

CHAPTER SIX
RULES OF ORIGIN AND ORIGIN PROCEDURES

Section A: Rules of Origin

ARTICLE 6.1: ORIGINATING GOODS¹

Except as otherwise provided in this Chapter, each Party shall provide that a good is originating where it is:

- (a) a good wholly obtained or produced entirely in the territory of one or both of the Parties;
- (b) produced entirely in the territory of one or both of the Parties and
 - (i) each of the non-originating materials used in the production of the good undergoes an applicable change in tariff classification specified in Annex 4-A (Specific Rules of Origin for Textile or Apparel Goods) or Annex 6-A, or
 - (ii) the good otherwise satisfies any applicable regional value content or other requirements specified in Annex 4-A or Annex 6-A,and the good satisfies all other applicable requirements of this Chapter; or
- (c) produced entirely in the territory of one or both of the Parties exclusively from originating materials.

ARTICLE 6.2: REGIONAL VALUE CONTENT

1. Where Annex 6-A specifies a regional value content test to determine whether a good is originating, each Party shall provide that the importer, exporter, or producer may calculate regional value content based on one or the other of the following methods:

- (a) Method Based on Value of Non-Originating Materials (Build-down Method)

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

- (b) Method Based on Value of Originating Materials (Build-up Method)

$$RVC = \frac{VOM}{AV} \times 100$$

¹ For greater certainty, whether a good is originating is not determinative of whether the good is also admissible.

where,

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

AV is the adjusted value of the good;

VNM is the value of non-originating materials, other than indirect materials, acquired and used by the producer in the production of the good; VNM does not include the value of a material that is self-produced; and

VOM is the value of originating materials, other than indirect materials, acquired or self-produced and used by the producer in the production of the good.

2. Each Party shall provide that all costs considered for the calculation of regional value content shall be recorded and maintained in conformity with the Generally Accepted Accounting Principles applicable in the territory of the Party where the good is produced.

3. Where Annex 6-A specifies a regional value content test to determine if an automotive good² is originating, each Party shall provide that the importer, exporter, or producer may calculate the regional value content of that good as provided in paragraph 1 or based on the following method:

Net Cost Method (for Automotive Goods)

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

where,

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

NC is the net cost of the good; and

VNM is the value of non-originating materials, other than indirect materials, acquired and used by the producer in the production of the good; VNM does not include the value of a material that is self-produced.

4. Each Party shall provide that, for purposes of the regional value content method in paragraph 3, the importer, exporter, or producer may use a calculation averaged over the producer's fiscal year, using any one of the following categories, on the basis of all motor vehicles in the category or only those motor vehicles in the category that are exported to the territory of the other Party:

² Paragraph 3 applies solely to goods classified under the following HS headings and subheadings: 8407.31 through 8407.34 (engines), 8408.20 (diesel engines for vehicles), 84.09 (parts of engines), 87.01 through 87.05 (motor vehicles), 87.06 (chassis), 87.07 (bodies), and 87.08 (motor vehicle parts).

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

5. Each Party shall provide that, for purposes of calculating regional value content under paragraph 3 for automotive materials³ produced in the same plant, an importer, exporter, or producer may use a calculation:

- (a) averaged,
 - (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 the fiscal year of the automotive materials producer,
 provided that the good was produced during the fiscal year, quarter, or month forming the basis for the calculation;
- (b) in which the average in subparagraph (a) is calculated separately for such goods sold to one or more motor vehicle producers; or
- (c) in which the average in subparagraph (a) or (b) is calculated separately for those goods that are exported to the territory of the other Party.

ARTICLE 6.3: VALUE OF MATERIALS

Each Party shall provide that, for purposes of Articles 6.2 and 6.6, the value of a material shall be:

- (a) for a material imported by the producer of the good, the adjusted value of the material;
- (b) for a material acquired by the producer in the territory where the good is produced, the value, determined in accordance with Articles 1 through 8, Article 15, and the corresponding interpretative notes of the Customs Valuation Agreement, *i.e.*, in the same manner as for imported goods, with such reasonable modifications as may be required due to the absence of an importation by the producer; or

³ Paragraph 5 applies solely to automotive materials classified in the following HS headings and subheadings: 8407.31 through 8407.34 (engines), 8408.20 (diesel engines for vehicles), 84.09 (parts of engines), 87.06 (chassis), 87.07 (bodies), and 87.08 (motor vehicle parts).

- (c) for a material that is self-produced,
 - (i) all the costs incurred in the production of the material, including general expenses; and
 - (ii) an amount for profit equivalent to the profit added in the normal course of trade.

ARTICLE 6.4: FURTHER ADJUSTMENTS TO THE VALUE OF MATERIALS

1. Each Party shall provide that, for originating materials, the following expenses, where not included under Article 6.3, may be added to the value of the material:

- (a) the costs of freight, insurance, packing, and all other costs incurred in transporting the material within a Party's territory or between the territories of the Parties to the location of the producer;
- (b) duties, taxes, and customs brokerage fees on the material paid in the territory of one or both of the Parties, other than duties and taxes that are waived, refunded, refundable, or otherwise recoverable, including credit against duty or tax paid or payable; and
- (c) the cost of waste and spoilage resulting from the use of the material in the production of the good, less the value of renewable scrap or by-product.

2. Each Party shall provide that, for non-originating materials, the following expenses, where included under Article 6.3, may be deducted from the value of the material:

- (a) the costs of freight, insurance, packing, and all other costs incurred in transporting the material within a Party's territory or between the territories of the Parties to the location of the producer;
- (b) duties, taxes, and customs brokerage fees on the material paid in the territory of one or both of the Parties, other than duties and taxes that are waived, refunded, refundable, or otherwise recoverable, including credit against duty or tax paid or payable;
- (c) the cost of waste and spoilage resulting from the use of the material in the production of the good, less the value of renewable scrap or by-product; and
- (d) the cost of originating materials used in the production of the non-originating material in the territory of a Party.⁴

⁴ For greater certainty and for purposes of paragraphs 1(a) and 2(a) of Article 6.4, "costs of freight" includes the costs of all types of freight, including in-land freight incurred within a Party's territory, regardless of the mode of transportation.

ARTICLE 6.5: ACCUMULATION

1. Each Party shall provide that originating goods or materials of one Party, incorporated into a good in the territory of the other Party, shall be considered to originate in the territory of the other Party.
2. Each Party shall provide that a good is originating where the good is produced in the territory of one or both of the Parties by one or more producers, provided that the good satisfies the requirements in Article 6.1 and all other applicable requirements in this Chapter.

ARTICLE 6.6: DE MINIMIS

1. Except as provided in Annex 6-B, each Party shall provide that a good that does not undergo a change in tariff classification pursuant to Annex 6-A is nonetheless originating if the value of all non-originating materials that have been used in the production of the good and do not undergo the applicable change in tariff classification does not exceed ten percent of the adjusted value of the good, provided that the value of such non-originating materials shall be included in the value of non-originating materials for any applicable regional value content requirement and that the good meets all other applicable requirements in this Chapter.
2. With respect to a textile or apparel good, Article 4.2.7 (Rules of Origin and Related Matters) applies in place of paragraph 1.

ARTICLE 6.7: FUNGIBLE GOODS AND MATERIALS⁵

1. Each Party shall provide that an importer claiming preferential tariff treatment for a good may claim that a fungible good or material is originating where the importer, exporter, or producer has:
 - (a) physically segregated each fungible good or material; or
 - (b) used any inventory management method, such as averaging, last-in-first-out (LIFO) or first-in-first-out (FIFO), recognized in the Generally Accepted Accounting Principles of the Party in which the production is performed or otherwise accepted by the Party in which the production is performed.
2. Each Party shall provide that the inventory management method selected under paragraph 1 for a particular fungible good or material shall continue to be used for that good or material throughout the fiscal year of the person that selected the inventory management method.

ARTICLE 6.8: ACCESSORIES, SPARE PARTS, AND TOOLS

⁵ Nothing in Article 6.7 shall be construed to prevent a Party from requiring an importer to identify by percentage the country or countries of origin of fungible goods.

1. Each Party shall provide that a good's standard accessories, spare parts, or tools delivered with the good shall be considered originating goods if the good is an originating good and shall be disregarded in determining whether all the non-originating materials used in the production of the good undergo the applicable change in tariff classification, provided that:

- (a) the accessories, spare parts, or tools are classified with and not invoiced separately from the good; and
- (b) the quantities and value of the accessories, spare parts, or tools are customary for the good.

2. If a good is subject to a regional value content requirement, the value of the accessories, spare parts, or tools described in paragraph 1 shall be taken into account as originating or non-originating materials, as the case may be, in calculating the regional value content of the good.

ARTICLE 6.9: SETS OF GOODS

1. Each Party shall provide that if goods are classified as a set as a result of the application of rule 3 of the General Rules of Interpretation of the Harmonized System, the set is originating only if each good in the set is originating.

2. Notwithstanding paragraph 1, a set of goods is originating if the value of all the non-originating goods in the set does not exceed 15 percent of the adjusted value of the set.

3. With respect to a textile or apparel good, Article 4.2.8 (Rules of Origin and Related Matters) applies in place of paragraphs 1 and 2.

ARTICLE 6.10: PACKAGING MATERIALS AND CONTAINERS FOR RETAIL SALE

1. Each Party shall provide that packaging materials and containers in which a good is packaged for retail sale shall, if classified with the good, be disregarded in determining whether all the non-originating materials used in the production of the good undergo the applicable change in tariff classification set out in Annex 4-A (Specific Rules of Origin for Textile or Apparel Goods) or Annex 6-A.

2. If a good is subject to a regional value content requirement, the value of packaging materials and containers described in paragraph 1 shall be taken into account as originating or non-originating materials, as the case may be, in calculating the regional value content of the good.

ARTICLE 6.11: PACKING MATERIALS AND CONTAINERS FOR SHIPMENT

Each Party shall provide that packing materials and containers for shipment shall be disregarded in determining whether a good is originating.

ARTICLE 6.12: INDIRECT MATERIALS

Each Party shall provide that an indirect material shall be disregarded for the purpose of determining whether a good is originating pursuant to subparagraphs (a), (b)(i), and (c) of Article 6.1.

ARTICLE 6.13: TRANSIT AND TRANSSHIPMENT

Each Party shall provide that a good shall not be considered to be an originating good if the good:

- (a) undergoes subsequent production or any other operation outside the territories of the Parties, other than unloading, reloading, or any other operation necessary to preserve the good in good condition or to transport the good to the territory of a Party; or
- (b) does not remain under the control of customs authorities in the territory of a non-Party.

ARTICLE 6.14: CONSULTATION AND MODIFICATION

1. The Parties shall consult regularly to ensure that this Chapter is administered effectively, uniformly, and consistently with the spirit and objectives of this Agreement, and shall cooperate in the administration of this Chapter.
2. The Parties shall consult regularly pursuant to Article 22.2.3(c) (Joint Committee) to discuss possible amendments or modifications to this Chapter and its Annex, taking into account developments in technology, production processes, or other related matters.
3. With respect to a textile or apparel good, paragraphs 3 through 5 of Article 4.2 (Rules of Origin and Related Matters) apply in place of paragraph 2.

Section B: Origin Procedures

ARTICLE 6.15: CLAIMS FOR PREFERENTIAL TARIFF TREATMENT

1. Each Party shall provide that an importer may make a claim for preferential tariff treatment based on either:
 - (a) a written or electronic certification by the importer, exporter, or producer; or
 - (b) the importer's knowledge that the good is an originating good, including reasonable reliance on information in the importer's possession that the good is an originating good.
2. Each Party shall provide that a certification need not be made in a prescribed format, provided that the certification is in written or electronic form, including but not limited to the following elements:

- (a) the name of the certifying person, including as necessary contact or other identifying information;
- (b) the importer of the good (if known);
- (c) the exporter of the good (if different from the producer);
- (d) the producer of the good (if known);
- (e) tariff classification under the Harmonized System and a description of the good;
- (f) information demonstrating that the good is originating;
- (g) date of the certification; and
- (h) in the case of a blanket certification issued as set out in paragraph 4(b), the period that the certification covers.

3. Each Party shall provide that a certification by the producer or exporter of the good may be completed on the basis of:

- (a) the producer's or exporter's knowledge that the good is originating; or
- (b) in the case of an exporter, reasonable reliance on the producer's written or electronic certification that the good is originating.

Neither Party may require an exporter or producer to provide a written or electronic certification to another person.

4. Each Party shall provide that a certification may apply to:

- (a) a single shipment of a good into the territory of a Party; or
- (b) multiple shipments of identical goods within any period specified in the written or electronic certification, not exceeding 12 months from the date of the certification.

5. Each Party shall provide that a certification shall be valid for four years after the date it was issued.

6. Each Party shall allow an importer to submit a certification in the language of the importing Party or the exporting Party. In the latter case, the customs authority of the importing Party may require the importer to submit a translation of the certification in the language of the importing Party.

ARTICLE 6.16: WAIVER OF CERTIFICATION OR OTHER INFORMATION

Each Party shall provide that a certification or information demonstrating that a good is originating shall not be required where:

- (a) the customs value of the importation does not exceed 1,000 U.S. dollars or the equivalent amount in the currency of the importing Party, or such higher amount as may be established by the importing Party, unless the importing Party considers the importation to be part of a series of importations carried out or planned for the purpose of evading compliance with the Party's laws governing claims for preferential tariff treatment under this Agreement; or
- (b) it is a good for which the importing Party does not require the importer to present a certification or information demonstrating origin.

ARTICLE 6.17: RECORD KEEPING REQUIREMENTS

1. Each Party shall provide that an exporter or a producer in its territory that provides a certification in accordance with Article 6.15 shall maintain, for a minimum of five years from the date the certification was issued, all records necessary to demonstrate that a good for which the producer or exporter provided a certification was an originating good, including records concerning:

- (a) the purchase of, cost of, value of, and payment for, the exported good;
- (b) the purchase of, cost of, value of, and payment for all materials, including indirect materials, used in the production of the exported good;
- (c) the production of the good in the form in which it was exported; and
- (d) such other documentation as the Parties may agree to require.

2. Each Party shall provide that an importer claiming preferential tariff treatment for a good imported into the territory of that Party based on the importer's certification or its knowledge that the good is an originating good shall maintain, for a minimum of five years from the date of importation of the good, all records necessary to demonstrate the good qualified for the preferential tariff treatment.

3. Each Party shall provide that an importer claiming preferential tariff treatment for a good imported into the territory of that Party based on a certification issued by the exporter or producer shall maintain, for a minimum of five years from the date of importation of the good, a copy of the certification that served as the basis for the claim. If the importer possesses records demonstrating that the good satisfies the requirements to remain originating under Article 6.13, the importer shall maintain such records for a minimum of five years from the date of importation of the good.

4. Each Party shall provide that an importer, exporter, or producer may choose to maintain the records specified in paragraph 1, 2, or 3 in any medium that allows for prompt retrieval, including, but not limited to, digital, electronic, optical, magnetic, or written form.

ARTICLE 6.18: VERIFICATION

1. For purposes of determining whether a good imported into its territory from the territory of the other Party is an originating good, the importing Party may conduct a verification by means of:

- (a) written requests for information from the importer, exporter, or producer;
- (b) written questionnaires to the importer, exporter, or producer;
- (c) visits to the premises of an exporter or producer in the territory of the other Party, to review the records referred to in Article 6.17.1 or observe the facilities used in the production of the good;
- (d) for a textile or apparel good, the procedures set out in Article 4.3 (Customs Cooperation for Textile or Apparel Goods); or
- (e) such other procedures to which the importing and exporting Parties may agree.

Where an importing Party conducts verification by the means referred to in subparagraph (a) or (b), the importing Party may request that the importer arrange for the exporter or producer to provide information directly to the importing Party.

2. The Parties shall agree on procedures for conducting visits provided for in paragraph 1(c).

3. A Party may deny preferential tariff treatment to a good where:

- (a) the importer, exporter, or producer fails to provide information that the Party requested under paragraph 1(a) or 1(b) demonstrating that the good is an originating good;
- (b) after receiving a written notification for a visit pursuant to paragraph 1(c), the exporter or producer declines to provide access to the records referred to in Article 6.17 or to its facilities; or
- (c) the Party finds a pattern of conduct indicating that an importer, exporter, or producer has provided false or unsupported declarations or certifications that a good imported into its territory is an originating good.

4. If, as a result of a verification, a Party finds that a good is not originating, the Party shall provide the importer with a proposed determination to that effect and an opportunity to submit additional information demonstrating that the good is originating. Each Party shall provide that

the importer may arrange for the exporter or producer to provide pertinent information directly to the Party.

5. After providing the importer with an opportunity to submit additional information pursuant to paragraph 4, the Party that conducted the verification shall provide the importer a final determination, in writing, of whether the good is originating. The Party's determination shall include factual findings and the legal basis for the determination. Where the exporter or producer has provided information pursuant to paragraph 1 or 4 directly to the Party conducting the verification, that Party shall endeavor to provide a copy of the determination to the exporter or producer that provided the information.

6. Where an importing Party determines through verification that an importer, exporter, or producer has engaged in a pattern of conduct in providing false or unsupported statements, declarations, or certifications that a good imported into its territory is originating, the Party may suspend preferential tariff treatment to identical goods covered by subsequent statements, declarations, or certifications by that importer, exporter, or producer until the Party determines that the importer, exporter, or producer is in compliance with the requirements of this Chapter.

ARTICLE 6.19: OBLIGATIONS RELATING TO IMPORTATIONS

1. Each Party shall grant any claim for preferential tariff treatment made in accordance with this Chapter, unless the Party issues a written determination that the claim is invalid as a matter of law or fact.

2. A Party may deny preferential tariff treatment to a good if the importer fails to comply with any requirement in this Chapter.

3. Neither Party may subject an importer to any penalty for making an invalid claim for preferential tariff treatment, if the importer:

- (a) did not engage in negligence, gross negligence, or fraud in making the claim and pays any customs duty owing; or
- (b) on becoming aware that such a claim is not valid, promptly and voluntarily corrects the claim and pays any customs duty owing.

4. Each Party may require that an importer who claims preferential tariff treatment for a good imported into its territory:

- (a) declare in the importation document that the good is an originating good;
- (b) identify the applicable tariff rate;
- (c) have in its possession at the time the declaration referred to in subparagraph (a) is made, a written or electronic certification as described in Article 6.15, if the certification forms the basis for the claim;

- (d) provide a copy of the certification, on request, to the importing Party, if the certification forms the basis for the claim;
- (e) when the importer has reason to believe that the declaration in subparagraph (a) is based on inaccurate information, correct the importation document and pay any customs duty owing;
- (f) when a certification by the exporter forms the basis for the claim, have in place an arrangement to have the exporter provide, on request of the importing Party, all information relied on by such exporter in making such certification;
- (g) when a certification by the producer forms the basis for the claim, have in place, at the importer's option:
 - (i) an arrangement with the producer to provide; or
 - (ii) an arrangement with the exporter to have the producer provide, all information relied on by the producer in making its certification; and
- (h) when the importer's certification or knowledge forms the basis for the claim, demonstrate, on request of the importing Party, that the good is originating under Article 6.1, including that the good satisfies the requirements to remain originating under Article 6.13.

5. Each Party shall provide that, where a good was originating when it was imported into its territory, but the importer of the good did not make a claim for preferential tariff treatment at the time of importation, that importer may, no later than one year after the date of importation, make a claim for preferential tariff treatment and apply for a refund of any excess duties paid as a result of the good not having been accorded preferential tariff treatment, on presentation to the Party of:

- (a) a written or electronic declaration or statement that the good was originating at the time of importation;
- (b) a copy of a written or electronic certification if the certification forms the basis for the claim, or other information demonstrating that the good was originating; and
- (c) such other documentation relating to the importation of the good as the importing Party may require.

6. Nothing in this Article shall prevent a Party from taking action under Article 4.3 (Customs Cooperation for Textile or Apparel Goods).

ARTICLE 6.20: OBLIGATIONS RELATING TO EXPORTATIONS

1. Each Party shall provide that:
 - (a) an exporter or a producer in its territory that has provided a written or electronic certification in accordance with Article 6.15 shall, on request, provide a copy to the exporting Party;
 - (b) a false certification by an exporter or a producer in its territory that a good to be exported to the territory of the other Party is originating shall be subject to penalties equivalent to those that would apply to an importer in its territory that makes a false statement or representation in connection with an importation, with appropriate modifications; and
 - (c) when an exporter or a producer in its territory has provided a certification and has reason to believe that the certification contains or is based on incorrect information, the exporter or producer shall promptly notify in writing every person to whom the exporter or producer provided the certification of any change that could affect the accuracy or validity of the certification.
2. Neither Party may impose penalties on an exporter or a producer for providing an incorrect certification if the exporter or producer voluntarily notifies in writing all persons to whom it has provided the certification that it was incorrect.

ARTICLE 6.21: COMMON GUIDELINES

Within six months of the date this Agreement enters into force, the Parties shall meet to discuss whether to develop common guidelines for the interpretation, application, and administration of this Chapter and Chapter Seven (Customs Administration and Trade Facilitation).

ARTICLE 6.22: DEFINITIONS

For purposes of this Chapter:

adjusted value means the value determined in accordance with Articles 1 through 8, Article 15, and the corresponding interpretative notes of the Customs Valuation Agreement, adjusted, if necessary, to exclude any costs, charges, or expenses incurred for transportation, insurance, and related services incident to the international shipment of the merchandise from the country of exportation to the place of importation;

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

- (a) motor vehicles classified under HS subheading 8701.20, motor vehicles for the transport of 16 or more persons classified under subheading 8702.10 or 8702.90, and motor vehicles classified under subheading 8704.10, 8704.22, 8704.23, 8704.32, or 8704.90, or heading 87.05 or 87.06;

- (b) motor vehicles classified under subheading 8701.10 or subheading 8701.30 through 8701.90;
- (c) motor vehicles for the transport of 15 or fewer persons classified under subheading 8702.10 or 8702.90, and motor vehicles classified under subheading 8704.21 or 8704.31; or
- (d) motor vehicles classified under subheading 8703.21 through 8703.90;

fungible goods or materials means goods or materials that are interchangeable for commercial purposes and whose properties are essentially identical;

Generally Accepted Accounting Principles means recognized consensus or substantial authoritative support given in the territory of a Party with respect to the recording of revenues, expenses, costs, assets, and liabilities, the disclosure of information, and the preparation of financial statements. Generally Accepted Accounting Principles may encompass broad guidelines for general application, as well as detailed standards, practices, and procedures;

good means any merchandise, product, article, or material;

goods wholly obtained or produced entirely in the territory of one or both of the Parties means:

- (a) plants and plant products grown, and harvested or gathered, in the territory of one or both of the Parties;
- (b) live animals born and raised in the territory of one or both of the Parties;
- (c) goods obtained in the territory of one or both of the Parties from live animals;
- (d) goods obtained from hunting, trapping, fishing, or aquaculture conducted in the territory of one or both of the Parties;
- (e) minerals and other natural resources not included in subparagraphs (a) through (d) extracted or taken from the territory of one or both of the Parties;
- (f) fish, shellfish, and other marine life taken from the sea, seabed, or subsoil outside the territory of one or both of the Parties by vessels registered or recorded with a Party and flying its flag;
- (g) goods produced on board factory ships from the goods referred to in subparagraph (f), provided such factory ships are registered or recorded with that Party and fly its flag;

- (h) goods taken by a Party or a person of a Party from the seabed or subsoil outside the territory of one or both of the Parties, provided that Party has rights to exploit such seabed or subsoil;
- (i) goods taken from outer space, provided they are obtained by a Party or a person of a Party and not processed in the territory of a non-Party;
- (j) waste and scrap derived from:
 - (i) manufacturing or processing operations in the territory of one or both of the Parties; or
 - (ii) used goods collected in the territory of one or both of the Parties, provided such goods are fit only for the recovery of raw materials;
- (k) recovered goods derived in the territory of one or both of the Parties from used goods and utilized in the territory of one or both of the Parties in the production of remanufactured goods; and
- (l) goods produced in the territory of one or both of the Parties exclusively from goods referred to in subparagraphs (a) through (j), or from their derivatives, at any stage of production;

identical goods means goods that are the same in all respects relevant to the particular rule of origin that qualifies the goods as originating;

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

- (a) fuel and energy;
- (b) tools, dies, and molds;
- (c) spare parts and materials used in the maintenance of equipment and buildings;
- (d) lubricants, greases, compounding materials, and other materials used in production or used to operate equipment and buildings;
- (e) gloves, glasses, footwear, clothing, safety equipment, and supplies;
- (f) equipment, devices, and supplies used for testing or inspecting the good;
- (g) catalysts and solvents; and

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

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

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

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

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 the good means the net cost that can be reasonably allocated to the good under one of the following methods:

- (a) calculating the total cost incurred with respect to all goods produced by that producer, subtracting any 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 of all such goods, and then reasonably allocating the resulting net cost of those goods to the good;
- (b) calculating the total cost incurred with respect to all goods produced by that producer, reasonably allocating the total cost to the good, and then subtracting any sales promotion, marketing, and after-sales service costs, royalties, shipping and packing costs, and non-allowable interest costs that are included in the portion of the total cost allocated to the good; or
- (c) reasonably allocating each cost that forms part of the total cost incurred with respect to the good so that the aggregate of these costs does not include any sales promotion, marketing, and after-sales service costs, royalties, shipping and packing costs, and non-allowable interest costs,

provided that the allocation of all such costs is consistent with the provisions regarding the reasonable allocation of costs set out in Generally Accepted Accounting Principles;

non-allowable interest costs means interest costs incurred by a producer that exceed 700 basis points above the yield on debt obligations of comparable maturities issued by the central level of government of the Party in which the producer is located;

non-originating good or **non-originating material** means a good or material that does not qualify as originating under this Chapter;

packing materials and containers for shipment means the goods used to protect a good during its transportation and does not include the packaging materials and containers in which a good is packaged for retail sale;

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

production means growing, mining, harvesting, fishing, breeding, raising, trapping, hunting, manufacturing, processing, assembling, or disassembling a good;

reasonably allocate means to apportion in a manner appropriate under Generally Accepted Accounting Principles;

recovered goods means materials in the form of individual parts that are the

result of: (a) the disassembly of used goods into individual parts; and

(b) cleaning, inspecting, testing, or other processes as necessary for improvement to sound working condition;

total cost means all product costs, period costs, and other costs for a good incurred in the territory of one or both of the Parties. Product costs are costs that are associated with the production of a good and include the value of materials, direct labor costs, and direct overhead. 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. 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;

used means utilized or consumed in the production of goods; and

value means the value of a good or material for purposes of calculating customs duties or for purposes of applying this Chapter.