total units of originating goods and non-originating goods that are fungible goods and that were in finished goods inventory before the shipment of the goods.

2. The ratio calculated under paragraph 1 is applied to the remaining units of originating and non-originating goods in finished goods inventory.

Subsection 10: Manner of Dealing with Opening Inventory

1. Except as otherwise provided under paragraphs 2 and 3, when the exporter or person referred to in subsection 7(2) 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 those 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. If 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.