

DEPARTMENT OF HOMELAND SECURITY

U.S. Customs and Border Protection

DEPARTMENT OF THE TREASURY

19 CFR Parts 181 and 182

[USCBP–2020–0036; CBP Dec. 20–11]

RIN 1515–AE55

Implementation of the Agreement Between the United States of America, the United Mexican States, and Canada (USMCA) Uniform Regulations Regarding Rules of Origin

AGENCY: U.S. Customs and Border Protection, Department of Homeland Security; Department of the Treasury.

ACTION: Interim final rule; request for comments.

SUMMARY: This interim final rule amends the U.S. Customs and Border Protection (CBP) regulations to implement the rules of origin provisions for preferential tariff treatment of the Agreement Between the United States of America, the United Mexican States, and Canada (USMCA). This document sets forth the framework for our regulations that provides further guidance regarding the rules of origin for those seeking USMCA preferential tariff treatment and includes the text of the Uniform Regulations regarding rules of origin, as trilaterally agreed upon by the United States, the United Mexican States (Mexico), and Canada. Because the USMCA supersedes the North American Free Trade Agreement (NAFTA) when the USMCA enters into force on July 1, 2020, this document also amends the NAFTA regulations to reflect that the NAFTA provisions do not apply to goods entered for consumption, or withdrawn from warehouse for consumption, on or after July 1, 2020.

DATES: This interim final rule is effective on July 1, 2020; comments must be received by August 31, 2020.

ADDRESSES: You may submit comments, identified by *docket number* [USCBP–2020–0036], by *one* of the following methods:

- *Federal eRulemaking Portal* at <http://www.regulations.gov>. Follow the instructions for submitting comments.
- *Mail:* Due to COVID–19-related restrictions, CBP has temporarily suspended its ability to receive public comments by mail.

Instructions: All submissions received must include the agency name and docket number for this rulemaking. All comments received will be posted

without change to <http://www.regulations.gov>, including any personal information provided. For detailed instructions on submitting comments and additional information on the rulemaking process, see the “Public Participation” heading of the **SUPPLEMENTARY INFORMATION** section of this document.

Docket: For access to the docket to read background documents or comments received, go to <http://www.regulations.gov>. Due to the relevant COVID–19-related restrictions, CBP has temporarily suspended on-site public inspection of the public comments. Please note that any submitted comments that CBP receives by mail will be posted on the above-referenced docket for the public’s convenience.

FOR FURTHER INFORMATION CONTACT:

Operational Aspects: Maya Kamar, Director, Textile and Trade Agreement Division, Office of Trade, U.S. Customs and Border Protection, (202) 945–7228 or jta@cbp.dhs.gov.

Audit Aspects: Amy Johnson, Senior Auditor, Regulatory Audit and Agency Advisory Services, U.S. Customs and Border Protection, (312) 983–5364 or Amelia.K.Johnson@cbp.dhs.gov.

Legal Aspects: Monika Brenner, Chief, Valuation & Special Programs Branch, Regulations and Rulings, Office of Trade, U.S. Customs and Border Protection, (202) 325–0038 or monikarice.brenner@cbp.dhs.gov.

SUPPLEMENTARY INFORMATION:

I. Public Participation

Interested persons are invited to participate in this rulemaking by submitting written data, views, or arguments on this interim final rule. As stated below, U.S. Customs and Border Protection (CBP) will not accept comments upon the Uniform Regulations regarding rules of origin trilaterally agreed upon and contained in Appendix A to part 182 of title 19 of the Code of Federal Regulations (CFR) (19 CFR part 182). CBP also invites comments that relate to the economic, environmental, or federalism effects that might result from this interim final rule. Comments that will provide the most assistance to CBP will reference a specific portion of the interim final rule, explain the reason for any recommended change, and include data, information or authority that support such recommended change.

II. Background

On May 18, 2017, following consultations with the relevant Congressional committees, the Office of

the United States Trade Representative (USTR) informed Congress of the President’s intent to renegotiate the North American Free Trade Agreement (NAFTA). USTR announced this intention in a notice published in the **Federal Register** on May 23, 2017 (82 FR 23699), requesting public comments to assist in the development of the U.S. negotiating objectives on matters related to the modernization of NAFTA. The negotiations began on August 16, 2017, and concluded on September 30, 2018.

On November 30, 2018, USTR signed the “Protocol Replacing the North American Free Trade Agreement with the Agreement Between the United States of America, the United Mexican States, and Canada” (the Protocol). The Agreement Between the United States of America, the United Mexican States (Mexico), and Canada (the USMCA)¹ is attached as an annex to the Protocol and was subsequently amended to reflect certain modifications and technical corrections in the “Protocol of Amendment to the Agreement Between the United States of America, the United Mexican States, and Canada” (the Amended Protocol), which USTR signed on December 10, 2019.

Pursuant to section 106 of the Bipartisan Congressional Trade Priorities and Accountability Act of 2015 (19 U.S.C. 4205) and section 151 of the Trade Act of 1974 (19 U.S.C. 2191), the United States adopted the USMCA through the enactment of the United States-Mexico-Canada Agreement Implementation Act (USMCA Act), Public Law 116–113, 134 Stat. 11, on January 29, 2020. Mexico, Canada, and the United States certified their preparedness to implement the USMCA on December 12, 2019, March 13, 2020, and April 24, 2020, respectively. As a result, pursuant to paragraph 2 of the Protocol, which provides that the USMCA will take effect on the first day of the third month after the last signatory party provides written notification of the completion of the domestic implementation of the USMCA through the enactment of implementing legislation, the USMCA will enter into force on July 1, 2020.

A. U.S. Implementation of USMCA Uniform Regulations

Section 103(a)(1)(B) of the USMCA Act provides the authority for new or amended regulations to be issued to implement the USMCA, as of the date

¹ The Agreement between the United States of America, the United Mexican States, and Canada is the official name of the USMCA treaty. Please be aware that, in other contexts, the same document is also referred to as the United States-Mexico-Canada Agreement.

of its entry into force. Further, section 103(b)(2) of the USMCA Act requires that interim or initial regulations shall be prescribed not later than the date on which the USMCA enters into force to implement the Uniform Regulations regarding rules of origin. In accordance with section 103(b)(2) of the USMCA Act, CBP is adding to this new part 182, as Appendix A, the Uniform Regulations on rules of origin for Chapters 4 and 6 of the USMCA trilaterally agreed upon by the United States, Mexico, and Canada. Since the USMCA uniform regulations on rules of origin were trilaterally negotiated and may not be unilaterally altered, CBP is not requesting public comments in this interim final rule (IFR) with regard to Appendix A to part 182. CBP welcomes public comments on all other aspects of this IFR.

Claims for preferential tariff treatment under the USMCA may be made as of July 1, 2020. In addition to the regulations set forth in this document, those persons intending to make USMCA preference claims may refer to the CBP website at <https://www.cbp.gov/trade/priority-issues/trade-agreements/free-trade-agreements/USMCA> for further guidance, including the U.S. USMCA Implementing Instructions. The United States International Trade Commission has modified the Harmonized Tariff Schedule of the United States (HTSUS) to include the addition of a new General Note 11, incorporating the USMCA rules of origin, and the insertion of the special program indicator “S or S+” for the USMCA in the HTSUS “special” rate of duty subcolumn.²

Pursuant to section 103(b) of the USMCA Act, CBP will issue initial regulations (new part 182 including Appendix A) regarding rules of origin, as provided for under Article 5.16 of the USMCA, not later than the date on which USMCA enters into force. CBP expects to publish additional regulations by July 1, 2021, one year from when the USMCA enters into force, to set forth any remaining USMCA implementing regulations, and to request public comments on those implementing regulations.

B. Impact on NAFTA

The USMCA supersedes NAFTA and its related provisions on USMCA’s entry into force date. See Protocol, paragraph 1. NAFTA entered into force on January 1, 1994. Pursuant to section 1103 of the Omnibus Trade and Competitiveness Act of 1988 (19 U.S.C. 2903) and section

151 of the Trade Act of 1974 (19 U.S.C. 2191), the United States adopted NAFTA through the enactment of the North American Free Trade Agreement Implementation Act (NAFTA Implementation Act), Public Law 103–182, 107 Stat. 2057 (19 U.S.C. 3301), on December 8, 1993. Section 601 of the USMCA Act repeals the NAFTA Implementation Act, as of the date that the USMCA enters into force.

On December 30, 1993, the U.S. Customs Service [now CBP] published interim regulations (58 FR 69460) in a new part 181 of title 19 of the CFR (19 CFR part 181) to implement the preferential tariff treatment and other customs related provisions of NAFTA. Part 181 sets forth the relevant definitions, the requirements for filing a claim for preferential tariff treatment, post-importation duty refund claims, and the NAFTA uniform regulations on rules of origin, among others.

The general rules of origin in Chapter Four of NAFTA, as well as the specific rules of origin in Annex 401 of NAFTA, are set forth in General Note 12, HTSUS. The NAFTA provisions set forth in 19 CFR part 181 and General Note 12, HTSUS, continue to apply to goods entered for consumption, or withdrawn from warehouse for consumption, prior to July 1, 2020.

III. Amendments to the CBP Regulations

A. Section 181.0

Part 181 of title 19 of the CFR contains the NAFTA duty preference and other related CBP provisions. As the USMCA supersedes NAFTA upon the former’s entry into force, CBP is adding a sentence to the scope provision in section 181.0 to indicate that part 181 is not applicable to goods entered for consumption, or withdrawn from warehouse for consumption, on or after July 1, 2020. The USMCA provisions, not the NAFTA provisions, are applicable to goods entered for consumption, or withdrawn from warehouse for consumption, on or after July 1, 2020.

B. New Part 182

CBP is adding a new part 182 to title 19 of the CFR to establish the USMCA preferential tariff treatment and other customs related provisions. This document sets forth the scope of part 182, the rules of origin subpart, and Appendix A to part 182 containing the Uniform Regulations for Chapters 4 and 6 of the USMCA trilaterally agreed upon by the United States, Mexico, and Canada. These amendments are explained below.

This document also includes the structure and subparts for the entirety of part 182. CBP is reserving the remaining sections at this time. As discussed above, CBP will publish in separate subsequent IFRs, additional regulations to set forth the remaining USMCA implementing regulations, which will be in part 182, and also any other affected parts of title 19 of the CFR, as needed, to implement the USMCA (including the United States’ implementation of additional Uniform Regulations on origin procedures, as needed, for Chapters 5, 6, and 7 of the USMCA).

Subpart A—General Provisions

Section 182.0 sets forth the scope of the new part 182. Section 182.0 provides the USMCA citations and parameters, and states that the part 181 NAFTA regulations are applicable for goods entered for consumption, or withdrawn from warehouse for consumption, prior to July 1, 2020. This section further clarifies that, except where the context otherwise requires, the requirements contained in part 182 are in addition to the general administrative and enforcement provisions set forth elsewhere in the CBP regulations.

Subpart F—Rules of Origin

Section 182.61 provides that the USMCA implementing regulations regarding rules of origin for preferential tariff treatment provisions of General Note 11, HTSUS, and Chapters Four and Six of the USMCA are contained in Appendix A to part 182.

Appendix A—Rules of Origin Regulations

The rules of origin regulations are set forth as Appendix A to part 182. The text contained in this appendix is as trilaterally negotiated by the United States, Mexico, and Canada. This appendix contains the uniform regulations for the interpretation, application, and administration of the rules of origin of Chapter Four of the USMCA and the rules of origin of Chapter Six of the USMCA related to textiles and apparel goods. The regulations contained in Appendix A may be cited as the “USMCA Rules of Origin Regulations.”

Definitions and Currency Conversion

Appendix A sets forth the relevant definitions and interpretations that are applicable to the Uniform Regulations on rules of origin, and the methodology for currency conversion if necessary to determine the value of goods or materials.

² The S+ indicator is used for certain agricultural goods and textile tariff preference levels (TPLs).

General Rules of Origin

Appendix A contains the basic rules of origin established in Chapter Four of the USMCA. The provisions apply to the determination of the status of an imported good as an originating good for purposes of preferential tariff treatment and to the determination of the status of a material as an originating material used in a good which is subject to a determination under Appendix A. Specifically, this section identifies goods that are originating goods because they are wholly obtained or produced in one or more of the USMCA countries. This section also identifies goods that are originating goods because the good, which is produced entirely in the territory of one or more of the USMCA countries, is either made of exclusively originating materials or each of the non-originating materials used in the production of the good satisfies all applicable requirements of the regulations, including the product-specific rules of origin. This section also sets forth exceptions to the change in the tariff classification requirement and the special rule for certain goods, which provides that the goods listed in Schedule II of Appendix A to part 182 (Table 2.10.1 of Article 2.10 to Chapter 2 of the USMCA) are treated as originating goods regardless of whether they meet the applicable product-specific rule of origin, if they are imported from the territory of a USMCA country.

Treatment of Recovered Materials Used in the Production of a Remanufactured Good

Appendix A sets forth the treatment of a recovered material derived in one or more USMCA countries when it is used in the production of, and is incorporated into, a remanufactured good. This section provides the requirements and examples illustrating the treatment of recovered materials used in the production of a remanufactured good.

De Minimis

Appendix A sets forth the *de minimis* rules for goods to qualify as originating goods even when the goods would fail to qualify as such under the general rules of origin. Unless an exception applies, a good shall be considered to be an originating good where the value of all non-originating materials used in the production of the good is not more than ten percent of the transaction value of the good, or, if applicable, the total cost of the good, provided that the good satisfies any regional value content requirements and all other applicable

regulations in Appendix A. The *de minimis* rules for textile goods established in Chapter Six of the USMCA and examples illustrating the application of the *de minimis* rules are also provided.

Sets of Goods, Kits or Composite Goods

A good is classified as a set as a result of the application of rule 3 of the General Rules for the Interpretation of the HTSUS. Under the general rule of origin for such goods, a set is an originating good only if each good in the set is originating, and both the set and the goods in the set meet the other applicable requirements in Appendix A. Several examples, including the application to textile sets, are provided to illustrate when a set is considered an originating good.

Regional Value Content

The appendix provides the basic rules that apply for purposes of determining whether an imported good satisfies any applicable regional value content requirement. With some exceptions, the regional value content of a good shall be calculated, at the choice of the importer, exporter or producer of the good, on the basis of either the transaction value method or the net cost method. The specifics of the transaction value method and the net cost method, including the formulas used to calculate each method, are also contained in Appendix A. Several examples of the calculations for the regional value content requirement are provided under both the transaction value method and the net cost method.

Materials

Appendix A sets forth the rules regarding the valuation of materials, the treatment of materials with regard to the change in tariff classification requirement, and the regional value content requirement. Additionally, this section identifies adjustments to the value of materials including certain costs that may be deducted from the value of non-originating material or material of undetermined origin. This section also allows for an optional designation as an intermediate material of self-produced material that is used in the production of the good, and provides the determinations on the value of such intermediate material. Furthermore, it includes provisions for the treatment and value of indirect materials, packaging materials and containers, fungible materials and fungible commingled goods, and accessories, spare parts, tools or instructional or other information materials in determining the originating

status of a good. Numerous examples are provided illustrating the provisions on materials.

Accumulation

The appendix identifies the rules by which an importer, exporter or producer of a good has the option to accumulate the production, by one or more producers in the territory of one or more of the USMCA countries, of materials that are incorporated into that good for the determination of the origin of the good. Several examples of accumulation of production are provided to illustrate the process.

Transshipment

Generally, an originating good loses its originating status and is considered non-originating if the good is transported outside of the territories of the USMCA countries. Appendix A sets forth the rule that an originating good transported outside the territories of the USMCA countries retains its originating status if the good remains under customs control, and the good does not undergo further production or any other non-specified operation outside the territories of the USMCA countries.

Non-Qualifying Operations

Appendix A sets forth the rule that a good is not an originating good solely because of its dilution with water or another substance that does not materially alter the characteristics of the good, or by any other production method or pricing practice the purpose of which is to circumvent the rules of origin of Appendix A.

Automotive Goods

The Appendix to Annex 4–B of Chapter 4 of the USMCA includes additional rules of origin requirements that apply to automotive goods. Automotive goods are passenger vehicles, light trucks, heavy trucks, or other vehicles; or an applicable part, component, or material listed in Tables A.1, A.2, B, C, D, E, F, or G of the Appendix to Annex 4–B of Chapter 4 of the USMCA. In addition to the rules of origin requirements, a passenger vehicle, light truck, or heavy truck is originating only if, during the time period specified, at least seventy percent of a vehicle producer's purchases of steel and aluminum, by value, in the territories of the USMCA countries are originating. Furthermore, a passenger vehicle, light truck, or heavy truck is originating only if the vehicle producer certifies and can demonstrate that its production meets the applicable labor value content requirement.

Appendix A to part 182 sets forth the rules of origin related to automotive goods. Specifically, Appendix A provides the definitions that are applicable to automotive goods, the regional value content requirements specific to automotive goods, the steel and aluminum purchase requirement, and the labor value content requirement.

Schedules

Appendix A also contains Schedules I through X. These schedules set forth the most-favored-nation rates of duty on certain goods, and provide much more detail on the calculations of the value of goods and materials, the inventory management methods, the methods of calculating costs, and the Generally Accepted Accounting Principles.

IV. Statutory and Regulatory Requirements

A. Administrative Procedure Act

Under section 553 of the Administrative Procedure Act (APA) (5 U.S.C. 553), agencies generally are required to publish a notice of proposed rulemaking in the **Federal Register** that solicits public comment on the proposed regulatory amendments, considers public comments in deciding on the content of the final amendments, and publishes the final amendments at least 30 days prior to their effective date. However, section 553(a)(1) of the APA provides that the standard prior notice and comment procedures do not apply to an agency rulemaking to the extent that it involves a foreign affairs function of the United States. CBP has determined that these interim regulations involve a foreign affairs function of the United States because they implement preferential tariff treatment and customs related provisions of the USMCA, a specific international agreement. Therefore, the rulemaking requirements under the APA do not apply and this interim rule will be effective on July 1, 2020.

CBP also has determined that there is good cause pursuant to 5 U.S.C. 553(b)(B) to publish this rule without prior public notice and comment procedures. This rule is a nondiscretionary action as it sets forth the uniform regulations that the United States, Mexico, and Canada trilaterally agreed to implement without change. Given CBP's lack of discretion and that this rule sets forth the rules of origin that the public needs knowledge of to claim USMCA preferential tariff treatment, prior public notice and comment procedures for this rule are

impracticable, unnecessary, and contrary to the public interest.

For the same reasons, a delayed effective date is not required under 5 U.S.C. 553(d)(3). Pursuant to section 103(b)(2) of the USMCA Act, regulations implementing the USMCA Uniform Regulations regarding rules of origin must be effective no later than the date the USMCA enters into force, which is July 1, 2020. Failure to implement the CBP regulations by the July 1, 2020 entry into force date would be in violation of the USMCA and the USMCA Act, and would result in undesirable international consequences.

B. Executive Orders 13563, 12866, and 13771

Executive Orders 13563 and 12866 direct agencies to assess the costs and benefits of available regulatory alternatives and, if regulation is necessary, to select regulatory approaches that maximize net benefits (including potential economic, environmental, public health and safety effects, distributive impacts, and equity). Executive Order 13563 emphasizes the importance of quantifying both costs and benefits, of reducing costs, of harmonizing rules, and of promoting flexibility. Executive Order 13771 directs agencies to reduce regulation and control regulatory costs, and provides that “for every one new regulation issued, at least two prior regulations be identified for elimination, and that the cost of planned regulations be prudently managed and controlled through a budgeting process.”

Rules involving the foreign affairs function of the United States are exempt from the requirements of Executive Orders 13563, 12866, and 13771. Because this document involves a foreign affairs function of the United States by implementing a specific international agreement, it is not subject to the provisions of Executive Orders 13563, 12866, and 13771.

C. Regulatory Flexibility Act

The Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*), as amended by the Small Business Regulatory Enforcement and Fairness Act of 1996, requires an agency to prepare and make available to the public a regulatory flexibility analysis that describes the effect of a proposed rule on small entities (*i.e.*, small businesses, small organizations, and small governmental jurisdictions) when the agency is required to publish a general notice of proposed rulemaking for a rule. Since a notice of proposed rulemaking is not necessary for this rule, CBP is not required to prepare a

regulatory flexibility analysis for this rule.

V. Signing Authority

This rulemaking is being issued in accordance with 19 CFR 0.1(a)(1), pertaining to the authority of the Secretary of the Treasury (or that of his or her delegate) to approve regulations related to certain customs revenue functions.

List of Subjects

19 CFR Part 181

Administrative practice and procedure, Canada, Exports, Mexico, Reporting and recordkeeping requirements, Trade agreements.

19 CFR Part 182

Administrative practice and procedure, Canada, Exports, Mexico, Reporting and recordkeeping requirements, Trade agreements.

For the reasons stated above, amend part 181 and add a new part 182 of title 19 of the Code of Federal Regulations (19 CFR parts 181 and 182) as set forth below.

PART 181—NORTH AMERICAN FREE TRADE AGREEMENT

■ 1. The general authority citation for part 181 continues to read as follows:

Authority: 19 U.S.C. 66, 1202 (General Note 3(i), Harmonized Tariff Schedule of the United States), 1624, 3314;

* * * * *

§ 181.0 [Amended]

■ 2. In § 181.0, add a new second sentence.

The revision reads as follows:

§ 181.0 Scope.

* * * This part is not applicable to goods entered for consumption, or withdrawn from warehouse for consumption, on or after July 1, 2020.

* * * * *

■ 3. Add part 182 to read as follows:

PART 182—UNITED STATES-MEXICO-CANADA AGREEMENT

Sec.

Subpart A—General Provisions

182.0 Scope.

182.1 [Reserved]

Subpart B—Import Requirements

182.11–182.16 [Reserved]

Subpart C—Export Requirements

182.21 [Reserved]

Subpart D—Post-Importation Duty Refund Claims

182.31–182.33 [Reserved]

Subpart E—Restrictions on Drawback and Duty-Deferral Programs

182.41–182.54 [Reserved]

Subpart F—Rules of Origin

182.61 Rules of origin.

182.62 [Reserved]

Subpart G—Origin Verifications and Determinations

182.71–182.74 [Reserved]

Subpart H—Textile and Apparel Goods

182.81–182.82 [Reserved]

182.82 [Reserved]

Subpart I—Automotive Goods

182.91–182.93 [Reserved]

Subpart J—Commercial Samples and Goods Returned after Repair or Alteration

182.101–182.102 [Reserved]

Subpart K—Penalties

182.111–182.114 [Reserved]

Appendix A to Part 182—Rules of Origin Regulations

Authority: 19 U.S.C. 66, 1202 (General Note 3(i) and General Note 11, Harmonized Tariff Schedule of the United States (HTSUS)), 1624, 4513, 4535; Section 182.61 also issued under 19 U.S.C. 4531, 4532.

Subpart A—General Provisions**§ 182.0 Scope.**

This part implements the duty preference and related customs provisions applicable to imported and exported goods under the Agreement Between the United States of America, the United Mexican States, and Canada (USMCA), signed on December 10, 2019, and entered into force on July 1, 2020, and under the United States-Mexico-Canada Agreement Implementation Act (134 Stat. 11) (the Act). For goods entered for consumption, or withdrawn from warehouse for consumption, prior to July 1, 2020, please see the NAFTA provisions in part 181 of this chapter. Except as otherwise specified in this part, the procedures and other requirements set forth in this part are in addition to the CBP procedures and requirements of general application contained elsewhere in this chapter.

§ 182.1 [Reserved]

Subpart B—Import Requirements

§§ 182.11–182.16 [Reserved]

Subpart C—Export Requirements

§ 182.21 [Reserved]

Subpart D—Post-Importation Duty Refund Claims

§§ 182.31–182.33 [Reserved]

Subpart E—Restrictions on Drawback and Duty-Deferral Programs

§§ 182.41–182.54 [Reserved]

Subpart F—Rules of Origin

§ 182.61 Rules of origin.

The regulations, implementing the rules of origin provisions of General Note 11, Harmonized Tariff Schedule of the United States (HTSUS), and Chapters Four and Six of the USMCA, are contained in Appendix A to this part.

§ 182.62 [Reserved]

Subpart G—Origin Verifications and Determinations

§§ 182.71–182.74 [Reserved]

Subpart H—Textile and Apparel Goods

§§ 182.81–182.82 [Reserved]

Subpart I—Automotive Goods

§§ 182.91–182.93 [Reserved]

Subpart J—Commercial Samples and Goods Returned after Repair or Alteration

§§ 182.101–182.102 [Reserved]

Subpart K—Penalties

§§ 182.111–182.114 [Reserved]

Appendix A to Part 182—Rules of Origin Regulations

Uniform Regulations Regarding the Interpretation, Application, and Administration of Chapter 4 (Rules of Origin) and Related Provisions in Chapter 6 (Textile and Apparel Goods) of the Agreement Between the United States of America, the United Mexican States, and Canada¹

Part I**Section 1. Definitions and Interpretations**

(1) *Definitions.* The following definitions apply in these Regulations,

¹Please note that the citing conventions in Appendix A might not conform to the ordinary citing conventions in the Code of Federal Regulations (CFR) because the language is added

accessories, spare parts, tools, instructional or other information materials 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;

adjusted to exclude any costs incurred in the international shipment of the good means, with respect to the transaction value of a good, adjusted by

(a) deducting the following costs if those costs are included in the transaction value of the good:

(i) The costs of transporting the good after it is shipped from the point of direct shipment,

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

(iii) the cost of packing materials and containers, and

(b) if those costs are not included in the transaction value of the good, 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;

Agreement means the *United States-Mexico-Canada Agreement*;²

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 established in Schedule I (PSRO Annex) for the tariff provision under which the good is classified;

aquaculture means the farming of aquatic organisms, including fish, molluscs, crustaceans, other aquatic invertebrates and aquatic plants from seed stock such as eggs, fry, fingerlings, or larvae, by intervention in the rearing or growth processes to enhance production such as regular stocking, feeding, or protection from predators;

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 labor costs incurred in packing it for shipment, but does not include the costs of preparing and packaging it for retail sale;

Customs Valuation Agreement means the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade, set out in Annex 1A to the WTO Agreement;

customs value means

(a) in the case of Canada, value for duty as defined in the *Customs Act*, except that for the purpose of determining that value the reference in section 55 of that Act to “in

pursuant to an international agreement without revision.

²Please be aware that, in other contexts, the United States-Mexico-Canada Agreement is referred to by its official name, the Agreement Between the United States of America, the United Mexican States, and Canada.

accordance with the regulations made under the *Currency Act* is to be read as a reference to “in accordance with subsection 2(1) of these *CUSMA Rules of Origin Regulations*”,

(b) in the case of Mexico, the *valor en aduana* as determined in accordance with the *Ley Aduanera*, converted, if such value is not expressed in Mexican currency, to Mexican currency at the rate of exchange determined in accordance with subsection 2(1), and

(c) in the case of the United States, the value of imported merchandise as determined by the U.S. Customs and Border Protection in accordance with section 402 of the *Tariff Act of 1930*, as amended, converted, if that value is not expressed in United States currency, to United States currency at the rate of exchange determined in accordance with subsection 2(1);

days means calendar days, and includes Saturdays, Sundays and holidays;

direct labor costs means costs, including fringe benefits, that are associated with employees who are directly involved in the production of a good;

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;

direct overhead means costs, other than direct material costs and direct labor costs, that are directly associated with the production of a good;

enterprise means an entity constituted or organized under applicable law, whether or not for profit, and whether privately-owned or governmentally-owned or controlled, including a corporation, trust, partnership, sole proprietorship, joint venture, association or similar organization;

excluded costs means, with respect to net cost or total cost, sales promotion, marketing and after-sales service costs, royalties, shipping and packing costs and non-allowable interest costs;

fungible goods means goods that are interchangeable for commercial purposes with another good and the properties of which are essentially identical;

fungible materials means materials that are interchangeable with another material for commercial purposes and the properties of which are essentially identical;

Harmonized System means the *Harmonized Commodity Description and Coding System*, including its General Rules of Interpretation, Section Notes, Chapter Notes and Subheading Notes, as set out in (a) in the case of Canada, the *Customs Tariff*,

(b) in the case of Mexico, the *Tarifa de la Ley de los Impuestos Generales de Importación y de Exportación*, and

(c) in the case of the United States, the *Harmonized Tariff Schedule of the United States*;

identical goods means, with respect to a good, including the valuation of a good, goods that

(a) are the same in all respects as that good, 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, if no goods that satisfy the requirements of paragraphs (a) and (b) were produced by the producer of that good;

identical materials means, with respect to a material, including the valuation of 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, if no materials that satisfy the requirements of paragraphs (a) and (b) were produced by the producer of that material;

incorporated means, with respect to the production of a good, a material that is physically incorporated into that good, and includes a material that is physically incorporated into another material before that material or any subsequently produced material is used in the production of the good;

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

(a) fuel and energy,

(b) tools, dies, and molds,

(c) spare parts and materials used or consumed in the maintenance of equipment and buildings,

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

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

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

(g) catalysts and solvents, and

(h) any other material that is not incorporated into the good but if the use in the production of the good can reasonably be demonstrated to be part of that production;

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;

intermediate material means a material that is self-produced and used in the production of a good, and designated as an intermediate material under subsection 8(6);

location of the producer means,

(a) the place where the producer uses a material in the production of the good; or

(b) the warehouse or other receiving station where the producer receives materials for use in the production of the good, provided that it is located within a radius of 75 km (46.60 miles) from the production site.

material means a good that is used in the production of another good, and includes a part or ingredient;

month means a calendar month;

national means a natural person who is a citizen or permanent resident of a USMCA country, and includes

(a) with respect to Mexico, a national or citizen according to Articles 30 and 34, respectively, of the Mexican Constitution, and

(b) with respect to the United States, a “national of the United States” as defined in the Immigration and Nationality Act on the date of entry into force of the Agreement;

net cost means total cost minus sales promotion, marketing and after-sales service costs, royalties, shipping and packing costs, and non-allowable interest costs that are included in the total cost;

net cost of a good means the net cost that can be reasonably allocated to a good using the method set out in subsection 7(3) (Regional Value Content);

net cost method means the method of calculating the regional value content of a good that is set out in subsection 7(3) (Regional Value Content);

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 interest rate issued by the federal government for comparable maturities of the country in which the producer is located;

non-originating good means a good that does not qualify as originating under these Regulations;

non-originating material means a material that does not qualify as originating under these Regulations;

originating good means a good that qualifies as originating under these Regulations;

originating material means a material that qualifies as originating under these Regulations;

packaging materials and containers means materials and containers in which a good is packaged for retail sale;

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;

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;

person means a natural person or an enterprise;

person of a USMCA country means a national, or an enterprise constituted or organized under the laws of a USMCA country;

point of direct shipment means the location from which a producer of a good normally ships that good to the buyer of the good;

producer means a person who engages in the production of a good;

production means growing, cultivating, raising, mining, harvesting, fishing, trapping, hunting, capturing, breeding, extracting, manufacturing, processing, or assembling a good, or aquaculture;

reasonably allocate means to apportion in a manner appropriate to the circumstances;

recovered material means a material in the form of one or more individual parts that results from:

(a) The disassembly of a used good into individual parts; and

(b) the cleaning, inspecting, testing or other processing of those parts as necessary for improvement to sound working condition;

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 percent 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; *remanufactured good* means a good classified in HS Chapters 84 through 90 or under heading 94.02 except goods classified under HS headings 84.18, 85.09, 85.10, and 85.16, 87.03 or subheadings 8414.51, 8450.11, 8450.12, 8508.11, and 8517.11, that is entirely or partially composed of recovered materials and:

(a) Has a similar life expectancy and performs the same as or similar to such a good when new; and

(b) has a factory warranty similar to that applicable to such a good when new;

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;

right to use, for the purposes of the definition of royalties, includes the right to sell or distribute a good;

royalties means payments of any kind, including payments under technical assistance or similar agreements, made as consideration for the use of, or right to use, a copyright, literary, artistic, or scientific work, patent, trademark, design, model, plan, or secret formula or process, excluding those payments under technical assistance or similar agreements that can be related to specific services such as

(a) personnel training, without regard to where the training is performed, or

(b) if performed in the territory of one or more of the USMCA countries, engineering, tooling, die-setting, software design and similar computer services, or other services;

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, catalogs, technical literature, price lists, service manuals, or sales aid information); establishment and protection of logos and trademarks; sponsorships; wholesale and retail restocking charges; or entertainment;

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

(c) salaries and wages, sales commissions, bonuses, benefits (for example, medical, insurance, or pension), travelling and living expenses, or 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, if those 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, if those 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, if those 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 centers;

(i) property insurance premiums, taxes, cost of utilities, and repair and maintenance of sales promotion, marketing, and after-sales service offices and distribution centers, if those 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;

self-produced material means a material that is produced by the producer of a good and used in the production of that good;

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;

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, if no goods that satisfy the requirements of paragraphs (a) and (b) were produced by the producer of that good;

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, if no materials that satisfy the requirements of paragraphs (a) and (b) were produced by the producer of that material;

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;

tariff provision means a heading, subheading or tariff item;

territory means:

(a) For Canada, the following zones or waters as determined by its domestic law and consistent with international law:

(i) The land territory, air space, internal waters, and territorial sea of Canada,

(ii) the exclusive economic zone of Canada, and

(iii) the continental shelf of Canada;

(b) for Mexico,

(i) the land territory, including the states of the Federation and Mexico City,

(ii) the air space, and

(iii) the internal waters, territorial sea, and any areas beyond the territorial seas of Mexico within which Mexico may exercise sovereign rights and jurisdiction, as determined by its domestic law, consistent with the *United Nations Convention on the Law of the Sea*, done at Montego Bay on December 10, 1982; and

(c) for the United States,

(i) the customs territory of the United States, which includes the 50 states, the District of Columbia, and Puerto Rico,

(ii) the foreign trade zones located in the United States and Puerto Rico, and

(iii) the territorial sea and air space of the United States and any area beyond the territorial sea within which, in accordance with customary international law as reflected in the *United Nations Convention on the Law of the Sea*, the United States may exercise sovereign rights or jurisdiction.

total cost means all product costs, period costs, and other costs incurred in the territory of one or more of the USMCA countries, where:

(a) Product costs are costs that are associated with the production of a good and include the value of materials, direct labor costs, and direct overheads;

(b) period costs are costs, other than product costs, that are expensed in the period in which they are incurred, such as selling expenses and general and administrative expenses; and

(c) other costs are all costs recorded on the books of the producer that are not product costs or period costs, such as interest.

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;

transaction value means the customs value as determined in accordance with the Customs Valuation Agreement, that is, the price actually paid or payable for a good or

material with respect to a transaction of the producer of the good, adjusted in accordance with the principles of Articles 8(1), 8(3), and 8(4) of the Customs Valuation Agreement, regardless of whether the good or material is sold for export;

transaction value method means the method of calculating the regional value content of a good that is set out in subsection 7(2) (Regional Value Content);

used means used or consumed in the production of a good;

USMCA country means a Party to the Agreement;

value means the value of a good or material for the purpose of calculating customs duties or for the purpose of applying these Regulations.

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*,

(b) in the case of Mexico, Article 5.9 of the Agreement, and

(c) in the case of the United States, section 509 of the Tariff Act of 1930, as amended.

(2) *Interpretation: "similar goods" and "similar materials"*. For the purposes of the definitions of *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 for the purpose of determining whether goods or materials are similar.

(3) *Other definitions*. For the purposes of these Regulations,

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

(b) *heading* refers to any four-digit number set out in the "Heading" column in the Harmonized System, or the first four digits of any tariff provision;

(c) *subheading* refers to any six-digit number, set out in the "H.S. Code" column in the Harmonized System or the first six digits of any tariff provision;

(d) *tariff item* refers to the first eight digits in the tariff classification number under the Harmonized System as implemented by each USMCA country;

(e) any reference to a tariff item in Chapter Four of the Agreement or these Regulations that includes letters is to be reflected as the appropriate eight-digit number in the Harmonized System as implemented in each USMCA country; and

(f) *books* refers to,

(i) with respect to the books of a person who is located in a USMCA 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 X with respect to the territory of the USMCA 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 X with respect to the territory of the USMCA 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 USMCA 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, if 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, if there are no such principles, in accordance with the International Accounting Standards.

(4) *Use of examples*. If an example, referred to as an "Example", is set out in these Regulations, the example is for the purpose of illustrating the application of a provision, and if there is any inconsistency between the example and the provision, the provision prevails to the extent of the inconsistency.

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

(6) *Calculation of Total Cost*. For the purposes of subsections 5(11), 7(11) and 8(8),

(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, is the value determined in accordance with subsections 8(1) and 8(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 must be calculated in accordance with subsection 8(6),

(iii) the value of indirect materials and the value of packing materials and containers is to 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), is to 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) gains related to currency conversion that are related to the production of the good must be deducted from total cost, and losses related to currency conversion that are related to the production of the good must be included in total cost;

(e) the value of materials with respect to which production is accumulated under section 9 must be determined in accordance with that section; and

(f) total cost includes the impact of inflation as recorded on the books of the producer, if recorded in accordance with the Generally Accepted Accounting Principles of the producer's country.

(7) *Period for the calculation of total cost*.

For the purpose of calculating total cost under subsections 5(11) and 7(11) and 8(8),

(a) if the regional value content of the good is calculated on the basis of the net cost method and the producer has elected under subsection 7(15), 16(1) or (3) to calculate the regional value content over a period, the total cost must be calculated over that period; and

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

(i) a one-month period,

(ii) any consecutive three-month or six-month period that falls within and is evenly divisible into the number of months of the producer's fiscal year remaining at the beginning of that period, or

(iii) the producer's fiscal year.

(8) *Election not modifiable*. An election made under subsection (7) 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) *Election considered made with respect to period*. If a producer chooses a one, three or six-month period under subsection (7) with respect to a good or material, the producer is 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 that good or material.

(10) *Election considered made with respect to cost*. With respect to a good exported to a USMCA country, an election to average is considered to have been made

(a) in the case of an election referred to in subsection 16(1) or (3), if the election is received by the customs administration of that USMCA country; and

(b) in the case of an election referred to in subsection 1(7), 7(15) or 16(10), if the customs administration of that USMCA country is informed in writing during the course of a verification of origin of the good that the election has been made.

Section 2. Conversion of Currency

2 (1) *Conversion of currency*. If the value of a good or a material is expressed in a currency other than the currency of the country where the producer of the good is located, that value must be converted to the currency of the country in which that producer is located, based on the following rates of exchange:

(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 the purpose of recording that sale or purchase, or

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

(i) if the producer used a rate of exchange for the purpose of recording another transaction in that other currency that occurred within 30 days of the date on which the producer acquired the material, that rate, or

(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,

(B) with respect to a producer located in Mexico, the rate of exchange published by

the *Banco de Mexico* in the *Diario Oficial de la Federación*, under the title “*TIPO de cambio para solventar obligaciones denominadas en moneda extranjera pagaderas en la República Mexicana*”, for the date on which the material was shipped directly to the producer, and

(C) with respect to a producer located in the United States, the rate of exchange referred to in 31 U.S.C. 5151 for the date on which the material was shipped directly to the producer.

(2) *Information in other currency in statement.* If a producer of a good has a statement referred to in section 9 that includes information in a currency other than the currency of the country in which that producer is located, the currency must be converted to the currency of the country in which the producer is located based on the following rates of exchange:

(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 must be the rate used by the producer for the purpose of recording the purchase; or

(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) and the producer used a rate of exchange for the purpose of recording a transaction in that other currency that occurred within 30 days of the date on which the producer acquired the material, the rate of exchange must be that rate, or

(ii) in any other case,

(A) with respect to a producer located in Canada, the rate of exchange is the rate 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,

(B) with respect to a producer located in Mexico, the rate of exchange is the rate published by the *Banco de Mexico* in the *Diario Oficial de la Federación*, under the title “*TIPO de cambio para solventar obligaciones denominadas en moneda extranjera pagaderas en la República Mexicana*”, for the date on which the material was shipped directly to the producer, and

(C) with respect to a producer located in the United States, the rate of exchange is the rate referred to in 31 U.S.C. 5151 for the date on which the material was shipped directly to the producer; and

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

(i) if the producer used a rate of exchange for the purpose of recording a transaction in that other currency that occurred within 30 days of the date on which the producer acquired the material, the rate of exchange must be that rate, and

(ii) in any other case,

(A) with respect to a producer located in Canada, the rate of exchange must be the rate 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,

(B) with respect to a producer located in Mexico, the rate of exchange must be the rate

published by the *Banco de Mexico* in the *Diario Oficial de la Federación*, under the title “*TIPO de cambio para solventar obligaciones denominadas en moneda extranjera pagaderas en la República Mexicana*”, for the date on which the material was shipped directly to the producer, and

(C) with respect to a producer located in the United States, the rate of exchange must be the rate referred to in 31 U.S.C. 5151 for the date on which the material was shipped directly to the producer.

Part II

Section 3. Originating Goods

3(1) *Wholly obtained goods.* A good is originating in the territory of a USMCA country if the good satisfies all other applicable requirements of these Regulations and is:

(a) A mineral good or other naturally occurring substance extracted in or taken from the territory of one or more of the USMCA countries;

(b) a plant, plant good, vegetable, or fungus, grown, harvested, picked, or gathered in the territory of one or more of the USMCA countries;

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

(d) a good obtained from a live animal in the territory of one or more of the USMCA countries;

(e) an animal obtained from hunting, trapping, fishing, gathering or capturing in the territory of one or more of the USMCA countries;

(f) a good obtained from aquaculture in the territory of one or more of the USMCA countries;

(g) fish, shellfish or other marine life taken from the sea, seabed or subsoil outside the territories of the USMCA countries and, under international law, outside the territorial sea of non-USMCA countries, by vessels that are registered, listed, or recorded with a USMCA country and entitled to fly the flag of that USMCA country;

(h) a good produced from goods referred to in paragraph (g) on board a factory ship where the factory ship is registered, listed, or recorded with a USMCA country and entitled to fly the flag of that USMCA country;

(i) a good, other than fish, shellfish or other marine life, taken by a USMCA country or a person of a USMCA country from the seabed or subsoil outside the territories of the USMCA countries, if that USMCA country has the right to exploit that seabed or subsoil;

(j) waste and scrap derived from:

(i) Production in the territory of one or more of the USMCA countries, or

(ii) used goods collected in the territory of one or more of the USMCA countries, provided the goods are fit only for the recovery of raw materials; or

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

(2) *Goods produced from non-originating materials.* A good, produced entirely in the territory of one or more of the USMCA

countries, is originating in the territory of a USMCA country if each of the non-originating materials used in the production of the good satisfies all applicable requirements of Schedule I (PSRO Annex), and the good satisfies all other applicable requirements of these Regulations.

(3) *Goods produced exclusively from originating materials.* A good is originating in the territory of a USMCA country if the good is produced entirely in the territory of one or more of the USMCA countries exclusively from originating materials and the good satisfies all other applicable requirements of these Regulations.

(4) *Exceptions to the change in tariff classification requirement.* Except in the case of a good of any of Chapters 61 through 63, a good is originating in the territory of a USMCA country if:

(a) One or more of the non-originating materials used in the production of that good cannot satisfy the change in tariff classification requirements set out in Schedule I (PSRO Annex) because both the good and its materials are classified in the same subheading or same heading that is not further subdivided into subheadings, and,

(i) the good is produced entirely in the territory of one or more of the USMCA countries;

(ii) the regional value content of the good, calculated in accordance with section 7 (Regional Value Content), is not less than 60 percent if the transaction value method is used, or not less than 50 percent if the net cost method is used; and

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

(b) it was imported into the territory of a USMCA country in an unassembled or a disassembled form but classified as an assembled good in accordance with rule 2(a) of the General Rules of Interpretation for the Harmonized System and,

(i) the good is produced entirely in the territory of one or more of the USMCA countries;

(ii) the regional value content of the good, calculated in accordance with section 7 (Regional Value Content), is not less than 60 percent if the transaction value method is used, or not less than 50 percent if the net cost method is used; and

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

(5) *Interpretation of goods and parts of goods.* For the purposes of paragraph (4)(a),

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

(b) if, 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 is to be considered to cover only the goods and parts of the goods that are themselves classified under that subheading.

(6) *Requirement to meet one rule.* For the purposes of subsection (2), if Schedule I (PSRO Annex) 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) *Special rule for certain goods.* A good is originating in the territory of a USMCA country if the good is referred to in Schedule II and is imported from the territory of a USMCA country.

(8) *Self-produced material considered as a material.* For the purpose 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.

(9) *Each of the following examples is an "Example" as referred to in subsection 1(4).*

Example 1: Subsection 3(2) Regarding the 'component that determines the tariff classification' of a textile or apparel good)

Producer A, located in a USMCA country, produces women's wool overcoats of subheading 6202.11 from two different fabrics, one for the body and another for the sleeves. Both fabrics are produced using originating and non-originating materials. The overcoat's body is made of woven wool and silk fabric, and the sleeves are made of knit cotton fabric.

For the purpose of determining if the women's wool overcoats are originating goods, Producer A must take into account Note 2 of Chapter 62 of Schedule I, which indicates that the applicable rule will apply only to the component that determines the tariff classification of the good and that the component must satisfy the tariff change requirements set out in the rule for that good.

The woven fabric (80% wool and 20% silk) used for the body is the component of the women's wool overcoat that determines its tariff classification under subheading 6202.11, because it constitutes the predominant material by weight and makes up the largest surface area of the overcoat. This fabric is made by Producer A from originating wool yarn classified in heading 51.06 and non-originating silk yarn classified in heading 50.04.

Since the knit cotton fabric used in the sleeves is not the component that determines the tariff classification of the good, it does not need to meet the requirements set out in the rule for the good.

Producer A must determine whether the non-originating materials used in the production of the component that determines the tariff classification of the women's wool overcoats (the woven fabric) satisfy the requirements established in the product-specific rule of origin, which requires both a change in tariff classification from any other chapter, except from some headings and chapters under which certain yarns and fabrics are classified, and a requirement that the good be cut or knit to shape and sewn or otherwise assembled in the territory of one or more of the USMCA countries. The non-

originating silk yarn of heading 50.04 used by Producer A satisfies the change in tariff classification requirement, since heading 50.04 is not excluded under the product-specific rule of origin. Additionally, the overcoats are cut and sewn in the territory of one of the USMCA countries, and therefore the women's wool overcoats would be considered to be originating goods.

Example 2: (Subsection 3(2))

Producer A, located in a USMCA country, produces T-shirts of subheading 6109.10 from knit cotton and polyester fabric (60% cotton and 40% polyester), which is also produced by Producer A using originating cotton yarn of heading 52.05 and polyester yarn made of non-originating filaments of heading 54.02.

As the t-shirt is made of a single fabric and classified under GRI 1 in subheading 6109.10, this fabric is the component that determines tariff classification. Therefore, to be considered originating by application of the tariff-shift rule for subheading 6109.10, each of the non-originating materials used in the production of the t-shirt must undergo the required change in tariff classification.

In this case, the non-originating polyester filaments of heading 54.02 used in the production of the T-shirts do not satisfy the change in tariff classification set out in the product-specific rule of origin. In addition, the weight of the non-originating polyester is over the "de minimis" allowance. Therefore, the T-shirts do not qualify as originating goods.

Example 3: (subsection 3(2))—Note 2 contained in Section XI—Textiles and Textile Articles (Chapter 50–63)

Producer A, located in a USMCA country, produces fabrics of subheading 5211.42 from originating cotton and polyester yarns, and non-originating rayon filament. For the purpose of determining if the fabrics are originating goods, Producer A must consider Note 2 of Section XI of Schedule I, which indicates a good of Chapter 50 through 63 is considered as originating, regardless of whether the rayon filaments used in its production are non-originating materials, provided that the good meets the requirements of the applicable product-specific rule of origin.

With the exception of the rayon filaments of heading 54.03, that Note 2 of Section XI of Schedule I allows, all of the materials used in the production of the fabrics are originating materials, and since General Interpretative Note (d) of Schedule I provides that a change in tariff classification of a product-specific rule of origin applies only to non-originating materials, the fabrics are considered to be originating goods.

Example 4: Subsection 3(2) Note 2 and 5 of Chapter 62 regarding the interpretation of the component that determines the tariff classification and the requirement for pockets.

Producer A, located in a USMCA country, produces men's suits classified in subheading 6203.12, which are made of three fabrics: A non-originating fabric of subheading 5407.61 used to make a visible lining, an originating fabric of 5514.41 used to make the outer part of the suit and a non-

originating fabric of subheading 5513.21 used to make pocket bags.

For the purpose of determining if the men's suits are originating goods, Producer A should take into account Note 2 of Chapter 62 of Schedule I, which indicates that the applicable rule will only apply to the component that determines the tariff classification of the good and that the component must satisfy the tariff change requirements set out in the rule for that good.

The originating fabric used to make the outer part of the suit is the component of the suit that determines the tariff classification under subheading 6203.12, because it constitutes the predominant material by weight and is the largest surface area of the suit. The origin of the fabric used as visible lining is disregarded for the purpose of determining whether the suit is an originating good since that fabric is not considered the component that determines the tariff classification, and there are no Chapter notes related to visible lining for apparel goods.

Additionally, Producer A uses a non-originating fabric of subheading 5513.21 for the pocket bags of the suits, so it should take into account the second paragraph of Note 5 of Chapter 62 of Schedule I, which requires that the pocket bag fabric must be formed and finished in the territory of one or more USMCA countries from yarn wholly formed in one or more USMCA countries.

In this case, for the production of men's suits, Producer A uses non-originating fabric for the pockets, and such fabric was not formed and finished in the territory of one or more Parties, therefore the suits would be considered to be non-originating goods.

Example 5 (subsection 3(7)): A wholesaler located in USMCA Country A imports non-originating storage units provided for in subheading 8471.70 from outside the territory of the USMCA countries. The wholesaler resells the storage units to a buyer in USMCA Country B. While in the territory of Country A, the storage units do not undergo any production and therefore do not meet the rule in Schedule I for goods of subheading 8471.70 when imported into the territory of USMCA Country B.

Notwithstanding the rule in Schedule I, the storage units of subheading 8471.70 are considered originating goods when they are imported to the territory of USMCA Country B because they are referred to in Schedule II and were imported from the territory of another USMCA country.

The buyer in USMCA Country B subsequently uses the storage units provided for in subheading 8471.70 as a material in the production of another good. For the purpose of determining whether the other good originates, the buyer in USMCA Country B may treat the storage units of subheading 8471.70 as originating materials.

Example 6 subsection 3(8): Self-produced Materials as Materials for the purpose of Determining Whether Non-originating Materials Undergo an Applicable Change in Tariff Classification

Producer A, located in a USMCA 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 the purpose 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.

Section 4. Treatment of Recovered Materials Used in the Production of a Remanufactured Good

4(1) *Treatment of recovered materials used in the production of remanufactured goods.* A recovered material derived in the territory of one or more of the USMCA countries, will be treated as originating, provided that:

(a) It is the result of a disassembly process of a used good into individual parts;

(b) It has undergone certain processing, such as cleaning, inspection, testing or other improvement processing, to sound working condition; and

(c) It is used in the production of, and incorporated into, a remanufactured good.

(2) *Recovered material not used in remanufactured good.* In the case that the recovered material is not used or incorporated in the production of a remanufactured good, it is originating only if it satisfies the requirements established in Section 3, and satisfies all other applicable requirements in these Regulations.

(3) *Requirements of Schedule I (PSRO Annex).* A remanufactured good is originating in the territory of a USMCA country only if it satisfies the applicable requirements established in Schedule I (PSRO Annex), and satisfies all other applicable requirements in these Regulations.

(4) Each of the following examples is an "Example" as referred to in subsection 1(4)

Example 1: (Section 4)

In July 2023, Producer A located in a USMCA country manufactures water pumps of subheading 8413.30 for use in automotive engines. In addition to selling new water pumps, Producer A also sells water pumps that incorporate used parts.

To obtain the used parts, Producer A disassembles used water pumps in a USMCA country and cleans, inspects, and tests the individual parts. Accordingly, these parts qualify as recovered materials.

The water pumps that Producer A manufactures incorporate the recovered materials, have the same life expectancy and performance as new water pumps, and are sold with a warranty that is similar to the warranty for new water pumps. The water pumps therefore qualify as remanufactured goods, and the recovered materials are treated as originating materials when

determining whether the good qualifies as an originating good.

In this case, because the water pumps are for use in an automotive good, the provisions of Part VI apply. Because the water pump is a part listed in Table B, the RVC required is 70% under the net cost method or 80% under the transaction value method.

The producer chooses to calculate the RVC using net cost as follows:

Water pump net cost = \$1,000

Value of recovered materials = \$600

Value of other originating materials = \$20

Value of non-originating materials = \$280

RVC = (NC - VNM) / NC × 100

RVC = (1,000 - 280) / 1,000 × 100 = 72%

The remanufactured water pumps are originating goods because their regional value content exceeds the 70% requirement by net cost method.

Example 2: Section 4

Producer A located in a USMCA country, uses recovered materials derived in the territory of a USMCA country in the production of self-propelled "bulldozers" classified in subheading 8429.11.

In the production of the bulldozers, Producer A uses recovered engines, classified in heading 84.07. The engines are recovered materials because they are disassembled from used bulldozers in a USMCA country and then subject to cleaning, inspecting and technical tests to verify their sound working condition.

In addition to the recovered materials, other non-originating materials, classified in subheading 8413.91, are also used in the production of the bulldozers.

Producer A's bulldozers are considered a "remanufactured good" because they are classified in a tariff provision set out in the definition of a remanufactured good, are partially composed of recovered materials, have a similar life expectancy and perform the same as or similar to new self-propelled bulldozers, and have a factory warranty similar to new self-propelled bulldozers.

Once the recovered engines are used in the production of, and incorporated into, the remanufactured bulldozers, the recovered engines would be treated considered as originating materials for the purpose of determining if the remanufactured bulldozers are originating.

The rule of origin set out in Schedule I for subheading 8429.11 specifies a change in tariff classification from any other subheading.

In this case, because the recovered engines are treated as originating materials, and the non-originating materials, classified in subheading 8413.91, satisfy the requirements set out in Schedule I, the remanufactured bulldozers are originating goods.

Section 5. De Minimis

5(1) *De minimis rule for non-originating materials.* Except as otherwise provided in subsection (3) (Exceptions), a good is originating in the territory of a USMCA country if

(a) 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 more of the USMCA countries is not more than ten percent

(i) of the transaction value of the good, determined in accordance with Schedule III (Value of Goods), and adjusted to exclude any costs incurred in the international shipment of the good, or

(ii) of the total cost of the good;

(b) if the good is also subject to a regional content requirement under the rule in which the applicable change in tariff classification is specified, the value of those non-originating materials is to be taken into account in calculating the regional value content of the good in accordance with the method set out for that good; and

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

(2) *Only one rule to satisfy.* If Schedule I (PSRO Annex) sets out two or more alternative rules for the tariff provision under which the good is classified, and the good is considered an originating good under one of those rules in accordance with subsection (1), it need not satisfy the requirements of any alternative rule to be originating.

(3) *Exceptions.* Subsections (1) and (2) do not apply to:

(a) A non-originating material of heading 04.01 through 04.06, or a non-originating material that is a dairy preparation containing over 10 percent by dry weight of milk solids of subheading 1901.90 or 2106.90, used in the production of a good of heading 04.01 through 04.06;

(b) a non-originating material of heading 04.01 through 04.06, or a non-originating material that is a dairy preparation containing over 10 percent by dry weight of milk solids of subheading 1901.90 or 2106.90, used in the production of a good of:

(i) Infant preparations containing over 10 percent by dry weight of milk solids of subheading 1901.10,

(ii) mixes and doughs, containing over 25 percent by dry weight of butterfat, not put up for retail sale of subheading 1901.20,

(iii) dairy preparations containing over 10 percent by dry weight of milk solids of subheading 1901.90 or 2106.90,

(iv) goods of heading 21.05,

(v) beverages containing milk of subheading 2202.90, or

(vi) animal feeds containing over 10 percent by dry weight of milk solids of subheading 2309.90;

(c) a non-originating material of any of heading 08.05 and subheadings 2009.11 through 2009.39 that is used in the production of a good of any of subheadings 2009.11 through 2009.39 or a fruit or vegetable juice of any single fruit or vegetable, fortified with minerals or vitamins, concentrated or unconcentrated, of subheading 2106.90 or 2202.90;

(d) a non-originating material of Chapter 9 that is used in the production of instant coffee, not flavored, of subheading 2101.11;

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

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

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

(h) a non-originating material that is pears, peaches or apricots of Chapter 8 or 20 that is used in the production of a good of heading 20.08;

(i) 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 subheading 2009.90, or tariff item 2106.90.cc or 2202.90.bb;

(j) a non-originating material of heading 22.03 through 22.08 that used in the production of a good provided for in any of heading 22.07 or 22.08;

(k) a non-originating material that is used in the production of a good of any of Chapters 1 through 27, unless the non-originating material is of a different subheading than the good for which origin is being determined under this section; or

(l) a non-originating material that is used in the production of a good of any of Chapters 50 through 63.

(4) *De minimis rule for regional value content requirement.* A good that is subject to a regional value content requirement is originating in the territory of a USMCA country and is not required to satisfy that requirement if

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

(i) of the transaction value of the good, determined in accordance with Schedule III (Value of the Good), and adjusted to exclude any costs incurred in the international shipment of the good, or

(ii) of the total cost of the good, and

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

(5) *Value of non-originating materials for subsections (1) and (4).* For the purposes of subsections (1) and (4), the value of non-originating materials is to be determined in accordance with subsections 8(1) through (6).

(6) *De minimis rule for textile goods.* A good of any of Chapters 50 through 60 or heading 96.19, that contains non-originating materials that do not satisfy the applicable change in tariff classification requirements, will be considered originating in the territory of a USMCA country if:

(a) The total weight of all those non-originating materials is not more than ten per cent of the total weight of the good, of which the total weight of elastomeric content may not exceed seven per cent of the total weight of the good; and

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

(7) A good of any of Chapters 61 through 63, that contains non-originating fibers or yarns in the component of the good that determines the tariff classification that do not undergo the applicable change in tariff classification requirements, will be considered originating in the territory of a USMCA country if:

(a) The total weight of all those non-originating materials is not more than ten per cent of the total weight of that component, of which the elastomeric content may not exceed seven per cent; and

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

(8) For purposes of subsection (7),

(a) the component of a good that determines the tariff classification of that good is identified in accordance with the first of the following General Rules for the Interpretation of the Harmonized System under which the identification can be determined, namely, Rule 3(b), Rule 3(c) and Rule 4; and

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

(9) For the purpose of determining if a good of Chapter 61 through 63 is originating, the requirements set out in Schedule I (PSRO Annex) only apply to the component that determines the tariff classification of the good. Materials that are not part of the component that determines the tariff classification of the good are disregarded when determining if a good is originating. Similarly, for the purposes of Section 5 as applicable to a good of Chapters 61 through 63, only the materials used in the component that determines the tariff classification are taken into account in the *de minimis* calculation.

(10) Subsection (6) does not apply to sewing thread, narrow elastic bands, and pocket bag fabric subject to the requirements set out in Chapter 61 Notes 2 through 4, Chapter 62 Notes 3 through 5 or for coated fabric as set out in Chapter 63 Note 2 of Schedule I (PSRO Annex).

(11) *Calculation of "Total Cost", choice of methods.* For the purposes of paragraph (1)(a)(ii) and subparagraph (4)(a)(ii), the total cost of a good is, 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 V; 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 V.

(12) *Calculation of total cost.* Total cost under subsection (11) consists of the costs referred to in subsection 1(6), and is calculated in accordance with that subsection and subsection 1(7).

(13) *Value of non-originating materials—other methods.* For the purpose of determining the value under subsection (1) of non-originating materials that do not undergo an applicable change in tariff classification, if an inventory management method either recognized in the Generally Accepted Accounting Principles (GAAP) of the USMCA country where the production was performed or a method set out in Schedule VIII, is not being used to determine the value of those non-originating materials, the following methods are to be used:

(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 7(10) to use one of the methods recognized in the GAAP of the USMCA country where the material was produced, or a method set out

in Schedule VII to determine the value of those non-originating materials for the purpose of calculating the regional value content of the good, the value of those non-originating materials must be determined in accordance with that method;

(b) if the following conditions are met and if the value of those non-originating materials is equal to the sum of the values of non-originating materials, determined in accordance with the election under subparagraph (iv), divided by the number of units of the goods with respect to which the election is made

(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 (5)(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 7(15), 16(1) or (10) that the regional value content of the good be calculated over a period;

(c) if the conditions below are met the value of those non-originating materials is the sum of the values of non-originating materials divided by the number of units produced during the period under subparagraph (iii):

(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 (6)(a) applies with respect to that good, and

(iii) the producer elects under paragraph 1(7)(b) that, for the purposes of subsection 5(11), the total cost of the good be calculated over a 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 an inventory management method recognized in the GAAP of the USMCA country where the production was performed or one of the methods set out in Schedule VII.

(14) *Value of non-originating materials—production of the good.* For the 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 an inventory management method recognized in the GAAP of the USMCA country where the production was performed or one of the methods set out in Schedule VII

(15) *Examples illustrating de minimis rules.* Each of the following examples is an "Example" as referred to in subsection 1(4).

Example 1: Subsection 5(1)

Producer A, located in a USMCA country, uses originating materials and non-originating materials in the production of aluminum powder of heading 76.03. The product-specific rule of origin set out in Schedule I for heading 76.03 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 aluminum powder to qualify as an originating good under the rule set out in Schedule I, Producer A may not use any non-originating material of Chapter 76 in the production of the aluminum powder.

All of the materials used in the production of the aluminum powder are originating materials, with the exception of a small amount of aluminum scrap of heading 76.02, that is in the same chapter as the aluminum powder. Under subsection 5(1), if the value of the non-originating aluminum scrap does not exceed ten per cent of the transaction value of the aluminum powder or the total cost of the aluminum powder, whichever is applicable, the aluminum powder would be considered an originating good.

Example 2: Subsection 5(2)

Producer A, located in a USMCA country, uses originating materials and non-originating materials in the production of fans of subheading 8414.59. There are two alternative rules set out in Schedule I for subheading 8414.59, 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 fans are classified and a regional value content requirement. In order for the 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 fans and used in the production of the completed fan must be originating materials.

In this case, all of the non-originating materials used in the production of the 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 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 ten per cent of the transaction value of the fan or the total cost of the fan, whichever is applicable, the fan would be considered an originating good. Therefore, under subsection 5(2), the 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 USMCA country, uses originating materials and non-originating materials in the production of copper anodes of heading 74.02. The product-specific rule of origin set out in Schedule I for heading 74.02 specifies both a change in tariff classification from any other heading, except from heading 74.04, under which certain copper materials are classified, and a regional value content requirement. With respect to that part of the rule that specifies a change in tariff classification, in order for the copper anode to qualify as an originating good, any copper materials that are classified under heading 74.02 or 74.04 and that are used in the production of the copper anode must be originating materials.

In this case, all of the non-originating materials used in the production of the copper anode satisfy the specified change in tariff classification, with the exception of a small amount of copper materials classified under heading 74.04. Subsection 5(1) provides that the copper anode can be considered an originating good if the value of the non-originating copper materials that do not satisfy the specified change in tariff classification does not exceed ten per cent of the transaction value of the copper anode or the total cost of the copper anode, 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 ten per cent limit.

However, the rule set out in Schedule I for heading 74.02 specifies both a change in tariff classification and a regional value content requirement. Under paragraph 5(1)(b), in order to be considered an originating good, the copper anode 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)(b), 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 copper anode, will be taken into account in calculating the regional value content of the copper anode.

Example 4: Subsection 5(4)

Producer A, located in a USMCA country, primarily uses originating materials in the production of shoes of heading 64.05. The product-specific rule of origin set out in Schedule I for heading 64.05 specifies both a change in tariff classification from any heading other than headings 64.01 through 64.05 or 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 ten 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 USMCA country, produces barbers' chairs of subheading 9402.10. The product-specific rule of origin set out in Schedule I for goods of subheading 9402.10 specifies a change in tariff classification from any other subheading. 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 3(4)(a)

provides, among other things, that, if 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 will 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 ten 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 3(4)(a)(ii).

Example 6: Subsection 5(6):

Producer A, located in a USMCA country, manufactures an infant diaper, classified in heading 96.19, consisting of an outer shell of 94 percent nylon and 6 percent elastomeric fabric, by weight, and a terry knit cotton absorbent crotch. All materials used are produced in a USMCA country, except for the elastomeric fabric, which is from a non-USMCA country. The elastomeric fabric is only 6 percent of the total weight of the diaper. The product otherwise satisfies all other applicable requirements of these Regulations. Therefore, the product is considered originating from a USMCA country as per subsection (6).

Example 7: Subsection 5(6)

Producer A, located in a USMCA country, produces cotton fabric of subheading 5209.11 from cotton yarn of subheading 5205.11. This cotton yarn is also produced by Producer A.

The product-specific rule of origin set out in Schedule I for subheading 5209.11, under which the fabric is classified, specifies a change in tariff classification from any other heading outside 52.08 through 52.12, except from certain headings under which certain yarns are classified, including cotton yarn of subheading 5205.11.

Therefore, with respect to that part of the rule that specifies a change in tariff classification, in order for the fabric to qualify as an originating good, the cotton yarn that is used by Producer A in the production of the fabric must be an originating material.

At one point Producer A uses a small quantity of non-originating cotton yarn in the production of the cotton fabric. Under subsection 5(6), if the total weight of the non-originating cotton yarn does not exceed ten per cent of the total weight of the cotton fabric, it would be considered an originating good.

Example 8: Subsections 5(7) and (8)

Producer A, located in a USMCA 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 product-specific rule of origin 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 more of the USMCA countries. In addition, narrow elastics classified in subheading 5806.20 or heading 60.02 and sewing thread classified in heading 52.04, 54.01 or 55.08 or yarn classified in heading 54.02 that is used as sewing thread, must be formed and finished in the territory of one or more of the USMCA countries for the dress to be originating. Furthermore, if the dress has a pocket, the pocket bag fabric must be formed and finished in the territory of one or more of the USMCA countries for the dress to be originating.

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. In addition, the sewing thread, narrow elastics and pocket bags that are used by Producer A in the production of the dress must also be formed and finished in the territory of one or more of the USMCA countries.

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(7), if the total weight of the non-originating combed wool yarn does not exceed ten 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.

Example 9: Subsection 5(7)

Producer A, located in a USMCA country, manufactures women's knit sweaters, which have knit bodies and woven sleeves. The knit body is composed of 95 percent polyester and 5 percent spandex, by weight. The sleeves are made of non-USMCA woven fabric that is 100 percent polyester. All materials of the knit body are from a USMCA country, except for the spandex, which is from a non-USMCA country. The sweater is cut and sewn in a USMCA country. Since the knit body gives the garment its essential character, the sweater is classified in subheading 6110.30. The product-specific rule of origin set out in Schedule I for subheading 6110.30 is that the product is both cut (or knit to shape) and sewn or otherwise assembled in the territory of one or more of the USMCA countries. The sleeves are disregarded in determining whether the sweater originates in a USMCA country because only the component that determines the tariff classification of the good must be originating and the de minimis provision is applied to that component. Moreover, the total weight of the spandex is less than 10 percent of the total weight of the knit body fabric, which is the component that determines the tariff classification of the sweater, and the spandex does not exceed seven percent of the total weight of good. Assuming that the women's knit sweater satisfies all other applicable requirements of these Regulations, the women's knit sweater is originating from the USMCA country.

Example 10: Subsection 5(9)

A men's shirt of Chapter 61 is made using two different fabrics; one for the body and another for the sleeves. The component that determines the tariff classification of the men's shirt would be the fabric used for the body, as it constitutes the material that predominates by weight and makes up the largest surface area of the shirt's exterior. If this fabric is produced using non-originating fibers and yarns that do not satisfy a tariff change rule, the de minimis provision would be calculated on the basis of the total weight of the non-originating fibers or yarns used in the production of the fabric that makes up the body of the shirt. The weight of these non-originating fibers or yarns must be ten percent or less of the total weight of that fabric and any elastomeric content must be seven per cent or less of the total weight of that fabric.

Alternatively, if the shirt is made entirely of the same fabric, the component that determines the tariff classification of that shirt would be that fabric, as the shirt is made out of the same material throughout. Therefore, under this second scenario, the total weight of all non-originating fibers and yarns used in the production of the shirt that do not satisfy a tariff change rule, must be ten percent or less of the total weight of the shirt, and any elastomeric content must be seven per cent or less of the total weight of that shirt, for the shirt to be considered as an originating good.

Example 11: Subsection 5(9)

Producer A, located in a USMCA country, produces women's blouses of subheading 6206.40 from a fabric also produced by Producer A using 90% by weight originating polyester yarns of subheading 5402.33, 3% by weight non-originating lyocell yarn of subheading 5403.49 and 7% by weight non-originating elastomeric filament yarn of subheading 5402.44. This fabric is the component of the women's blouses that determines its tariff classification under subheading 6206.40.

The product-specific rule of origin of Schedule I applicable to the women's blouses of subheading 6206.40 requires a change in tariff classification from any other chapter, except from those headings and chapters under which certain yarns and fabrics, including polyester, lyocell and elastomeric filament yarns, are classified and a requirement that the good is cut and sewn or otherwise assembled in the territory of one or more of the USMCA countries.

In this case, the non-originating lyocell yarns of subheading 5403.49 and the non-originating elastomeric filament yarn of subheading 5402.44 do not satisfy the change in tariff classification required by the product-specific rule of origin of Schedule I, because the product specific rule of origin for heading 62.06 excludes a change from Chapter 54 to heading 62.06."

However, according to subsection (7), a textile or apparel good classified in Chapters 61 through 63 of the Harmonized System that contains non-originating fibers or yarns in the component of the good that determines its tariff classification that do not satisfy the applicable change in tariff classification, will nonetheless be considered an originating good if the total weight of all those fibers or

yarns is not more than 10 percent of the total weight of that component, of which the total weight of elastomeric content may not exceed 7 percent of the total weight of the component, and such good meets all the other applicable requirements of these Regulations.

Since the weight of the non-originating materials used by Producer A does not exceed 10 percent of the total weight of the component that determines the tariff classification of the women's blouses, and the weight of elastomeric content also does not exceed 7 percent of such total weight, the women's blouses qualify as originating goods.

Example 12: Subsection 5(10)

A producer located in a USMCA country manufactures boys' swimwear of subheading 6211.11 from fabric that has been woven in a USMCA country from yarn spun in a USMCA country; however, the producer uses non-originating narrow elastic of heading 60.02 in the waist-band of the swimwear. As a result of the use of non-originating narrow elastic of heading 60.02 in the waistband, and provided the garment is imported into a USMCA country at least 18 months after the Agreement enters into force, the swimwear is considered non-originating because it does not satisfy the requirement set out in Note 3 of Chapter 62. In addition, subsection 5(7) is not applicable regarding the narrow elastic of 60.02 and the good is therefore a non-originating good.

Section 6. Sets of Goods, Kits or Composite Goods

6 (1) This section applies to a good that is classified as a set as a result of the application of rule 3 of the General Rules for the Interpretation of the Harmonized System.

(2) *Requirements.* Except as otherwise provided in Schedule I (PSRO Annex), a set is originating in the territory of one or more of the USMCA countries only if each good in the set is originating and both the set and the goods meet the other applicable requirements of these Regulations.

(3) *Exceptions.* Notwithstanding, subsection 2, a set is only originating if the value of all the non-originating goods included in the set does not exceed 10 percent of the value of the set.

(4) *Value.* For the purposes of subsection 3, the value of non-originating goods in the set and the value of the set is to be calculated in the same manner as the value of non-originating materials determined in accordance with section 8 and the value of the good determined in accordance with section 7.

(5) *Examples.* Each of the following examples is an "Example" as referred to in subsection 1(4).

Example 1 (paint set)

Producer A assembles a paint set for arts and crafts. The set includes tubes of paint, paint brushes, and paper all presented in a reusable wooden box. The paint set for arts and crafts is classified in subheading 3210.00 as a result of the application of Rule 3 of the General Rules for the Interpretation of the Harmonized System and, as a result, Section 6 will apply with respect to such set. The paint, paper and wooden box are all originating as they each undergo the changes

required in the product-specific rules of origin in Schedule I. The paint brushes, which represent four percent of the value of the set, are produced in the territory of a non-USMCA country and are therefore non-originating. The set is nonetheless originating.

Example 2: Subsection 6(2)

Producer A, located in a USMCA country, uses originating materials and non-originating materials to assemble a manicure set of subheading 8214.20. The set includes a nail nipper, cuticle scissors, a nail clipper and a nail file with cardboard support, all presented in a plastic case with zipper. The items are not classified as a set as a result of the application of rule 3 of the General Rules for the Interpretation of the Harmonized System. The Harmonized System specifies that manicure sets are classified in subheading 8214.20. This means that the specific rule of origin set out in Schedule I is applied. This rule requires a change in tariff classification from any other chapter. In order for the manicure set to qualify as an originating good under the rule set out in Schedule I, Producer A may not use any non-originating material of Chapter 82 in the assembly of the manicure set.

In this case, Producer A, located in a USMCA country, produces the nail nipper, the cuticle scissors and the nail clipper included in the set, and all qualify as originating. Despite being classified in the same chapter as the manicure set (chapter 82), the originating nail nipper, the cuticle scissors and the nail clipper satisfy the change in tariff classification applicable to the manicure set. The nail file with cardboard support (6805.20) and the plastic case with zipper (4202.12) are imported from outside the territories of the USMCA countries; however, these items are not classified in chapter 82, so they satisfy the applicable change in tariff classification. Therefore, the manicure set is an originating good.

Example 3: Pants set Section 6(2)

Producer A makes a pants set, containing men's cotton denim trousers and a polyester belt, packed together for a retail sale. The trousers are made of cotton fabric formed and finished from yarn in a USMCA country. The sewing thread is formed and finished in a USMCA country. The pocket bag fabric is formed and finished in a USMCA country, of yarn wholly formed in a USMCA country. The trousers are cut and sewn in USMCA country A. A polyester webbing belt with a metal buckle is made in a non-USMCA country and shipped to USMCA country A, where it is threaded through the belt loops of the trousers. The value of the belt is 8% of the value of the trousers and belt combined.

The men's trousers are classified under subheading 6203.42. The rule of origin set out in Schedule I for subheading 6203.42 requires that the trousers be made from fabric produced in a USMCA country from yarn produced in a USMCA country. The trousers satisfy the product-specific rules provided in Schedule I and are considered originating. However, the belt does not satisfy the rules and would not be considered originating. The set is nonetheless an originating good if the belt value is 10% or less of the value of the

set. Since the value of the belt is 8% of the value of the set, the men's trousers and belt set would be treated as an originating good under the USMCA.

Example 4: Shirt and Tie Set Section 6(2)

Producer A makes a boys' shirt and tie set in a USMCA country. The shirt is constructed from 55% cotton, 45% polyester, solid color, dyed, woven fabric, classified in subheading 5210.31. The fabric contains 73.2 total yarns per square centimeter and 76 metric yarns. The shirt is packaged in a retail polybag with a coordinating color, 100% polyester, woven fabric tie. The yarns used in the shirt fabric are spun in non-USMCA country and the fabric is woven and dyed in the same non-USMCA country. The shirt fabric is sent to the USMCA country where it is cut and sewn into finished garments. The coordinating tie is made in a non-USMCA country from fabric that is woven in that country from yarns that are spun in that country. The value of the coordinating tie is approximately 13% of the value of the set.

The shirt is classified under heading 62.05. The shirt satisfies the product-specific rule for subheading 62.05 set out in Schedule I and is considered originating because it is wholly made from fabric of heading 5210.31 (not of square construction, containing more than 70 warp ends and filling picks per square centimeter, of average yarn number exceeding 70 metric) and cut and sewn into finished garments in the USMCA country. On the other hand, the tie does not satisfy the product specific rule for heading 62.15 and would not be considered originating. For purposes of the sets rule, provided the tie is valued at 10% or less of the value of the set, the set will be treated as originating. However, since the value of the coordinating tie is approximately 13% of the value of the set, the shirt and tie set would not be treated as an originating good under the USMCA.

Example 5: Chef set Section 6(2)

Producer A, located in a USMCA country, produces a chef set for retail sale using originating and non-originating materials. This set includes an apron, cooking gloves and a chef hat. The chef set is classified in heading 62.11 as a result of the application of rule 3 of the General Rules for the Interpretation of the Harmonized System. For this reason, subsection (3) applies to this set. Both the apron and cooking gloves meet the product-specific rules of origin for their respective product categories and are therefore considered to be originating. The chef hat, which represents 9.7 percent of the value of the set, is produced in the territory of a non-USMCA country and is therefore non-originating. The set is nonetheless an originating good because less than ten percent of the value of the set is non-originating.

Part III

Section 7. Regional Value Content

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

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

$$RVC = (TV - VNM) / TV * 100$$

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 III with respect to the transaction in which the producer of the good sold the good, adjusted to exclude any costs incurred in the international shipment of the good; and

VNM is the value of non-originating materials used by the producer in the production of the good, determined in accordance with section 8.

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

$$RVC = (NC - VNM) / NC * 100$$

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, except as otherwise provided in sections 14 and 15 and, in accordance with section 8.

(4) *Non-originating materials—values not included.* For the purpose 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 must 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) *Self-produced material.* For the 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 is to be included in the value of non-originating materials used in the production of the good; and

(b) if 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 is to be included in the value of non-originating materials.

(6) *Net cost method—when required.* The regional value content of a good is to be calculated only on the basis of the net cost method if the rule set in Schedule I (PSRO Annex) does not provide a rule based on the transaction value method;

(7) *Net cost method—when change permitted.* If the importer, 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 USMCA country subsequently notifies that importer, 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 importer, exporter or producer, is required to be adjusted under section 4 of Schedule III, or

(b) the value of any material used in the production of the good, as determined by the importer, exporter or producer, is required to be adjusted under section 5 of Schedule VI, the importer, 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 30 days after receiving the notification, or such longer period as that customs administration specifies.

(8) *Net cost method—no change permitted.* If the importer, 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 USMCA country subsequently notifies that importer, 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 importer, exporter or producer of the good may not recalculate the regional value content on the basis of the transaction value method.

(9) *Clarification.* Nothing in subsection (7) is to be construed as preventing any review and appeal under Article 5.15 of the Agreement, as implemented in each USMCA country, 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) *Value of identical non-originating materials.* For the purposes of the transaction value method, if 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 VII.

(11) *Calculating the net cost of a good.* For the 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 V, 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 V, 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 V, 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) *Calculation of total cost.* Total cost under subsection (11) consists of the costs referred to in subsection 1(6), and is calculated in accordance with that subsection and subsection 1(7).

(13) *Calculation of net cost of a good.* For the purpose of calculating the net cost under subsection (11),

(a) excluded costs must 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 must 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 USMCA country.

(14) *Non-allowable interest.* For the purpose of calculating non-allowable interest costs, the determination of whether interest costs incurred by a producer are more than 700 basis points above the interest rate of comparable maturities issued by the federal government of the country in which the producer is located is to be made in accordance with Schedule IX.

(15) *Use of “averaging” over a period.* For the 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 16(1) or (10), may be calculated, if 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 one-month period,
(ii) any consecutive three-month or six-month period that falls within and is evenly divisible into the number of months of the producer’s fiscal year remaining at the beginning of that period, or
(iii) the producer’s fiscal year; and

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

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

(17) *No change to the goods or period.* 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) *Period considered to be chosen.* If a producer chooses a one, three or six-month period under subsection (15) with respect to a good, the producer will 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 this good.

(19) *Method and period for remainder of fiscal year.* If 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 is to 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) *Analysis of actual costs.* Except as otherwise provided in subsections 16(9), if the producer of a good has calculated the regional value content of the good under the net cost method on the basis of estimated costs, including standard costs, budgeted forecasts or other similar estimating procedures, before or during the period chosen under paragraph (15)(a), the producer must 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.

(21) *Option to treat any material as non-originating.* For the purpose 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.

(22) *Examples.* Each of the following examples is an “Example” as referred to in subsection 1(4).

Example 1: Example of point of direct shipment (with respect to adjusted to exclude any costs incurred in the international shipment of the good)

A producer has only one factory, at which the producer manufactures finished office chairs. Because the factory is located close to transportation facilities, all units of the finished good are stored in a factory warehouse 200 meters from the end of the production line. Goods are shipped worldwide from this warehouse. The point of direct shipment is the warehouse.

Example 2: Examples of point of direct shipment (with respect to adjusted to exclude any costs incurred in the international shipment of the good)

A producer has six factories, all located within the territory of one of the USMCA countries, at which the producer produces garden tools of various types. These tools are shipped worldwide, and orders usually consist of bulk orders of various types of tools. Because different tools are manufactured at different factories, the producer decided to consolidate storage and shipping facilities and ships all finished products to a large warehouse located near the seaport, from which all orders are shipped. The distance from the factories to the warehouse varies from 3 km to 130 km. The point of direct shipment for each of the goods is the warehouse.

Example 3: Examples of point of direct shipment (with respect to adjusted to exclude any costs incurred in the international shipment of the good)

A producer has only one factory, located near the center of one of the USMCA countries, at which the producer manufactures finished office chairs. The office chairs are shipped from that factory to three warehouses leased by the producer, one on the west coast, one near the factory and one on the east coast. The office chairs are shipped to buyers from these warehouses, the shipping location depending on the shipping

distance from the buyer. Buyers closest to the west coast warehouse are normally supplied by the west coast warehouse, buyers closest to the east coast are normally supplied by the warehouse located on the east coast and buyers closest to the warehouse near the factory are normally supplied by that warehouse. In this case, the point of direct shipment is the location of the warehouse from which the office chairs are normally shipped to customers in the location in which the buyer is located.

Example 4: Subsection 7(3), net cost method

A producer located in USMCA country A sells Good A that is subject to a regional value content requirement to a buyer located in USMCA 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:
 Value of originating materials \$30.00
 Value of non-originating materials 40.00
 Other product costs 20.00
 Period costs 10.00
 Other costs 0.00
 Total cost of Good A, per unit \$100.00
 Excluded costs:
 Sales promotion, marketing and after-sales service cost \$5.00
 Royalties 2.50
 Shipping and packing costs 3.00
 Non-allowable interest costs 1.50
 Total excluded costs \$12.00

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

Total cost of Good A, per unit: \$100.00
 Excluded costs:—12.00

Net cost of Good A, per unit: \$ 88.00

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:

$$RVC = (NC - VNM) / NC * 100 \\ = (88 - 40) / 88 * 100 \\ = 54.5\%$$

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

Example 5: Paragraph 7(11)(a)

A producer in a USMCA 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 in excluded costs) 3,200
 Other costs: 400

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

Excluded costs:—1,200

Net cost of Good A and Good B: \$7,800

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

Example 6: Paragraph 7(11)(b)

A producer located in a USMCA 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 in excluded costs) 3,200
 Other costs: 400
 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 VII, 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 VII, are subtracted from that amount.

Total Excluded costs:

Sales promotion, marketing and after-sale service costs 500
 Royalties 200
 Shipping and packing costs 500

Excluded Cost Allocated to Good A:

Sales promotion, marketing and after-sale service costs 290
 Royalties 116

Shipping and packing costs 290

Net cost (total cost minus excluded costs):
 \$4,524

Excluded Cost Allocated to Good B:

Sales promotion, marketing and after-sale service costs 210
 Royalties 84

Shipping and packing costs 210

Net cost (total cost minus excluded costs):
 \$3,276

The net cost of Good A is thus \$4,524, and the net cost of Good B is \$3,276.

Example 7: Paragraph 7(11)(c)

A producer located in a USMCA 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 are reasonably allocated, in accordance with Schedule VII, to Good C and Good D.

Total cost: Good C and Good D (in thousands of dollars)

Product costs:

Value of originating materials 100
 Value of non-originating materials 900
 Other product costs 500
 Period costs: (including \$420 in excluded costs) 5,679

Minus Excluded costs 420

Other costs: 0

Total cost (aggregate of product costs, period costs and other costs): 6,759

Allocated to Good C (in thousands of dollars):

Product costs:

Value of originating materials 0
 Value of non-originating materials 800
 Other product costs 300
 Period costs: (including \$420 in excluded costs) 3,036

Minus Excluded costs 300

Other costs: 0

Total cost (aggregate of product costs, period costs and other costs): 3,836

Allocated to Good D (in thousands of dollars):

Product costs:

Value of originating materials 100
 Value of non-originating materials 100
 Other product costs 200
 Period costs: (including \$420 in excluded costs) 2,643

Minus Excluded costs 120

Other costs: 0

Total cost (aggregate of product costs, period costs and other costs): 2,923

Example 8: Subsection 7(12)

Producer A, located in a USMCA 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 USMCA country. Material X is a non-originating material and is used in the production of Good A. Producer A provides Producer B, at no charge, with molds to be used in the production of Material X. The cost of the molds that is recorded on the books of Producer A has been expensed in the current year. Pursuant to subparagraph 4(1)(b)(ii) of Schedule VI, the value of the molds is included in the value of Material X. Therefore, the cost of the molds that is recorded on the books of Producer A and that has been expensed in the current year cannot be included as a separate cost in the net cost of Good A because it has already been included in the value of Material X.

Example 9: Subsection 7(12)

Producer A, located in a USMCA 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 7(15). Producer A determines that during that fiscal year Producer A incurred a gain on foreign currency conversion of \$10,000 and a loss on foreign currency conversion of \$8,000,

resulting in a net gain of \$2,000. Producer A also determines that \$7,000 of the gain on foreign currency conversion and \$6,000 of the loss on foreign currency conversion is related to the purchase of non-originating materials used in the production of Good A, and \$3,000 of the gain on foreign currency conversion and \$2,000 of the loss on foreign currency conversion is not related to the production of Good A. The producer determines that the total cost of Good A is \$45,000 before deducting the \$1,000 net gain on foreign 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 subsection 8(1).

Example 10: Subsection 7(12)

Given the same facts as in example 9, except that Producer A determines that \$6,000 of the gain on foreign currency conversion and \$7,000 of the loss on foreign currency conversion is related to the purchase of non-originating materials used in the production of Good A. The total cost of Good A is \$45,000, which includes the \$1,000 net loss on foreign currency conversion related to the production of Good A. That \$1,000 net loss is not included in the value of non-originating materials under subsection 8(1).

Part IV

Section 8. Materials

8 (1) Value of material used in production.

Except as otherwise provided for non-originating materials used in the production of a good referred to in section 14 or subsection 15(1), and except in the case of indirect materials, intermediate materials and packing materials and containers, for the purpose of calculating the regional value content of a good and for the purposes of subsection 5(1) and (4), the value of a material that is used in the production of the good is to be

(a) except as otherwise provided in subsection (4), if the material is imported by the producer of the good into the territory of the USMCA country in which the good is produced, the transaction value of the material at the time of importation, including the costs incurred in the international shipment of the material,

(b) if the material is acquired by the producer of the good from another person located in the territory of the USMCA country in which the good is produced

(i) the price paid or payable by the producer in the USMCA country where the producer is located,

(ii) the value as determined for an imported material in subparagraph (a), or (iii) the earliest ascertainable price paid or payable in the territory of the USMCA country where the good is produced, or

(c) for a material that is self-produced

(i) all the costs incurred in the production of the material, which includes general expenses, and

(ii) an amount equivalent to the profit added in the normal course of trade, or equal to the profit that is usually reflected in the sale of goods of the same class or kind as the self-produced material that is being valued provided that no self-produced material that

has been used in its production has been valued including the amount equivalent or equal to the profit according to this paragraph.

(2) *Adjustments to the value of materials.* The following costs may be deducted from the value of a non-originating material or material of undetermined origin, if they are included under subsection (1):

(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 more of the USMCA 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 more of the USMCA 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) *Documentary evidence required.* If the cost or expense listed in subsection (2) is unknown or documentary evidence of the amount of the adjustment is not available, then no adjustment is allowed for that particular cost or expense.

(4) *Transaction value not acceptable.* For the purposes of paragraph (1)(a), if the transaction value of the material referred to in that paragraph is not acceptable or if there is no transaction value in accordance with Schedule IV (Unacceptable Transaction Value), the value of the material must be determined in accordance with Schedule VI (Value of Materials) and, if the costs referred to in subsection (2) are included in that value, those costs may be deducted from that value.

(5) *Costs recorded on books.* For the purposes of subsection (1), the costs referred to in paragraph (1)(c) are to be the costs referred to in those paragraphs that are recorded on the books of the producer of the good.

(6) *Designation of self-produced material as an intermediate material.* For the purpose 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 if an intermediate material is subject to a regional value content requirement, no other self-produced material that is subject to a regional value content requirement and is incorporated into that intermediate material is also designated by the producer as an intermediate material.

(7) *Particulars.* For the purposes of subsection (6),

(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 is to be

made solely at the choice of the producer of that self-produced material; and

(c) except as otherwise provided in subsection 9(4), the proviso set out in subsection (6) 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 (6).

(8) *Value of an intermediate material.* The value of an intermediate material will 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 V; 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 V.

(9) *Calculation of total cost.* Total cost under subsection (8) consists of the costs referred to in subsection 1(6), and is calculated in accordance with that subsection and subsection 1(7).

(10) *Rescission of a designation.* If a producer of a good designates a self-produced material as an intermediate material under subsection (6) and the customs administration of a USMCA 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 must be calculated as though the self-produced material were not so designated.

(11) *Effect of a rescission.* A producer of a good who rescinds a designation under subsection (10) may, not later than 30 days after the customs administration referred to in subsection (10) 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 provision set out in subsection (6).

(12) *Second rescission.* If a producer of a good designates another self-produced material as an intermediate material under subsection (6) and the customs administration referred to in subsection (10) 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 will be calculated as though the self-produced material were not so designated; and,

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

(13) *Indirect materials.* For the purpose of determining whether a good is an originating good, an indirect material that is used in the production of the good

(a) will 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 the purpose of calculating the net cost under the net cost method, the value of the indirect material is to be the costs of that material that are recorded on the books of the producer of the good.

(14) *Packaging materials and containers.* Packaging materials and containers, if classified under the Harmonized System with the good that is packaged therein, will be disregarded for the purpose of

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

(b) determining whether a good is wholly obtained or produced; and

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

(15) *Value of packaging materials and containers—cases where taken into account.* If packaging materials and containers in which a good is packaged for retail sale 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 will be taken into account as originating materials or non-originating materials, as the case may be, for the purpose of calculating the regional value content of the good.

(16) *Packaging materials and containers—self-produced.* For the purposes of subsection (15), if packaging materials and containers are self-produced materials, the producer may choose to designate those materials as intermediate materials under subsection (6).

(17) *Packing materials and containers.* For the purpose of determining whether a good is an originating good, packing materials and containers are disregarded.

(18) *Fungible materials and fungible goods.* A fungible material or good is originating if:

(a) when originating and non-originating fungible materials

(i) are withdrawn from an inventory in one location and used in the production of the good, or

(ii) are withdrawn from inventories in more than one location in the territory of one or more of the USMCA countries and used in the production of the good at the same production facility, the determination of whether the materials are originating is made on the basis of an inventory management method recognized in the Generally Accepted Accounting Principles of, or otherwise accepted by, the USMCA country in which the production is performed or an inventory management method set out in Schedule VIII; or

(b) when originating and non-originating fungible goods are commingled and exported in the same form, the determination of whether the goods are originating is made on the basis of an inventory management method recognized in the Generally Accepted Accounting Principles of, or otherwise accepted by, the USMCA country

from which the good is exported or an inventory management method set out in Schedule VIII.

(19) The inventory management method selected under subsection 18 must be used throughout the fiscal year of the producer or the person that selected the inventory management method.

(20) An importer may claim that a fungible material or good is originating if the importer, producer, or exporter has physically segregated each fungible material or good as to allow their specific identification.

(21) *Choice of inventory management method.* If fungible materials referred to in paragraph (18)(a) and fungible goods referred to in paragraph (18)(b) are withdrawn from the same inventory, the inventory management method used for the materials must be the same as the inventory management method used for the goods, and if the averaging method is used, the respective averaging periods for fungible materials and fungible goods are to be used.

(22) *Written notice.* A choice of inventory management methods under subsection (18) will be considered to have been made when the customs administration of the USMCA country into which the good is imported is informed in writing of the choice during the course of a verification of origin of the good.

(23) *Accessories, spare parts, tools or instructional or other information materials.* For the purposes of subsections (24) through (27), “accessories, spare parts, tools, or instructional or other information materials” are covered when

(a) they are classified with, delivered with, but not invoiced separately from the good, and

(b) their type, quantity and value are customary for the good, within the industry that produces the good.

(24) *Exclusion.* Accessories, spare parts, tools, or instructional or other information materials are to be disregarded for the purpose of determining

(a) whether a good is wholly obtained;

(b) whether all the non-originating materials used in the production of the good satisfy a process or applicable change in tariff classification requirement established in Schedule I (PSRO Annex); or,

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

(25) *Value for regional value content requirement.* If a good is subject to a regional value content requirement, the value of accessories, spare parts, tools, or instructional or other information materials is to 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.

(26) *Designation.* For the purposes of subsection (25), if accessories, spare parts, tools, or instructional or other information materials are self-produced materials, the producer may choose to designate those materials as intermediate materials under subsection (6).

(27) *Originating status.* A good’s accessories, spare parts, tools, or instructional or other information materials

have the originating status of the good with which they are delivered.

(28) *Examples illustrating the provisions on materials.* Each of the following examples is an “Example” as referred to in subsection 1(4).

Example 1: Subsection 8(4), Transaction Value not Determined in a Manner Consistent with Schedule VI

Producer A, located in USMCA country A, imports a bicycle chainring into USMCA country A. Producer A purchased the chainring from a middleman located in country B. The middleman purchased the chainring from a manufacturer located in country B. Under the laws in USMCA country A that implement the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade, the customs value of the chainring was based on the price actually paid or payable by the middleman to the manufacturer. Producer A uses the chainring to produce a bicycle, and exports the bicycle to USMCA country C. The bicycle is subject to a regional value content requirement.

Under subsection 3(1) of Schedule VI (Value of Materials), 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. Section 1 of that Schedule defines producer and seller for the purposes of the Schedule. A producer is the person who uses the material in the production of a good that is subject to a regional value content requirement. A seller is the person who sells the material being valued to the producer.

The transaction value of the chainring was not determined in a manner consistent with Schedule VI because it was based on the price actually paid or payable by the middleman to the manufacturer, rather than on the price actually paid or payable by Producer A to the middleman. Thus, subsection 8(4) applies and the chainring is valued in accordance with Schedule IV.

Example 2: Subsection 8(7), Value of Intermediate Materials

A producer located in a USMCA country produces a bicycle, which is subject to a regional value content requirement under section 3(2). The producer also produces a chain ring, which is used in the production of the bicycle. Both originating materials and non-originating materials are used in the production of the chainring. The chainring is subject to a change in tariff classification requirement under section 3(2). The costs to produce the chainring 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 \$0.30 in royalties):

0.50

Other costs: 0.10

Total cost of the chainring: \$10.60

The producer designates the chainring as an intermediate material and determines that, because all of the non-originating materials that are used in the production of the chainring undergo an applicable change in tariff classification set out in Schedule I, the chainring would, under section 3(2) qualify as an originating material. The cost

of the non-originating materials used in the production of the chainring is therefore not included in the value of non-originating materials that are used in the production of the bicycle for the purpose of determining its regional value content of the bicycle. Because the chainring has been designated as an intermediate material, the total cost of the chainring, which is \$10.60, is treated as the cost of originating materials for the purpose of calculating the regional value content of the bicycle. The total cost of the bicycle is determined in accordance with the following figures:

Product costs:
 Value of originating materials
 —intermediate materials \$10.60
 —other materials 3.00
 Value of non-originating materials 5.50
 Other product costs 6.50
 Period costs: 2.50
 Other costs: 0.10
 Total cost of the bicycle: \$28.20
 Example 3: Subsection 8(7), 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 subsection 8(1). The following situations demonstrate how this is achieved:

Situation 1

A producer located in a USMCA country produces a bicycle, which is subject to a regional value content requirement of 50 per cent under the net cost method. The bicycle satisfies all other applicable requirements of these Regulations. The producer purchases a bicycle frame, which is used in the production of the bicycle, from a supplier located in a USMCA country. The value of the frame determined in accordance with subsection 8(1) is \$11.00. The frame is an originating material. All other materials used in the production of the bicycle are non-originating materials.

The net cost of the bicycle is determined as follows:
 Product costs:
 Value of originating materials (bicycle frame) \$11.00
 Value of non-originating materials 5.50
 Other product costs 6.50
 Period costs: (including \$0.20 in excluded costs) 0.50
 Other costs: 0.10
 Total cost of the bicycle: \$23.60
 Excluded costs: (included in period costs) 0.20
 Net cost of the bicycle: \$23.40
 The regional value content of the bicycle is calculated as follows:
 $RVC = (NC - VNM) / NC * 100$
 $= (\$23.40 - \$5.50) / \$23.50 * 100$
 $= 76.5\%$

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

Situation 2

A producer located in a USMCA country produces a bicycle, which is subject to a regional value content requirement of 50 per cent under the net cost method. The bicycle satisfies all other applicable requirements of these Regulations. The producer self-produces the bicycle frame which is used in the production of the bicycle. The costs to produce the frame 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 in excluded costs) 0.50
 Other costs: 0.10
 Total cost of the bicycle frame: \$10.60
 Additional costs to produce the bicycle 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 in excluded costs) 0.50
 Other costs: 0.10
 Total additional costs: \$12.60
 The producer does not designate the bicycle frame as an intermediate material under subsection 8(4). The net cost of the bicycle is calculated as follows:

	Costs of the bicycle frame (not designated as an intermediate material)	Additional costs to produce the bicycle	Total
Product costs:			
Value of originating materials	\$ 1.00	\$ 0.00	\$ 1.00
Value of non-originating materials	7.50	5.50	13.00
Other product costs	1.50	6.50	8.00
Period costs (including \$0.20 in excluded costs)	0.50	0.50	1.00
Other costs	0.10	0.10	0.20
Total cost of the bicycle	10.60	12.60	23.20
Excluded costs (in period costs)	0.20	0.20	0.40
Net cost of the bicycle (total cost minus excluded costs): .....	.....	.....	22.80

The regional value content of the bicycle is calculated as follows:

$$RVC = (NC - VNM) / NC * 100$$

$$= (\$22.80 - \$13.00) / \$22.80 * 100$$

$$= 42.9\%$$

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

Situation 3

A producer located in a USMCA country produces the bicycle, which is subject to a regional value content requirement of 50 per cent under the net cost method. The bicycle satisfies all other applicable requirements of these Regulations. The producer self-

produces the bicycle frame, which is used in the production of the bicycle. The costs to produce the frame 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 in excluded costs) 0.50
 Other costs: 0.10
 Total cost of the bicycle frame: \$10.60
 Additional costs to produce the bicycle are the following: Product costs: 0.10
 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 in excluded costs) 0.50
 Other costs: 0.10
 Total additional costs: \$12.60

The producer designates the frame as an intermediate material under subsection 8(6). The frame qualifies as an originating material under section 3(2). Therefore, the value of non-originating materials used in the production of the frame is not included in the value of non-originating materials for the purpose of calculating the regional value content of the bicycle. The net cost of the bicycle is calculated as follows:

	Costs of the bicycle frame (not designated as an intermediate material)	Additional costs to produce the bicycle	Total
<i>Product costs:</i>			
Value of originating materials	\$10.60	\$0.00	\$10.60
Value of non-originating materials		5.50	5.50
Other product costs		6.50	6.50
Period costs (including \$0.20 in excluded costs)		0.50	0.50
Other costs		0.10	0.10
Total cost of the bicycle	10.60	12.60	23.20
Excluded costs (in period costs)		0.20	0.20
Net cost of the bicycle (total cost minus excluded costs):			23.00

The regional value content of the bicycle is calculated as follows:

$$RVC = (NC - VNM) / NC * 100$$

$$= (\$23.00 - \$5.50) / \$23.00 * 100$$

$$= 76.1\%$$

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

Example 4: Originating Materials Acquired from a Producer Who Produced Them Using Intermediate Materials

Producer A, located in USMCA 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 have a regional value content of 65 per cent.

Producer A sells the switches to Producer B, located in USMCA 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 9. Producer B is therefore able, under subsection 8(6), to designate the switch assemblies as intermediate materials.

If Producers A and B were accumulating their production within the meaning of section 9, 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 5: Single Producer and Successive Designations of Materials Subject to a Regional Value Content Requirement as Intermediate Materials

Producer A, located in USMCA 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 8(6), 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 6: Single Producer and Multiple Designations of Materials as Intermediate Materials

Producer X, who is located in USMCA 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 USMCA 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 8(6), designate all of the self-produced materials as intermediate materials. The proviso set out in subsection 8(6) only applies if self-produced materials are used in the production of other self-produced materials and both are subject to a regional value content requirement.

Example 7: Subsection 8(23) Accessories, Spare Parts, Tools, Instruction or Other Information Materials

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

- (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 8: Value of Indirect Materials that are Assists

Producer A, located in a USMCA country, produces a well-water pump 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 a mold-injected plastic water flow sensor from Producer B, located in the same USMCA country, and uses it in the production of the well-water pump. Producer A provides to Producer B, at no charge, molds to be used in the production of the water flow sensor. The molds have a value of \$100 which is expensed in the current year by Producer A.

The water flow sensor is subject to a regional value content requirement which Producer B chooses to calculate using the net cost method. For the purpose of determining the value of non-originating materials in order to calculate the regional value content of the water flow sensor, the molds are considered to be an originating material because they are an indirect material. However, pursuant to subsection 8(13) they have a value of nil because the cost of the molds with respect to the water flow sensor is not recorded on the books of Producer B.

It is determined that the water flow sensor is a non-originating material. The cost of the molds that is recorded on the books of producer A is expensed in the current year. Pursuant to section 4 of Schedule VI (Value of Materials), the value of the molds (see subparagraph 4(1)(b)(ii) of Schedule VI) must be included in the value of the water flow sensor by Producer A when calculating the regional value content of the well-water pump. The cost of the molds, although recorded on the books of producer A, cannot be included as a separate cost in the net cost of the well-water pump because it is already included in the value of the water flow sensor. The entire cost of the water flow sensor, which includes the cost of the molds, is included in the value of non-originating materials for the purposes of the regional value content of the well-water pump.

Part V General Provisions

Section 9. Accumulation

(9) (1) Subject to subsections (2) through (5)

(a) a good is originating if the good is produced in the territory of one or more of the USMCA countries by one or more producers, provided that the good satisfies the requirements of section 3 and all other applicable requirements of these Regulations;

(b) an originating good or material of one or more of the USMCA countries is considered as originating in the territory of another USMCA country when used as a material in the production of a good in the territory of another USMCA country; and

(c) production undertaken on a non-originating material in the territory of one or more of the USMCA countries may contribute toward the originating status of a good, regardless of whether that production was sufficient to confer originating status to the material itself.

(2) *Accumulation using the net cost method.* If a good is subject to a regional value content requirement based on the net cost method 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 states

(a) 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) net cost incurred by the producer of the good with respect to the material is to be the net cost incurred by the producer of the material plus, if not included in the net cost incurred by the producer of the material, the costs referred to in paragraphs 8(2)(a) through (c), and

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

(b) any amount, other than an amount that includes any of the value of non-originating materials, that is part of the net cost incurred 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 is to be the value of the material, determined in accordance with subsection 8(1), and

(ii) the value of non-originating materials used by the producer of the good with respect to the material is to be the value of the material, determined in accordance with subsection 8(1), minus the amount stated in the statement.

(3) *Accumulation using the transaction value method.* If a good is subject to a regional value content requirement based on the transaction value method 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 states the value of non-originating materials used by the producer of the material in the production of that material, the value of non-originating materials used by the producer of the good with respect to the material is the

value of non-originating materials used by the producer of the material.

(4) *Averaging of costs—net cost method.* If a good is subject to a regional value content requirement based on the net cost method and an exporter or producer of the good does not have a statement described in subsection (2) but has a statement signed by a producer of a material that is used in the production of the good that

(a) states 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 a month or any consecutive three, six or twelve month period that falls within the fiscal year of the producer of the good, divided by the number of units of materials with respect to which the statement is made,

(i) the net cost incurred by the producer of the good with respect to the material is to be the sum of the net costs incurred by the producer of the material with respect to that material and the identical materials or similar materials, divided by the number of units of materials with respect to which the statement is made, plus, if not included in the net costs incurred by the producer of the material, the costs referred to in paragraphs 8(2)(a) through (c), and

(ii) the value of non-originating materials used by the producer of the good with respect to the material is to be the sum of the values of non-originating materials used by the producer of the material with respect to that material and the identical materials or similar materials divided by the number of units of materials with respect to which the statement is made; or

(b) states any amount, other than an amount that includes any of the values of non-originating materials, that is part of the sum of the net costs incurred 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 a month or any consecutive three, six or twelve month period that falls within the fiscal year of the producer of the good, divided by the number of units of materials with respect to which the statement is made,

(i) the net cost incurred by the producer of the good with respect to the material is to be the value of the material, determined in accordance with subsection 8(1), and

(ii) the value of non-originating materials used by the producer of the good with respect to the material is to be the value of the material, determined in accordance with subsection 8(1), minus the amount stated in the statement.

(5) *Averaging of costs—transaction value method.* If a good is subject to a regional value content requirement based on the transaction value method and an exporter or producer of the good does not have a statement described in subsection (3) but has a statement signed by a producer of a material that is used in the production of the

good that states 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 a month or any consecutive three, six or twelve month period that falls within the fiscal year of the producer of the good, divided by the number of units of materials with respect to which the statement is made, the value of non-originating materials used by the producer of the good with respect to the material is the sum of the values of non-originating materials used by the producer of the material with respect to that material and the identical materials or similar materials divided by the number of units of materials with respect to which the statement is made.

(6) *Single producer.* For the purposes of subsection 8(6), if a producer of the good chooses to accumulate the production of materials under subsection (1), that production will be considered to be the production of the producer of the good.

(7) *Particulars.* For the purposes of this section,

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

(i) if the good is subject to a regional value content requirement, the producer of the good must have a statement described in subsection (2) through (5) that is signed by the producer of the material, and

(ii) if 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 more of the USMCA 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) through (5) that concerns the value of materials or costs is to be in the same currency as the currency of the country in which the person who provided the statement is located.

(8) *Examples of accumulation of production.*

Each of the following examples is an “Example” as referred to in subsection 1(4).

Example 1: Subsection 9(1)

Producer A, located in USMCA country A, imports unfinished bearing rings provided for in subheading 8482.99 into USMCA country A from a non-USMCA territory. Producer A further processes the unfinished bearing rings into finished bearing rings, which are 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 (per unit) is calculated as follows:

Product costs:	
Value of originating materials	\$0.15
Value of non-originating materials	0.75
Other product costs	0.35
Period costs: (including \$0.05 in excluded costs)	0.15
Other costs:	0.05
Total cost of the finished bearing rings, per unit:	1.45
Excluded costs: (included in period costs)	0.05
Net cost of the finished bearing rings, per unit:	1.40

Producer A sells the finished bearing rings to Producer B who is located in USMCA country A for \$1.50 each. Producer B further processes them into bearings, and intends to export the bearings to USMCA country B.

Although the bearings satisfy the applicable change in tariff classification, the bearings are subject to a regional value content requirement.
Situation A:

Producer B does not choose to accumulate costs incurred by Producer A with respect to the bearing rings used in the production of the bearings. The net cost of the bearings (per unit) is calculated as follows:

Product costs:	
Value of originating materials	\$0.45
Value of non-originating materials (value, per unit, of the bearing rings purchased from Producer A)	1.50
Other product costs	0.75
Period costs: (Including \$0.05 in excluded costs)	0.15
Other costs	0.05
Total cost of the bearings, per unit:	2.90
Excluded costs: (Included in period costs)	0.05
Net cost of the bearings, per unit:	2.85

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

$$\begin{aligned}
 RVC &= \frac{NC - VNM}{NC} \times 100 \\
 &= \frac{\$2.85 - \$1.50}{\$2.85} \times 100 \\
 &= 47.4\%
 \end{aligned}$$

Therefore, the bearings are non-originating goods.

Situation B:
Producer B chooses to accumulate costs incurred by Producer A with respect to the bearing rings used in the production of the bearings. Producer A provides a statement described in paragraph 9(2)(a) to Producer B. The net cost of the bearings (per unit) is calculated as follows:

Product costs:	
Value of originating materials (\$0.45 + \$0.15)	\$0.60
Value of non-originating materials (value, per unit, of the unfinished bearing rings imported by Producer A)	0.75
Other product costs (\$0.75 + \$0.35)	1.10
Period costs: ((\$0.15 + \$0.15), including \$0.10 in excluded costs)	0.30
Other costs: (\$0.05 + \$0.05)	0.10
Total cost of the bearings, per unit:	2.85
Excluded costs: (Included in period costs)	0.10
Net cost of the bearings, per unit:	2.75

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

$$\begin{aligned}
 RVC &= \frac{NC - VNM}{NC} \times 100 \\
 &= \frac{\$2.75 - \$0.75}{\$2.75} \times 100 \\
 &= 72.7\%
 \end{aligned}$$

Therefore, the bearings are originating goods.

Situation C:
Producer B chooses to accumulate costs incurred by Producer A with respect to the bearing rings used in the production of the bearings. Producer A provides to Producer B a statement described in paragraph 9(2)(b) that specifies an amount equal to the net cost

minus the value of non-originating materials used to produce the finished bearing rings (\$1.40 - 0.75 = \$0.65). The net cost of the bearings (per unit) is calculated as follows:

Product costs:	
Value of originating materials (\$0.45 + \$0.65)	\$1.10
Value of non-originating materials (\$1.50 – \$0.65)	0.85
Other product costs	0.75
Period costs: (Including \$0.05 in excluded costs)	0.15
Other costs	0.05
Total cost of the bearings, per unit:	2.90
Excluded costs: (Included in period costs)	0.05
Net cost of the bearings, per unit:	2.85

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

$$\begin{aligned}
 RVC &= \frac{NC - VNM}{NC} \times 100 \\
 &= \frac{\$2.85 - \$0.85}{\$2.85} \times 100 \\
 &= 70.2\%
 \end{aligned}$$

Therefore, the bearings are originating goods.

Situation D:

Producer B chooses to accumulate costs incurred by Producer A with respect to the bearing rings used in the production of the bearings. Producer A provides to Producer B a statement described in paragraph 9(2)(b) that specifies an amount equal to the value of other product costs used in the production of the finished bearing rings (\$0.35). The net

cost of the bearings (per unit) is calculated as follows:

Product costs:	
Value of originating materials	\$0.45
Value of non-originating materials (\$1.50 – \$0.35)	1.15
Other product costs (\$0.75 + \$0.35)	1.10
Period costs: (Including \$0.05 in excluded costs)	0.15
Other costs	0.05
Total cost of the bearings, per unit:	2.90
Excluded costs: (Included in period costs)	0.05
Net cost of the bearings, per unit:	2.85

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

$$\begin{aligned}
 RVC &= \frac{NC - VNM}{NC} \times 100 \\
 &= \frac{\$2.85 - \$1.15}{\$2.85} \times 100 \\
 &= 59.7\%
 \end{aligned}$$

Therefore, the bearings are originating goods.

Example 2: Section 9(1)

Producer A, located in USMCA country A, imports non-originating cotton, carded or combed, provided for in heading 52.03 for use in the production of cotton yarn provided for in 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 USMCA country A, who uses the cotton yarn in the production of woven fabric of cotton provided for in 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 provided for in 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, Producer B can choose to accumulate the production of Producer A. 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 section 15(1), the change

from carded or combed cotton provided for in heading 52.03 to the woven fabric of cotton provided for in 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 subsection 9(7).

Situation E:

Producer B chooses to accumulate costs incurred by Producer A with respect to the bearing rings used in the production of the bearings. Producer A provides to Producer B a signed statement described in subsection 9(3) that specifies the value of non-originating materials used in the production of the finished bearing rings (\$0.75). Producer B chooses to calculate the regional value content of the bearings under the transaction value method. The regional value content of the bearings (per unit) is calculated as follows:

Transaction value of the bearings, per unit	\$3.15
Costs incurred, per unit, in the international shipment of the good (included in transaction value of the bearings)	0.15
Transaction value, per unit, adjusted to exclude any costs incurred in the international shipment of the good	3.00
Value of non-originating materials (value, per unit, of the unfinished bearing rings imported by Producer A)	0.75

Under the transaction value method, the regional value content of the bearings is

$$RVC = (TV - VNM) / TV \times 100$$

$$= (\$3.00 - \$0.75) / \$3.00 \times 100$$

$$= 75\%$$

Therefore, because the bearings have a regional value content of at least 60 percent under transaction value method, the bearings are originating goods.

Section 10. Transshipment

10 (1) Transport requirements to retain originating status. If an originating good is transported outside the territories of the USMCA countries, the good retains its originating status if

(a) the good remains under customs control outside the territories of the USMCA countries; and

(b) the good does not undergo further production or any other operation outside the territories of the USMCA countries, other than unloading; reloading; separation from a bulk shipment; storing; labeling or other marking required by the importing USMCA country; or any other operation necessary to transport the good to the territory of the importing USMCA country or to preserve the good in good condition, including:

- (i) Inspection;
- (ii) removal of dust that accumulates during shipment;
- (iii) ventilation;
- (iv) spreading out or drying;
- (v) chilling;
- (vi) replacing salt, sulphur dioxide or other aqueous solutions; or

(vii) 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.

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

(3) Exceptions for certain goods.

Subsection (1) does not apply with respect to

(a) a "smart card" of subheading 8523.52 containing a single integrated circuit, if any further production or other operation that that good undergoes outside the territories of the USMCA countries does not result in a change in the tariff classification of the good to any other subheading;

(b) a good of any of subheadings 8541.10 through 8541.60 or 8542.31 through 8542.39, if any further production or other operation that that good undergoes outside the territories of the USMCA countries does not result in a change in the tariff classification of the good to a subheading outside of that group;

(c) an electronic microassembly of subheading 8543.90, if any further production or other operation that that good undergoes outside the territories of the USMCA countries does not result in a change

in the tariff classification of the good to any other subheading; or

(d) an electronic microassembly of subheading 8548.90, if any further production or other operation that that good undergoes outside the territories of the USMCA countries does not result in a change in the tariff classification of the good to any other subheading.

Section 11. Non-Qualifying Operations

11 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.

Part VI Automotive Goods

Section 12. Definitions and Interpretation

(1) For purposes of this part, *aftermarket part* means a good that is not for use as original equipment in the production of passenger vehicles, light trucks or heavy trucks as defined in these Regulations;

all-terrain vehicle means a vehicle that does not meet United States federal safety and emissions standards permitting unrestricted on-road use or the equivalent Mexican and Canadian on-road standards;

annual purchase value (APV) means the sum of the values of high-wage materials purchased annually by a producer for use in the production of passenger vehicles, light trucks or heavy trucks in a plant located in the territory of a USMCA country;

average base hourly wage rate means the average hourly rate of pay based on all the hours performed on direct production work at a plant or facility, even if such workers performing that work are paid on a salary, piece-rate, or day-rate basis. This includes all hours performed by full-time, part time, temporary, and seasonal workers. The rate of pay does not include benefits, bonuses or shift-premiums, or premium pay for overtime, holidays or weekends. If a worker is paid by a third party, such as a temporary employment agency, only the wages received by the worker are included in the average base hourly wage rate calculation.

For direct production workers, the average base hourly wage rate of pay is calculated based on all their working hours. For other workers performing direct production work, the average base hourly rate is calculated based on the number of hours performing direct production work. The rate also does not include any hours worked by interns, trainees, students, or any worker that does not have an express or implied compensation agreement with the employer.

If any direct production worker or worker performing direct production work is

compensated by a method other than hourly, such as a salary, piece-rate, or day-rate basis, the worker's hourly base wage rate is calculated by converting the salary, piece-rate, or day-rate to an hourly equivalent. This hourly equivalent is then multiplied by the number of hours worked in direct production for purposes of calculating the average base hourly wage rate.

class of motor vehicles means one of the following categories of motor vehicles:

(a) Road tractors for semi-trailers of subheading 8701.20, vehicles for the transport of 16 or more persons of subheading 8702.10 or 8702.90, motor vehicles for the transport of goods of subheading 8704.10, 8704.22, 8704.23, 8704.32 or 8704.90, special purpose motor vehicles of heading 87.05, or chassis fitted with engines of heading 87.06;

(b) tractors of subheading 8701.10 or 8701.30 through 8701.90;

(c) vehicles for the transport of 15 or fewer persons of subheading 8702.10 or 8702.90, or light trucks of subheading 8704.21 or 8704.31; or

(d) passenger vehicles of subheading 8703.21 through 8703.90;

complete motor vehicle assembly process means the production of a motor vehicle from separate constituent parts, including the following:

- (a) A structural frame or unibody
- (b) body panels
- (c) an engine, a transmission and a drive train
- (d) brake components
- (e) steering and suspension components
- (f) seating and internal trim
- (g) bumpers and external trim
- (h) wheels and

(i) electrical and lighting components;

direct production work means work by any employee directly involved in the production of passenger vehicles, light trucks, heavy trucks, or parts used in the production of these vehicles in the territory of a USMCA country. It also includes work by an employee directly involved in the set-up, operation, or maintenance of tools or equipment used in the production of those vehicles or parts. Direct production work may take place on a production line, at a workstation, on the shop floor, or in another production area.

Direct production work also includes:

- (a) Material handling of vehicles or parts;
- (b) inspection of vehicles or parts, including inspections that are normally categorized as quality control and, for heavy trucks, pre-sale inspections carried out at the place where the vehicle is produced;

(c) work performed by skilled tradespeople, such as process or production engineers, mechanics, technicians and other employees responsible for maintaining and ensuring the operation of the production line or tools and equipment used in the production of vehicles or parts; and

(d) on-the-job training regarding the execution of a specific production task.

Direct production work does not include any work by executive or management staff that have the authority to make final decisions to hire, fire, promote, transfer and discipline employees; workers engaged in research and development, or work by engineering or other personnel that are not responsible for maintaining and ensuring the operation of the production line or tools and equipment used in the production of vehicles or parts. It also does not include any work by interns, trainees, students, or any worker that does not have an express or implied compensation agreement with the employer.

direct production worker means any worker whose primary responsibilities are direct production work, meaning at least 85% of the worker's time is spent performing direct production work.

first motor vehicle prototype means the first motor vehicle that

(a) is produced using tooling and processes intended for the production of motor vehicles to be offered for sale, and

(b) follows the complete motor vehicle assembly process in a manner not specifically designed for testing purposes;

heavy truck means a vehicle other than a vehicle that is solely or principally for off-road use of subheading 8701.20, 8704.22, 8704.23, 8704.32 or 8704.90, or a chassis fitted with an engine of heading 87.06 that is for use in such a vehicle;

high-wage assembly plant for passenger vehicle or light truck parts means a qualifying wage-rate production plant, operated by a corporate producer, or by a supplier with whom the producer has a contract of at least 3 years for the materials listed in sub-paragraphs (a) through (c), provided that the plant is located in the territory of a USMCA country and that it has a production capacity of:

(a) 100,000 or more engines of heading 84.07 or 84.08,

(b) 100,000 or more transmissions of subheading 8708.40, or

(c) 25,000 or more advanced battery packs; Such engines, transmissions, or advanced battery packs are not required to qualify as originating;

high-wage assembly plant for heavy truck parts means a qualifying wage rate production plant, operated by a corporate producer, or by a supplier with whom the producer has a contract of at least 3 years for the materials listed in sub-paragraphs (a) through (c), provided that the plant is located in the territory of a USMCA country and that it has a production capacity of:

(a) 20,000 or more engines of heading 84.07 or 84.08,

(b) 20,000 or more transmissions of subheading 8708.40, or

(c) 20,000 or more advanced battery packs; Such engines, transmissions, or advanced battery packs are not required to qualify as originating;

high-wage labor costs (HWLC) means the sum of wage expenditures, not including benefits, for workers who perform direct production work at a qualifying wage-rate vehicle assembly plant;

high-wage material (HWM) means a material that is produced in a qualifying wage-rate production plant;

high-wage technology expenditures means wage expenditures—expressed as a percentage of a passenger vehicle, light truck, or heavy truck producer's total production wage expenditures—at a corporate level in the territory of one or more of the USMCA countries on:

(a) Research and development, including prototype development, design, engineering, or testing operations and any work undertaken by a producer for the purpose of creating new, or improving existing, materials, parts, vehicles or processes, including incremental improvements thereto, and

(b) information technology, including software development, technology integration, vehicle communications, or information technology support operations,

Expenditures on capital or other non-wage costs for R&D or IT are not included. For greater certainty, there is no minimum wage rate associated with high-wage technology expenditures;

high-wage transportation or related costs for shipping means costs incurred by a producer for transportation, logistics, or material handling associated with the movement of high-wage parts or materials within the territories of the USMCA countries, provided that the transportation, logistics, or material handling provider pays an average base hourly wage rate to direct production employees performing these services of at least:

(a) US\$16 in the United States;

(b) CA\$20.88 in Canada; and

(c) MXN\$294.22 in Mexico;

High-wage transportation or related costs for shipping may be included in high wage material and manufacturing expenses if those costs are not otherwise included;

light truck means a vehicle of subheading 8704.21 or 8704.31, except for a vehicle that is solely or principally for off-road use;

marque means the trade name used by a separate marketing division of a motor vehicle assembler;

model line means a group of motor vehicles having the same platform or model name;

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 to:

(a) Differentiate the motor vehicle from other motor vehicles that use the same platform design,

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

(c) denote a platform design;

motorhome or entertainer coach means a vehicle of heading 87.02 or 87.03 built on a self-propelled motor vehicle chassis that is solely or principally designed as temporary living quarters for recreational, camping, entertainment, corporate or seasonal use;

motor vehicle assembler means a producer of motor vehicles and any related persons or joint ventures in which the producer participates;

new building means a new construction, including at least the pouring or construction of a new foundation and floor, the erection of a new structure and roof and installation

of new plumbing, electrical and other utilities to house a complete vehicle assembly process;

passenger vehicle means a vehicle of subheading 8703.21 through 8703.90, except for:

(a) A vehicle with a compression-ignition engine of subheading 8703.31 through 8703.33 or a vehicle of subheading 8703.90 with both a compression-ignition engine and an electric motor for propulsion,

(b) a three- or four-wheeled motorcycle,

(c) an all-terrain vehicle,

(d) a motorhome or entertainer coach, or

(e) an ambulance, hearse or prison van;

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) Passenger vehicles, light trucks or heavy trucks,

(b) a good listed in Table A.1, A.2, B, C, D, E, F or G;

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;

qualifying wage-rate production plant means a plant that produces materials for passenger vehicles, light trucks or heavy trucks located in the territory of a USMCA country, at which the average base hourly wage rate is at least:

(a) US\$16 in the United States;

(b) CA\$20.88 in Canada; and

(c) MXN\$294.22 in Mexico;

qualifying wage-rate vehicle assembly plant means a passenger vehicle, light truck or heavy truck assembly plant located in the territory of a USMCA country, at which the average base hourly wage rate is at least:

(a) US\$16 in the United States;

(b) CA\$20.88 in Canada; and

(c) MXN\$294.22 in Mexico;

refit means a plant closure, for purposes of plant conversion or retooling, that lasts at least three months;

size category, with respect to a light-duty vehicle, means that the total of the interior volume for passengers and the interior volume for luggage is

(a) 85 cubic feet (2.38 m³) or less,

(b) more than 85 cubic feet (2.38 m³) but less than 100 cubic feet (2.80 m³),

(c) 100 cubic feet (2.80 m³) or more but not more than 110 cubic feet (3.08 m³),

(d) more than 110 cubic feet (3.08 m³) but less than 120 cubic feet (3.36 m³), or

(e) 120 cubic feet (3.36 m³) or more;

super-core means the parts listed in column 1 of Table A.2 of this Part, which are considered as a single part for the purpose of performing a Regional Value Content calculation in accordance with subsections 14(10), 14(11), 14(13) and 16(10);

total vehicle plant assembly annual purchase value (TAPV) means the sum of the values of all parts or materials purchased, on an annual basis, for use in the production of passenger vehicles, light trucks or heavy

trucks in a plant located in the territory of a USMCA country;

underbody means a component, comprising a single part or two or more parts joined together, with or without additional stiffening members, that forms the base of a motor vehicle, beginning at the fire-wall or bulkhead of the motor vehicle and ending:

(a) If there is a luggage floor panel in the motor vehicle, at the place where that luggage floor panel begins, or

(b) if there is no luggage floor panel in the motor vehicle, at the place where the passenger compartment of the motor vehicle ends;

vehicle that is solely or principally for off-road use means a vehicle that does not meet U.S. federal safety and emissions standards permitting unrestricted on-road use or the equivalent Mexican and Canadian on-road standards.

Section 13: Product-Specific Rules of Origin for Vehicles and Certain Auto Parts

(1) Except as provided for in section 19 (Alternative Staging Regimes), the product-specific rule of origin for a good of heading 87.01 through 87.08 is:

8701.10 A change to a good of subheading 8701.10 from any other heading, provided there is a regional value content of not less than 60 percent under the net cost method.

8701.20 A change to a good of subheading 8701.20 from any other heading, provided there is a regional value content of not less than:

(a) 60 percent under the net cost method, beginning on July 1, 2020 until June 30, 2024;

(b) 64 percent under the net cost method, beginning on July 1, 2024 until June 30, 2027; or

(c) 70 percent under the net cost method, beginning on July 1, 2027, and thereafter.

8701.30–8701.90 A change to a good of subheading 8701.30 through 8701.90 from any other heading, provided there is a regional value content of not less than 60 percent under the net cost method.

8702.10–8702.90

(1) A change to a motor vehicle for the transport of 15 or fewer persons of subheading 8702.10 through 8702.90 from any other heading, provided there is a regional value content of not less than 62.5 percent under the net cost method; or

(2) A change to a motor vehicle for the transport of 16 or more persons of subheading 8702.10 through 8702.90 from any other heading, provided there is a regional value content of not less than 60 percent under the net cost method.

8703.10 A change to subheading 8703.10 from any other heading, provided there is a regional value content of not less than:

(a) 60 percent under the transaction value method, or

(b) 50 percent under the net cost method.

8703.21–8703.90 (1) A change to a passenger vehicle of subheading 8703.21 through 8703.90 from any other heading, provided there is a regional value content of not less than:

(a) 66 percent under the net cost method, beginning on July 1, 2020 until June 30, 2021;

(b) 69 percent under the net cost method, beginning on July 1, 2021 until June 30, 2022;

(c) 72 percent under the net cost method, beginning on July 1, 2022 until June 30, 2023;

(d) 75 percent under the net cost method, beginning on July 1, 2023, and thereafter; or

(2) A change to any other good of subheading 8703.21 through 8703.90 from any other heading, provided there is a regional value content of not less than 62.5 percent under the net cost method.

8704.10 A change to a good of subheading 8704.10 from any other heading, provided there is a regional value content of not less than 60 percent under the net cost method.

8704.21 (1) A change to a light truck of subheading 8704.21 from any other heading, provided there is a regional value content of not less than:

(a) 66 percent under the net cost method, beginning on July 1, 2020 until June 30, 2021;

(b) 69 percent under the net cost method, beginning on July 1, 2021 until June 30, 2022;

(c) 72 percent under the net cost method, beginning on July 1, 2022 until June 30, 2023;

(d) 75 percent under the net cost method, beginning on July 1, 2023, and thereafter; or

(2) A change to a vehicle that is solely or principally for off-road use subheading 8704.21 from any other heading, provided there is a regional value content of not less than 62.5 percent under the net cost method.

8704.22–8704.23 (1) A change to a heavy truck of subheading 8704.22 through 8704.23 from any other heading, provided there is a regional value content of not less than:

(a) 60 percent under the net cost method, beginning on July 1, 2020 until June 30, 2024;

(b) 64 percent under the net cost method, beginning on July 1, 2024 until June 30, 2027;

(c) 70 percent under the net cost method, beginning on July 1, 2027, and thereafter; or

(2) A change to a vehicle that is solely or principally for off-road use subheading 8704.22 through 8704.23 from any other heading, provided there is a regional value content of not less than 60 percent under the net cost method.

8704.31 (1) A change to a light truck of subheading 8704.31 from any other heading, provided there is a regional value content of not less than:

(a) 66 percent under the net cost method, beginning on July 1, 2020 until June 30, 2021;

(b) 69 percent under the net cost method, beginning on July 1, 2021 until June 30, 2022;

(c) 72 percent under the net cost method, beginning on July 1, 2022 until June 30, 2023;

(d) 75 percent under the net cost method, beginning on July 1, 2023, and thereafter; or

(2) A change to a vehicle that is solely or principally for off-road use subheading 8704.31 from any other heading, provided there is a regional value content of not less than 62.5 percent under the net cost method.

8704.32–8704.90 (1) A change to a heavy truck of subheading 8704.32 through 8704.90 from any other heading, provided there is a regional value content of not less than:

(a) 60 percent under the net cost method, beginning on July 1, 2020 until June 30, 2024;

(b) 64 percent under the net cost method, beginning on July 1, 2024 until June 30, 2027;

(c) 70 percent under the net cost method, beginning on July 1, 2027, and thereafter; or

(2) A change to a vehicle that is solely or principally for off-road use of subheading

8704.32 through 8704.90 from any other heading, provided there is a regional value content of not less than 60 percent under the net cost method.

87.05 A change to heading 87.05 from any other heading, provided there is a regional value content of not less than 60 percent under the net cost method.

87.06 For a good of heading 87.06 for use as original equipment in a passenger vehicle or light truck:

(1) No required change in tariff classification provided there is a regional value content of not less than:

(a) 66 percent under the net cost method, beginning on July 1, 2020 until June 30, 2021;

(b) 69 percent under the net cost method, beginning on July 1, 2021 until June 30, 2022;

(c) 72 percent under the net cost method, beginning on July 1, 2022 until June 30, 2023;

(d) 75 percent under the net cost method, beginning on July 1, 2023, and thereafter.

For a good of heading 87.06 for use as original equipment in a heavy truck:

(2) No required change in tariff classification provided there is a regional value content of not less than:

(a) 60 percent under the net cost method, beginning on July 1, 2020 until June 30, 2024;

(b) 64 percent under the net cost method, beginning on July 1, 2024 until June 30, 2027;

(c) 70 percent under the net cost method, beginning on July 1, 2027, and thereafter.

For any other good of heading 87.06 for use as original equipment in any other vehicle, or as an aftermarket part:

(3) No required change in tariff classification provided there is a regional value content of not less than 60 percent under the net cost method.

87.07 For a good of heading 87.07 for use as original equipment in a passenger vehicle or light truck:

(1) No required change in tariff classification provided there is a regional value content of not less than:

(a) 66 percent under the net cost method, beginning on July 1, 2020 until June 30, 2021;

(b) 69 percent under the net cost method, beginning on July 1, 2021 until June 30, 2022;

(c) 72 percent under the net cost method, beginning on July 1, 2022 until June 30, 2023;

(d) 75 percent under the net cost method, beginning on July 1, 2023, and thereafter.

For a good of heading 87.07 for use as original equipment in a heavy truck:

(2) A change to heading 87.07 from any other chapter; or

(3) No required change in tariff classification provided there is a regional value content of not less than:

(a) 60 percent under the net cost method, beginning on July 1, 2020 until June 30, 2024;

(b) 64 percent under the net cost method, beginning on July 1, 2024 until June 30, 2027;

(c) 70 percent under the net cost method, beginning on July 1, 2027, and thereafter.

For any other good of heading 87.07 for use as original equipment in any other vehicle or as an aftermarket part:

(4) A change to heading 87.07 from any other chapter; or

(5) No required change in tariff classification provided there is a regional value content of not less than 60 percent under the net cost method.

For any other good of subheading 8708.99 for use as original equipment in a heavy truck:

8708.99.aa A change to tariff item 8708.99.aa from any other subheading, provided there is a regional value content of not less than:

(a) 60 percent under the net cost method, beginning on July 1, 2020 until June 30, 2024;

(b) 64 percent under the net cost method, beginning on July 1, 2024 until June 30, 2027;

(c) 70 percent under the net cost method, beginning on July 1, 2027, and thereafter.

8708.99.bb A change to tariff item 8708.99.bb from any other heading, except from subheading 8482.10 through 8482.80 or tariff item 8482.99.aa; or

A change to tariff item 8708.99.bb from subheadings 8482.10 through 8482.80 or tariff item 8482.99.aa, whether or not there is also a change from any other heading, provided there is a regional value content of not less than:

(a) 60 percent under the net cost method, beginning on July 1, 2020 until June 30, 2024;

(b) 64 percent under the net cost method, beginning on July 1, 2024 until June 30, 2027;

(c) 70 percent under the net cost method, beginning on July 1, 2027, and thereafter.

8708.99 A change to subheading 8708.99 from any other heading; or

No required change in tariff classification to subheading 8708.99, provided there is a regional value content of not less than:

(a) 60 percent under the net cost method, beginning on July 1, 2020 until June 30, 2024;

(b) 64 percent under the net cost method, beginning on July 1, 2024 until June 30, 2027;

(c) 70 percent under the net cost method, beginning on July 1, 2027, and thereafter.

For any other good of subheading 8708.99 for use as original equipment in any other vehicle or as an aftermarket part:

8708.99.aa A change to tariff item 8708.99.aa from any other subheading, provided there is a regional value content of not less than 50 per cent under the net cost method.

8708.99.bb A change to tariff item 8708.99.bb from any other heading, except from subheading 8482.10 through 8482.80 or tariff item 8482.99.aa; or

A change to tariff item 8708.99.bb from subheadings 8482.10 through 8482.80 or tariff item 8482.99.aa, whether or not there is also a change from any other heading, provided there is a regional value content of not less than 50 per cent under the net cost method.

8708.99 A change to subheading 8708.99 from any other heading; or

No required change in tariff classification to subheading 8708.99, provided there is a regional value content of not less than 50 percent under the net cost method.

Section 14: Further Requirements Related to the Regional Value Content for Passenger Vehicles, Light Trucks, and Parts Thereof

Roll-Up of Originating Materials

(1) The value of non-originating materials used by the producer in the production of a passenger vehicle, light truck and parts thereof must not, for the purpose of calculating the regional value content of the good, include the value of non-originating

materials used to produce originating materials that are subsequently used in the production of the good. For greater certainty, if the production undertaken on non-originating materials results in the production of a good that qualifies as originating, no account is to be taken of the non-originating material contained therein if that good is used in the subsequent production of another good.

Requirements Related to Core Parts Listed in Table A.1

(2) A part listed in Table A.1 that is for use as original equipment in the production of a passenger vehicle or light truck, except for batteries of subheading 8507.60 that are used as the primary source of electrical power for the propulsion of an electric passenger vehicle or an electric light truck, is originating only if it satisfies the regional value content requirement in sections 13 or 14 or Schedule I (PSRO Annex).

(3) A battery of subheading 8507.60 that is used as the primary source of electrical power for the propulsion of an electric passenger vehicle or an electric light truck is originating if it meets the applicable requirements set out in section 14 or Schedule I (PSRO Annex).

Parts Listed in Column 1 of Table A.2 Must Be Originating for Passenger Vehicle or Light Truck To Be Originating

(4) In addition to other applicable requirements set out in these Regulations, a passenger vehicle or light truck is only originating if the parts listed in column 1 of Table A.2 used in its production are originating. The value of non-originating materials (VNM) for such parts must be calculated in accordance with subsections 14(7) through 14(8), or, at the choice of the vehicle producer or exporter, subsections 14(9) through 14(11). The net cost of a part must be calculated in accordance with section 7 (Regional Value Content), without regard to the VNM calculation method chosen.

Parts Listed in Column 1 of Table A.2 Must Meet an RVC Requirement; Advanced Batteries May Meet an RVC or Tariff Shift Requirement

(5) Except for an advanced battery of subheading 8507.60, a part listed in column 1 of Table A.2, that is for use in a passenger vehicle or light truck, must meet the regional value content requirement of section 13 or Schedule I (PSRO Annex) to be considered originating.

(6) An advanced battery of subheading 8507.60, that is for use in a passenger vehicle or light truck, is originating if it meets the applicable change in tariff classification or regional value content requirements set out in Schedule I (PSRO Annex).

VNM for Core Parts May Include All Non-Originating Materials, or Only Materials Listed in Column 2 of Table A.2

(7) For the purpose of satisfying the requirement specified in subsections (4) through (6), the regional value content of a part listed in column 1 of Table A.2, the value of non-originating materials (VNM) may be determined, at the choice of the

vehicle producer or exporter, taking into consideration:

(a) The value of all non-originating materials used in the production of the part; or

(b) the value of non-originating components that are listed in column 2 of Table A.2 that are used in the production of the part.

(8) For the purposes of a regional value content calculation for a good listed in column 1 of Table A.2, based on paragraph (7)(b), any non-originating materials used in the production of the good that are not listed in column 2 of Table A.2 may be disregarded. For greater certainty, any non-originating parts listed in column 2 of Table A.2 must be included in the VNM calculation. Any parts not listed in column 2 of Table A.2 or materials or components used to produce such parts should also not be part of the VNM calculation.

(9) Subsections (7) and (8) do not apply when calculating the regional value content of a part listed in Column 1 of Table A.2 traded on its own. The rules for such parts are listed in section 13 or Schedule I of these Regulations.

Parts Listed in Column 1 of Table A.2 May Be Treated as a Single, Super-Core Part

(10) For the purpose of satisfying the requirement specified in subsections (4) through (6) and as an alternative to determining the VNM based on the method in subsection (7), the regional value content of the parts listed in column 1 of Table A.2 of these Regulations may be determined, at the choice of the vehicle producer or exporter, by treating these parts as a single part, which may be referred to as a super-core part, using the sum of the net cost of each part listed under column 1 of Table A.2 of these Regulations, and when calculating the VNM taking into consideration:

(a) The sum of the value of all non-originating materials used in the production of the parts listed under column 1 of table A.2; or

(b) the sum of the value of the non-originating components that are listed in column 2 of Table A.2 that are used in the production of the parts listed in column 1 of Table A.2.

(11) If a non-originating material used in the production of a component listed in column 2 of Table A.2 undergoes further production such that it satisfies the requirements of these Regulations, the component is treated as originating when determining the originating status of the subsequently produced part listed in column 1 of Table A.2, regardless of whether that component was produced by the producer of the part.

(12) The regional value content requirement for the parts listed in column 1 of Table A.2 may be averaged in accordance with the provisions in Section 16. Such an average may be calculated using the average regional value content for each individual parts category in the left hand column of Table A.2, or by calculating the average regional value content for all parts in the left hand column of Table A by treating them as a single part, defined as a super-core. Once

this average, by either methodology, exceeds the required thresholds listed in subsection (13), all parts used to calculate this average are considered originating.

RVC Requirements Related to Parts Listed in Tables A.1 and A.2

(13) Further to subsections (2), (7) and (10), the following regional value content thresholds apply to parts for use as original equipment listed under Table A.1 and column 1 of Table A.2:

(a) 66 percent under the net cost method or 76 percent under the transaction value method beginning on July 1, 2020 until June 30, 2021;

(b) 69 percent under the net cost method or 79 percent under the transaction value method beginning on July 1, 2021 until June 30, 2022;

(c) 72 percent under the net cost method or 82 percent under the transaction value method, beginning on July 1, 2022 until June 30, 2023; or

(d) 75 percent under the net cost method or 85 percent under the transaction value method, beginning on July 1, 2023, and thereafter.

Requirements Related to Principal and Complementary Parts Listed in Tables B and C

(14) Notwithstanding the regional value content requirements set out in Schedule I (PSRO Annex), a material listed in Table B is considered originating if it satisfies the applicable change in tariff classification requirement or the applicable regional value-content requirement provided in Schedule I (PSRO Annex).

(15) Further to subsection (14), the following regional value content thresholds apply to parts for use as original equipment listed under Table B:

(a) 62.5 percent under the net cost method or 72.5 percent under the transaction value method beginning on July 1, 2020 until June 30, 2021;

(b) 65 percent under the net cost method or 75 percent under the transaction value method beginning on July 1, 2021 until June 30, 2022;

(c) 67.5 percent under the net cost method or 77.5 percent under the transaction value method, beginning on July 1, 2022 until June 30, 2023; or

(d) 70 percent under the net cost method or 80 percent under the transaction value method, beginning on July 1, 2023, and thereafter.

(16) Notwithstanding the regional value content requirements set out in Schedule I (PSRO Annex), a material listed in Table C is originating if it meets the applicable change in tariff classification requirement or the applicable regional value-content requirement provided in Schedule I (PSRO Annex).

(17) Further to subsection (16), the following regional value content thresholds apply to parts for use as original equipment listed under Table C:

(a) 62 percent under the net cost method or 72 percent under the transaction value method beginning on July 1, 2020 until June 30, 2021;

(b) 63 percent under the net cost method or 73 percent under the transaction value method beginning on July 1, 2021 until June 30, 2022;

(c) 64 percent under the net cost method or 74 percent under the transaction value method, beginning on July 1, 2022 until June 30, 2023; or

(d) 65 percent under the net cost method or 75 percent under the transaction value method, beginning on July 1, 2023, and thereafter.

(18) For greater certainty, subsections (13), (15) or (17) do not apply to aftermarket parts.

Section 15: Further Requirements Related to the Regional Value Content for Heavy Trucks and Parts Thereof

(1) The value of non-originating materials used by the producer in the production of a heavy truck and parts thereof must not, for the purpose of calculating the regional value content of the good, include the value of non-originating materials used to produce originating materials that are subsequently used in the production of the good.

(2) Notwithstanding the Product-Specific Rules of Origin in Schedule I (PSRO Annex), the regional value content requirement for a part listed in Table D that is for use in a heavy truck is:

(a) 60 percent under the net cost method or 70 percent under the transaction value method, if the corresponding rule includes a transaction value method, beginning on July 1, 2020 until June 30, 2024;

(b) 64 percent under the net cost method or 74 percent under the transaction value method, if the corresponding rule includes a transaction value method beginning on July 1, 2024 until June 30, 2027; or

(c) 70 percent under the net cost method or 80 percent under the transaction value method, if the corresponding rule includes a transaction value method, beginning on July 1, 2027, and thereafter.

(3) Notwithstanding the Product-Specific Rules of Origin in Schedule I (PSRO Annex), the regional value content requirement for a part listed in Table E that is for use in a heavy truck is:

(a) 50 percent under the net cost method or 60 percent under the transaction value method, if the corresponding rule includes a transaction value method, beginning on July 1, 2024 until June 30, 2027; or

(b) 54 percent under the net cost method or 64 percent under the transaction value method, if the corresponding rule includes a transaction value method beginning on July 1, 2024 until June 30, 2027; or

(c) 60 percent under the net cost method or 70 percent under the transaction value method, if the corresponding rule includes a transaction value method, beginning on July 1, 2027, and thereafter.

(4) Notwithstanding section 13 (Product-Specific Rules of Origin for Vehicles) or Schedule I (PSRO Annex), an engine of heading 84.07 or 84.08, or a gear box (transmission) of subheading 8708.40, or a chassis classified in 8708.99, that is for use in a heavy truck, is originating only if it satisfies the applicable regional value content requirement in subsection (2).

Section 16: Averaging for Passenger Vehicles, Light Trucks and Heavy Trucks

(1) For the purpose of calculating the regional value content of a passenger vehicle, light truck, or heavy truck, the calculation may be averaged over the producer's fiscal year, using any one of the following categories, on the basis of either all motor vehicles in the category or only those motor vehicles in the category that are exported to the territory of one or more of the other USMCA countries:

(a) The same model line of motor vehicles in the same class of vehicles produced in the same plant in the territory of a USMCA country;

(b) the same class of motor vehicles produced in the same plant in the territory of a USMCA country;

(c) the same model line or same class of motor vehicles produced in the territory of a USMCA country; or

(d) any other category as the USMCA countries may decide.

(2) For the purposes of paragraph (1)(c), vehicles within the same model line or class may be averaged separately if such vehicles are subject to different regional value content requirements.

(3) If a producer chooses to use averaging for the purpose of calculating regional value content, the producer must state the category it has chosen, and:

(a) If the category referred to in paragraph (1)(a) is chosen, state the model line, model name, class of passenger vehicle, light truck, or heavy truck and tariff classification of the motor vehicles in that category, and the location of the plant at which the motor vehicles are produced,

(b) if the category referred to in paragraph (1)(b) is chosen, state the model name, class of passenger vehicle, light truck, or heavy truck and tariff classification of the motor vehicles in that category, and the location of the plant at which the motor vehicles are produced,

(c) if the category referred to in paragraph (1)(c) is chosen, state the model line, model name, class of motor vehicle and tariff classification of the passenger vehicle, light truck, or heavy truck in that category, and the locations of the plants at which the motor vehicles are produced,

(d) if the category referred to in paragraph (1)(d) is chosen, state the model lines, model names, classes of motor vehicles and tariff classifications of the passenger vehicles, light trucks, or heavy trucks, and the location of the plants at which the motor vehicles are produced, or

(e) if the category referred to in paragraph (1)(e) is chosen, state the model lines, model names, classes of motor vehicles and tariff classifications of the passenger vehicles, light trucks, or heavy trucks, the location of the plants at which the motor vehicles are produced and the party or parties to which the vehicles are exported;

Averaging Period

(4) If the fiscal year of a producer begins after July 1, 2020, but before July 1, 2021, the producer may calculate its regional value content for passenger vehicles, light trucks, heavy trucks, other vehicles, core parts listed

in Table A.2 used in the production of passenger vehicles, light trucks or heavy trucks, an automotive good listed in Tables A.1, B, C, D or E, steel and aluminum purchasing requirement and labor value content, for the period beginning on July 1, 2020 and ending at the end of the following fiscal year.

Averaging After Entry Into Force + D133

(5) For the period July 1, 2020 to June 30, 2023, the producer may calculate its regional value content for passenger vehicles, light trucks, heavy trucks, other vehicles, core parts listed in Table A.2 used in the production of passenger vehicles, light trucks or heavy trucks, an automotive good listed in Tables A.1, B, C, D or E, steel and aluminum purchasing requirement and labor value content, for the following periods:

- (a) July 1, 2020 to June 30, 2021
- (b) July 1, 2021 to June 30, 2022
- (c) July 1, 2022 to June 30, 2023, and
- (d) July 1, 2023 to the end of the producer's fiscal year.

Additionally, a producer may calculate its regional value content for heavy trucks and parts listed in Table D or E, steel and aluminum purchasing requirement and labor value content, for the following periods:

- (a) July 1, 2023 to June 30, 2024
- (b) July 1, 2024 to June 30, 2025
- (c) July 1, 2025 to June 30, 2026
- (d) July 1, 2026 to June 30, 2027 and
- (e) July 1, 2027 to the end of the producer's fiscal year.

Timely Filing of Choice to Average

(6) If a producer chooses to average its regional value content calculations the producer must notify the customs administration of the USMCA country to which passenger vehicles, light trucks, heavy trucks or other vehicles are to be exported, by July 31, 2020 and subsequently at least 10 days before the first day of the producer's fiscal year during which the vehicles will be exported, or such shorter period as the customs administration may accept.

Choice to Average May Not Be Rescinded

(7) The producer may not modify or rescind the category of passenger vehicles, light trucks, heavy trucks or other vehicles or the period that they have notified the customs authority they intend to use for their averaged regional value calculation.

Averaged Net Cost and VNM Included in Calculation of RVC on the Basis of Producer's Option To Include All Vehicles of Category or Only Certain Exported Vehicles of Category

(8) For purposes of sections 13 through 15, if a producer chooses to average its net cost calculation, the net costs incurred and the values of non-originating materials used by the producer, with respect to

(a) all passenger vehicles, light trucks, or heavy trucks that fall within the category chosen by the producer and that are produced during the fiscal year, or partial fiscal year if the producer's fiscal year begins after July 1, 2020, or

(b) those passenger vehicles, light trucks, or heavy trucks to be exported to the territory of one or more of the USMCA countries that

fall within the category chosen by the producer and that are produced during the fiscal year or, partial fiscal year if the producer's fiscal year begins after July 1, 2020, must be included in the calculation of the regional value content under any of the categories set out in subsection (1).

Year-End Analysis Required if Averaging Based of Estimated Costs; Obligation To Notify of Change in Status

(9) If the producer of a passenger vehicle, light truck, heavy truck or other vehicle has calculated the regional value content of the motor vehicle on the basis of estimated costs, including standard costs, budgeted forecasts or other similar estimating procedures, before or during the producer's fiscal year, the producer must 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 passenger vehicle, light truck, or heavy truck does not satisfy the regional value content requirement on the basis of the actual costs, 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.

(10) For the purpose of calculating the regional value content for an automotive good listed in Tables A.1, B, C, D, or E, produced in the same plant, a core part listed in Table A.2, or when treating the parts listed in column 1 of Table A.2 as a super-core, for use in a passenger vehicle or light truck, the calculation may be averaged:

- (a) Over the fiscal year of the motor vehicle producer to whom the good is sold;
- (b) over any quarter or month;
- (c) over the fiscal year of the producer of the automotive material; or
- (d) over any of the categories in paragraph (1)(a) through (d), provided that the good was produced during the fiscal year, quarter, or month forming the basis for the calculation, in which:
 - (i) The average in paragraph (9)(a) is calculated separately for those goods sold to one or more passenger vehicle, light truck, or heavy truck producer, or
 - (ii) the average in paragraph (9)(a) or (d) is calculated separately for those goods that are exported to the territory of another USMCA country.

Example Relating to the Fiscal Year of a Producer Not Coinciding With the Entry Into Force of The Agreement

(11) The following example is an "Example" as referred to in subsection 1(4).

Example: Subsection (4)

The agreement enters into force on July 1, 2020. A producer's fiscal year begins on January 1, 2021. The producer may calculate their regional value content over the 18-month period beginning on July 1, 2020 and ending on December 31, 2021.

Section 17: Steel and Aluminum

(1) In addition to meeting the requirements of sections 13 through 16 or Schedule I (PSRO Annex), a passenger vehicle, light truck, or heavy truck is originating only if,

during a time period provided for in subsection (2), at least 70 percent, by value, of the vehicle producer's purchases at the corporate level in the territories of one or more of the USMCA countries of:

- (a) Steel listed in Table S; and
- (b) aluminum listed in Table S; are of originating goods.

(2) For the purposes of subsection (1), only the value of the steel or aluminum listed in Table S that is used in the production of the part will be taken into consideration for a part of subheading 8708.29 or 8708.99 listed in Table S.

(3) The requirement set out in subsection (1) applies to steel and aluminum purchases made by the producer of passenger vehicles, light trucks or heavy trucks, including purchases made directly by the vehicle producer from a steel producer, purchases by the vehicle producer from a steel service center or a steel distributor. Subsection (1) also applies to steel or aluminum covered by a contractual arrangement in which a producer of passenger vehicles, light trucks, or heavy trucks negotiates the terms under which steel or aluminum will be supplied to a parts producer by a steel producer or supplier selected by the vehicle producer, for use in the production of parts that are supplied by the parts producer to a producer of passenger vehicles, light trucks, or heavy trucks. Such purchases must also include steel and aluminum purchases for major stampings that form the "body in white" or chassis frame, regardless of whether the vehicle producer or parts producer makes such purchases.

(4) The requirement set out in subsection (1) applies to steel and aluminum purchased for use in the production of passenger vehicles, light trucks or heavy trucks. Subsection (1) does not apply to steel and aluminum purchased by a producer for other uses, such as the production of other vehicles, tools, dies or molds.

(5) For the purpose subsection (1), as it applies to a steel good set out in Table S, a good is originating if:

(a) Beginning on July 1, 2020 until June 30, 2027 the good satisfies the applicable requirements established in Schedule I (PSRO Annex) or section 13 and all other applicable requirements of these Regulations; or

(b) beginning on July 1, 2027 the good satisfies all other applicable requirements of these Regulations, and provided that all steel manufacturing processes occur in one or more of the USMCA countries, except for metallurgical processes involving the refinement of steel additives. Such steel manufacturing processes include the initial melting and mixing and continues through the coating stage. This requirement does not apply to raw materials of used in the steel manufacturing process, including iron ore or reduced, processed, or pelletized iron ore of heading 26.01, pig iron of heading 72.01, raw alloys of heading 72.02 or steel scrap of heading 72.04.

(6) The vehicle producer may calculate the value of steel and aluminum purchases in subsection (1) by the following methods:

(a) For steel or aluminum imported or acquired in the territory of a USMCA country:

- (i) The price paid or payable by the producer in the USMCA country where the producer is located;
- (ii) the net cost of the material at the time of importation; or
- (iii) the transaction value of the material at the time of importation.
- (b) For steel or aluminum that is self-produced:
 - (i) All costs incurred in the production of materials, which includes general expenses, and
 - (ii) an amount equivalent to the profit added in the normal course of trade, or equal to the profit that is usually reflected in the sale of goods of the same class or kind as the self-produced material that is being valued.
- (7) For the purpose of determining the vehicle producer's purchases of steel or aluminum in subsection 17(1), the producer may calculate the purchases:
 - (a) Over the previous fiscal year of the producer;
 - (b) over the previous calendar year;
 - (c) over the quarter or month to date in which the vehicle is exported;
 - (d) over the producer's fiscal year to date in which the vehicle is exported; or
 - (e) over the calendar year to date in which the vehicle is exported.
- (8) If the producer chooses to base a steel or aluminum calculation on paragraph (7)(c), (d) or (e), that calculation may be based on the producer's estimated purchases for the applicable period.
- (9) For the purpose of determining the vehicle producer's purchases of steel or aluminum in subsection (1), the producer may calculate the purchases on the basis of:
 - (a) All motor vehicles produced in one or more plants in the territory of one or more USMCA countries;
 - (b) all motor vehicles exported to the territory of one or more USMCA countries;
 - (c) all motor vehicles in a category set out in subsection 16(1) that are produced in one or more plants in the territory of one or more USMCA countries; or,
 - (d) all motor vehicles in a category set out in subsection 16(1) exported to the territory of one or more USMCA countries.
- (10) The producer may choose different periods for the purpose of its steel and aluminum calculations.
- (11) If the producer of a passenger vehicle, light truck, or heavy truck has calculated steel or aluminum purchases on the basis of estimates before or during the applicable

period, the producer must conduct an analysis at the end of the producer's fiscal year of the actual purchases made over the period with respect to the production of the vehicle, and, if the passenger vehicle, light truck, or heavy truck does not satisfy the steel or aluminum requirement on the basis of the actual purchases, immediately inform any person to whom the producer has provided a certification of origin for the vehicle, or a written statement that the vehicle is an originating good, that the vehicle is a non-originating good.

Section 18: Labor Value Content

Labor Value Content Requirements for Passenger Vehicles

- (1) In addition to the requirements in sections 13 through 17 and Schedule I (PSRO Annex), a passenger vehicle is originating only if the vehicle producer certifies that the passenger vehicle meets a Labor Value Content (LVC) requirement of:
 - (a) 30 percent, consisting of at least 15 percentage points of high-wage material and labor expenditures, no more than 10 percentage points of technology expenditures, and no more than 5 percentage points of high-wage assembly expenditures, beginning on July 1, 2020 until June 30, 2021;
 - (b) 33 percent, consisting of at least 18 percentage points of high-wage material and labor expenditures, no more than 10 percentage points of technology expenditures, and no more than 5 percentage points of high-wage assembly expenditures, beginning on July 1, 2021 until June 30, 2022;
 - (c) 36 percent, consisting of at least 21 percentage points of high-wage material and labor expenditures, no more than 10 percentage points of technology expenditures, and no more than 5 percentage points of high-wage assembly expenditures, beginning on July 1, 2022 until June 30, 2023; or
 - (d) 40 percent, consisting of at least 25 percentage points of high-wage material and labor expenditures, no more than 10 percentage points of technology expenditures, and no more than 5 percentage points of high-wage assembly expenditures, beginning on July 1, 2023, and thereafter.

LVC Requirement Related to Light Trucks or Heavy Trucks

- (2) In addition to the requirements set out in sections 13 through 17 and Schedule I

(PSRO Annex), a light truck or heavy truck is originating only if the vehicle producer certifies that the truck meets an LVC requirement of 45 percent, consisting of at least 30 percentage points based on high-wage material and labor expenditures, no more than 10 percentage points based on technology expenditures, and no more than 5 percentage points based on high-wage assembly expenditures.

Calculation of LVC Requirement

(3) For purposes of an LVC calculation for a passenger vehicle, light truck or heavy truck, a producer may include:

- (a) An amount for high-wage materials used in production;
- (b) an amount for high-wage labor costs incurred in the assembly of the vehicle;
- (c) an amount for high-wage transportation or related costs for shipping materials to the location of the vehicle producer, if not included in the amount for high-wage materials;
- (d) a credit for technology expenditures; and
- (e) a credit for high-wage assembly expenditures.

(4) *High wage materials.* The amount that may be included for high-wage materials used in production is the net cost or the annual purchase value of materials that undergo production in a qualifying-wage-rate production plant and that are used in the production of passenger vehicles, light trucks or heavy trucks in a plant located in the territory of a USMCA country.

(5) A plant engaged in the production of vehicles or parts may be certified as a qualifying wage-rate vehicle assembly plant or a qualifying-wage-rate production plant based on the average wage paid to direct production workers at the plant for July 1 to December 31, 2020, or for July 1 to June 30, 2021. In subsequent periods, the certification of a qualifying-wage-rate production plant based on period less than 12 months is valid for the following period of the same length. The certification of a qualifying-wage-rate production plant based on a 12-month period is valid for the following 12 months.

(6) For the purpose of meeting the Labor Value Content requirement a producer may use one of the following formulas:

- (a) Formula based on net cost

$$LVC = \frac{((HWLC + HWM) \times 100) + HWTC + HWAC}{NC}$$

NC

(b) Formula based on total annual purchase value

$$LVC = \frac{((APV + HWLC*) \times 100) + HWTC + HWAC}{(TAPV + HWLC*)}$$

*HWLC is included in the numerator at the choice of the producer and, if included, must also be included in the denominator

Where:

APV is the annual purchase value of high-wage material expenditures

HWAC is the credit for high-wage assembly expenditures;

HWLC is the sum of the high-wage labor costs incurred in the assembly of the vehicle;

HWM is the sum of the high-wage material expenditures used in production;

HWTC is the credit for high-wage technology expenditures;

HWT is the high-wage transportation or related costs for shipping materials used in production, if not included in the amount for HWM;

NC is the net cost of the vehicle, and

TAPV is the total vehicle plant assembly annual purchase value of parts and materials for use in the production of the vehicle

High Wage Material Expenditures

(7) The high wage material expenditures may be calculated as sum of the following values:

(a) The annual purchase value (APV) or net cost, depending on the formula used, of a self-produced high-wage material used in the production of a vehicle;

(b) the APV or net cost, depending on the formula used, of an imported or acquired high-wage material used in the production of a vehicle;

(c) the APV or net cost, depending on the formula used, of a high-wage material used in the production of a part or material that is used in the production of an intermediate or self-produced part that is subsequently used in the production of a vehicle; and

(d) the APV or net cost depending on the formula used of a high wage material used in the production of a part or material that is subsequently used in the production of a vehicle.

(8) It is suggested, but not required, that the vehicle producer calculate the high-wage

material and labor expenditures in the order described in paragraph (7). A vehicle producer need not calculate the elements in paragraphs 7(b) to (d) if the previous element or elements is sufficient to meet the LVC requirement.

High-Wage Technology Expenditures Credit

(9) The high-wage technology expenditures credit (HWTC) is based on annual vehicle producer expenditures at the corporate level in one or more USMCA countries on wages paid by the producer for research and development (R&D) or information technology (IT), calculated as a percentage of total annual vehicle producer expenditures on wages paid to direct production workers in one or more USMCA countries. Expenditures on capital or other non-wage costs for R&D or IT are not included.

(10) To determine the high-wage technology expenditures credit (HWTC), the following formula may be used:

$$\text{HWTC} = \frac{\text{Annual producer expenditures for R\&D or IT}}{\text{Total annual vehicle production expenditures}} \times 100$$

Where

HWTC is the credit for high-wage technology expenditures, expressed as a percentage;

(11) For the purposes of subsection 14(10), expenditures on wages for R&D include wage expenditures on research and development including prototype development, design, engineering, testing, or certifying operations.

High-Wage Assembly Credit

(12) A high-wage assembly credit of five percentage points may be included in the LVC for passenger vehicles or light trucks produced by a producer that operates a high-wage assembly plant for passenger vehicle or light truck parts or has a long-term supply contract for those parts (*i.e.* a contract with a minimum of three years) with such a plant.

(13) A high-wage assembly credit of five percentage points may be included in the LVC for heavy trucks produced by a producer that operates a high-wage assembly plant for heavy truck parts or has a long-term supply contract (*i.e.*, a contract with a minimum of three years) for those parts with such a plant.

(14) A high-wage assembly plant for passenger vehicle, light truck, or heavy truck parts need only have the capacity to produce the minimum amount of originating parts specified in the definition. There is no need to maintain or provide records or other documents that certify such parts are originating, as long as information demonstrating the capacity to produce these minimum amounts is maintained and can be provided.

Averaging for LVC Requirement

(15) For the purpose of calculating the LVC of a passenger vehicle, light truck or heavy truck, the producer may elect to average the calculation using any one of the following categories, on the basis of either all vehicles

in the category or only those vehicles in the category that are exported to the territory of one or more of the other USMCA countries:

(a) The same model line of vehicles in the same class of vehicles produced in the same plant in the territory of a USMCA country;

(b) the same class of vehicles produced in the same plant in the territory of a USMCA country;

(c) the same model line of vehicles or same class of vehicles produced in the territory of a USMCA country;

(d) any other category as the USMCA countries may decide.

(16) An election made under subsection (15) must

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

(i) if the category referred to in paragraph (15)(a) is chosen, state the model line, model name, class of vehicle and tariff classification of the vehicles in that category, and the location of the plant at which the vehicles are produced,

(ii) if the category referred to in paragraph (15)(b) is chosen, state the model name, class of vehicle and tariff classification of the vehicles in that category, and the location of the plant at which the vehicles are produced, and

(iii) if the category referred to in paragraph (15)(c) is chosen, state the model line, model name, class of vehicle and tariff classification of the vehicles in that category, and the locations of the plants at which the vehicles are produced;

(b) state whether the basis of the calculation is all vehicles in the category or only those vehicles in the category that are exported to the territory of one or more of the other USMCA countries;

(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 labor value content of 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) be filed with the customs administration of each USMCA country to which vehicles in that category are to be exported during the period covered by the election, by July 31, 2020, and subsequently at least 10 days before the first day of the producer's fiscal year, or such shorter period as that customs administration may accept.

(17) An election filed for the vehicles referred to in subsection (16) may not be

(a) rescinded; or

(b) modified with respect to the category or basis of calculation.

(18) For purposes of this section, if a producer files an election under paragraph (16)(a), it must include the labor value content and the net cost of the producer's passenger vehicles, light trucks or heavy trucks, calculated under one of the categories set out in subsection (15), with respect to

(a) all vehicles that fall within the category chosen by the producer, or

(b) those vehicles to be exported to the territory of one or more of the USMCA countries that fall within the category chosen by the producer.

LVC Periods

(19) For the purposes of determining the LVC in this section, the producer may base the calculation on the following periods:

(a) The previous fiscal year of the producer;

(b) the previous calendar year;

(c) the quarter or month to date in which the vehicle is produced or exported;

(d) the producer's fiscal year to date in which the vehicle is produced or exported; or

(e) the calendar year to date in which the vehicle is produced or exported.

Transportation and Related Costs

(20) High-wage transportation or related costs for shipping may be included in a producer's LVC calculation, if not included in the amount for high-wage materials. Alternatively, a producer may aggregate such costs within the territories of one or more of the USMCA countries. Based on this aggregate amount, the producer may attribute an amount for transportation or related costs for shipping for purposes of the LVC calculation. Transportation or related costs for shipping incurred in transporting a material from outside the territories of the USMCA countries to the territory of a USMCA country are not included in this calculation.

Value of Materials for LVC Purposes

(21) The value of both originating and non-originating materials must be taken into account for the purpose of calculating the labor value content of a good. For greater certainty, the full value of a non-originating material that has undergone production in a qualifying-wage-rate production plant may be included in the HWM described in subsection 6.

Excess LVC May Be Used Towards RVC Requirement for Heavy Trucks

(22) For the period ending July 1, 2027, if a producer certifies a Labor Value Content for a heavy truck that is higher than 45 percent by increasing the amount of high wage material and manufacturing expenditures above 30 percentage points, the producer may use the points above 30 percentage points as a credit towards the regional value content percentages under section 13, provided that the regional value content percentage is not below 60 percent.

Section 19: Alternative Staging Regime

(1) For the purposes of this section, eligible vehicles means passenger vehicles or light trucks for which an alternative staging regime has been approved by the USMCA countries.

(2) Notwithstanding sections 13 through 18, eligible vehicles are subject to the requirements set forth in subsection (4) from July 1, 2020 to June 30, 2025, or any other period provided for in the producer's approved alternative staging regime. Eligible vehicles are also subject to any other applicable requirements established in these Regulations.

(3) Passenger vehicles or light trucks that are not eligible vehicles may qualify as originating under the rules of origin established in sections 13 through 18, and any other applicable requirements established in these Regulations.

(4) Eligible vehicles are considered originating if they meet the following requirements:

(a) A regional value content of not less than 62.5 percent, under the net cost method;

(b) for parts listed in Table A.1, except lithium ion batteries of subheading 8507.60, a regional value content of not less than:

(i) 62.5 percent where the net cost method is used; or

(ii) 72.5 percent where the transaction value method is used if the corresponding rule includes a transaction value method; and

(iii) for lithium-ion batteries of 8507.60, a change from within subheading 8507.60 or from any other subheading for lithium-ion batteries of 8507.60

(c) at least 70 percent of a vehicle producer's purchases of steel and at least 70 percent of a vehicle producer's purchases of aluminum, by value, must qualify as originating under the rules of origin established in Schedule I (PSRO Annex). This requirement will not apply to vehicle producers that have an exemption under an approved alternative staging regime from having to satisfy this requirement; and

(d) a labor value content of at least 25 percent, consisting of at least ten percentage points of high-wage material and manufacturing expenditures, no more than ten percentage points of high-wage technology expenditures, and no more than five percentage points of high-wage assembly expenditures.

(5) Eligible vehicles are exempt from the core parts requirement set out in section 14.

(6) All methods and calculations for the requirements applicable to eligible vehicles must be based on the applicable provisions in these Regulations.

(7) Vehicles that are presently covered under the alternative staging regime described in Article 403.6 of the NAFTA Agreement as of November 30, 2019, may continue to use this regime, including any regulations that were effect prior to entry into force of the USMCA, according to each USMCA country's approval process for use of the alternative staging regime. After the expiration of the period under the Article 403.6 alternative staging period, such vehicles will be eligible for preferential treatment under the requirements described in subsection (4), until the end of the USMCA alternative staging period described in subsection (2). For greater certainty, such vehicles will also be eligible for preferential tariff treatment under the other rules of origin set forth in these regulations.

Section 20: Regional Value Content for Other Vehicles

(1) The value of non-originating materials used by the producer in the production of other vehicles and parts thereof must not, for the purpose of calculating the regional value content of the good, include the value of non-originating materials used to produce originating materials that are subsequently used in the production of the good.

(2) Notwithstanding section 13 and Schedule I (PSRO Annex), the regional value content requirement is 62.5 percent under the net cost method for:

(a) A motor vehicle for the transport of 15 or fewer persons of subheading 8702.10 or 8702.90;

(b) a passenger vehicle with a compression-ignition engine as the primary motor of

propulsion of subheading 8703.21 through 8703.90,

(c) a three or four-wheeled motorcycle of subheading 8703.21 through 8703.90,

(d) a motorhome or entertainer coach of subheading 8703.21 through 8703.90;

(e) an ambulance, a hearse, a prison van of subheading 8703.21 through 8703.90;

(f) a vehicle solely principally for off-road use of subheading 8703.21 through 8703.90; or

(g) a vehicle of subheading 8704.21 or 8704.31 that is solely or principally for off-road use; and

(h) a good of heading 84.07 or 84.08, or subheading 8708.40, that is for use in a motor vehicle in paragraphs (a) through (g).

(3) Notwithstanding section 13 and Schedule I (PSRO Annex), the regional value content requirement is 60 percent under the net cost method for:

(a) A good that is:

(i) A motor vehicle of heading 87.01, except for subheading 8701.20;

(ii) a motor vehicle for the transport of 16 or more persons of subheading 8702.10 or 8702.90;

(iii) a motor vehicle of subheading 8704.10;

(iv) a motor vehicle of subheading 8704.22, 8704.23, 8704.32, or 8704.90 that is solely or principally for off-road use;

(v) a motor vehicle of heading 87.05; or,

(vi) a good of heading 87.06 that is not for use in a passenger vehicle, light truck, or heavy truck;

(b) a good of heading 84.07 or 84.08, or subheading 8708.40, that is for use in a motor vehicle in paragraph (3)(a); or

(c) except for a good in paragraph (3)(b) or of subheading 8482.10 through 8482.80, 8483.20, or 8483.30, a good in Table F that is subject to a regional value content requirement and that is for use in a motor vehicle in paragraphs (2)(a) through (g) or (3)(a).

(4) For the purpose of calculating the regional value content under the net cost method for a good that is a motor vehicle provided for in paragraphs (2)(a) through (g) or (3)(a), a good listed in Table F for use as original equipment in the production of a good in paragraphs (2)(a) through (g), or a component listed in Table G for use as original equipment in the production of the motor vehicle in paragraph (3)(a), the value of non-originating materials used by the producer in the production of the good must be the sum of:

(a) For each material used by the producer listed in Table F or Table G, whether or not produced by the producer, at the choice of the producer and determined in accordance with section 7 (Regional Value Content), either

(i) the value of such material that is non-originating, or

(ii) the value of non-originating materials used in the production of such material; and

(b) the value of any other non-originating material used by the producer that is not listed in Table F or Table G, determined in accordance with section 7 (Regional Value Content).

(5) For greater certainty, notwithstanding subsection (4), for purposes of a good that is a motor vehicle provided for in paragraphs

(2)(a) through (g) or (3)(a), the value of non-originating materials is the sum of the values of all non-originating materials used by the producer in the production of the vehicle.

(6) For the purpose of calculating the regional value content of a motor vehicle covered by subsections (2) or (3), the producer may average its calculation over its fiscal year, using any one of the following categories, on the basis of either all motor vehicles in the category or only those motor vehicles in the category that are exported to the territory of one or more of the other USMCA countries:

(a) The same model line of motor vehicles in the same class of vehicles produced in the same plant in the territory of a USMCA country;

(b) the same class of motor vehicles produced in the same plant in the territory of a USMCA country; or

(c) the same model line of motor vehicles produced in the territory of a USMCA country.

(7) For the purpose of calculating the regional value content for a good listed in Table F, or a component or material listed in

Table G, produced in the same plant, the producer of the good may:

(a) Average its calculation:
 (i) Over the fiscal year of the motor vehicle producer to whom the good is sold,
 (ii) over any quarter or month, or
 (iii) over its fiscal year, if the good is sold as an aftermarket part;

(b) calculate the average referred to in paragraph (a) separately for a good sold to one or more motor vehicle producers; or

(c) with respect to any calculation under this subsection, calculate the average separately for goods that are exported to the territory of one or more of the USMCA countries.

(8) The regional value content requirement for a motor vehicle identified in subsection (2) or (3) is:

(a) 50 percent for five years after the date on which the first motor vehicle prototype is produced in a plant by a motor vehicle assembler, if:

(i) It is a motor vehicle of a class, or marque, or, except for a motor vehicle identified in subsection (3), size category and underbody, not previously produced by the

motor vehicle assembler in the territory of any of the USMCA countries,

(ii) the plant consists of a new building in which the motor vehicle is assembled, and
 (iii) the plant contains substantially all new machinery that is used in the assembly of the motor vehicle; or

(b) 50 percent for two years after the date on which the first motor vehicle prototype is produced at a plant following a refit, if it is a different motor vehicle of a class, or marque, or, except for a motor vehicle identified in subsection (3), size category and underbody, that was assembled by the motor vehicle assembler in the plant before the refit.

Note: The Regional Value Content requirements set out in sections 13 or 14 or Schedule I (PSRO Annex) apply to a good for use as original equipment in the production of a passenger vehicle or light truck. For an aftermarket part, the applicable product-specific rule of origin set out in section 13 or 14 or Schedule I (PSRO Annex) is the alternative that includes the phrase “for any other good.”

TABLE A.1—CORE PARTS FOR PASSENGER VEHICLES AND LIGHT TRUCKS

HS 2012	Description
8407.31	Reciprocating piston engines of a kind used for the propulsion of passenger vehicles of Chapter 87, of a cylinder capacity not exceeding 50 cc.
8407.32	Reciprocating piston engines of a kind used for the propulsion of vehicles of Chapter 87, of a cylinder capacity exceeding 50 cc but not exceeding 250 cc.
8407.33	Reciprocating piston engines of a kind used for the propulsion of vehicles of Chapter 87, of a cylinder capacity exceeding 250 cc but not exceeding 1,000 cc.
8407.34	Reciprocating piston engines of a kind used for the propulsion of vehicles of Chapter 87, of a cylinder capacity exceeding 1,000 cc.
Ex 8408.20 ...	Compression-ignition internal combustion piston engines of a kind used for the propulsion of vehicles of subheading 8704.21 or 8704.31.
8409.91	Parts suitable for use solely or principally with the engines of heading 84.07 or 84.08, suitable for use solely or principally with spark-ignition internal combustion piston engines.
8409.99	Parts suitable for use solely or principally with the engines of heading 84.07 or 84.08, other.
8507.60	Lithium-ion batteries that are used as the primary source of electrical power for the propulsion of an electric passenger vehicle or electric light truck.
8706.00	Chassis fitted with engines, for the motor vehicles of heading 87.03 or subheading 8704.21 or 8704.31.
8707.10	Bodies for the vehicles of heading 87.03.
8707.90	Bodies for the vehicles of subheading 8704.21 or 8704.31.
Ex 8708.29 ...	Body stampings.
8708.40	Gear boxes and parts thereof.
8708.50	Drive axles with differential, whether or not provided with other transmission components, and non-driving axles; parts thereof.
8708.80	Suspension systems and parts thereof (including shock absorbers).
8708.94	Steering wheels, steering columns, and steering boxes; parts thereof.
Ex 8708.99 ...	Chassis frames.

The following table sets out the parts and components applicable to Table A.2 and their related tariff provisions, to facilitate implementation of the core parts requirement pursuant to Article 3.7 of the Appendix to the Annex 4–B of the Agreement.

These parts, and components used to produce such parts, are for the production of a passenger vehicle or light truck in order to meet the requirements under Section 14. The prefix “ex” is used to indicate that only the parts described in the components column

and used in the production of parts for use as original equipment in a passenger vehicle or light truck are taken into consideration when performing the calculation.

TABLE A.2—PARTS AND COMPONENTS FOR DETERMINING THE ORIGIN OF PASSENGER VEHICLES AND LIGHT TRUCKS UNDER SECTIONS 13 OR 14 OR SCHEDULE I (PSRO ANNEX)

Column 1 (the parts listed in this column may be referred to collectively as a super-core part)	Column 2	
Parts	Components	6-Digit HS Subheading
Engines	Spark-ignition reciprocating or rotary internal combustion piston engines and Compression-ignition internal combustion piston engines (diesel or semi-diesel engines).	ex 8407.33, ex 8407.34, ex 8408.20.
	Heads	ex 8409.91, ex 8409.99.
	Blocks	ex 8409.91, ex 8409.99.
	Crankshafts	ex 8483.10.
	Crankcases	ex 8409.91, ex 8409.99.
	Pistons	ex 8409.91.
	Rods	ex 8409.91, ex 8409.99.
	Head subassembly	ex 8409.91, ex 8409.99.
Transmissions	Gear boxes	ex 8708.40.
	Transmission cases	ex 8708.40.
	Torque converters	ex 8708.40, ex 8483.90.
	Torque converter housings	ex 8708.40, ex 8483.90.
	Gears and gear blanks	ex 8708.40, ex 8483.90.
	Clutches, including continuously variable transmissions, but not parts thereof.	ex 8708.93.
	Valve body assembly	ex 8481.90, ex 8708.40.
Body and Chassis	Major stampings that form the “body in white” or chassis frame	ex 8707.10, ex 8707.90, ex 8708.29, ex 8708.99.
	Major body panel stampings	ex 8708.10, ex 8708.29.
	Secondary panel stampings	ex 8708.29.
	Structural panel stampings	ex 8708.29, ex 8708.99.
	Stamped Frame components	ex 8708.29, ex 8708.99.
Axles	Drive-axles with differential, whether or not provided with other transmission components, and non-driving axles.	ex 8708.50.
	Axle shafts	ex 8708.50.
	Axle housings	ex 8708.50.
	Axle hubs	ex 8482.10, ex 8482.20, ex 8708.50, ex 8708.99.
	Carriers	ex 8708.50.
	Differentials	ex 8708.50.
Suspension Systems	Suspension systems (including shock absorbers)	ex 8708.80.
	Shock absorbers	ex 8708.80.
	Struts	ex 8708.80.
	Control arms	ex 8708.80.
	Sway bars	ex 8708.80.
	Knuckles	ex 8708.80.
	Coil springs	ex 7320.20.
	Leaf springs	ex 7320.10.
Steering Systems	Steering wheels, steering columns and steering boxes	ex 8708.94.
	Steering columns	ex 8708.94.
	Steering gears/racks	ex 8708.94.
	Control units	ex 8537.10, ex 8537.90, ex 8543.70.
Advanced Batteries	Batteries of a kind used as the primary source for the propulsion of electrical power for electrically powered vehicles for passenger vehicles and light trucks.	ex 8507.60, ex 8507.80.
	Cells	ex 8507.60, ex 8507.80, ex 8507.90.
	Modules/arrays	ex 8507.60, ex 8507.80, ex 8507.90.
	Assembled packs	ex 8507.60, ex 8507.80.

Note: The Regional Value Content requirements set out in section 13 or 14 or Schedule I (PSRO Annex) apply to a good for

use as original equipment in the production of a passenger vehicle or light truck. For an aftermarket part, the applicable product-specific rule of origin set out in

section 13 or 14 or Schedule I (PSRO Annex) is the alternative that includes the phrase “for any other good.”

TABLE B—PRINCIPAL PARTS FOR PASSENGER VEHICLES AND LIGHT TRUCKS

HS 2012	Description
8413.30	Fuel, lubricating or cooling medium pumps for internal combustion piston engines.
8413.50	Other reciprocating positive displacement pumps.
8414.59	Other fans.
8414.80	Other air or gas pumps, compressors and fans.
8415.20	Air conditioning machines, comprising a motor-driven fan and elements for changing the temperature and humidity, including those machines in which humidity cannot be separately regulated, of a kind used for persons, in motor vehicles.
Ex 8479.89 ...	Electronic brake systems, including ABS and ESC systems.
8482.10	Ball bearings.
8482.20	Tapered roller bearings, including cone and tapered roller assemblies.
8482.30	Spherical roller bearings.
8482.40	Needle roller bearings.
8482.50	Other cylindrical roller bearings.
8482.80	Other ball or roller bearings, including combined ball/roller bearings.
8483.10	Transmission shafts (including cam shafts and crank shafts) and cranks.
8483.20	Bearing housings, incorporating ball or roller bearings.
8483.30	Bearing housings, not incorporating ball or roller bearings; plain shaft bearings.
8483.40	Gears and gearing, other than toothed wheels, chain sprockets and other transmission elements presented separately; ball or roller screws; gear boxes and other speed changers, including torque converters.
8483.50	Flywheels and pulleys, including pulley blocks.
8483.60	Clutches and shaft couplings (including universal joints).
8501.32	Other DC motors and generators of an output exceeding 750 W but not exceeding 75 kW.
8501.33	Other DC motors and generators of an output exceeding 75 kW but not exceeding 375 kW.
8505.20	Electro-magnetic couplings, clutches and brakes.
8505.90	Other electro-magnets; electro-magnetic or permanent magnet chucks, clamps and similar holding devices; electro-magnetic lifting heads; including parts.
8511.40	Starter motors and dual purpose starter-generators of a kind used for spark-ignition or compression-ignition internal combustion engines.
8511.50	Other generators.
8511.80	Other electrical ignition or starting equipment of a kind used for spark-ignition or compression-ignition internal combustion engines.
Ex 8511.90 ...	Parts of electrical ignition or starting equipment of a kind used for spark-ignition or compression-ignition internal combustion engines.
8537.10	Electric controls for a voltage not exceeding 1,000 V.
8708.10	Bumpers and parts thereof.
8708.21	Safety seat belts.
Ex 8708.29 ...	Other parts and accessories of bodies (including cabs) of motor vehicles (excluding body stampings).
8708.30	Brakes and servo-brakes; parts thereof.
8708.70	Road wheels and parts and accessories thereof.
8708.91	Radiators and parts thereof.
8708.92	Silencers (mufflers) and exhaust pipes; parts thereof.
8708.93	Clutches and parts thereof.
8708.95	Safety airbags with inflator system; parts thereof.
Ex 8708.99 ...	Other parts and accessories of motor vehicles of headings 87.01 to 87.05 (excluding chassis frames).
9401.20	Seats of a kind used for motor vehicles.

Note: The Regional Value Content requirements set out in sections 13 or 14 or Schedule I (PSRO Annex) apply to a good for use as original equipment in the production

of a passenger vehicle or light truck. For an aftermarket part, the applicable product-specific rule of origin set out in section 13 or 14 or Schedule I (PSRO Annex) is the

alternative that includes the phrase “for any other good.”

TABLE C—COMPLEMENTARY PARTS FOR PASSENGER VEHICLES AND LIGHT TRUCKS

HS 2012	Description
4009.12	Tubes, pipes and hoses of vulcanised rubber other than hard rubber, not reinforced or otherwise combined with other materials, with fittings.
4009.22	Tubes, pipes and hoses of vulcanised rubber other than hard rubber, reinforced or otherwise combined only with metal, with fittings.
4009.32	Tubes, pipes and hoses of vulcanised rubber other than hard rubber, reinforced or otherwise combined only with textile materials, with fittings.
4009.42	Tubes, pipes and hoses of vulcanised rubber other than hard rubber, reinforced or otherwise combined with other materials, with fittings.
8301.20	Locks of a kind used for motor vehicles.
Ex 8421.39 ...	Catalytic converters.
8481.20	Valves for oleohydraulic or pneumatic transmissions.
8481.30	Check (nonreturn) valves.
8481.80	Other taps, cocks, valves and similar appliances, including pressure-reducing valves and thermostatically controlled valves.
8501.10	Electric motors of an output not exceeding 37.5 W.
8501.20	Universal AC/DC motors of an output exceeding 37.5 W.
8501.31	Other DC motors and generators of an output not exceeding 750 W.

TABLE C—COMPLEMENTARY PARTS FOR PASSENGER VEHICLES AND LIGHT TRUCKS—Continued

HS 2012	Description
Ex 8507.20 ...	Other lead-acid batteries of a kind used for the propulsion of motor vehicles of Chapter 87.
Ex 8507.30 ...	Nickel-cadmium batteries of a kind used for the propulsion of motor vehicles of Chapter 87.
Ex 8507.40 ...	Nickel-iron batteries of a kind used for the propulsion of motor vehicles of Chapter 87.
Ex 8507.80 ...	Other batteries of a kind used for the propulsion of motor vehicles of Chapter 87.
8511.30	Distributors; ignition coils.
8512.20	Other lighting or visual signalling equipment.
8512.40	Windshield wipers, defrosters and demisters.
Ex 8519.81 ...	Cassette decks.
8536.50	Other electrical switches, for a voltage not exceeding 1,000 V.
Ex 8536.90 ...	Junction boxes.
8539.10	Sealed beam lamp units.
8539.21	Tungsten halogen filament lamp.
8544.30	Ignition wiring sets and other wiring sets of a kind used in motor vehicles.
9031.80	Other measuring and checking instruments, appliances & machines.
9032.89	Other automatic regulating or controlling instruments and apparatus.

Note: The Regional Value Content requirements set out in sections 13 or 15 or Schedule I (PSRO Annex) apply to a good for use as original equipment in the production of a heavy truck. For an aftermarket part, the applicable product-specific rule of origin set out in section 13 or Schedule I (PSRO Annex) is the alternative that includes the phrase “for any other good.”

TABLE D—PRINCIPAL PARTS FOR HEAVY TRUCKS

8407.31	Reciprocating piston engines of a kind used for the propulsion of passenger vehicles of Chapter 87, of a cylinder capacity not exceeding 50 cc.
8407.32	Reciprocating piston engines of a kind used for the propulsion of vehicles of Chapter 87, of a cylinder capacity exceeding 50 cc but not exceeding 250 cc.
8407.33	Reciprocating piston engines of a kind used for the propulsion of vehicles of Chapter 87, of a cylinder capacity exceeding 250 cc but not exceeding 1,000 cc.
8407.34	Reciprocating piston engines of a kind used for the propulsion of vehicles of Chapter 87, of a cylinder capacity exceeding 1,000 cc.
8408.20	Compression-ignition internal combustion piston engines of a kind used for the propulsion of vehicles of Chapter 87.
8409.91	Parts suitable for use solely or principally with the engines of heading 84.07 or 84.08, suitable for use solely or principally with spark-ignition internal combustion piston engines.
8409.99	Parts suitable for use solely or principally with the engines of heading 84.07 or 84.08, other.
8413.30	Fuel, lubricating or cooling medium pumps for internal combustion piston engines.
Ex 8414.59 ...	Turbochargers and superchargers.
8414.80	Other air or gas pumps, compressors and fans.
8415.20	Air conditioning machines, comprising a motor-driven fan and elements for changing the temperature and humidity, including those machines in which humidity cannot be separately regulated, of a kind used for persons, in motor vehicles.
8483.10	Transmission shafts (including cam shafts and crank shafts) and cranks.
8483.40	Gears and gearing, other than toothed wheels, chain sprockets and other transmission elements presented separately; ball or roller screws; gear boxes and other speed changers, including torque converters.
8483.50	Flywheels and pulleys, including pulley blocks.
Ex 8501.32 ...	Other DC motors and generators of an output exceeding 750 W but not exceeding 75 kW, of a kind used for the propulsion of motor vehicles of Chapter 87.
8511.40	Starter motors and dual purpose starter-generators of a kind used for spark-ignition or compression-ignition internal combustion engines.
8511.50	Other generators.
8537.10	Electric controls for a voltage not exceeding 1,000 V.
8706.00	Chassis fitted with engines, for the motor vehicles of heading 87.01 through 87.05.
8707.90	Bodies for the vehicles of heading 87.01, 87.02, 87.04 or 87.05.
8708.10	Bumpers and parts thereof.
8708.21	Safety seat belts.
8708.29	Other parts and accessories of bodies (including cabs) of motor vehicles.
8708.30	Brakes and servo-brakes; parts thereof.
8708.40	Gear boxes and parts thereof.
8708.50	Drive axles with differential, whether or not provided with other transmission components, and non-driving axles; and parts thereof.
8708.70	Road wheels and parts and accessories thereof.
8708.80	Suspension systems and parts thereof (including shock absorbers).
8708.91	Radiators and parts thereof.
8708.92	Silencers (mufflers) and exhaust pipes; parts thereof.
8708.93	Clutches and parts thereof.
8708.94	Steering wheels, steering columns and steering boxes; parts thereof.
8708.95	Safety airbags with inflator system; parts thereof.
8708.99	Other parts and accessories of motor vehicles of headings 87.01 to 87.05.
9401.20	Seats of a kind used for motor vehicles.

Note: The Regional Value Content requirements set out in sections 13 or 15 or Schedule I (PSRO Annex) apply to a good for use as original equipment in the production of a heavy truck. For an aftermarket part, the applicable product-specific rule of origin set out in section 13 or Schedule I (PSRO Annex) is the alternative that includes the phrase “for any other good.”

TABLE E—COMPLEMENTARY PARTS FOR HEAVY TRUCKS

8413.50	Other reciprocating positive displacement pumps.
Ex 8479.89	Electronic brake systems, including ABS and ESC systems.
8482.10	Ball bearings.
8482.20	Tapered roller bearings, including cone and tapered roller assemblies.
8482.30	Spherical roller bearings.
8482.40	Needle roller bearings.
8482.50	Other cylindrical roller bearings.
8483.20	Bearing housings, incorporating ball or roller bearings.
8483.30	Bearing housings, not incorporating ball or roller bearings; plain shaft bearings.
8483.60	Clutches and shaft couplings (including universal joints).
8505.20	Electro-magnetic couplings, clutches and brakes.
8505.90	Other electro-magnets; electro-magnetic or permanent magnet chucks, clamps and similar holding devices; electro-magnetic lifting heads; including parts.
8507.60	Lithium-ion batteries.
8511.80	Other electrical ignition or starting equipment of a kind used for spark-ignition or compression-ignition internal combustion engines.
8511.90	Parts of electrical ignition or starting equipment of a kind used for spark-ignition or compression-ignition internal combustion engines or generators and cut-outs of a kind used in conjunction with such engines.

Note: The Regional Value Content requirements set out in section 20 or Schedule I (PSRO Annex) apply to a good for use in a vehicle specified in subsections 20(2) and 20(3).

TABLE F—PARTS FOR OTHER VEHICLES

HS 2012	Description
40.09	Tubes, pipes and hoses.
4010.31	Endless transmission belts (V-belts), V-ribbed, of an outside circumference exceeding 60 cm but not exceeding 180 cm.
4010.32	Endless transmission belts (V-belts), other than V-ribbed, of an outside circumference exceeding 60 cm but not exceeding 180 cm.
4010.33	Endless transmission belts (V-belts), V-ribbed, of an outside circumference exceeding 180 cm but not exceeding 240 cm.
4010.34	Endless transmission belts (V-belts), other than V-ribbed, of an outside circumference exceeding 180 cm but not exceeding 240 cm.
4010.39.aa	Other endless transmission belts (V-belts).
40.11	New pneumatic tires, of rubber.
4016.93.aa	Gaskets, washers and other seals of vulcanised rubber other than hard rubber.
4016.99.aa	Vibration control goods.
7007.11	Toughened (tempered) safety glass of a size and shape suitable for incorporation in vehicles.
7007.21	Laminated safety glass of a size and shape suitable for incorporation in vehicles.
7009.10	Rearview mirrors for vehicles.
8301.20	Locks of a kind used for motor vehicles.
8407.31	Reciprocating piston engines of a kind used for the propulsion of passenger vehicles of Chapter 87, of a cylinder capacity not exceeding 50 cc.
8407.32	Reciprocating piston engines of a kind used for the propulsion of vehicles of Chapter 87, of a cylinder capacity exceeding 50 cc but not exceeding 250 cc.
8407.33	Reciprocating piston engines of a kind used for the propulsion of vehicles of Chapter 87, of a cylinder capacity exceeding 250 cc but not exceeding 1,000 cc.
8407.34.aa	Reciprocating piston engines of a kind used for the propulsion of vehicles of Chapter 87, of a cylinder capacity exceeding 1,000 cc but not exceeding 2,000 cc.
8407.34.bb	Reciprocating piston engines of a kind used for the propulsion of vehicles of Chapter 87, of a cylinder capacity exceeding 2,000 cc.
8408.20	Compression-ignition internal combustion piston engines of a kind used for the propulsion of vehicles of Chapter 87.
84.09	Parts suitable for use solely or principally with spark-ignition internal combustion piston engines.
8413.30	Fuel, lubricating or cooling medium pumps for internal combustion piston engines.
8414.80.aa	Other air or gas pumps, compressors and fans (turbochargers and superchargers for motor vehicles, where not provided for under subheading 8414.59).
8414.59.aa	Other fans (turbochargers and superchargers for motor vehicles, where not provided for under subheading 8414.80).
8415.20	Air conditioning machines, comprising a motor-driven fan and elements for changing the temperature and humidity, including those machines in which humidity cannot be separately regulated, of a kind used for persons, in motor vehicles.
8421.39.aa	Catalytic converters.
8481.20	Valves for oleohydraulic or pneumatic transmissions.
8481.30	Check (nonreturn) valves.

TABLE F—PARTS FOR OTHER VEHICLES—Continued

HS 2012	Description
8481.80	Other taps, cocks, valves and similar appliances, including pressure-reducing valves and thermostatically controlled valves.
8482.10 through 8482.80	Ball or roller bearings.
8483.10	Transmission shafts (including cam shafts and crank shafts) and cranks.
8483.20	Bearing housings, incorporating ball or roller bearings.
8483.30	Bearing housings; not incorporating ball or roller bearings; plain shaft bearings.
8483.40	Gears and gearing, other than toothed wheels, chain sprockets and other transmission elements presented separately; ball or roller screws; gear boxes and other speed changes, including torque converters.
8483.50	Flywheels and pulleys, including pulley blocks.
8501.10	Electric motors and generators of an output not exceeding 37.5 W.
8501.20	Universal AC/DC motors of an output exceeding 37.5 W.
8501.31	Other DC motors and generators of an output not exceeding 750 W.
8501.32.aa	Other DC motors and generators of an output exceeding 750 W but not exceeding 75 kW of a kind used for the propulsion of vehicles of Chapter 87.
8507.20.aa, 8507.30.aa, 8507.40.aa and 8507.80.aa.	Batteries that provide primary source for electric cars.
8511.30	Distributors; ignition coils.
8511.40	Starter motors and dual purpose starter-generators of a kind used for spark-ignition or compressing-ignition internal combustion engines.
8511.50	Other generators.
8512.20	Other lighting or visual signalling equipment.
8512.40	Windshield wipers, defrosters and demisters.
ex 8519.81	Cassette decks.
8527.21	Radios combined with cassette players.
8527.29	Radios.
8536.50	Other electrical switches, for a voltage not exceeding 1,000 V.
8536.90	Junction boxes.
8537.10.bb	Motor control centers.
8539.10	Sealed beam lamp units.
8539.21	Tungsten halogen filament lamp.
8544.30	Ignition wiring sets and other wiring sets of a kind used in vehicles.
87.06	Chassis fitted with engines, for the motor vehicles of heading 87.01 through 87.05.
87.07	Bodies (including cabs) for the motor vehicles of headings 87.01 to 87.05.
8708.10.aa	Bumpers (but not parts thereof).
8708.21	Safety seat belts.
8708.29.aa	Body stampings.
8708.29.cc	Door assemblies.
8708.30	Brakes and servo-brakes; parts thereof.
8708.40	Gear boxes and parts thereof.
8708.50	Drive axles with differential, whether or not provided with other transmission components, and non-driving axles.
8708.70.aa	Road wheels, but not parts or accessories thereof.
8708.80	Suspension systems and parts thereof (including shock absorbers).
8708.91	Radiators and parts thereof.
8708.92	Silencers (mufflers) and exhaust pipes; parts thereof.
8708.93.aa	Clutches (but not parts thereof).
8708.94	Steering wheels, steering columns and steering boxes; parts thereof.
8708.95	Safety airbags with inflator systems, and parts thereof.
8708.99.aa	Vibration control goods containing rubber.
8708.99.bb	Double flanged wheel hub units incorporating ball bearings.
8708.99.ee	Other parts for powertrains.
8708.99.hh	Other parts and accessories not provided for elsewhere in subheading 8708.99.
9031.80	Other measuring and checking instruments, appliances & machines.
9032.89	Other automatic regulating or controlling instruments and apparatus.
9401.20	Seats of a kind used for motor vehicles.

TABLE G—LIST OF COMPONENTS AND MATERIALS FOR OTHER VEHICLES

1. Component: Engines provided for in heading 84.07 or 84.08

Materials: Cast block, cast head, fuel nozzle, fuel injector pumps, glow plugs, turbochargers and superchargers, electronic engine controls, intake manifold, exhaust manifold, intake/exhaust valves, crankshaft/camshaft, alternator, starter, air cleaner assembly, pistons, connecting rods and assemblies made therefrom (or rotor assemblies for rotary engines), flywheel (for manual transmissions), flexplate (for automatic transmissions), oil pan, oil pump and pressure regulator, water pump, crankshaft and camshaft gears, and radiator assemblies or charge-air coolers.

2. Component: Gear boxes (transmissions) provided for in subheading 8708.40

Materials: (a) For manual transmissions—transmission case and clutch housing; clutch; internal shifting mechanism; gear sets, synchronizers and shafts; and (b) for torque convertor type transmissions—transmission case and convertor housing; torque convertor assembly; gear sets and clutches; and electronic transmission controls.

The following table lists the HS subheadings for steel and aluminum subject to the USMCA steel and aluminum purchasing requirements set out in Section 17 to facilitate implementation of the steel and aluminum purchasing requirement, pursuant to Article 6.3 of the Appendix to Annex 4–B of the Agreement.

The prefix “ex” is used to indicate that only goods described in the “Description” column are taken into consideration when performing the calculation.
 These descriptions cover structural steel or aluminum purchases by vehicle producers used in the production of passenger vehicles, light trucks, or heavy trucks, including all steel or aluminum purchases used for the

production of major stampings that form the “body in white” or chassis frame as defined in Table A.2 (Parts and Components for Passenger Vehicles and Light Trucks). The descriptions do not cover structural steel or aluminum purchased by parts producers or suppliers used in the production of other automotive parts.

TABLE S—STEEL AND ALUMINUM

S	Description	6-Digit HS subheading(s)
Steel	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, hot-rolled, not clad, plated or coated:	
	Other, in coils, not further worked than hot-rolled, pickled	7208.25, 7208.26, 7208.27.
	Other, in coils, not further worked than hot-rolled	7208.36, 7208.37, 7208.38, 7208.39.
	Other, not in coils, not further worked than hot-rolled	7208.51, 7208.52, 7208.53, 7208.54.
	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, cold-rolled (cold-reduced), not clad, plated or coated:	
	In coils, not further worked than cold-rolled (cold-reduced):	7209.15, 7209.16, 7209.17, 7209.18.
	Not in coils, not further worked than cold-rolled (cold-reduced):	7209.25, 7209.26, 7209.27, 7209.28, 7209.90.
	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, clad, plated or coated:	
	Electrolytically plated or coated with zinc	7210.30.
	Otherwise plated or coated with zinc, Other (Not Corrugated)	7210.49.
	Other plated or coated with aluminum	7210.69.
	Other: Clad; Other: Electrolytically coated or plated with base metal, Other.	7210.90.
	Flat-rolled products of iron or non-alloy steel, of a width of less than 600 mm, not clad, plated or coated:	
	Other, of a thickness of 4.75 mm or more	7211.14.
	Other:	7211.19.
	Not further worked than cold-rolled (cold-reduced), Containing by weight less than 0.25 percent of carbon:	7211.23.
	Flat-rolled products of iron or non-alloy steel, of a width of less than 600 mm, clad, plated or coated:	
	Electrolytically plated or coated with zinc	7212.20.
	Otherwise plated or coated with zinc	7212.30.
	Bars and rods, hot-rolled, in irregularly wound coils, of iron or non-alloy steel.	
	Other, of free-cutting steel	7213.20.
	Other: Other	7213.99.
	Other bars and rods of iron or non-alloy steel, not further worked than forged, hot-rolled, hot-drawn or hot-extruded, but including those twisted after rolling	
	Other, of free-cutting steel	7214.30.
	Of rectangular (other than square) cross-section	7214.91.
	Other: Other	7214.99.
	Flat-rolled products of other alloy steel, of a width of 600 mm or more	
	Other, not further worked than hot-rolled, in coils:	7225.30.
	Other, not further worked than hot-rolled, not in coils:	7225.40.
	Other, not further worked than cold-rolled (cold-reduced):	7225.50.
	Electrolytically plated or coated with zinc	7225.91.
	Other: Otherwise plated or coated with zinc	7225.92.
	Other: Other	7225.99.
	Flat-rolled products of other alloy steel, of a width of less than 600 mm:	
	Other: Not further worked than hot-rolled: Of tool steel (other than high-speed steel):	7226.91.
	Not further worked than cold-rolled (cold-reduced):	7226.92.
	Other:	7226.99.
	Bars and rods, hot-rolled, in irregularly wound coils, of other alloy steel.	
	Of silico-manganese steel	7227.20.
	Other	7227.90.
	Other bars and rods of other alloy steel; angles, shapes and sections, of other alloy steel; hollow drill bars and rods, of alloy or non-alloy steel.	
	Bars and rods, of high speed steel	7228.10.
	Bars and rods, of silico-manganese steel	7228.20.

TABLE S—STEEL AND ALUMINUM—Continued

S	Description	6-Digit HS subheading(s)
	Other bars and rods, not further worked than hot-rolled, hot-drawn or extruded.	7228.30.
	Other bars and rods	7228.60
	Other tubes, pipes and hollow profiles (for example, open seamed or welded, riveted or similarly closed), of iron or steel:	
	Other, welded, of circular cross section, of iron or nonalloy steel: ...	7306.30.
	Other, welded, of circular cross section, of other alloy steel:	7306.50.
	Other, welded, of noncircular cross section:	7306.61, 7306.69, ≤7306.90.
	Parts and accessories of the motor vehicles of headings 8701 to 8705:	
	Major, secondary, and structural body panel stampings, that form the “body in white”.	ex 8708.29.
	Stamped frame components that form the chassis frame	ex 8708.99.
	.....	HS heading or subheading
Aluminum.		
	Unwrought aluminum	76.01.
	Aluminum waste and scrap	76.02.
	Aluminum bars, rods and profiles	76.04.
	Aluminum wire	76.05.
	Aluminum plates, sheets and strip, of a thickness exceeding 0.2 mm:	76.06.
	Aluminum tubes and pipes	76.08.
	Parts and accessories of the motor vehicles of headings 8701 to 8705:	
	Major, secondary, and structural body panel stampings, that form the “body in white”.	ex 8708.29.
	Stamped frame components that form the chassis frame	ex 8708.99.

Schedule I (PSRO Annex)

1. This schedule is deemed to be the contents of Sections A, B and C of Annex 4–B of the Agreement, as implemented in General Note 11 of the Harmonized Tariff Schedule of the United States,³ except that the following rules of interpretation apply:

(a) For the purpose of Chapter 61, Note 2 or Chapter 62, Note 3 of Annex 4–B, a fabric of subheading 5806.20 or heading 60.02 is considered formed from yarn and finished in the territory of one or more Parties if all production processes and finishing operations, starting with the weaving, knitting, needling, tufting, or other process, and ending with the fabric ready for cutting or assembly without further processing, took place in the territories of one or more of the USMCA countries, even if non-originating yarn is used in the production of the fabric of subheading 5806.20 or heading 60.02;

(b) For the purposes of Chapter 61, Note 3 and Chapter 62, Note 4 of Annex 4–B, sewing thread is considered formed and finished in the territory of one or more Parties if all production processes and finishing

operations, starting with the extrusion of filaments, strips, film or sheet, and including slitting a film or sheet into strip, or the spinning of all fibers into yarn, or both, and ending with the finished single or plied thread ready for use for sewing without further processing, took place in the territories of one or more of the USMCA countries even if non-originating fibre is used in the production of sewing thread of heading 52.04, 54.01 or 55.08, or yarn of heading 54.02 used as sewing thread referred to in the Notes;

(c) For the purpose of Chapter 61, Note 4 or Chapter 62, Note 5 of Annex 4–B, pocket bag fabric is considered formed and finished in the territory of one or more of the Parties if all production processes and finishing operations, starting with the weaving, knitting, needling, tufting, felting, entangling, or other process, and ending with the fabric ready for cutting or assembly without further processing, took place in the territories of one or more of the USMCA countries, even if non-originating fiber is used in the production of the yarn used to produce the pocket bag fabric;

(d) For the purpose of Chapter 61, Note 4 or Chapter 62, Note 5 of Annex 4–B, pocket bag fabric is considered a pocket or pockets if the pockets in which fabric is shaped to form a bag is not visible as the pocket is in the interior of the garment (*i.e.* pockets

consisting of “bags” in the interior of the garment). Visible pockets such as patch pockets, cargo pockets, or typical shirt pockets are not subject to these notes;

(e) For the purpose of Chapter 61, Note 4 or Chapter 62, Note 5 of Annex 4–B, yarn is considered wholly formed in the territory of one or more Parties if all the production processes and finishing operations, starting with the extrusion of filaments, strips, film, or sheet, and including slitting a film or sheet into strip, or the spinning of all fibers into yarn, or both, and ending with a finished single or plied yarn, took place in the territory of one or more of the USMCA countries, even if non-originating fiber is used in the production of the yarn used to produce the pocket bag fabric; and,

(f) For the purpose of Chapter 63, Note 2 of Annex 4–B, a fabric of heading 59.03 is considered formed and finished in the territory of one or more Parties if all production processes and finishing operations, starting with the weaving, knitting, needling, tufting, felting, entangling, or other process, including coating, covering, laminating, or impregnating, and ending with the fabric ready for cutting or assembly without further processing, took place in the territories of one or more of the USMCA countries, even if non-originating fiber or yarn is used in the production of the fabric of heading 5903;

³ The language “in General Note 11 of the Harmonized Tariff Schedule of the United States” differs from the trilaterally agreed upon uniform regulations because the Parties contemplated that the language “by each USMCA country” would be replaced with the specific Party’s reference to the location of the rules of origin under domestic law.

Schedule II (Most-Favored-Nation Rates of Duty on Certain Goods set out in Table 2.10.1 of the Agreement)

A. Automatic Data Processing Machines (ADP):		
	8471.30.	
	8471.41.	
	8471.49.	
B. Digital Processing Units:		
	8471.50.	
C. Input or Output Units:		
Combined Input/Output Units.		
Canada	8471.60.00.	
Mexico	8471.60.02.	
United States	8471.60.10.	
Display Units.		
Canada	8528.42.00, 8528.52.00, 8528.62.00.	
Mexico	8528.41.99, 8528.51.01, 8528.51.99, 8528.61.01.	
United States	8528.42.00, 8528.52.00, 8528.62.00.	
Other Input or Output Units.		
Canada	8471.60.00.	
Mexico	8471.60.03, 8471.60.99	
United States	8471.60.20, 8471.60.70, 8471.60.80, 8471.60.90.	
D. Storage Units:		
	8471.70.	
E. Other Units of Automatic Data Processing Machines:		
	8471.80.	
F. Parts of Computers:		
	8443.99	parts of machines of subheading 8443.31 and 8443.32, excluding facsimile machines and teleprinters.
	8473.30	parts of ADP machines and units thereof.
	8517.70	parts of LAN equipment of subheading 8517.62.
Canada	8529.90.19, 8529.90.50, 8529.90.90	parts of monitors and projectors of subheading 8528.42, 8528.52, and 8528.62.
Mexico	8529.90.01, 8529.90.06	parts of monitors or projectors of subheadings 8528.41, 8528.51, and 8528.61.
United States	8529.90.22, 8529.90.75, 8529.90.99	parts of monitors and projectors of subheading 8528.42, 8528.52, and 8528.62.
G. Computer Power Supplies:		
Canada	8504.40.30, 8504.40.90, 8504.90.10, 8504.90.20, 8504.90.90.	
Mexico	8504.40.12, 8504.40.14, 8504.90.02, 8504.90.07, 8504.90.08.	parts of goods classified in tariff item 8504.40.12.
United States	8504.40.60, 8504.40.70, 8504.90.20, 8504.90.41.	

Schedule III (Value of Goods)

1 Unless otherwise stated, the following definitions apply in this Schedule.

buyer refers to a person who purchases a good from the producer;

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;

producer refers to the producer of the good being valued.

2 For purposes of subsection 7(2) of these Regulations, the transaction value of a good is 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, must not be considered to be an indirect payment, even though the activities may 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 must not be added to the price actually paid or payable.

(3) The transaction value must 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 is 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 must 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 and the costs of loading, unloading, handling and insurance that are associated with that transportation, and

(iii) where the packaging materials and containers 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 (13), of the

following elements if 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, molds 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 1(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 more of the USMCA 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) must be made to the price actually paid or payable under this section only on the basis of objective and quantifiable data.

(3) If 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) Additions must not 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) are:

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

(b) if 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) are

(a) if the packaging materials and containers or the elements are imported from outside the territory of the USMCA country in which the producer is located, the customs value of the packaging materials and containers or the elements,

(b) if the buyer, or a related person on behalf of the buyer, purchases the packaging materials and containers or the elements from a person who is not a related person in the territory of the USMCA country in which the producer is located, the price actually paid or payable for the packaging materials and containers or the elements,

(c) if the buyer, or a related person on behalf of the buyer, acquires the packaging materials and containers or the elements

from a person who is not a related person in the territory of the USMCA country in which the producer is located 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

(d) if the packaging materials and containers or the elements are produced by the buyer, or by a related person, in the territory of the USMCA country in which the producer is located, the total cost of the packaging materials and containers or the elements, determined in accordance with subsection (8),

(7) The value referred to in subsection (6), to the extent that such costs are not included under paragraphs 6(a) through (d), must 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:

(a) 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,

(b) 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,

(c) 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

(d) 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 renewable scrap or by-product.

(8) For purposes of paragraph (6)(d), 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) are

(a) if 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 V, 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 V; and

(b) if 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 V, 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 V.

(9) Except as provided in subsections (11) and (12), the value of the elements referred to in subparagraphs (1)(b)(ii) through (iv) are

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

(b) if 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.

(10) If 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 must be adjusted downward to reflect that use.

(11) 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 are the cost of the lease as recorded on the books of the buyer or that related person.

(12) An addition must not 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.

(13) The producer must 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. 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 mold 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 mold over 4,000 units or 10,000 units but must 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 if 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.

(14) The addition for the royalties referred to in paragraph (1)(c) is the payment for the royalties that is recorded on the books of the buyer, or if 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.

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

Schedule IV Unacceptable Transaction Value

1 Unless otherwise stated, the following definitions apply in this Schedule.

buyer refers to a person who purchases a good from the producer;

producer refers to the producer of the good being valued.

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

(2) The transaction value of a good is unacceptable if:

(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 USMCA 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 III; or

(d) 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 cases or considerations referred to in paragraph (2)(b) include the following:

(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 is 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 must not render the transaction value unacceptable, such as if 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) If 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 III, the transaction value cannot be determined under the provisions of 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.

Schedule V (Reasonable Allocation of Costs)

Definitions and Interpretation

1 of the following definitions apply in this Schedule,

costs means any costs that are included in total cost and that can or need to be allocated in a reasonable manner under to subsections 5(11), 7(11) and 8(8) of these Regulations, subsection 4(8) of Schedule III and subsections 4(8) and 9(3) of Schedule VI;

discontinued operation, in the case of a producer located in a USMCA country, has the meaning set out in that USMCA country's Generally Accepted Accounting Principles;

indirect overhead means period costs and other costs;

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;

overhead means costs, other than direct material costs and direct labor costs.

2 (1) In this Schedule, reference to "producer", for purposes of subsection 4(8) of Schedule III, is to be read as a reference to "buyer".

(2) In this Schedule, a reference to "good", (a) for purposes of subsection 7(15) of these Regulations, is to be read as a reference to "identical goods or similar goods, or any combination thereof";

(b) for purposes of subsection 8(8) of these Regulations, is to be read as a reference to "intermediate material";

(c) for purposes of section 16 of these Regulations, is to be read as a reference to "category of vehicles that is chosen pursuant to subsection 16(1) of these Regulations";

(d) for purposes of subsection 4(8) of Schedule III, be read as a reference to "packaging materials and containers or the elements"; and

(e) for purposes of subsection 4(8) of Schedule VI, be read as a reference to "elements".

Methods to Reasonably Allocate Costs

3 (1) If 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 must be used to reasonably allocate the costs to the good.

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

(3) If 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 must be used to reasonably allocate the costs to the good.

4 If 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 labor costs, on the basis of any method that reasonably reflects the direct labor 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, B or 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 Notwithstanding sections 3 and 8, if a producer allocates, for an internal management purpose, costs to a good that is not produced in the period in which the costs are expensed on the books of the producer (such as costs with respect to research and development, and obsolete materials), those costs must be considered reasonably allocated if:

(a) For purposes of subsection 7(11) of these Regulations, they are allocated to a good that is produced in the period in which the costs are expensed, and

(b) the good produced in that period is within a group or range of goods, including identical goods or similar goods, that is produced by the same industry or industry sector as the goods to which the costs are expensed.

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

Costs Not Reasonably Allocated

7 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, except gains or losses related to the production of the good;

(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.

8 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 as determined by the formula:

$$CR = AB \div TAB$$

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:

$$CAG = CA \times CR$$

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 7(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 labor hours
- Direct labor 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 Labor Hours

A producer who produces Good A and Good B may allocate overhead on the basis of direct labor hours spent to produce Good A and Good B. A total of 8,000 direct labor 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 Labor 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 labor 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:

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

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

$$\text{Total sales dollars: } \$8,000,000 + \$600,000 = \$8,600,000$$

Calculation of the ratios:

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

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

Allocation of Overhead to Good A and Good B:

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

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

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:

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

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

Allocation of overhead (utilities) to Good A and Good B:

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

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

Appendix B—Direct Labor and Direct Material Ratio Method

Calculation of Direct Labor and Direct Material Ratio

For each good produced by the producer, a direct labor and direct material ratio is calculated by the formula:

$$DLDMR = (DLC + DMC) \div (TDLC + TDMC)$$

where

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

DLC is the direct labor costs of the good;

DMC is the direct material costs of the good;

TDLC is the total direct labor 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 by the formula:

$$OAG = O \times DLDMR$$

where

OAG is the overhead allocated to the good;

O is the overhead to be allocated; and

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

Excluded Costs

Under paragraph 7(11)(b) of these Regulations, if excluded costs are included in overhead to be allocated to a good, the direct labor 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 labor 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 7(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 (\$)
Direct labor costs (DLC)	5	5	10
Direct material costs (DMC)	10	5	15
Totals	15	10	25

Overhead Allocated to Good A

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

$$OAG (Good A) = \$18.00$$

Overhead Allocated to Good B

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

$$OAG (Good B) = \$12.00$$

Example 2

The following example illustrates the application of the direct labor 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 7(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

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

$$OAG (Good A) = \$18.00$$

Overhead Allocated to Good B

$$OAG (Good B) = [O (\$50) \times DLDMR (\$10/\$25)] - [EC (\$20) \times DLDMR (\$10/\$25)]$$

$$OAG (Good B) = \$12.00$$

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 by the formula:

$$DCR = (DLC + DMC + DO) \div (TDLC + TDMC + TDO)$$

where

DCR is the direct cost ratio for the good;
 DLC is the direct labor 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 labor 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 by the formula:

$$IOAG = IO \times DCR$$

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 7(11)(b) of these Regulations, if 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 7(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 (\$)
Direct labor costs (DLC)	5	5	10
Direct material costs (DMC)	10	5	15
Direct overhead (DO)	8	2	10
Totals	23	12	35

Indirect Overhead Allocated to Good A

$$IOAG (Good A) = IO (\$30) \times DCR (\$23/\$35)$$

$$IOAG (Good A) = \$19.71$$

Indirect Overhead Allocated to Good B

$$IOAG (Good B) = IO (\$30) \times DCR (\$12/\$35)$$

$$IOAG (Good B) = \$10.29$$

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 if the producer has chosen to calculate the net cost of the good in accordance with paragraph 7(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

$$IOAG (Good A) = [IO (\$50) \times DCR (\$23/\$35)] - [EC (\$20) \times DCR (\$23/\$35)]$$

$$IOAG (Good A) = \$19.72$$

Indirect Overhead Allocated to Good B

$$IOAG (Good B) = [IO (\$50) \times DCR (\$12/\$35)] - [EC (\$20) \times DCR (\$12/\$35)]$$

$$IOAG (Good B) = \$10.28$$

Schedule VI Value of Materials

1 (1) Unless otherwise stated, the following definitions apply in this Schedule.

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;

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;

producer refers to the producer who used the material in the production of a good that is subject to a regional value-content requirement;

seller refers to a person who sells the material being valued to the producer.

2 (1) Except as provided under subsection (2), the transaction value of a material under paragraph 8(1)(b) of these Regulations is the price actually paid or payable for the material determined in accordance with section 3 and adjusted in accordance with section 4.

(2) There is no transaction value for a material if the material is not the subject of a sale.

(3) The transaction value of a material is unacceptable if:

(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 USMCA 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 4(1)(d); or

(d) 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 cases or considerations referred to in paragraph (3)(b) include the following:

(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 is 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 will 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) If 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), 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) 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 4, must 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 must 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.

4 (1) In determining the transaction value of the material, the following must 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 containers which, for customs purposes, are classified with the material under the Harmonized System;

(b) the value, reasonably allocated in accordance with subsection (13), of the following elements if 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, mold 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 1(1) of these Regulations, used in the production of the material being valued, and

(iv) engineering, development, artwork, design work, and plans and sketches made outside the territory of the USMCA 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 USMCA 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) must be made to the price actually paid or payable under this section only on the basis of objective and quantifiable data.

(3) If 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) Additions must not 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) must 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) must be:

(a) Where the elements are imported from outside the territory of the USMCA country in which the seller is located, the customs value of the elements,

(b) where the producer, or a related person on behalf of the producer, purchases the elements from a person who is not a related person in the territory of the USMCA country in which the seller is located, the price actually paid or payable for the elements,

(c) where the producer, or a related person on behalf of the producer, acquires the elements from a person who is not a related person in the territory of the USMCA country in which the seller is located 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

(d) where the elements are produced by the producer, or by a related person, in the territory of the USMCA country in which the seller is located, the total cost of the

elements, determined in accordance with subsection (8).

(7) Those elements must 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 (6)(a) through (d):

(a) The costs of freight, insurance, packing, and all other costs incurred in transporting the elements to the location of the seller,

(b) 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,

(c) customs brokerage fees, including the cost of in-house customs brokerage services, incurred with respect to the elements, and

(d) 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.

(8) For the purposes of paragraph (6)(d), the total cost of the elements referred to in subparagraph (1)(b)(i) are:

(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 V, 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 V; and

(b) if 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 V, 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 V.

(9) Except as provided in subsections (11) and (12), the value of the elements referred to in subparagraphs (1)(b)(ii) through (iv) are:

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

(b) if 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.

(10) If 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 must be adjusted downward to reflect that use.

(11) If 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 are the

cost of the lease that is recorded on the books of the producer or that related person.

(12) An addition must not 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.

(13) The producer must 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. 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 mold 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 mold over 4,000 units or 10,000 units but must 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.

(14) The addition for the royalties referred to in paragraph (1)(c) is 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.

(15) The value of the proceeds referred to in paragraph (1)(d) is the amount that is recorded for those proceeds on the books of the producer or the seller.

5 (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 subparagraph 8(1)(b)(ii) of these Regulations, is 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. If 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, must 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 must be used to determine the value of the material under this section.

6 (1) 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 5, the value of the material, referred to in subparagraph 8(1)(b)(ii) of these Regulations, is 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 must 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, must 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 of those

values must be used to determine the value of the material under this section.

7 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 5 or 6, the value of the material, referred to in subparagraph 8(1)(b)(ii) of these Regulations, must be determined under section 8 or, when the value cannot be determined under that section, under section 9 except that, at the request of the producer, the order of application of sections 8 and 9 must be reversed.

8 (1) Under this section, if identical materials or similar materials are sold in the territory of the USMCA 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 subparagraph 8(1)(b)(ii) of these Regulations, must 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 USMCA 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 USMCA 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 must, 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 USMCA 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 day on which 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 persons who are not related 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 4(1)(b), must 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) must be taken as a whole. The figure for the purpose of deducting an amount for profit and general expenses must 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. If the figures provided by the producer are inconsistent with those figures, the amount for profit and general expenses must 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 must 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, must 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 USMCA country in which the producer is located.

(8) For the purposes of subsection (2), the earliest date is 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 USMCA country in which the producer is located.

9 (1) Under this section, the value of a material, referred to in subparagraph 8(1)(b)(ii) of these Regulations, is 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 USMCA country in which the producer is located, to persons located in the territory of the USMCA 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 USMCA country in which the producer is located, to persons located in the territory of the USMCA 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.

(2) This value of a material, to the extent it is not already included under paragraph (a) or (b) must include the following costs 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,

(a) the value of elements referred to in subparagraph 4(1)(b)(i), determined in accordance with subsections 4(6) and (7), and

(b) the value of elements referred to in subparagraphs 4(1)(b)(ii) through (iv), determined in accordance with subsection 4(9) and reasonably allocated to the material in accordance with subsection 4(13).

(3) For purposes of paragraphs (1)(a) and (b), if 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 must 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 V.

(4) The amount for profit and general expenses referred to in paragraph (1)(c) must 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 must be prepared in a manner consistent with generally accepted accounting principles of the country in which the material being valued is produced. If the material is produced in the territory of a USMCA country, the information must be prepared in accordance with the Generally Accepted Accounting Principles set out in the authorities listed for that USMCA country in Schedule X.

(5) For purposes of paragraph (1)(c) and subsection (4), general expenses means the direct and indirect costs of producing and selling the material that are not included under paragraphs (1)(a) and (b).

(6) For purposes of subsection (4), the amount for profit and general expenses must be taken as a whole. If, 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. If 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 must 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 if producers have been forced to lower prices temporarily because of an unforeseeable drop in demand, or if 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 if a material was being launched and the producer accepted a nil or low profit to offset high general expenses associated with the launch.

(7) If 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.

(8) Whether certain materials are of the same class or kind as the material being valued will 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.

10 (1) 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 sections 5 through 9, the value of the material, referred to in subparagraph 8(1)(b)(ii) of these Regulations, must 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 must 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 9;

(c) minimum values;

(d) arbitrary or fictitious values;

(e) if the material is produced in the territory of the USMCA country in which the producer is located, the price of the material for export from that territory; or

(f) if the material is imported, the price of the material for export to a country other than to the territory of the USMCA country in which the producer is located.

(3) To the greatest extent possible, the value of the material determined under this section must be based on the methods of valuation set out in sections 2 through 9, 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 5, 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 8 could be used.

For another illustration, under section 6, 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 8 could be used. For a further illustration, under section 8, the ninety days requirement could be administered flexibly.

Schedule VII (Methods for Determining the Value of Non-Originating Materials That Are Identical Materials and That Are Used in the Production of a Good)

Definitions

1 The following definitions apply in 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 8 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;

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;

LIFO method means the method by which the value of non-originating materials last received in materials inventory, determined in accordance with section 8 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;

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;

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.

General

2 For purposes of subsections 5(13) and (14) and 7(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) If 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) If a producer of a good produces the good in more than one plant, the method chosen by the producer must 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 8 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.

Date (M/D/Y)	Materials Inventory (Receipts of Materials A)		Sales (Shipments of Good A)	
	Quantity (units)	Unit cost (\$)	Unit cost (\$)	Quantity (units)
01/01/21	200	1.05		
01/03/21	1,000	1.00		
01/05/21	1,000	1.10		
01/08/21				500
01/09/21				500
01/10/21	1,000	1.05		
01/14/21				1,500
01/16/21	2,000	1.10		
01/18/21				1,500

* Unit cost is determined in accordance with section 8 of these Regulations.

Example 1: FIFO method

By applying the FIFO Method:

(1) The 200 units of Materials A received on 01/01/21 and valued at \$1.05 per unit and 300 units of the 1,000 units of Material A received on 01/03/21 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 01/08/21; 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 01/03/21 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 01/09/21; 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 01/03/21 and valued at \$1.00 per unit, the 1,000 units of Materials A received on 01/05/21 and valued at \$1.10 per unit, and 300 units of the 1,000 units of Materials A received on 01/10/21 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 01/14/21; 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 01/10/21 and valued at \$1.05 per unit and 800 units of the 2,000 units of Materials A received on 01/16/21 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 01/18/21; 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 01/05/21 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 01/08/21; 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 01/05/21 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 01/09/21;

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 01/10/21 and valued at \$1.05 per unit and 500 units of the 1,000 units of Material A received on 01/03/21 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 01/14/21; 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 01/16/21 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 01/18/21; 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	01/01/21	200	1.05	210
Receipt	01/03/21	1,000	1.00	1,000
AVERAGE VALUE		1,200	1.008	1,210
Receipt	01/05/21	1,000	1.10	1,100
AVERAGE VALUE		2,200	1.05	2,310
Shipment	01/08/21	500	1.05	525
AVERAGE VALUE		1,700	1.05	1,785
Shipment	01/09/21	500	1.05	525
AVERAGE VALUE		1,200	1.05	1,260
Receipt	01/16/21	2,000	1.10	2,200
AVERAGE VALUE		3,200	1.08	3,460

* Unit cost is determined in accordance with section 8 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 01/08/21 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 01/09/21 is considered to be \$525 (500 units × \$1.05).

Schedule VIII (Inventory Management Methods)

Part I Fungible Materials

Definitions

1 The following definitions apply in 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;

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;

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 those 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.

General

2 The following inventory management methods may be used for determining whether fungible materials referred to in paragraph 8(18)(a) of these Regulations are:

- Specific identification method;
- FIFO method;
- LIFO method; and
- average method.

3 A producer of a good, or a person from whom the producer acquired the fungible materials that are used in the production of the good, may choose only one of the inventory management methods referred to in section 2, and, if the averaging method is chosen, only one averaging period in each fiscal year of that producer or person for the materials inventory.

Specific Identification Method

4 (1) Except as otherwise provided under subsection (2), if the producer or person referred to in section 3 chooses the specific identification method, the producer or person must 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 subsection (1) if the origin identifier remains visible throughout the production of the good.

Average Method

5 If 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 month or three-month period, at the choice of the producer or person, by dividing

- the sum of
 - 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
 - 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

- 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 month or three-month period under subsection (1) is applied to the fungible materials remaining in materials inventory at the end of the preceding month or three-month period.

7 (1) If 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 7(15), 16(1) or (10) of these Regulations, the ratio is calculated with respect to that period by dividing

- the sum of
 - 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
 - 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

- 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
- 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) If 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

- 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), if 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) identifying 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.

Part II Fungible Goods

Definitions

10 The following definitions apply in 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;

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;

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.

General

11 The following inventory management methods may be used for determining

whether fungible goods referred to in paragraph 8(18)(b) of these Regulations are originating goods:

- (a) Specific identification method;
- (b) FIFO method;
- (c) LIFO method; and
- (d) average method.

12 An exporter of a good, or a person from whom the exporter acquired the fungible good, may choose only one of the inventory management methods referred to in section 11, including only one averaging period in the case of the average method, in each fiscal year of that exporter or person for each finished goods inventory of the exporter or person.

Specific Identification Method

13 (1) Except as provided under subsection (2), if the exporter or person referred to in section 12 chooses the specific identification method, the exporter or person must 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 subsection (1) if the origin identifier is visible on the fungible goods.

Average Method

14 (1) If 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 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 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 month or three-month period.

Manner of Dealing With Opening Inventory

15 (1) Except as otherwise provided under subsections (2) and (3), if 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) 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.

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 USMCA country.*

Date (M/D/Y)	Materials inventory (Receipts of Material A)			Sales (Shipments of Good A)
	Quantity (units)	Unit cost *	Total value	Quantity (units)
12/18/20	100 (O ¹)	\$1.00	\$ 100	
12/27/20	100 (N ²)	1.10	110	
01/01/21	200 (O ³)			
01/01/21	1,000 (O)	1.00	1,000	
01/05/21	1,000 (N)	1.10	1,100	
01/10/21				100
01/10/21	1,000 (O)	1.05	1,050	
01/15/21				700
01/16/21	2,000 (N)	1.10	2,200	
01/20/21				1,000

Date (M/D/Y)	Materials inventory (Receipts of Material A)			Sales (Shipments of Good A)
	Quantity (units)	Unit cost *	Total value	Quantity (units)
01/23/21	900

* Unit cost is determined in accordance with section 8 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 12/18/20 are considered to have been used in the production of the 100 units of Good A shipped on 01/10/21; 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 12/27/20 and 600 units of the 1,000 units of originating Material A that were received in materials inventory on 01/01/21 are considered to have been used in the production of the 700 units of Good A shipped on 01/15/21; 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 01/01/21 and 600 units of the 1,000 units of non-originating Material A that were received in materials inventory on 01/05/21 are

considered to have been used in the production of the 1,000 units of Good A shipped on 01/20/21; 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 01/05/21 and 500 units of the 1,000 units of originating Material A that were received in materials inventory on 01/10/21 are considered to have been used in the production of the 900 units of Good A shipped on 01/23/21; 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, if originating Material A is used in the production of Good A, Good A is an originating good and, if 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 01/05/21 are

considered to have been used in the production of the 100 units of Good A shipped on 01/10/21;

(2) 700 units of the 1,000 units of originating Material A that were received in materials inventory on 01/10/21 are considered to have been used in the production of the 700 units of Good A shipped on 01/15/21;

(3) 1,000 units of the 2,000 units of non-originating Material A that were received in materials inventory on 01/16/21 are considered to have been used in the production of the 1,000 units of Good A shipped on 01/20/21; and

(4) 900 units of the remaining 1,000 units of non-originating Material A that were received in materials inventory on 01/16/21 are considered to have been used in the production of the 900 units of Good A shipped on 01/23/21.

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.

Material inventory (Receipts of Material A)				Sales (Shipments of Good A)			
	Date (M/D/Y)	Quantity (units)	Total value	(Non-originating material)		(Shipments of Good A)	
				Unit cost *	Quantity (units)	Total value	Ratio	Quantity (units)
Receipt	12/18/20	100 (O ¹)	\$ 100	\$1.00	.....	.....	.....
Receipt	12/27/20	100 (N ²)	110	1.10	100	\$ 110.00	.....
New AVG INV Value .....	.....	200 (OI ³)	210	1.05	100	105.00	0.50
Receipt	01/01/21	1,000 (O)	1,000	1.00	.....	.....	.....
New AVG INV Value .....	.....	1,200	1,210	1.01	100	101.00	0.08
Receipt	01/05/21	1,000 (N)	1,100	1.10	1,000	1,100.00	.....
New AVG INV Value .....	.....	2,200	2,310	1.05	1,100	1,155.00	0.50
Shipment	01/10/21	(100)	(105)	1.05	(50)	(52.50)	.....
Receipt	01/10/21	1,000 (O)	1,050	1.05	.....	.....	100
New AVG INV Value .....	.....	3,100	3,255	1.05	1,050	1,102.50	0.34
Shipment	01/15/21	(700)	(735)	1.05	(238)	(249.90)	.....
Receipt	01/16/21	2,000 (N)	2,200	1.10	2,000	2,200.00	.....
New AVG INV Value .....	.....	4,400	4,720	1.07	2,812	3,008.84	0.64
Shipment	01/20/21	(1,000)	(1,070)	1.07	(640)	(684.80)	.....
Shipment	01/23/21	(900)	(963)	1.07	(576)	(616.32)	.....
New AVG INV Value .....	.....	2,500	2,687	1.07	1,596	1,707.24	0.64

* Unit cost is determined in accordance with section 8 of these Regulations.

¹ "O" denotes originating materials.

² "N" denotes non-originating materials.

³ "OI" denotes opening inventory.

By applying the average method:

(1) Before the shipment of the 100 units of Material A on 01/10/21, 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 × .50) of originating Material A and 50 units (100 units × .50) of non-originating Material A are considered to have been used in the production of the 100 units of Good A shipped on 01/10/21; therefore, the value of non-originating Material A used in the production of those goods is considered to be \$52.50 [100 units × \$1.05 (average unit value) × .50];

the ratios are applied to the units of Material A remaining in materials inventory after the shipment: 1,050 units (2,100 units × .50) are considered to be originating materials and 1,050 units (2,100 units × .50) are considered to be non-originating materials;

(2) before the shipment of the 700 units of Good A on 01/15/21, 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 × .66) of originating Material A and 238 units (700 units × .34) of non-originating Material A are considered to have been used in the production of the 700 units of Good A shipped on 01/15/21; therefore, the value of non-originating Material A used in the production of those goods is considered to be \$249.90 [700 units × \$1.05 (average unit value) × 34%];

the ratios are applied to the units of Material A remaining in materials inventory after the shipment: 1,584 units (2,400 units × .66) are considered to be originating materials and 816 units (2,400 units × .34)

are considered to be non-originating materials;

(3) before the shipment of the 1,000 units of Material A on 01/20/21, 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 × .36) of originating Material A and 640 units (1,000 units × .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 01/20/21; therefore, the value of non-originating Material A used in the production of those goods is considered to be \$684.80 [1,000 units × \$1.07 (average unit value) × 64%];

those ratios are applied to the units of Material A remaining in materials inventory after the shipment: 1,224 units (3,400 units × .36) are considered to be originating materials and 2,176 units (3,400 units × .64) are considered to be non-originating materials;

(4) before the shipment of the 900 units of Good A on 01/23/21, 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 × .36) of originating Material A and 576 units (900 units × .64) of non-originating Material A are considered to have been used in the production of the 900 units of Good A shipped on 01/23/21; therefore, the value of non-originating Material A used in the production of those goods is considered to be \$616.32 [900 units × \$1.07 (average unit value) × 64%];

those ratios are applied to the units of Material A remaining in materials inventory after the shipment: 900 units (2,500 units × .36) are considered to be originating materials and 1,600 units (2,500 units × .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 7(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 January 2021 is 40.4% (2,100 units/5,200 units);

based on that ratio, 1,091 units (2,700 units × .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 January 2021; 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) × (1 - .404)] or \$1,728 (\$0.64 × 2,700 units); and

that ratio is applied to the units of Material A remaining in materials inventory on January 31, 2021: 1,010 units (2,500 units × .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.

Date (M/D/Y)	Finished goods inventory (Receipts of Good A)	
	Quantity (units)	Sales (Shipments of Good A) Quantity (units)
12/18/20	100 (O ¹)	
12/27/20	100 (N ²)	
01/01/21	200 (OI ³)	
01/01/21	1,000 (O)	
01/05/21	1,000 (N)	
01/10/21		100
01/10/21	1,000 (O)	
01/15/21		700
01/16/21	2,000 (N)	
01/20/21		1,000
01/23/21		900

¹ “O” denotes originating goods.

² “N” denotes non-originating goods.

³ “OI” 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 12/18/20 are

considered to be the 100 units of Good A shipped on 01/10/21;

(2) the 100 units of non-originating Good A in opening inventory that were received in finished goods inventory on 12/27/20 and 600 units of the 1,000 units of originating Good A that were received in finished goods inventory on 01/01/21 are considered to be the 700 units of Good A shipped on 01/15/21;

(3) the remaining 400 units of the 1,000 units of originating Good A that were received in finished goods inventory on 01/01/21 and 600 units of the 1,000 units of non-originating Good A that were received in finished goods inventory on 01/05/21 are considered to be the 1,000 units of Good A shipped on 01/20/21; and

(4) the remaining 400 units of the 1,000 units of non-originating Good A that were received in finished goods inventory on 01/05/21 and 500 units of the 1,000 units of originating Good A that were received in finished goods inventory on 01/10/21 are considered to be the 900 units of Good A shipped on 01/23/21.

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 01/05/21 are considered to be the 100 units of Good A shipped on 01/10/21;

(2) 700 units of the 1,000 units of originating Good A that were received in finished goods inventory on 01/10/21 are considered to be the 700 units of Good A shipped on 01/15/21;

(3) 1,000 units of the 2,000 units of non-originating Good A that were received in finished goods inventory on 01/16/21 are considered to be the 1,000 units of Good A shipped on 01/20/21; and

(4) 900 units of the remaining 1,000 units of non-originating Good A that were received in finished goods inventory on 01/16/21 are considered to be the 900 units of Good A shipped on 01/23/21.

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 February 2021. The origin of the units of Good A exported during that month is determined on the basis of the preceding month, that is January 2021.

By applying the average method:

The ratio of originating goods to all goods in finished goods inventory for the month of January 2021 is 40.4% (2,100 units/5,200 units);

based on that ratio, 1,212 units (3,000 units \times .404) of Good A shipped in February 2021 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 January 31, 2021: 1,010 units (2,500 units \times .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 IX (Method for Calculating Non-Allowable Interest Costs)

Definitions and Interpretation

1 For purposes of this Schedule, *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;

linear interpolation means, with respect to the interest rate issued by the federal government, the application of the following mathematical formula:

$$A + \frac{((B - A) \times (E - D))}{(C - D)}$$

where

A is the interest rate issued by the federal 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 interest rate issued by the federal 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 federal 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 federal 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;

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;

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;

weighted average principal maturity means, with respect to fixed-rate contracts and variable-rate contracts, the numbers 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, if that amount is the midpoint between two such numbers, to the greater of those two numbers;

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;

interest rate issued by the federal government means

(a) in the case of a producer located in Canada, the weekly average of the yield for federal government debt obligations set out in the Bank of Canada's *Daily Digest*

(i) if the interest rate is adjusted at intervals of less than one year, under the title "Treasury Bills—1 Month", and

(ii) in any other case, under the title "Government of Canada benchmark bond yields—3 Year", 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,

(b) in the case of a producer located in Mexico, the yield for federal government debt obligations set out in *La Seccion de Indicadores Monetarios, Financieros, y de Finanzas Publicas, de los Indicadores Economicos*, published by the Banco de Mexico under the title "*Certificados de la Tesoreria de la Federacion*" 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, and

(c) in the case of a producer located in the United States, the yield for federal government debt obligations set out in the Federal Reserve statistical release (H.15) *Selected Interest Rates*

(i) if the interest rate is adjusted at intervals of less than one year, under the title "U.S. government securities, Treasury bills, Secondary market", and

(ii) in any other case, under the title "U.S. Government Securities, Treasury constant maturities", 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.

General

2. For purposes of calculating non-allowable interest costs

(a) with respect to a fixed-rate contract, the interest rate under that contract must be compared with the interest rate issued by the federal 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, if 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 must be compared with the interest rate issued by the federal government on 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 must be compared with the interest rate issued by the federal government on 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, if 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 federal government debt obligations, the interest rate under the contract must be compared to the interest rate issued by the federal government on debt obligations that have maturities closest in length to the weighted average principal maturity of the payment schedule under the contract.

Appendix “Example” Illustrating the Application of the Method for Calculating Non-Allowable Interest Costs in the Case of a Fixed-Rate Contract

The following example is based on the figures set out in the table below and on the following assumptions:

(a) A producer in a USMCA country borrows \$1,000,000 from a person of the same USMCA country 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;

(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;

(d) there are no federal government debt obligations that have maturities equal to the 6-year weighted average principal maturity of the contract; and

(e) the federal 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.

Years of loan	Principal balance ¹	Interest payment ²	Principal payment ³	Payment schedule	Weighted principal payment ⁴
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	1,281,773.22
					\$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.

⁵ 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.

Weighted Average Principal Maturity

$$\$5,977,993.19 / \$1,000,000 = 5.977993 \text{ or } 6 \text{ years}^5$$

By applying the above method,

(1) the weighted average principal maturity of the payment schedule under the 6 per cent contract is 6 years;

(2) the yields on the closest maturities for comparable federal 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 federal 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:

$$4.7 + [(5.0 - 4.7) \times (6 - 5)] / (7 - 5)]$$

$$= 4.7 + 0.15$$

$$= 4.85\%; \text{ and}$$

(3) the producer’s contract interest rate of 6 per cent is within 700 basis points of the 4.85 per cent yield on the comparable federal

government debt obligation; 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 in subsection 1(1) of these Regulations.

“Example” Illustrating the Application of the Method for Calculating Non-allowable Interest Costs in the Case of a Variable-Rate Contract

The following example is based on the figures set out in the tables below and on the following assumptions:

(a) a producer in a USMCA country borrows \$1,000,000 from a person of the same USMCA country 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;

(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;

(d) there are no federal government debt obligations that have maturities equal to the 1.9-year weighted average principal maturity of the first two years of the contract;

(e) there are no federal 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; and

(f) the federal 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.

Beginning of year	Principal balance	Interest rate (%)	Interest payment	Principal payment	Payment schedule	Weighted principal payment
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	1,848,264.08
.....						\$1,924,132.04

Weighted Average Principal Maturity
 $\$1,924,132.04 / \$1,000,000 = 1.92413204$ or 1.9 years

By applying the above method:
 (1) The weighted average principal maturity of the payment schedule of the first two years of the contract is 1.9 years;
 (2) the yield on the closest maturities of federal 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 federal 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:
 $3.0 + [((3.5 - 3.0) \times (1.9 - 1.0)) / (2.0 - 1.0)]$;
 $= 3.0 + 0.45$
 $= 3.45\%$; and
 (3) the producer's contract rate of 6 per cent for the first two years of the loan is

within 700 basis points of the 3.45 per cent interest rate issued by the federal government on debt obligations that have maturities equal to the 1.9-year weighted average principal maturity of the payment schedule of the first two years of the producer's loan contract; 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 in subsection 1(1) of these Regulations.

Beginning of year	Principal balance	Interest rate (%)	Interest payment	Principal payment	Payment schedule	Weighted principal payment
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	1,528,781.24
.....						\$1,608,102.62

Weighted Average Principal Maturity
 $\$1,608,102.62 / \$843,712.01 = 1.905985$ or 1.9 years

By applying the above method:
 (1) The weighted average principal maturity of the payment schedule under the first two years of the contract is 1.9 years;
 (2) the federal government debt obligations that are nearest in maturities to the weighted average principal maturity 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 federal 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:

$$3.0 + [((3.5 - 3.0) \times (1.9 - 1.0)) / (2.0 - 1.0)];$$

$$= 3.0 + 0.45$$

$$= 3.45\%$$

(3) the producer's contract interest rate, for the third and fourth years of the loan, of 8 per cent is within 700 basis points of the 3.45 per cent interest rate issued by the federal government on debt obligations that have

maturities equal to the 1.9-year weighted average principal maturity of the payment schedule under the third and fourth years of the producer's loan contract; 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 in subsection 1(1) of these Regulations.

Schedule X (Generally Accepted Accounting Principles)

1. Generally Accepted Accounting Principles means the recognized consensus or substantial authoritative support in the territory of a USMCA 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 Chartered Professional Accountants of*

Canada Handbook, as updated from time to time;

(b) with respect to the territory of Mexico, *Los Principios de Contabilidad Generalmente Aceptados*, issued by the *Instituto Mexicano de Contadores Públicos A.C. (IMCP)*, including the *boletines complementarios*, as updated from time to time; and

(c) with respect to the territory of the United States, Financial Accounting Standards Board (FASB) Accounting Standards Codification and any interpretive guidance recognized by the American Institute of Certified Public Accountants (AICPA).

Dated: June 23, 2020.

Robert E. Perez,
Deputy Commissioner, U.S. Customs and Border Protection.

Approved:
Timothy E. Skud,
Deputy Assistant Secretary of the Treasury.

[FR Doc. 2020-13865 Filed 6-30-20; 8:45 am]

BILLING CODE 9111-14-P